UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

(Mark One)

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

For the Fiscal Year Ended December 31, 1998

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

Commission file number: 0-20853

ANSYS, Inc.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| DELAWARE | 04 -3219960 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 275 Technology Drive, Canonsburg, PA | 15317 |
| (Address of principal executive offices) | (Zip Code) |

724-746-3304
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

| | |
|---|---|
| None | None |
| (Title of each class) | (Name of exchange on which registered) |

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, $.01 par value per share
(Title of class)

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 [ X] No [ ]

Indicate by a check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in PART III of this Form 10-K, or any amendment to this Form 10-K. [ ]

The aggregate market value of the voting stock held by non-affiliates of the Registrant, based upon the closing sale price of the Common Stock on March 22, 1999 as reported on the Nasdaq National Market, was approximately $56,376,523. Shares of Common Stock held by each officer and director and by each person who owns 5% or more of the outstanding Common Stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares of the Registrant's Common Stock, par value $.01 per share, outstanding as of March 22, 1999 was 16,405,692 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Annual Report to Stockholders for the fiscal year ended December 31, 1998 are incorporated by reference into Parts I, II and IV. Portions of the Proxy Statement for the Registrant's 1999 Annual Meeting of Stockholders to be held on May 5, 1999 are incorporated by reference into Part III.

Important Factors Regarding Future Results

Information provided by ANSYS, Inc. ("the Company), including information contained in this Annual Report on Form 10-K, or by its spokespersons may from time to time contain forward-looking statements concerning such matters as projected financial performance, market and industry segment growth, product development and commercialization, acquisitions or other aspects of future operations. Such statements, made pursuant to the safe harbor established by the securities laws, are 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 those discussed herein, may cause the Company's future results to differ materially from those projected in any forward-looking statement. Important information about the basis for those assumptions is contained in "Important Factors Regarding Future Results" included in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," incorporated by reference to pages 10 through 19 of the Company's 1998 Annual Report to Stockholders. All information presented is as of December 31, 1998 unless otherwise indicated.

PART I

ITEM 1: BUSINESS

ANSYS, Inc. develops, markets and supports software solutions for design analysis and optimization. Engineering analysts and design engineers use the Company's software to accelerate product time to market, reduce production costs, improve engineering processes and optimize product quality and safety for a variety of manufactured products. The ANSYS(R) product family features open, flexible architecture that permits easy integration and collaboration within customers' enterprise-wide engineering systems.

Since its founding in 1970 as Swanson Analysis Systems, Inc. ("Swanson Analysis"), the Company has become a technology leader in the market for computer-aided engineering ("CAE") analysis software. The Company has long-standing relationships with customers in many industries, including automotive, aerospace, consumer goods and electronics. Using the Company's products, engineers can construct computer models of structures, compounds, components or systems to simulate performance conditions and physical responses to varying levels of stress, pressure, temperature and velocity. This helps reduce the time and expense of physical prototyping and testing.

The Company's product line ranges from ANSYS/Multiphysics, a sophisticated multi-disciplinary CAE tool for engineering analysts, to its DesignSpace(R) products, innovative computer-aided design ("CAD")-integrated design optimization products for design engineers. The Company's individual design and analysis software programs, all of which are included in the ANSYS/Multiphysics program, are available as subsets or standalone products. The Company's multiphysics products, and maintenance sold in connection with those products, comprise the core of its business and accounted for a substantial portion of the Company's revenue in 1998, 1997 and 1996. The Company's CAD integration products provide design optimization tools for use directly within a particular CAD product. CAD integration products are accessed from the graphical user interface of, and operate directly on the geometry produced within, the CAD product. The output from these programs may be read into any of the products in the ANSYS product family. The Company's product family features a unified database, a wide range of analysis functionality, a consistent, easy-to-use graphical user interface, support for multiple hardware platforms and operating systems (including Windows 95, Windows NT and UNIX), effective user customization tools and integration with leading CAD systems. The Company's products are developed using the Company's ISO 9001-certified quality system.

The Company markets its products principally through its global network of 35 independent regional ANSYS Support Distributors ("ASDs"), which have 67 offices in 26 countries.

PRODUCT DEVELOPMENT

The Company makes significant investments in research and development and emphasizes accelerated new product releases. The Company's product development strategy centers on ongoing development and innovation of new technologies to increase productivity and provide solutions that customers can integrate into enterprise-wide engineering systems. The Company's product development efforts focus on extensions of the ANSYS product family with new functional modules, further integration with CAD products and the development of new products based on object-oriented technology. The Company's products run on the most widely used engineering computing platforms and operating systems, including Windows 95, Windows NT and most UNIX workstations, as well as on supercomputers such as the Cray.

During 1998, the Company achieved the following with respect to major product development activities and releases:

- The release of ANSYS 5.5, a new and enhanced version of the Company's flagship multiphysics product, and all component products. Major enhancements in this release include lower and higher order flexible-to-flexible contact; increased solution power for highly nonlinear structural analysis; new turbulence models for computational fluid dynamics; nonlinear harmonic analysis for electromagnetic applications; and topological optimization.

- ANSYS/ProFEA and ANSYS Connection for Pro/ENGINEER enhancement releases were available subsequent to Parametric Technology Corporation's ("Parametric Technology") release of its new versions of Pro/ENGINEER. These products enable users to access Pro/ENGINEER geometry directly from ANSYS products.

- The release of commercial versions of DesignSpace 4.0. These products are developed using a C++ object-oriented product development environment . The current release of the DesignSpace products provides expanded functionality to associatively support geometry created in Mechanical Desktop, SolidWorks and Unigraphics, and support solid models created in any ACIS or Parasolid modeling CAD program. The software allows engineers to quickly and easily simulate design performance and provides tighter integration between design and analysis, as well as enhanced solving capabilities.

The Company's total research and development expense was $11.6 million, $11.0 million and $9.8 million in 1998, 1997 and 1996 or 20.6%, 21.8% and 20.8% of total revenue, respectively. As of December 31, 1998, the Company's product development staff consisted of 106 full time employees, most of whom hold advanced degrees and have industry experience in engineering, mathematics, computer science or related disciplines.

The Company uses multi-functional teams to develop its products and develops them simultaneously on multiple platforms to reduce subsequent porting costs. In addition to developing source code, these teams create and perform highly automated software verification tests; develop on-line documentation and help for the products; implement development enhancement tools, software configuration management and product licensing processes; and conduct regression tests of ANSYS products for all supported platforms.

PRODUCT QUALITY

During 1998, the Company continued to maintain ISO 9001 certification for its quality system. This standard applies to all of the Company's commercial software products and covers all product-related activities, from establishing product requirements to customer service practices and procedures.

In accordance with the ISO 9001 certification for its quality system, the Company's employees perform all product development and support tasks according to predefined quality plans, procedures and work instructions. These plans define for each project the methods to be used, the responsibilities of project participants and the quality objectives to be met. To ensure that the Company meets or surpasses the IS0 9001 standards, the Company establishes quality plans for all products and services, subjects product designs to multiple levels of testing and verification, and selects development subcontractors in accordance with processes established under the Company's quality system.

## SALES AND MARKETING

The Company distributes its multiphysics products and services primarily through its global ASD network. This network provides the Company with a cost-effective, highly specialized channel of distribution and technical support. Approximately 82% of the Company's revenue in 1998 was derived through the ASDs.

At December 31, 1998, the ASD network consisted of 35 independent distributors in 67 locations in 26 countries, including 16 in North America, 8 in Europe and 11 throughout the Asia-Pacific region and the remainder of the world. The ASDs sell ANSYS and DesignSpace products to new customers, expand installations within the existing customer base, offer training and consulting services and provide the first line of ANSYS technical support. The Company's ASD certification process helps to ensure that each ASD has the ongoing capacity to adequately represent the Company's product line and provide an acceptable level of training, consultation and support.

The Company also has a sales management infrastructure in place to work with the ASDs to develop a more enterprise-wide focused sales approach, to implement a worldwide major account strategy and to provide additional support in strategic locations through the presence of direct sales offices. As of December 31, 1998, the Company's sales management organization consisted of a North American Vice President of Sales, supported by four Regional Sales Directors and four Major Account Representatives; an International Vice President of Sales and a Regional Sales Director; and a European Managing Director supported by three Regional Sales Directors and one Strategic Account Manager.

During 1998, the Company continued to expand its direct global sales infrastructure through the establishment of additional regional sales offices in Houston, Texas; Minneapolis, Minnesota; New England and China. The Company also continued to invest in its previously established strategic sales offices in the United Kingdom, Michigan and Japan. In total, these offices employ 26 persons who are responsible for the implementation of sales and marketing initiatives and administration in those geographic areas designed to support the Company's overall revenue growth and market share expansion strategies.

During fiscal 1998, the Company also continued to expand the reseller channel for both its ANSYS and DesignSpace products. This channel compliments the ASD network by establishing a broader user base for the Company's products and services. As of December 31, 1998, the Company had signed agreements with 172 resellers. All resellers are required to meet the Company's standards for sales and customer support by ensuring they have appropriately trained marketing and technical personnel.

The Company's products have an installed base of approximately 53,000 seats at commercial sites and approximately 97,000 seats at university sites worldwide. The Company's products are utilized by organizations ranging in size from small consulting firms to the world's largest industrial companies. No single customer accounted for more than 1.4% of the Company's revenue in fiscal 1998.

Information with respect to foreign and domestic revenue may be found in Note 15 to the Consolidated Financial Statements and the section entitled " Management's Discussion and Analysis of Financial Condition and Results of Operations" of the Annual Report to Stockholders for the year ended December 31,1998 ("1998 Annual Report to Stockholders"), which financial statements are included in Exhibit 13.1 to this Annual Report on Form 10-K and incorporated herein by reference.

Additionally, countries in the Asia-Pacific region, including Japan, have experienced weaknesses in their currency, banking and equity markets throughout most of 1998. To the extent that such trends continue, these economic weaknesses could adversely affect consumer demand for the Company's products and ultimately the Company's financial position or results of operations.

## STRATEGIC ALLIANCES AND MARKETING RELATIONSHIPS

The Company has established and continues to pursue strategic alliances with advanced technology suppliers and marketing relationships with hardware vendors, specialized application developers and CAD providers. The Company believes these relationships allow it to accelerate the incorporation of advanced technology into the ANSYS product family, gain access to important new markets, expand the Company's sales channel, develop specialized product applications and provide direct integration with leading CAD systems.

One such example is the Company's software license agreement with Livermore Software Corporation under which Livermore has provided LS/DYNA software for explicit dynamics solutions used in applications such as crash test simulation in the automotive and other industries. Under this arrangement, Livermore assists in the integration of the LS/DYNA software with the Company's pre- and postprocessing capabilities and provides updates and problem resolution in return for a share of revenue from sales of ANSYS/LS-DYNA.

The Company has technical and marketing relationships with leading CAD vendors, such as Parametric Technology, Autodesk, Computervision, Intergraph, EDS/Unigraphics, SolidWorks and Dassault Systemes, to provide direct links between the vendors' CAD packages. These links facilitate the transfer of electronic data models between the CAD system and ANSYS products. During 1998, the Company also entered into a joint marketing and development agreement with Tanner EDA, a leader in PC-based design software for MicroElectro Mechanical Systems, aimed at accelerating the growth of microsystem product design to deliver a new generation of design and analysis capabilities.

The Company has established relationships with leading suppliers of computer hardware, including Hewlett-Packard, Compaq, Silicon Graphics/Cray, Sun Microsystems, Intergraph, IBM, Dell and Intel. The relationships typically provide the Company with joint marketing and advertising, Internet links with the hardware partner's home page and reduced equipment costs.

The Company's Enhanced Solution Provider Program actively encourages specialized developers of niche software solutions to use ANSYS as a development platform for their applications. Examples of companies using the products include COMET Acoustics, which uses ANSYS/PrepPost/TM/ to run its acoustic solver for the automobile industry; AC Technologies, which provides an interface to ANSYS in connection with its plastic injection mold flow analysis product; Materials Engineering Research Laboratory, Ltd., which offers a bundled product consisting of their FLEXPAC solver, and ANSYS/PrepPost/TM/ that enables users to make fatigue calculations an integral part of their design process for a wide range of elastomeric components. In most cases, the sale of the Enhanced Solution Providers' products is accompanied by the sale of an ANSYS product.

## COMPETITION

The CAD, CAE and computer-aided manufacturing ("CAM") markets are intensely competitive. In the traditional CAE market, the Company's primary competitors include MacNeal-Schwendler Corporation, Hibbitt, Karlsson and Sorensen, Inc. and MARC Analysis Research Corporation. The Company also faces competition from smaller vendors of specialized analysis applications in fields such as computational fluid dynamics. In addition, certain integrated CAD suppliers such as Parametric Technology, Structural Dynamics Research Corporation and Dassault Systemes provide varying levels of design analysis and optimization and verification capabilities as part of their product offerings.

The entrance of new competitors would likely intensify competition in all or a portion of the overall CAD, CAE and CAM markets. Some of the Company's current and possible future competitors have greater financial, technical, marketing and other resources than the Company, and some have well-established relationships with current and potential customers of the Company. It is also possible that alliances among competitors may emerge and rapidly acquire significant market share or that competition will increase as a result of software industry consolidation. Increased competition may result in price reductions, reduced profitability and loss of market share, any of which would materially adversely affect the Company's business, financial condition and results of operations.

The Company believes that the principal competitive factors affecting its market include ease of use; flexibility; quality; ease of integration into CAD systems; file compatibility across computer platforms; range of supported computer platforms; performance; price and cost of ownership; customer service and support; company reputation and financial viability; and effectiveness of sales and marketing efforts. Although the Company believes that it currently competes effectively with respect to such factors, there can be no assurance that the Company will be able to maintain its competitive position against current and potential competitors. There also can be no assurance that CAD software companies will not develop their own analysis software, acquire analysis software from companies other than the Company or otherwise discontinue their relationships with the Company. If any of these events occur, the Company's business, financial condition and results of operations could be materially adversely affected.

PROPRIETARY RIGHTS AND LICENSES

The Company regards its software as proprietary and relies on a combination of trade secret, copyright and trademark laws, license agreements, nondisclosure and other contractual provisions, and technical measures to protect its proprietary rights in its products. The Company distributes its ANSYS software under software license agreements that grant customers nonexclusive licenses for the use of the Company's products, which are typically nontransferable. Although the Company distributes its products primarily through the ASDs, licenses of the Company's products are directly between the Company and end users. Use of the licensed software is usually restricted to the customer's internal operations on designated computers at specified sites unless the customer obtains a site license for its use of the software. Software and hardware security measures are also employed to prevent unauthorized use of the Company's software, and the licensed software is subject to terms and conditions prohibiting unauthorized reproduction of the software. Customers may either purchase a paid-up perpetual license of the technology with the right to purchase annually ongoing maintenance, support and updates, or may lease the product on an annual basis for a fee which includes the license, maintenance, support and upgrades.

For certain software such as DesignSpace and ANSYS/ED, the Company primarily relies on "shrink-wrapped" licenses that are not signed by licensees. The enforceability of these types of agreements under the laws of certain jurisdictions is uncertain.

The Company also seeks to protect the source code of its software as a trade secret and as unpublished copyrighted work. The Company has obtained a federal trademark protection for ANSYS and DesignSpace. The Company has also obtained trademark registrations of ANSYS and DesignSpace in a number of foreign countries and is in the process of seeking such registration in other foreign countries.

Most employees of the Company have signed a Covenant Agreement under which they have agreed not to disclose trade secrets or confidential information, or to engage in or become connected with any business which is competitive with the Company anywhere in the world while employed by the Company (and in some cases for specified periods thereafter), and that any products or technology created by them during their term of employment is the property of the Company. In addition, the Company requires all ASDs to enter into agreements not to disclose the Company's trade secrets and other proprietary information.

Despite these precautions, there can be no assurance that misappropriation of the Company's technology will not occur. Further, there can be no assurance that copyright and trade secret protection will be available for the Company's products in certain countries, or that restrictions on competition will be enforceable.

The software development industry is characterized by rapid technological change. Therefore, the Company believes that factors such as the technological and creative skills of its personnel, new product developments, frequent product enhancements, name recognition and reliable product maintenance are more important to establishing and maintaining a technology leadership position than the various legal protections of its technology which may be available.

The Company is not aware that any of its products infringe upon the proprietary rights of third parties. There can be no assurance, however, that third parties will not claim in the future such infringement by the Company or its licensors or licensees with respect to current or future products. The Company expects that software product developers will increasingly be subject to such claims as the number of products and competitors in the Company's market segment grow and the functionality of products in different market segments overlaps. Any such claims, with or without merit, could be time-consuming, result in costly litigation, cause product shipment delays or require the Company to enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, may not be available on terms acceptable to the Company.

BACKLOG

The Company generally ships its products within 30 days after acceptance of an order and execution of a software license agreement. Accordingly, the Company does not believe that its backlog at any particular point in time is indicative of future sales levels.

EMPLOYEES

As of December 31, 1998, the Company had 260 full time employees. At that date, there were also approximately five contract personnel and co-op students providing ongoing development services and technical support. The Company believes that its relationship with its employees is good.

ITEM 2: PROPERTIES

The Company's executive offices and those related to product development, marketing, production and administration are located in a 107,000 square foot office facility in Canonsburg, Pennsylvania, which is leased for an annual rent of approximately $1,227,000. The Company also leases office space in various locations throughout the world. ANSYS's subsidiaries lease office space for their operations. The Company owns substantially all equipment used in its facilities. Management believes that its facilities allow for sufficient space to support not only its present needs, but also allow for expansion and growth as the business may require in the foreseeable future.

ITEM 3: LEGAL PROCEEDINGS

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

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

No matters were submitted to a vote of security holders during the fourth quarter of fiscal year 1998.

PART II

ITEM 5: MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The information required by this Item is incorporated by reference to page 35 and the section captioned "Corporate Information" appearing in the Company's 1998 Annual Report to Stockholders.

ITEM 6: SELECTED FINANCIAL DATA

The information required by this Item is incorporated by reference to page 1 of the Company's 1998 Annual Report to Stockholders.

ITEM 7: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information required by this Item is incorporated by reference to pages 10 through 19 of the Company's 1998 Annual Report to Stockholders, including the Important Factors Regarding Future Results.

ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this Item is incorporated by reference to pages 20 through 34 of the Company's 1998 Annual Report to Stockholders.

ITEM 9: CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10: DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information concerning the Company's directors and executive officers required by this Item is incorporated by reference to the Company's 1999 Proxy Statement and is set forth under "Information Regarding Directors" and "Information Regarding Executive Officers" therein.

ITEM 11: EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference to the Company's 1999 Proxy Statement and is set forth under "Executive Compensation" therein.

ITEM 12: SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item is incorporated by reference to the Company's 1999 Proxy Statement and is set forth under "Principal and Management Stockholders" therein.

ITEM 13: CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is incorporated by reference to the Company's 1999 Proxy Statement and is set forth under "Certain Transactions" therein.

PART IV

ITEM 14: EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) Documents Filed as Part of this Annual Report on Form 10-K:

1. Financial Statements: The following Consolidated Financial Statements of ANSYS, Inc. and Report of PricewaterhouseCoopers LLP, Independent Accountants, are incorporated by reference to pages 20 through 33 of the Registrant's 1998 Annual Report to Stockholders:

   - Report of PricewaterhouseCoopers LLP, Independent Accountants
   - Consolidated Balance Sheets as of December 31, 1998 and 1997
   - Consolidated Statements of Income for the years ended December 31, 1998, 1997 and 1996
   - Consolidated Statements of Cash Flows for the years ended December 31, 1998, 1997 and 1996
   - Consolidated Statements of Stockholders' Equity for the years ended December 31, 1998, 1997 and 1996
   - Notes to Consolidated Financial Statements

2. Financial Statement Schedules: The following financial statement schedule for ANSYS, Inc. is filed on page 13 of this Annual Report and should be read in conjunction with the Consolidated Financial Statements of ANSYS, Inc.

Schedule II - Valuation and Qualifying Accounts

Schedules not listed above have been omitted because they are not applicable or are not required or the information required to be set forth therein is included in the Consolidated Financial Statements or Notes thereto.

3. Exhibits:

The Exhibits listed on the accompanying Exhibit Index immediately following the financial statement schedules are filed as part of, or incorporated by reference into, this Annual Report.

(b) Reports on Form 8-K:

The Registrant did not file any reports on Form 8-K during the last quarter of the period covered by this Annual Report.

(c) Exhibits

The Company hereby files as part of this Annual Report on Form 10-K the Exhibits listed in the attached Exhibit Index on page 11 of this Annual Report.

(d) Financial Statement Schedules

The Company hereby files as part of this Annual Report on Form 10-K the financial statement schedule listed in Item 14 (a) 2 as set forth above.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ANSYS, Inc.

Date: March 22, 1999

By: /s/ Peter J. Smith
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Peter J. Smith
Chairman, President and Chief Executive Officer

Date: March 22, 1999

By: /s/ Maria T. Shields
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Maria T. Shields
Chief Financial Officer, Vice President, Finance and Administration

## POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Peter J. Smith, his or her attorney-in-fact, with the power of substitution, for such person in any and all capacities, to sign any amendments to this Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that said attorney-in-fact, or substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities and Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated below.

| Signature | Title | Date |
|---|---|---|
| /s/ Peter J. Smith<br>Peter J. Smith | Chairman of the Board of Directors, President and Chief Executive Officer (Principal Executive Officer) | March 22, 1999 |
| /s/ Maria T. Shields<br>Maria T. Shields | Chief Financial Officer, Vice President, Finance and Administration; (Principal Financial Officer and Accounting Officer) | March 22, 1999 |
| /s/ Dr. John A. Swanson<br>Dr. John A. Swanson | Chief Technologist and Director | March 22, 1999 |
| /s/ Jacqueline C. Morby<br>Jacqueline C. Morby | Director | March 22, 1999 |
| /s/ Roger B. Kafker<br>Roger B. Kafker | Director | March 22, 1999 |
| /s/ Gary B. Eichhorn<br>Gary B. Eichhorn | Director | March 22, 1999 |
| /s/ Roger J. Heinen, Jr.<br>Roger J. Heinen, Jr. | Director | March 22, 1999 |
| /s/ John F. Smith<br>John F. Smith | Director | March 22, 1999 |

EXHIBIT INDEX

| Exhibit No. | Exhibit |
| --- | --- |
| 3.1 | Restated Certificate of Incorporation of the Company (filed as Exhibit 3.1 to the Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 1996 and incorporated herein by reference). |
| 3.2 | By-laws of the Company (filed as Exhibit 3.3 to the Company's Registration Statement on Form S-1 (File No. 333-4278) and incorporated herein by reference). |
| 10.1 | 1994 Stock Option and Grant Plan, as amended (filed as Exhibit 10.1 to the Company's Registration Statement on Form S-1 (File No. 333-4278) and incorporated herein by reference). * |
| 10.2 | 1996 Stock Option and Grant Plan, as amended (filed as Exhibit 10.1 to the Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 1996 and incorporated herein by reference). * |
| 10.3 | 1996 Employee Stock Purchase Plan, as amended (filed as Exhibit 10.2 to the Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 1996 and incorporated herein by reference). * |
| 10.4 | Investment Agreement among SAS Holdings, Inc., the Present Investors (as defined), Peter J. Smith and the Parametric Investors (as defined) dated July 8, 1994, as amended (filed as Exhibit 10.6 to the Company's Registration Statement on Form S-1 (File No. 333-4278) and incorporated herein by reference). |
| 10.5 | Employment Agreement among the Registrant, a subsidiary of the Registrant and Dr. John A. Swanson dated February 7, 1994 (filed as Exhibit 10.7 to the Company's Registration Statement on Form S-1 (File No. 333-4278) and incorporated herein by reference). * |
| 10.6 | Incentive Stock Option Agreement between the Registrant and Dr. John A. Swanson dated March 14, 1994, as amended (filed as Exhibit 10.8 to the Company's Registration Statement on Form S-1 (File No. 333-4278) and incorporated herein by reference). * |
| 10.7 | Agreement Regarding Inventions, Confidentiality and Competitive Activities between the Registrant, subsidiaries of the Registrant and Dr. John A. Swanson dated February 7, 1994 (filed as Exhibit 10.9 to the Company's Registration Statement on Form S-1 (File No. 333-4278) and incorporated herein by reference). * |
| 10.8 | Employment Agreement between a subsidiary of the Registrant and Peter J. Smith dated as of March 28, 1994 (filed as Exhibit 10.10 to the Company's Registration Statement on Form S-1 (File No. 333-4278) and incorporated herein by reference). * |
| 10.9 | Restricted Stock Agreement between the Registrant and Peter J. Smith dated July 12, 1994 (filed as Exhibit 10.11 to the Company's Registration Statement on Form S-1 (File No. 333-4278) and incorporated herein by reference). * |

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* Indicates management contract or compensatory plan, contract or arrangement.

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| 10.10 | Pledge Agreement between the Registrant and Peter J. Smith dated July 12, 1994 (filed as Exhibit 10.12 to the Company's Registration Statement on Form S-1 (File No. 333-4278) and incorporated herein by reference). * |
| 10.11 | Letter Agreement between a subsidiary of the Registrant and Peter J. Smith dated July 12, 1994 (filed as Exhibit 10.13 to the Company's Registration Statement on Form S-1 (File No. 333-4278) and incorporated herein by reference). * |
| 10.12 | Promissory Note between the Registrant and Peter J. Smith dated July 12, 1994, as amended (filed as Exhibit 10.14 to the Company's Registration Statement on Form S-1 (File No. 333-4278) and incorporated herein by reference). * |
| 10.13 | Restricted Stock Agreement between the Registrant and Peter J. Smith dated February 29, 1996, as amended. (filed as Exhibit 10.14 to the Annual Report on Form 10-K for the fiscal year ended December 31, 1997 and incorporated herein by reference). * |
| 10.14 | Incentive Option Agreement between the Registrant and Peter J. Smith dated February 29, 1996, as amended. (filed as Exhibit 10.15 to the Annual Report on Form 10-K for the fiscal year ended December 31, 1997 and incorporated herein by reference). * |
| 10.15 | Key-Man Executive Life Insurance Policies for Peter J. Smith and Dr. John A. Swanson (filed as Exhibit 10.17 to the Company's Registration Statement on Form S-1 (File No. 333-4278) and incorporated herein by reference). |
| 10.16 | Lease between National Build to Suit Washington County, L.L.C. and the Registrant for the Southpointe property (filed as Exhibit 10.19 to the Company's Registration Statement on Form S-1 (File No. 333-4278) and incorporated herein by reference). |
| 10.17 | Registrant's Pension Plan and Trust, as amended (filed as Exhibit 10.20 to the Company's Registration Statement on Form S-1 (File No. 333-4278) and incorporated herein by reference). * |
| 10.18 | Form of Director Indemnification Agreement (filed as Exhibit 10.21 to the Company's Registration Statement on Form S-1 (File No. 333-4278) and incorporated herein by reference). * |
| 13 | Annual Report to Stockholders for the fiscal year ended December 31, 1998 (which is not deemed to be "filed" except to the extent that portions thereof are expressly incorporated by reference in this Annual Report on Form 10-K); filed herewith. |
| 21 | Subsidiaries of the Registrant; filed herewith. |
| 23.1 | Report of PricewaterhouseCoopers LLP; filed herewith. |
| 23.2 | Consent of PricewaterhouseCoopers LLP; filed herewith. |
| 23.3 | Consent of PricewaterhouseCoopers LLP for Form 11-K; filed herewith. |
| 24.1 | Powers of Attorney. Contained in page 10 of this Annual Report on Form 10-K and incorporated herein by reference. |
| 27.1 | Financial Data Schedule; filed herewith. |
| 99 | 1996 Employee Stock Purchase Plan Annual Report on Form 11-K. |

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* Indicates management contract or compensatory plan, contract or arrangement.

SCHEDULE II

ANSYS, INC.

Valuation and Qualifying Accounts

| Description | Balance at Beginning of Year | Additions - Provisions | Deductions - Returns and Write-Offs | Balance at End of Year |
|---|---|---|---|---|
| Year ended December 31, 1998 Allowance for doubtful accounts | $2,080,000 | $1,309,000 | $1,489,000 | $1,900,000 |
| Year ended December 31, 1997 Allowance for doubtful accounts | $ 950,000 | $1,435,000 | $ 305,000 | $2,080,000 |
| Year ended December 31, 1996 Allowance for doubtful accounts | $ 700,000 | $ 560,000 | $ 310,000 | $ 950,000 |

FINANCIAL HIGHLIGHTS

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| (in thousands, except per share data) | 1998 | 1997 | 1996 | 1995 | Pro Forma Combined(1) 1994 |
| Revenue | $ 56,553 | $ 50,547 | $ 47,066 | $ 39,616 | $ 32,823 |
| Operating income | 15,206 | 10,731 | 3,674 | 1,360 | 2,307 |
| Net income (loss) | 11,349 | 7,400 | 1,304 | (1,580) | 257 |
| Net income (loss) per basic share after extraordinary item(2) | .71 | .47 | .08 | (.18) | -- |
| Weighted average shares - basic(2) | 16,052 | 15,742 | 14,000 | 11,354 | -- |
| Net income (loss) per diluted share after extraordinary item(2) | .68 | .45 | .07 | (.17) | -- |
| Weighted average shares - diluted(2) | 16,581 | 16,518 | 14,906 | 12,204 | -- |
| Total assets | $ 67,998 | $ 54,566 | $ 43,431 | $ 42,921 | $ 44,669 |
| Working capital | 38,049 | 23,761 | 14,691 | 3,196 | 1,822 |
| Long-term obligations | -- | -- | -- | 33,204 | 37,696 |
| Redeemable preferred stock | -- | -- | -- | 4,892 | 4,447 |
| Stockholders' equity | 52,367 | 40,414 | 32,974 | (10,028) | (7,985) |

(1) The results of operations of the Predecessor Company for the two and one-half months ended March 13, 1994 have been combined with the results of operations of the Company for the nine and one-half months ended December 31, 1994 by adding corresponding items without adjustment. This computation, which is reflected as Pro Forma Combined for 1994, was done to permit useful comparison between the years presented.

(2) The Company has adopted Statement of Financial Accounting Standards No. 128, "Earnings per Share," issued in February 1997. This Statement requires the disclosure of basic and diluted earnings per share and revises the method to calculate these amounts. Earnings per share data for periods prior to 1997 have been restated to reflect adoption of this Statement.

[GRAPH OF TOTAL REVENUE]
(in millions of dollars)

[GRAPH OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS]
(in milions of dollars)

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

OVERVIEW

ANSYS, Inc. (the "Company") is a leading international supplier of analysis and engineering software for optimizing the design of new products. The Company is committed to providing the most open and flexible analysis solutions to suit customer requirements for engineering software in today's competitive marketplace. In addition, the Company partners with leading design software suppliers to develop state-of-the-art computer-aided design ("CAD") integrated products. Sales, support and training for customers are provided primarily through the Company's global network of ANSYS Support Distributors ("ASDs"). The Company distributes its ANSYS(R) and DesignSpace(R) product lines through its ASDs, certain direct sales offices, as well as a network of independent distributors and dealers (value-added resellers or "VARs"). The following discussion should be read in conjunction with the audited consolidated financial statements and notes thereto included elsewhere in this report.

This Annual Report 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 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 the forward-looking statements due to various risks and uncertainties which are detailed in the "Important Factors Regarding Future Results" beginning on page 17.

For purposes of the following discussion and analysis, the following table sets forth certain consolidated financial data for the years 1998, 1997 and 1996.

| | Year Ended December 31, | | |
|---|---|---|---|
| (in thousands) | 1998 | 1997 | 1996 |
| Revenue: | | | |
| Software licenses | $35,463 | $35,083 | $37,013 |
| Maintenance and service | 21,090 | 15,464 | 10,053 |
| Total revenue | 56,553 | 50,547 | 47,066 |
| Cost of sales: | | | |
| Software licenses | 3,404 | 2,833 | 3,051 |
| Maintenance and service | 2,661 | 2,365 | 2,337 |
| Total cost of sales | 6,065 | 5,198 | 5,388 |
| Gross profit | 50,488 | 45,349 | 41,678 |
| Operating expenses: | | | |
| Selling and marketing | 13,137 | 11,834 | 9,722 |
| Research and development | 11,627 | 11,004 | 9,796 |
| Amortization | 884 | 2,797 | 10,774 |
| General and administrative | 9,634 | 8,983 | 7,712 |
| Total operating expenses | 35,282 | 34,618 | 38,004 |
| Operating income | 15,206 | 10,731 | 3,674 |
| Interest expense | -- | (1) | (1,669) |
| Other income | 1,931 | 912 | 611 |
| Income before income tax provision and extraordinary item | 17,137 | 11,642 | 2,616 |
| Income tax provision | 5,788 | 4,242 | 969 |
| Net income before extraordinary item | 11,349 | 7,400 | 1,647 |
| Extraordinary item, net | -- | -- | (343) |
| Net income | $11,349 | $ 7,400 | $ 1,304 |

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

### RESULTS OF OPERATIONS

Year Ended December 31, 1998 Compared to Year Ended December 31, 1997

REVENUE. The Company's total revenue increased 11.9% in 1998 to $56.6 million from $50.5 million in 1997. The increase in total revenue in 1998 as compared to 1997 was attributable principally to an increase in revenue from renewals and sales of noncancellable annual leases, for which a portion of the annual license fee is recognized as paid-up revenue upon renewal or inception of the lease, while the remaining portion is recognized ratably over the remaining lease period. This increase, which was partially offset by a decrease in monthly lease license revenue, as described below, was due, in part, to the active sales and licensing of noncancellable annual leases to existing and new lease customers. The increase in total revenue in 1998 was also attributable to increased maintenance and service revenue, which resulted from broader customer usage of maintenance and support services and the Company's continued emphasis on the marketing and promotion of these services.

Software license revenue totaled $35.5 million in 1998 as compared to $35.1 million in 1997, an increase of 1.1%. The increase resulted principally from an increase in revenue from renewals and sales of noncancellable annual leases and, to a lesser extent, an increase in sales of paid-up licenses in international markets. Revenue from the sale of paid-up licenses and the portion of noncancellable annual leases classified as paid-up revenue increased 29.6% in 1998 to $29.2 million from $22.6 million in 1997. This increase was partially attributable to a refinement of management's estimate relative to the allocation of noncancellable annual lease revenue between paid-up and maintenance revenue. The refinement, which management believes more accurately reflects the Company's current pricing and business practices, resulted in a net revenue increase of approximately $1.3 million during 1998. The increase in software license revenue was substantially offset by a 50.3% decrease in monthly lease license revenue to $6.2 million in 1998 from $12.5 million in 1997. This decrease was attributable to both an increase in the renewal of existing monthly leases as noncancellable annual leases and, to a much lesser extent, the conversion of certain existing leases to paid-up licenses.

Maintenance and service revenue increased from $15.5 million in 1997 to $21.1 million in 1998. Contributing to the increase were broader customer usage of maintenance and support services and the Company's increased emphasis on marketing and promoting these services, as well as an increase in the renewal and sale of noncancellable annual leases.

Of the Company's total revenue in 1998, approximately 54.4% and 45.6%, respectively, were attributable to international and domestic sales, as compared to 53.2% and 46.8%, respectively, in 1997.

COST OF SALES AND GROSS PROFIT. The Company's total cost of sales increased 16.7% to $6.1 million, or 10.7% of total revenue, in 1998 from $5.2 million, or 10.3% of total revenue, in 1997. The Company's cost of sales for software license revenue increased 20.2% in 1998 to $3.4 million, or 9.6% of software license revenue, from $2.8 million, or 8.1% of software license revenue, in 1997. The increase was due to additional headcount and related expenses, increased salaries and higher costs associated with the printing of manuals, packing supplies, media and royalty fees. The Company's cost of sales for maintenance and service revenue totaled $2.7 million and $2.4 million, or 12.6% and 15.3% of maintenance and service revenue, in 1998 and 1997, respectively. The increase was primarily attributable to increases in salaries, benefits and consulting fees as additional staff and consultants were added to support the growth in global service revenue and related customer and ASD support needs. The increases in cost of sales for both licenses and maintenance and services discussed above were partially offset by lower pension and profit-sharing costs resulting from plan amendments in fiscal 1998.

As a result of the foregoing, the Company's gross profit increased 11.3% to $50.5 million in 1998 from $45.3 million in 1997.

SELLING AND MARKETING. Selling and marketing expenses increased 11.0% in 1998 to $13.1 million, or 23.2% of total revenue, from $11.8 million, or 23.4% of total revenue, in 1997. The increase was principally the result of increased consulting and sales support costs incurred in connection with supporting a global sales and marketing infrastructure. Additionally, during 1998 the Company experienced an increase in expenses directly associated with its worldwide users' conference and increased expenses associated with strategic office locations in the United Kingdom, China and Japan. The Company anticipates that it will continue to make significant investments in its global sales and marketing organization to strengthen its competitive position and to support its worldwide sales channels and marketing strategies. These increases were partially offset by lower sales commissions and pension and profit-sharing costs.

RESEARCH AND DEVELOPMENT. Research and development expenses increased 5.7% in 1998 to $11.6 million, or 20.6% of total revenue, from $11.0 million, or 21.8% of total revenue, in 1997. The increase resulted primarily from additional headcount and related expenses, higher salaries and increased consulting costs associated with the releases of ANSYS 5.5 and DesignSpace 4.0, as well as increased computer software costs and hardware-related depreciation expense as the Company continued to invest in software and hardware tools used to develop and enhance the Company's products. These increases were partially offset by a reduction in pension and profit-sharing costs. The Company has traditionally invested significant resources in research and development activities and intends to continue to make significant investments in the future.

AMORTIZATION. Amortization expense was $884,000 in 1998 and $2.8 million in 1997. The decrease was attributable to certain intangible assets, including goodwill and capitalized software, becoming fully amortized during the first quarter of 1997.

GENERAL AND ADMINISTRATIVE. General and administrative expenses increased 7.2% in 1998 to $9.6 million, or 17.0% of total revenue, from $9.0 million, or 17.8% of total revenue, in 1997. The increase was primarily attributable to an increase in salaries and headcount and related expenses, as well as higher depreciation expense attributable to computer hardware and software. These increases resulted as the Company continued to add internal information technology, financial and administrative resources to support its global operations and infrastructure. These increases were partially offset by decreases in both pension and profit-sharing costs, as well as bad debt expense.

OTHER INCOME. Other income increased to $1.9 million in 1998 as compared to $912,000 in 1997. The increase was primarily attributable to higher interest-bearing cash and short-term investment balances in 1998.

INCOME TAX PROVISION. The Company's effective rate of taxation was 33.8% in 1998 as compared to 36.4% in 1997. The lower 1998 rate is primarily the result of a full year of benefit related to the use of a foreign sales corporation that was established in the fourth quarter of 1997. The effective rates in both 1998 and 1997 are less than the federal and state combined statutory rates due primarily to the utilization of research and experimentation credits as well as the impact of the foreign sales corporation.

NET INCOME. The Company's net income increased 53.4% to $11.3 million, or $.68 diluted earnings per share, in 1998 as compared to net income of $7.4 million, or $.45 diluted earnings per share, in 1997. The weighted average common and common equivalent shares used in computing diluted earnings per share were 16.6 million in 1998 compared with 16.5 million in 1997.

YEAR ENDED DECEMBER 31, 1997 COMPARED TO YEAR ENDED DECEMBER 31, 1996

REVENUE. The Company's total revenue increased 7.4% in 1997 to $50.5 million from $47.1 million in 1996. The increase in total revenue in 1997 as compared to 1996 was attributable principally to an increase in revenue from renewals and sales of noncancellable annual leases. The increase, which was partially offset by decreases in monthly lease license revenue and paid-up license revenue, was due, in part, to the active sales and licensing of noncancellable annual leases to existing and new lease customers during 1997. The increase in total revenue in 1997 was also attributable to increased maintenance revenue, which resulted from broader customer usage of maintenance and support services and the Company's continued emphasis on marketing its maintenance services.

The comparison of the Company's revenue in 1997 and 1996 is affected by the Company's change in licensing and sales practices as they related to leases. Beginning in the third quarter of 1996, the Company began to promote sales and renewals of noncancellable annual leases, for which a portion of the annual license fee is recognized as paid-up revenue upon renewal or inception of the lease, while the remaining portion is recognized as maintenance revenue ratably over the remaining lease period. Prior to the third quarter of 1996, the Company recorded all revenue from lease licenses as license revenue, as earned, because the underlying lease agreements contained provisions which allowed the customer to cancel the lease with 30 days notice. The effect of this change generally was to increase paid-up revenue attributable to sales and renewals of leases and to increase maintenance revenue for 1997 relative to 1996, while resulting in a corresponding decrease in monthly lease license revenue. Had this change not been initiated, software license revenue would have been reported as $37.9 million in 1997 as compared to $37.4 million in 1996, while maintenance and service revenue would have been reported as $12.3 million and $9.6 million in 1997 and 1996, respectively.

Software license revenue decreased 5.2% in 1997 to $35.1 million from $37.0 million in 1996, resulting principally from existing monthly lease customers shifting to noncancellable annual leases in connection with the renewals of their leases, thereby reducing the portion of their lease fees characterized as license revenue, as described above. The decrease was also due to a decrease in the sale of paid-up licenses in the domestic market as compared to the prior year, as paid-up license revenue for 1996 reflected the recognition of substantial revenue from several large contracts. The foregoing decreases in monthly lease and paid-up revenue were partially offset by an increase in revenue from renewals and sales of leases as noncancellable annual leases, as described above. Revenue from the sale of paid-up licenses, excluding the portion of noncancellable annual leases classified as paid-up revenue, decreased 4.2% in 1997 to $18.6 million from $19.4 million in 1996. The Company also experienced a 27.9% decrease in monthly lease license revenue to $12.5 million in 1997 from $17.4 million in 1996. This decrease was attributable to an increase in the renewal of existing leases as noncancellable annual leases, as well as the conversion of certain existing lease licenses to paid-up licenses in 1997. The total revenue recognized from monthly and noncancellable annual leases was $19.3 million and $18.0 million in 1997 and 1996, respectively, of which $2.8 million and $400,000 were classified as maintenance revenue in 1997 and 1996, respectively. Maintenance and service revenue, excluding the portion of noncancellable annual leases recognized as maintenance revenue, increased 31.6% in 1997 to $12.7 million from $9.6 million in 1996 as a result of broader customer usage of maintenance and support services, the Company's increased emphasis on marketing these services as well as an increase in the renewal and sale of noncancellable annual leases.

Of the Company's total revenue in 1997, approximately 53.2% and 46.8%, respectively, were attributable to international and domestic sales as compared to 49.4% and 50.6%, respectively, in 1996.

COST OF SALES AND GROSS PROFIT. The Company's total cost of sales decreased 3.5% to $5.2 million in 1997 from $5.4 million in 1996, representing 10.3% and 11.4% of total revenue, respectively. The Company's cost of sales for software license revenue decreased 7.1% in 1997 to $2.8 million, or 8.1% of software license revenue, from $3.1 million, or 8.2% of software license revenue, in 1996. The decrease was due primarily to a reduction in costs related to manuals, packing supplies and media. The Company's cost of sales for maintenance and service revenue remained relatively stable at $2.4 million and $2.3 million, or 15.3% and 23.2% of maintenance and service revenue, for 1997 and 1996, respectively.

As a result of the foregoing, the Company's gross profit increased 8.8% to $45.3 million in 1997 from $41.7 million in 1996.

SELLING AND MARKETING. Selling and marketing expenses increased 21.7% in 1997 to $11.8 million, or 23.4% of total revenue, from $9.7 million, or 20.7% of total revenue, in 1996. This planned growth was attributable principally to increased personnel costs, including costs associated with increased headcount and compensation expenses related to the ongoing establishment of a global sales and marketing organization, as well as the establishment of strategic offices in the United Kingdom, Michigan and Japan in 1997.

RESEARCH AND DEVELOPMENT. Research and development expenses increased 12.3% in 1997 to $11.0 million, or 21.8% of total revenue, from $9.8 million, or 20.8% of total revenue, in 1996. This increase resulted primarily from employment of additional staff and independent contractors to develop and enhance the Company's products, including a dedicated team working on the development of the Company's DesignSpace products. The increase was partially offset by a decrease in equipment lease expense.

AMORTIZATION. Amortization expense was $2.8 million in 1997 and $10.8 million in 1996. The decrease was attributable to the full amortization of certain of the intangible assets which resulted from the acquisition of the Company in 1994 ("1994 Acquisition"), including goodwill and capitalized software, which became fully amortized in the first quarter of 1997.

GENERAL AND ADMINISTRATIVE. General and administrative expenses increased 16.5% in 1997 to $9.0 million, or 17.8% of total revenue, from $7.7 million, or 16.4% of total revenue, in 1996. The increase is primarily attributable to expenses incurred to increase the allowance for doubtful accounts and an increase in legal fees related to a dispute regarding the expiration of an ASD distribution agreement. Additionally, the Company added internal legal and financial resources to support the operations of a publicly owned company, which were offset by a significant reduction in outside labor and consulting fees.

INTEREST. Interest expense, which was $1,000 in 1997, totaled $1.7 million in 1996. This decrease was attributable to the early repayment of all outstanding debt related to the 1994 Acquisition with the net proceeds from the Company's initial public offering in June 1996.

OTHER INCOME. Other income increased in 1997 to $912,000 as compared to $611,000 for 1996. This increase was primarily attributable to higher interest-bearing cash and investment balances in 1997.

INCOME TAX PROVISION. The Company's effective rate of taxation was 36.4% in 1997, as compared to 37.0% in 1996. These percentages are less than the federal and state combined statutory rates due primarily to the utilization of research and experimentation credits as well as the use of a foreign sales corporation which was established in the fourth quarter of 1997.

NET INCOME. The Company's net income totaled $7.4 million in 1997 as compared to net income before extraordinary item of $1.6 million in 1996. The Company's net income including the extraordinary item in 1996 was $1.3 million. Diluted earnings per share was $.45 in 1997 as compared to diluted earnings per share, after extraordinary item, of $.07 in 1996. The increase in diluted earnings per share was attributable to the increase in net income, as well as the elimination of the preferred stock dividends due to the redemption of the redeemable preferred stock, which occurred at the time of the Company's initial public offering in June 1996. The weighted average shares used in computing net income per diluted common share amounts increased to 16.5 million in 1997 from 14.9 million in 1996 primarily as a result of the initial public offering.

Effective December 31, 1997, the Company adopted Statement of Financial Accounting Standards No. 128, "Earnings per Share," issued in February 1997, and has restated prior periods in accordance with this pronouncement.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 1998, the Company had cash, cash equivalents and short-term investments totaling $42.7 million and working capital of $38.0 million, as compared to cash, cash equivalents and short-term investments of $27.8 million and working capital of $23.8 million at December 31, 1997. The short-term investments are generally investment grade and liquid-type, 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 $15.6 million in 1998, $12.7 million in 1997 and $13.5 million in 1996. The increase in cash generated from operations in 1998 as compared to 1997 is primarily the result of increased earnings after the effect of non-cash expenses such as depreciation, amortization and deferred income taxes. The decrease in cash generated from operations in 1997 as compared to 1996 is the result of fluctuations within the individual components of working capital, as well as a decrease in earnings after the effect of depreciation and amortization. Net cash generated by operating activities provided sufficient resources to fund increased headcount and capital needs to support the Company's expansion of its global sales support network, its continued investment in research and development activities and the addition of financial and administrative resources during 1998.

Cash used in investing activities was $23.5 million in 1998, $16.1 million in 1997 and $2.6 million in 1996. The Company's use of cash for investing activities in 1998 and 1997 was primarily related to the purchase of short-term investments, and to a lesser extent the purchase of computer software, hardware equipment and furniture for the corporate office facility, while the use of cash in 1996 was substantially related to capital expenditures. The Company expects to spend approximately $2.2 million for capital expenditures in 1999, principally for the acquisition of computer hardware and software to support the continued growth of the Company's development activities and expansion of its global sales and support infrastructure.

Financing activities provided cash of $453,000 in 1998 and $336,000 in 1997, and used cash of $1.9 million in 1996. Cash provided from financing activities in 1998 and 1997 was substantially related to proceeds from the issuance of common stock under employee stock purchase and option plans and the reissuance of treasury shares. Cash provided from financing activities in 1996 was due primarily to the net proceeds of $41.0 million received from the Company's initial public offering on June 25, 1996. These proceeds were more than offset by the repayment of the indebtedness incurred to finance the acquisition of the Company in 1994, payment of related unpaid interest, the redemption of redeemable preferred stock and accumulated dividends thereon, issued in connection with such acquisition.

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 at least the next fiscal year. 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.

MANAGEMENT'S ASSESSMENT OF THE YEAR 2000

The year 2000 ("Y2K") problem refers to the inability of software to process date information later than December 31, 1999. Date codes in many software programs are abbreviated to allow only two digits for the year. Software with date-sensitive functions that is not year 2000 compliant may not be able to distinguish whether "00" means 1900 or 2000. When that happens, some software will not work at all and other software will suffer critical calculation and other processing errors. Hardware and other products with embedded chips may also experience problems.

SOFTWARE PRODUCTS. The Company provides analysis and engineering software for optimizing the design of new products. The functionality offered by these products is generally not date dependent and consequently the Company's software products have minimal date sensitivities or dependencies.

The current releases of the Company's ANSYS and DesignSpace product lines are Y2K Compliant, as defined below. Management believes that essentially 100% of its 1998 license and service revenue has been derived from the sale of Y2K Compliant products and services. The Company defines "Y2K Compliant" as the ability to meet the British Standards Institution DISC PD 2000-1: Year 2000 conformity requirements. This definition provides that Year 2000 conformity shall mean that neither performance nor functionality is affected by dates prior to, during or after the year 2000.

The Company began shipping Y2K Compliant ANSYS products beginning in 1997 with Release 5.4. The Company believes that versions of the ANSYS products shipped between 1993 and 1996 should function after December 31, 1999. However, the Company cannot make a definitive statement regarding these products because they have not been tested on all platforms or on all versions of operating systems. Consequently, the Company has advised its customers who may still be using these older versions to (a) upgrade to later releases of the Company's software, and (b) verify that their platforms and operating systems support the transition to the year 2000. ANSYS products shipped prior to 1993 will not function after December 31, 1999 and the Company has continually advised its customers to upgrade such products to newer versions.

The Company began shipping Y2K Compliant DesignSpace products beginning in 1996 with release 2.0, with the exception that the report generator utility contained in the DesignSpace product may or may not be Y2K Compliant. The report generator extensively utilizes many Microsoft components whose Y2K compliance has not yet been determined; consequently, the DesignSpace report generator utility may or may not be Y2K Compliant.

Some commentators have predicted significant litigation regarding Y2K compliance issues, and the Company is aware of such lawsuits against other software vendors. Because of the unprecedented nature of such litigation, it is uncertain whether, or to what extent, the Company may be affected. However, at this time the Company believes that the existence of earlier versions of its products that are not Y2K Compliant is not likely to have a material adverse effect on the Company's financial position or results of operations.

INTERNAL SYSTEMS. The Company has developed a Year 2000 Project Plan ("Y2K Plan") that addresses both information technology ("IT") systems (i.e., business systems and the software development environment) and other systems such as elevators, building security and HVAC systems.

The Y2K Plan includes five phases: 1) raising Company awareness, 2) a company-wide system inventory, 3) criticality assessment, 4) implementation (including remediation, upgrading and/or replacement of certain systems) and 5) compliance certification testing. Phases 1-3 are complete. Phase 4 (implementation) and Phase 5 (compliance certification testing) are underway in an iterative process dependent on what may be found during compliance testing. The following graphs present information on the Company's current overall status of the implementation and compliance phases of the Y2K Plan, as well as information regarding expected final testing completion dates. This information, provided in these graphs, specifically relates to internal systems which have been identified as high or critical importance during the criticality assessment of the Y2K Plan.

COMPLIANCE
STATUS
ESTABLISHED
(in percent)

[GRAPH APPEARS HERE]

REMEDIATION
COMPLETE
(in percent)

[GRAPH APPEARS HERE]

FINAL
CERTIFICATION
TESTING
COMPLETE
(in percent)

[GRAPH APPEARS HERE]

COST OF YEAR 2000 COMPLIANCE EFFORTS. The Company has funded its Y2K Plan from operating cash flows and has not separately accounted for related costs in the past, partly because the responsibilities and costs are distributed throughout the organization and represent a small percentage of total operating costs. The Company's current estimate of total costs to the Company for achieving Y2K compliance is approximately $500,000 over three years (1997 -- 2000), with about two-thirds of those costs estimated to already have been incurred. Implementing the Y2K Plan has caused some delays in other planned IT initiatives; however, these delays have not had a material effect on the Company's operations. There can be no assurance, however, that there will not be a delay in the completion of the Y2K Plan. Such a delay could have a material adverse effect on future results of operations. The Company may experience unforeseen problems and costs related to Y2K compliance that could materially adversely affect the Company's business, results of operations and financial condition.

RISKS AND CONTINGENCIES. The Company has initiated the development of a comprehensive Y2K contingency plan to address situations that may result if the Company is unable to achieve Y2K readiness of its critical systems. The contingency plan is expected to be completed during the second quarter of 1999.

THIRD PARTY RELATIONSHIPS. The Company has contacted its distributors and key vendors regarding their Y2K compliance efforts. Although the Company has received information from some of its distributors and vendors regarding their Y2K compliance efforts, there can be no assurance that the Company will not experience disruptions in its ability to conduct business because of Y2K problems experienced by the Company's distributors or vendors. The Company has no practical means to verify Y2K compliance of independent vendors who have not yet responded. To the extent that its key distributors or vendors experience problems relative to achieving Y2K compliance, the Company could suffer unanticipated revenue losses.

In addition, the Company does not currently have meaningful information concerning the Y2K compliance status of its customers. As is the case with other software companies, if significant numbers of the Company's current or future customers fail to achieve Y2K compliance, or if they divert technology expenditures away from those that were reserved for computer-aided engineering ("CAE") software to address Y2K compliance problems, the Company's business, results of operations or financial condition could be materially adversely affected.

QUALIFICATION. The Year 2000 discussion above contains various forward-looking statements which represent the Company's beliefs or expectations regarding future events. When used in the Year 2000 discussion, the words "believes," "expects," "estimates" and other similar expressions are intended to identify forward-looking statements. Forward-looking statements include, without limitation, the Company's expectations as to when it and its significant distributors, customers and suppliers will complete the implementation and compliance phases of the Y2K Plan, as well as its Year 2000 contingency plans; its estimated costs related to the Y2K Plan; the effect of earlier versions of the Company's products or Y2K problems experienced by key distributors, vendors or customers; and the Company's belief that its internal systems and equipment will be Y2K Compliant in a timely manner. All forward-looking statements involve a number of risks and uncertainties that could cause the actual results to differ materially from the projected results. Factors that may cause these differences include, but are not limited to, the availability of qualified personnel and other information technology resources, the ability to identify and remediate all date-sensitive lines of code or to replace embedded chips in affected systems or equipment, unanticipated delays or expenses related to remediation and the actions of independent third parties with respect to Year 2000 problems.

The statements in the previous section include "Year 2000 Readiness Disclosures" within the meaning of the Year 2000 Information and Readiness Disclosure Act of 1998.

## CONVERSION TO THE EURO

On January 1, 1999, eleven of the member countries of the European Union established fixed conversion rates between their existing currencies and one common currency, the euro. The legacy currencies will remain legal currency in the participating countries during a transition period through January 1, 2002. Beginning on this date, new euro-denominated currency will be issued and the legacy currencies will be withdrawn from circulation.

The Company is currently in the early stages of identifying and addressing issues that may result from the euro conversion such as changes to information systems to accommodate euro-denominated transactions, long-term competitive implications and the exposure to market risk with respect to financial instruments. Although our assessment of the impact of the euro conversion is not yet complete, we do not currently believe that the conversion will have a material adverse impact on the Company's financial position or results of operations.

## RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," which defines derivatives, requires that all derivatives be carried at fair value and provides for hedge accounting when certain conditions are met. The Standard is effective for all fiscal quarters of fiscal years beginning after June 15, 1999. The Company is currently in the process of evaluating the prospective impact of Statement No. 133 on its financial position and results of operations.

IMPORTANT FACTORS REGARDING FUTURE RESULTS

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

POTENTIAL FLUCTUATIONS IN OPERATING RESULTS. The Company may experience significant fluctuations in future quarterly operating results. Fluctuations may be caused by many factors, including the timing of new product releases or product enhancements by the Company or its competitors; the size and timing of individual orders, including a fluctuation in the demand for and the ability to complete large contracts; software errors or other product quality problems; competition and pricing; customer order deferrals in anticipation of new products or product enhancements; reduction in demand for the Company's products; changes in operating expenses; changes in the mix of software license and maintenance and service revenue; personnel changes; and general economic conditions. A substantial portion of the Company's operating expenses 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, which could increase the volatility of the Company's revenue and profit from period to period. More recently, the Company has also experienced an increase in renewals and sales of noncancellable annual leases, for which a portion of the annual license fee is recognized as paid-up revenue upon renewal or inception of the lease. As a result, product revenue in any quarter is substantially dependent on sales completed in the latter part of that quarter, and revenue for any future quarter is not predictable with any significant degree of accuracy.

STOCK MARKET 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.

In addition, a large percentage of the Company's common stock is held by TA Associates, Inc. and various institutional investors. Consequently, actions with respect to the Company's common stock by either TA Associates, Inc. or certain of these institutional investors could have a significant impact on the market price for the stock.

RAPIDLY CHANGING TECHNOLOGY; NEW PRODUCTS; RISK OF PRODUCT DEFECTS. The markets for the Company's products are generally characterized by rapidly changing technology and frequent new product introductions that can render existing products obsolete or unmarketable. A major factor in the Company's future success will be its ability to anticipate technological changes and to develop and introduce in a timely manner enhancements to its existing products and new products to meet those changes. If the Company is unable to introduce new products and respond quickly to industry changes, its business, financial condition and results of operations could be materially adversely affected. The introduction and marketing of new or enhanced products require the Company to manage the transition from existing products in order to minimize disruption in customer purchasing patterns. There can be no assurance that the Company will be successful in developing and marketing, on a timely basis, new products or product enhancements, that its new products will adequately address the changing needs of the marketplace or that it will successfully manage the transition from existing products. Software products as complex as those offered by the Company may contain undetected errors or failures when first introduced or as new versions are released, and the likelihood of errors is increased as a result of the Company's commitment to accelerating the frequency of its product releases. There can be no assurance that errors will not be found in new or enhanced products after commencement of commercial shipments. Any of these problems may result in the loss of or delay in market acceptance, diversion of development resources, damage to the Company's reputation or increased service or warranty costs, any of which could have a materially adverse effect on the Company's business, financial condition and results of operations.

DEPENDENCE ON DISTRIBUTORS. The Company distributes its products principally through its global network of 35 independent, regional ASDs. The ASDs sell ANSYS and DesignSpace products to new and existing customers, expand installations within their existing customer base, offer consulting services and provide the first line of ANSYS technical support. The ASDs have more immediate contact with most customers who use ANSYS software than does the Company. Consequently, the Company is highly dependent on the efforts of the ASDs. Difficulties in ongoing relationships with ASDs, such as delays in collecting accounts receivable, failure to meet performance criteria or to promote the Company's products as aggressively as the Company expects and differences in the handling of customer relationships could adversely affect the Company's performance. Additionally, the loss of any major ASD for any reason, including an ASD's decision to sell competing products rather than the Company's products, could have a materially adverse effect on the Company. Moreover, the Company's future success will depend substantially on the ability and willingness of its ASDs to continue to dedicate the resources necessary to promote the Company's products and to support a larger installed base of the Company's products. If the ASDs are unable or unwilling to do so, the Company may be unable to sustain revenue growth.

COMPETITION. The CAD, CAE and computer-aided manufacturing ("CAM") markets are intensely competitive. In the traditional CAE market, the Company's primary competitors include MacNeal-Schwendler Corporation, Hibbitt, Karlsson and Sorenson, Inc. and MARC Analysis Research Corporation. The Company also faces competition from smaller vendors of specialized analysis applications in fields such as computational fluid dynamics. In addition, certain integrated CAD suppliers such as Parametric Technology Corporation, Structural Dynamics Research Corporation and Dassault Systemes provide varying levels of design analysis and optimization and verification capabilities as part of their product offerings. The entrance of new competitors would likely intensify competition in all or a portion of the overall CAD, CAE and CAM markets. Some of the Company's current and possible future competitors have greater financial, technical, marketing and other resources than the Company, and some have well established relationships with current and potential customers of the Company. It is also possible that alliances among competitors may emerge and rapidly acquire significant market share or that competition will increase as a result of software industry consolidation. Increased competition may result in price reductions, reduced profitability and loss of market share, any of which would materially adversely affect the Company's business, financial condition and results of operations.

DEPENDENCE ON SENIOR MANAGEMENT AND KEY TECHNICAL PERSONNEL. The Company is highly dependent upon the ability and experience of its senior executives and its key technical and other management employees. Although the Company has entered into employment agreements with two executives, the loss of these, 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 and growing portion of the Company's business comes from outside the United States. Risks inherent in the Company's international business activities include imposition of government controls, export license requirements, restrictions on the export of critical technology, political and economic instability, trade restrictions, changes in tariffs and taxes, difficulties in staffing and managing international operations, longer accounts receivable payment cycles and the burdens of complying with a wide variety of foreign laws and regulations. Effective patent, copyright and trade secret protection may not be available in every foreign country in which the Company sells its products. The Company's business, financial condition and results of operations could be materially adversely affected by any of these risks.

Additionally, countries in the Asia-Pacific region, including Japan, 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 position or results of operations.

DEPENDENCE ON PROPRIETARY TECHNOLOGY. The Company's success is highly dependent upon its proprietary technology. The Company does not have patents on any of its technology and 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 NONCANCELLABLE ANNUAL LEASES AND PERPETUAL LICENSES. The Company has historically maintained stable recurring revenue from the sale of monthly lease licenses for its software products. During certain periods in the past, the Company experienced an increase in customer preference for perpetual licenses that involve payment of a single up-front fee and that are more typical in the computer software industry. Most recently it has experienced an increase in customer preference for noncancellable annual leases. While monthly lease license revenue currently represents a portion of the Company's software license fee revenue, to the extent that noncancellable annual lease license and perpetual license revenue continue to increase as a percentage of total software license fee revenue, the Company's revenue in any period will increasingly depend on sales completed during that period.

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

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 include a current Internal Revenue Service examination of the Federal income tax return for the fiscal year ended December 31, 1996. 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.

## REPORT OF INDEPENDENT ACCOUNTANTS

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF ANSYS, INC. AND SUBSIDIARIES

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, stockholders' equity and cash flows present fairly, in all material respects, the financial position of ANSYS, Inc. and its subsidiaries at December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. These consolidated financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

/s/ PricewaterhouseCoopers LLP

Pittsburgh, Pennsylvania
January 28, 1999

CONSOLIDATED BALANCE SHEETS

| (in thousands, except share data) | December 31, 1998 | December 31, 1997 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 6,589 | $13,990 |
| Short-term investments | 36,138 | 13,853 |
| Accounts receivable, less allowance for doubtful accounts of $1,900 in 1998 and $2,080 in 1997 | 8,943 | 8,034 |
| Other current assets | 1,848 | 1,911 |
| Deferred income taxes | 162 | 125 |
| Total current assets | 53,680 | 37,913 |
| Securities available for sale | 182 | 182 |
| Property and equipment, net | 3,748 | 4,771 |
| Capitalized software costs, net of accumulated amortization of $15,627 in 1998 and $15,471 in 1997 | 426 | 260 |
| Goodwill, net of accumulated amortization of $14,678 in 1998 and $14,671 in 1997 | 424 | -- |
| Other intangibles, net | 1,866 | 2,374 |
| Deferred income taxes | 7,672 | 9,066 |
| Total assets | $67,998 | $54,566 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | $ 205 | $ 235 |
| Accrued bonuses | 2,449 | 2,133 |
| Other accrued expenses and liabilities | 3,437 | 2,608 |
| Customer prepayments | 168 | 746 |
| Deferred revenue | 9,372 | 8,430 |
| Total current liabilities | 15,631 | 14,152 |
| Stockholders' equity: | | |
| Preferred stock, $.01 par value; 2,000,000 shares authorized | -- | -- |
| Common stock, $.01 par value; 50,000,000 shares authorized; 16,395,938 and 16,359,134 shares issued in 1998 and 1997 | 164 | 164 |
| Additional paid-in capital | 36,657 | 36,089 |
| Less treasury stock, at cost: 0 shares held in 1998 and 68,800 shares held in 1997 | | (12) |
| Retained earnings | 15,676 | 4,327 |
| Accumulated other comprehensive income | 120 | 120 |
| Notes receivable from stockholders | (250) | (274) |
| Total stockholders' equity | 52,367 | 40,414 |
| Total liabilities and stockholders' equity | $67,998 | $54,566 |

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

CONSOLIDATED STATEMENTS OF INCOME

| (in thousands, except share data) | 1998 | 1997 | 1996 |
|---|---|---|---|
| Revenue: | | | |
| Software licenses | $35,463 | $35,083 | $37,013 |
| Maintenance and service | 21,090 | 15,464 | 10,053 |
| Total revenue | 56,553 | 50,547 | 47,066 |
| Cost of sales: | | | |
| Software licenses | 3,404 | 2,833 | 3,051 |
| Maintenance and service | 2,661 | 2,365 | 2,337 |
| Total cost of sales | 6,065 | 5,198 | 5,388 |
| Gross profit | 50,488 | 45,349 | 41,678 |
| Operating expenses: | | | |
| Selling and marketing | 13,137 | 11,834 | 9,722 |
| Research and development | 11,627 | 11,004 | 9,796 |
| Amortization | 884 | 2,797 | 10,774 |
| General and administrative | 9,634 | 8,983 | 7,712 |
| Total operating expenses | 35,282 | 34,618 | 38,004 |
| Operating income | 15,206 | 10,731 | 3,674 |
| Interest expense | -- | (1) | (1,669) |
| Other income | 1,931 | 912 | 611 |
| Income before income tax provision and extraordinary item | 17,137 | 11,642 | 2,616 |
| Income tax provision | 5,788 | 4,242 | 969 |
| Net income before extraordinary item | 11,349 | 7,400 | 1,647 |
| Extraordinary item, net | -- | -- | (343) |
| Net income | $11,349 | $ 7,400 | $ 1,304 |
| Net income applicable to common stock: | | | |
| Net income | $11,349 | $ 7,400 | $ 1,304 |
| Redeemable preferred stock dividends | -- | -- | (236) |
| | $11,349 | $ 7,400 | $ 1,068 |
| Net income per basic common share: | | | |
| Net income before extraordinary item | $ .71 | $ .47 | $ .10 |
| Extraordinary item | -- | -- | (.02) |
| Basic earnings per share | $ .71 | $ .47 | $ .08 |
| Weighted average shares - basic | 16,052 | 15,742 | 14,000 |
| Net income per diluted common share: | | | |
| Net income before extraordinary item | $ .68 | $ .45 | $ .09 |
| Extraordinary item | -- | -- | (.02) |
| Diluted earnings per share | $ .68 | $ .45 | $ .07 |
| Weighted average shares - diluted | 16,581 | 16,518 | 14,906 |

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

| (in thousands) | 1998 | 1997 | 1996 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Net income | $ 11,349 | $ 7,400 | $ 1,304 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 2,710 | 4,170 | 11,911 |
| Extraordinary item | -- | -- | 553 |
| Deferred income tax provision (benefit) | 1,357 | 725 | (2,836) |
| Provision for bad debts | 1,309 | 1,130 | 250 |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | (2,151) | (2,857) | 108 |
| Other current assets | 63 | (576) | 89 |
| Accounts payable, accrued expenses and liabilities and customer prepayments | 265 | (870) | 1,232 |
| Deferred revenue | 744 | 3,580 | 870 |
| Net cash provided by operating activities | 15,646 | 12,702 | 13,481 |
| Cash flows from investing activities: | | | |
| Capital expenditures | (917) | (2,063) | (2,544) |
| Capitalization of internally developed software costs | (322) | (229) | (117) |
| Purchases of short-term investments | (28,533) | (13,853) | -- |
| Maturities of short-term investments | 6,248 | -- | -- |
| Notes receivable from stockholders | 24 | 28 | 32 |
| Net cash used in investing activities | (23,500) | (16,117) | (2,629) |
| Cash flows from financing activities: | | | |
| Payments on long-term debt | -- | -- | (21,000) |
| Proceeds from issuance of restricted stock | -- | -- | 326 |
| Proceeds from issuance of common stock under Employee Stock Purchase Plan | 168 | 283 | -- |
| Proceeds from exercise of stock options | 54 | 50 | 119 |
| Repayment of subordinated notes | -- | -- | (17,204) |
| Redemption of preferred stock and accumulated dividends | -- | -- | (5,128) |
| Proceeds from initial public offering, net of issuance costs of $1,300 | -- | -- | 41,015 |
| Purchase of treasury stock | (5) | (1) | (2) |
| Proceeds from issuance of treasury stock | 236 | 4 | -- |
| Net cash provided by (used in) financing activities | 453 | 336 | (1,874) |
| Net (decrease) increase in cash and cash equivalents | (7,401) | (3,079) | 8,978 |
| Cash and cash equivalents, beginning of year | 13,990 | 17,069 | 8,091 |
| Cash and cash equivalents, end of year | $ 6,589 | $ 13,990 | $ 17,069 |
| Supplemental disclosures of cash flow information: | | | |
| Cash paid during the year for: | | | |
| Income taxes | $ 3,245 | $ 4,148 | $ 2,311 |
| Interest | -- | -- | 2,848 |
| Supplemental noncash investing and financing activities: | | | |
| Exercise of option for non-compete agreement | -- | 1,000 | -- |
| (Decrease) increase in securities available for sale | -- | (491) | 673 |
| Acquisition of assets net of liabilities assumed of $198 | 400 | -- | -- |

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

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

| (in thousands) | Common Stock Shares | Common Stock Amount | Class A Common Shares | Class A Common Amount | Additional Paid-in Capital |
|---|---|---|---|---|---|
| Balance, December 31, 1995 | 10,626 | $106 | 994 | $ 10 | $ 1,351 |
| Treasury stock acquired | -- | -- | -- | -- | -- |
| Issuance of restricted stock | 136 | 1 | -- | -- | 325 |
| Conversion of Class A shares into common stock | 994 | 10 | (994) | (10) | -- |
| Issuance of common stock | 3,500 | 35 | -- | -- | 40,980 |
| Reinstatement of adjustment for predecessor basis | -- | -- | -- | -- | (7,010) |
| Exercise of stock options | 973 | 10 | | | 109 |
| Dividends accrued on redeemable preferred stock | -- | -- | -- | -- | -- |
| Repayment of note receivable from stockholder | -- | -- | -- | -- | -- |
| Net income for the year | -- | -- | -- | -- | -- |
| Other comprehensive income | -- | -- | -- | -- | -- |
| Balance, December 31, 1996 | 16,229 | 162 | -- | -- | 35,755 |
| Treasury stock acquired | -- | -- | -- | -- | -- |
| Treasury stock sold | -- | -- | -- | -- | 3 |
| Exercise of stock options | 92 | 1 | -- | -- | 49 |
| Issuance of common stock under Employee Stock Purchase Plan | 38 | 1 | -- | -- | 282 |
| Repayment of note receivable from stockholder | -- | -- | -- | -- | -- |
| Net income for the year | -- | -- | -- | -- | -- |
| Other comprehensive income | -- | -- | -- | -- | -- |
| Balance, December 31, 1997 | 16,359 | 164 | | | 36,089 |
| Treasury stock acquired | -- | -- | -- | -- | -- |
| Treasury stock sold | -- | -- | -- | -- | 221 |
| Exercise of stock options | 27 | -- | -- | -- | 180 |
| Issuance of common stock under Employee Stock Purchase Plan | 10 | -- | -- | -- | 167 |
| Repayment of note receivable from stockholder | -- | -- | -- | -- | -- |
| Net income for the year | -- | -- | -- | -- | -- |
| Other comprehensive income | -- | -- | -- | -- | -- |
| Balance, December 31, 1998 | 16,396 | $164 | -- | $ -- | $36,657 |

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

| Adjustment for Predecessor Basis | Treasury Stock Shares | Treasury Stock Amount | Retained Earnings (Deficit) | Accumulated Other Comprehensive Income | Notes Receivable from Stockholders | Total Stockholders' Equity | Total Comprehensive Income |
|---|---|---|---|---|---|---|---|
| $(7,010) | 55 | $(10) | $(4,141) | -- | $(334) | $(10,028) | |
| -- | 17 | (2) | -- | -- | -- | (2) | |
| -- | -- | -- | -- | -- | -- | 326 | |
| -- | -- | -- | -- | -- | -- | -- | |
| -- | -- | -- | -- | -- | -- | 41,015 | |
| 7,010 | -- | -- | -- | -- | -- | -- | |
| -- | -- | -- | -- | -- | -- | 119 | |
| -- | -- | -- | (236) | -- | -- | (236) | |
| -- | -- | -- | -- | -- | 32 | 32 | |
| -- | -- | -- | 1,304 | -- | -- | 1,304 | $ 1,304 |
| -- | -- | -- | -- | $ 444 | -- | 444 | 444 |
| -- | 72 | (12) | (3,073) | 444 | (302) | 32,974 | 1,748 |
| -- | 4 | (1) | -- | -- | -- | (1) | |
| -- | (7) | 1 | -- | -- | -- | 4 | |
| -- | -- | -- | -- | -- | -- | 50 | |
| -- | -- | -- | -- | -- | -- | 283 | |
| -- | -- | -- | -- | -- | 28 | 28 | |
| -- | -- | -- | 7,400 | -- | -- | 7,400 | 7,400 |
| -- | -- | -- | -- | (324) | -- | (324) | (324) |
| -- | 69 | (12) | 4,327 | 120 | (274) | 40,414 | 7,076 |
| -- | 15 | (5) | -- | -- | -- | (5) | |
| -- | (70) | 15 | -- | -- | -- | 236 | |
| -- | -- | -- | -- | -- | -- | 180 | |
| -- | (14) | 2 | -- | -- | -- | 169 | |
| -- | -- | -- | -- | -- | 24 | 24 | |
| -- | -- | -- | 11,349 | -- | -- | 11,349 | 11,349 |
| -- | -- | -- | -- | -- | -- | -- | -- |
| $ -- | -- | $ -- | $15,676 | $ 120 | $(250) | $ 52,367 | $11,349 |

## 1. ORGANIZATION AND INITIAL PUBLIC OFFERING

ANSYS, Inc. (the "Company"), formerly SAS Holdings, Inc., is a holding company incorporated on January 12, 1994 for the purpose of acquiring substantially all of the assets and technology, and assuming certain liabilities of Swanson Analysis Systems, Inc. (the "1994 Acquisition"). The Company develops, markets and supports a family of mechanical computer-aided engineering software products. The Company's products are marketed and sold to companies throughout the world which operate in many industries, including automotive, aerospace and electronics.

Effective June 20, 1996, the Company completed an initial public offering ("IPO") of 3,500,000 shares of Common Stock at $13.00 per share. The net proceeds (after deducting underwriting discounts and commissions and offering expenses) totaled $41.0 million and were used as follows: (i) the repayment of approximately $18.5 million of senior secured indebtedness (the "1994 Loan"), including accrued and unpaid interest; (ii) the repayment of $17.5 million of 10% Subordinated Notes (the "Subordinated Notes"), including accrued and unpaid interest; and (iii) the redemption of $5.1 million of Redeemable Preferred Stock, including accumulated dividends.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION: The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, ASN Systems Limited, SAS IP, Inc. and ANSYS Foreign Sales Corporation. All significant intercompany accounts and transactions have been eliminated in consolidation.

REVENUE RECOGNITION: In October 1997, the Financial Accounting Standards Board approved the American Institute of Certified Public Accountants Statement of Position ("SOP") 97-2, "Software Revenue Recognition." This SOP provides guidance on when revenue should be recognized and in what amounts for licensing, selling, leasing or otherwise marketing computer software. This SOP supersedes SOP 91-1, "Software Revenue Recognition." Beginning in December 1997, the Company has adopted the provisions of SOP 97-2 and its current revenue recognition policies are in conformance with the guidelines of the Statement.

The Company's products are sold primarily through distributors, who are resellers with respect to the Company's products. Revenue is derived principally from the licensing of computer software products, either on an annual lease, monthly lease or perpetual basis, and from related maintenance contracts. Revenue from product licensing for perpetual licenses is recognized upon delivery of the product, acceptance by the customer and receipt of a signed contractual obligation provided that no significant Company obligations remain and collection of the receivable is probable. A portion of the license fees from noncancellable annual leases is recognized as paid-up revenue upon inception of the lease. The remaining portion is recognized ratably over the remaining lease period. Revenue for monthly lease licenses is recognized monthly, as earned, because the lease license agreements can be cancelled by the customers with 30 days notice. Revenue from maintenance contracts is recognized ratably over the term of the contract. Costs related to maintenance obligations are expensed as incurred. Revenue from training, support and other services is recognized as the services are performed.

CASH EQUIVALENTS: For purposes of the consolidated statements of cash flows, the Company considers highly liquid deposits in money market funds to be cash equivalents. Cash equivalents are recorded at cost, which approximates fair value.

SHORT-TERM INVESTMENTS: The Company considers investments backed by government agencies or U.S. financial institutions and which have a maturity or renewal option between thirty days and up to one year from the date of purchase to be short-term investments. Short-term investments are recorded at cost, which approximates fair value.

SECURITIES AVAILABLE FOR SALE: The Company follows the provisions of Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities," which addresses the classification, accounting and disclosure of investments in debt and equity securities. In accordance with Statement No. 115, the Company has investments in marketable equity securities that have been classified as available-for-sale, and accordingly are carried at fair value, with the unrealized gains and losses, net of tax, reported in a separate component of stockholders' equity.

PROPERTY AND EQUIPMENT: Property and equipment is stated at cost. Depreciation is computed on the straight-line method over the estimated useful lives of the various classes of assets, which range from one to seven years. Repairs and maintenance are charged to expense as incurred. Gains or losses from the sale or retirement of property and equipment are included in the results of operations.

CAPITALIZED SOFTWARE: Internally developed computer software costs and costs of product enhancements are capitalized subsequent to the determination of technological feasibility; such capitalization continues until the product becomes available for general release. 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. Amortization is the greater of the amount computed using: (i) the ratio of the current year's gross revenue to the total current and anticipated future gross revenue for that product or (ii) the straight-line method over the estimated life of the product.

The Company periodically reviews the carrying value of capitalized software, and impairments are recognized in the results of operations when the expected future undiscounted operating cash flow derived from the capitalized software is less than its carrying value.

RESEARCH AND DEVELOPMENT COSTS: Research and development costs are expensed as incurred.

GOODWILL AND OTHER INTANGIBLE ASSETS: Intangible assets consist of the excess of the purchase cost over the fair value of net assets acquired ("goodwill"), the ANSYS trade name and non-compete agreements. These assets are being amortized on the straight-line method over their estimated useful lives. The Company periodically evaluates the carrying value of goodwill based on whether the goodwill is recoverable from expected future undiscounted operating cash flows of the related business. The Company periodically reviews the carrying value of other intangible assets and will recognize impairments when the expected future operating cash flow derived from such intangible assets is less than their carrying value.

DEBT ISSUANCE COSTS: Debt issuance costs, which were incurred by the Company in connection with the 1994 Acquisition, were deferred and amortized over the term of the related debt. Debt issuance costs had been included in other intangibles on the consolidated balance sheets. As a result of the early repayment of the 1994 Loan with a portion of the net proceeds from the IPO, the Company wrote off the unamortized balance of the debt issuance cost, which was reflected as an extraordinary item, net of income taxes, in the Consolidated Statement of Income for the year ended December 31, 1996.

CONCENTRATIONS OF CREDIT RISK: The Company invests its excess cash primarily in deposits, money market funds and commercial paper with commercial banks. The Company has not experienced any losses to date on its invested cash.

The Company has a concentration of credit risk with respect to trade receivables because of the limited number of distributors through which the Company sells its products. The Company performs periodic credit evaluations of its customers' financial condition and generally does not require collateral.

During 1998, sales by distributors comprised approximately 82% of the Company's total revenue, with two distributors accounting for approximately 13% and 10% of total revenue. During 1997, sales by distributors comprised approximately 97% of the Company's total revenue, with two distributors accounting for approximately 14% and 10% of total revenue. During 1996, sales by distributors comprised approximately 96% of the Company's total revenue, with two distributors accounting for approximately 13% and 9% of total revenue.

INCOME TAXES: Deferred tax assets and liabilities are determined based on temporary differences between the financial statement and tax bases of assets and liabilities, using enacted tax rates in effect in the years in which the differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

FOREIGN CURRENCY TRANSACTIONS: Certain of the Company's sales transactions are denominated in foreign currencies. These transactions are translated to U.S. dollars at the exchange rate on the transaction date. Accounts receivable in foreign currencies at year-end are translated at the effective exchange rate on that date. Gains and losses resulting from foreign exchange transactions are included in the results of operations.

USE OF ESTIMATES: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the amounts of revenue and expenses during the reported periods. Actual results could differ from the estimates.

EARNINGS PER SHARE: Effective December 31, 1997, the Company has adopted Statement of Financial Accounting Standards No. 128, "Earnings per Share," issued in February 1997. This Statement requires the disclosure of basic and diluted earnings per share and revises the method to calculate these amounts under previous standards. Earnings per share data for periods prior to 1997 have been restated to reflect adoption of this Statement. The adoption of this standard did not materially impact previously reported earnings per share amounts. Net income per basic common share is computed using the weighted average number of common shares outstanding during each period. Net income per diluted common share is computed using the weighted average number of common and common equivalent shares outstanding during each period. Common equivalent shares are not included in the per share calculations where their inclusion would be anti-dilutive.

RECLASSIFICATIONS: Certain reclassifications have been made to the 1997 and 1996 financial statements to conform to the 1998 presentation.

## 3. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

| (in thousands) | December 31, 1998 | December 31, 1997 |
|---|---|---|
| Equipment | $ 4,815 | $ 3,977 |
| Computer software | 2,340 | 2,199 |
| Furniture | 877 | 839 |
| Leasehold improvements | 824 | 824 |
| | 8,856 | 7,839 |
| Less: accumulated depreciation and amortization | (5,108) | (3,068) |
| | $ 3,748 | $ 4,771 |

Depreciation and amortization expense related to property and equipment was approximately $2,040,000, $1,626,000 and $1,374,000 for the years ended December 31, 1998, 1997 and 1996, respectively.

## 4. OTHER INTANGIBLE ASSETS

Other intangible assets consists of the following:

| (in thousands) | Estimated Useful Lives | December 31, 1998 | December 31, 1997 |
|---|---|---|---|
| Trade name | 10 | $ 1,824 | $ 1,824 |
| Non-compete agreements | 5-8 | 2,000 | 2,000 |
| | | 3,824 | 3,824 |
| Less: accumulated amortization | | (1,958) | (1,450) |
| | | $ 1,866 | $ 2,374 |

## 5. OTHER COMPREHENSIVE INCOME

Other comprehensive income is as follows:

| (in thousands) | December 31, 1998 | December 31, 1997 | December 31, 1996 |
|---|---|---|---|
| Unrealized gains (losses) on securities | $ -- | $ (491) | $ 673 |
| Tax effect | -- | 167 | (229) |
| Other comprehensive income (loss) | $ -- | $ (324) | $ 444 |

## 6. INCOME TAXES

The provision (benefit) for income taxes is comprised of the following:

| (in thousands) | December 31, 1998 | December 31, 1997 | December 31, 1996 |
|---|---|---|---|
| Current: | | | |
| Federal | $ 3,357 | $ 2,699 | $ 2,886 |
| State | 220 | 73 | 244 |
| Foreign | 854 | 745 | 675 |
| Deferred: | | | |
| Federal | 1,235 | 725 | (2,836) |
| State | 122 | -- | -- |
| Total | $ 5,788 | $ 4,242 | $ 969 |

The reconciliation of the federal statutory tax rate to the consolidated effective tax rate is as follows:

| | December 31, 1998 | December 31, 1997 | December 31, 1996 |
|---|---|---|---|
| Federal statutory tax rate | 34.0% | 34.0% | 34.0% |
| State income taxes, net of federal benefit | 0.8 | 0.4 | 6.1 |
| Research and experimentation credit | (1.2) | (0.9) | (3.8) |
| Other | 0.2 | 2.9 | 0.7 |
| | 33.8% | 36.4% | 37.0% |

The components of deferred tax assets and liabilities are as follows:

| (in thousands) | December 31, 1998 | December 31, 1997 |
|---|---|---|
| Deferred tax assets: | | |
| Goodwill | $ 4,145 | $ 4,553 |
| Capitalized software | 4,483 | 5,071 |
| Other intangible assets | 473 | 426 |
| Allowance for doubtful accounts | 675 | 733 |
| Accrued expenses and liabilities | 159 | 146 |
| | 9,935 | 10,929 |
| Deferred tax liabilities: | | |
| Accounts receivable mark-to-market | 585 | 707 |
| Property and equipment | 169 | 286 |
| Other | 1,347 | 745 |
| | 2,101 | 1,738 |
| Net deferred tax assets | $ 7,834 | $ 9,191 |

Based upon the Company's current and historical taxable income and the anticipated level of future taxable income, management believes it is more likely than not that all of the deferred tax assets will be realized. Accordingly, no valuation allowance has been established against the deferred tax assets.

## 7. STOCKHOLDERS' EQUITY

The Company is authorized to issue up to 50,000,000 shares of $.01 par value voting common stock. Upon the closing of the Company's IPO, each Class A share was converted into one share of common stock. Subsequently, the Class A common stock was cancelled.

On April 19, 1996, the Board of Directors authorized 2,000,000 shares of undesignated preferred stock issuable in one or more series by the Board of Directors. At December 31, 1998 and 1997, there were no shares of preferred stock issued or outstanding.

## 8. PENSION AND PROFIT-SHARING PLANS

The Company maintains both a money purchase pension plan (the "Pension Plan") and a 401(k) / profit-sharing plan (the "Profit-Sharing Plan") for all qualifying full-time employees. The Pension Plan is a noncontributory plan and required the Company to contribute 20% of each participant's compensation annually in 1997 and 1996. A plan amendment, effective January 1, 1998, reduced the Company contribution to 5% of each participant's salary.

In 1997 and 1996, the Profit-Sharing Plan was noncontributory. An amendment to this plan, effective January 1, 1998, invoked the 401(k) feature of the plan, thereby permitting employee contributions up to 10% of eligible compensation. The Company makes matching contributions on behalf of each participant in an amount equal to 100% of the employee contribution up to a maximum of 5% of employee compensation. The employee vesting period was also amended to a five year graduated vesting schedule for employer contributions. Under the profit-sharing provisions of the plan, the Company contribution is determined annually by the Board of Directors, subject to a maximum limitation of 5% of eligible compensation.

Total expense related to the Pension and Profit-Sharing plans was $1,144,000 in 1998, $2,566,000 in 1997 and $1,882,000 in 1996.

## 9. NON-COMPETE AND EMPLOYMENT AGREEMENTS

The Company has entered into non-compete agreements with certain holders of the Company's common stock. The agreements preclude the stockholders from competing either directly or indirectly with the Company for a period ranging from one to three years subsequent to termination. Additionally, during 1997, the Company exercised an option for a non-compete agreement related to activities in the Company's United Kingdom and Netherlands territories. The agreement precludes the former ASD from engaging in any competitive business activities previously undertaken pursuant to the former ASD agreement.

The Company has entered into employment agreements with the Chief Executive Officer and another senior executive. The terms of the agreements are substantially similar except with respect to minimum annual base salary. In the event the Chief Executive Officer is terminated without cause, his employment agreement provides for severance at the annual rate of $300,000 for the later of a period of one year after termination or when he accepts other employment. In the event the other senior executive is terminated without cause, his employment agreement provides that the Company will continue to pay his base salary of $256,000, subject to specified cost of living increases, through the later of March 14, 1999 or six months from the date of termination. The Chief Executive Officer and the other senior executive are subject to one and three-year restrictions on competition, respectively, following termination of employment under the circumstances described in each contract.

## 10. STOCK OPTION AND GRANT PLANS

The Company has two stock option and grant plans -- the 1994 Stock Option and Grant Plan ("1994 Stock Plan") and the 1996 Stock Option and Grant Plan ("1996 Stock Plan"). The 1994 and 1996 Stock Plans authorize the grant of up to 868,110 and 3,250,000 shares, respectively, of the Company's common stock in the form of: (i) incentive stock options ("ISOs"), (ii) nonqualified stock options or (iii) the issuance or sale of common stock with or without vesting or other restrictions. Additionally, the 1996 Stock Plan permits the grant of common stock upon the attainment of specified performance goals and the grant of the right to receive cash dividends with the holders of the common stock as if the recipient held a specified number of shares of the common stock. No further grants may be made under the 1994 Stock Plan.

The 1994 and 1996 Stock Plans provide that: (i) the exercise price of an ISO must be no less than the fair value of the stock at the date of grant and (ii) the exercise price of an ISO held by an optionee who possesses more than 10% of the total combined voting power of all classes of stock must be no less than 110% of the fair market value of the stock at the time of grant. The Board of Directors has the authority to set expiration dates no later than ten years from the date of grant (or five years for an optionee who meets the 10% criteria), payment terms and other provisions for each grant. Shares associated with unexercised options or repurchased shares of common stock become available for options or issuances under the 1996 Stock Plan. The Compensation Committee of the Board of Directors may, at its sole discretion, accelerate or extend the date or dates on which all or any particular award or awards granted under the 1994 and 1996 Stock Plans may vest or be exercised. In the event of a merger, liquidation or sale of substantially all of the assets of the Company, the Board of Directors has the discretion to accelerate the vesting of the options granted under the 1994 and 1996 Stock Plans, except that options granted to the Chief Executive Officer and Independent Directors vest automatically. Under certain scenarios, other optionees may also automatically vest upon the occurrence of such an event. In addition, the 1994 and 1996 Stock Plans and the grants issued thereunder terminate upon the effectiveness of any such transaction or event, unless a provision is made in connection with such transaction for the assumption of grants theretofore made. Under the 1996 Stock Plan, at the discretion of the Compensation Committee, any option may include a "reload" feature. Such feature allows an optionee exercising an option to receive, in addition to the number of shares of common stock due on the exercise, an additional option with an exercise price equal to the fair market value of the common stock on the date such additional option is granted.

In addition, the 1996 Stock Plan provides for the automatic grant of nonqualified options to Independent Directors. Under such provisions, options to purchase that number of shares of common stock determined by dividing $200,000 by the option exercise price will be granted to each individual when he or she first becomes a member of the Board of Directors, provided that he or she is not an employee of the Company. In addition, in 1998 the Board of Directors amended the 1996 Stock Plan to provide that on the date five business days following each annual meeting of stockholders of the Company, each Independent Director who is then serving will be granted an option to purchase 12,000 shares of common stock at the option exercise price. Options granted to Independent Directors under the foregoing provisions will vest in annual installments over four years, commencing with the date of grant and will expire ten years after the grant, subject to earlier termination if the optionee ceases to serve as a director. The exercisability of these options will be accelerated upon the occurrence of a merger, liquidation or sale of substantially all of the assets of the Company.

During 1994, the Company issued 1,289,750 shares of restricted common stock to certain officers, employees and members of the Board of Directors. In addition, during 1996 the Company issued 135,860 shares of restricted common stock to an officer and during 1995 issued 30,000 shares of restricted common stock to members of the Board of Directors. Substantially all shares of restricted stock and all of the options under both the 1994 and 1996 Stock Plans were issued at the estimated market value of the Company's common stock at the time of issuance. The recipients of the restricted stock are required to continue in the employment or service of the Company for periods of up to five years after the date of issuance for ownership to vest and provide for repurchase of unvested restricted stock by the Company at the original purchase price in the event of the termination of employment prior to vesting. Upon termination of employment, the Company repurchased 14,950, 3,950 and 16,750 shares of restricted stock from employees in 1998, 1997 and 1996, respectively.

Restricted stock purchases, grants and option activity under the 1994 and 1996 Stock Plans, and the issuance of restricted stock to members of the Board of Directors under separate agreements, are summarized as follows:

| 1994 Stock Option and Grant Plan | Restricted Stock | | Stock Options | |
|---|---|---|---|---|
| (in thousands, except for range of issue price) | Number of Shares | Range of Issue Price | Number of Options | Range of Issue Price |
| Outstanding at December 31, 1995 | 1,265 | $ .01-.40 | 1,275 | $ .11-.40 |
| Issued/granted | 1,096/(1)/ | .11-2.40/(1)/ | 553 | 1.275-11.00 |
| Exercised | (769) | -- | (973)/(1)/ | .11-1.275/(1)/ |
| Repurchased/cancelled | (17) | .10 | (16) | .40-10.00 |
| Outstanding at December 31, 1996 | 1,575 | .01-2.40 | 839 | .40-11.00 |
| Issued/granted | -- | -- | -- | -- |
| Exercised | (204) | .10-.40 | (99) | .40-1.275 |
| Repurchased/cancelled | (4) | .10 | (86) | .40-10.00 |
| Outstanding at December 31,1997 | 1,367 | .01-2.40 | 654 | .40-11.00 |
| Issued/granted | -- | -- | -- | -- |
| Exercised | (507) | .01-.40 | (56) | .40-1.275 |
| Repurchased/cancelled | (23) | .10-.40 | (72) | .40-10.00 |
| Outstanding at December 31,1998 | 837 | $.01-2.40 | 526 | $ .40-11.00 |
| Exercisable at: | | | | |
| December 31, 1996 | 11 | | 91 | |
| December 31, 1997 | 53 | | 156 | |
| December 31, 1998 | 90 | | 292 | |

/(1)/Includes 960,000 options exercised by a stockholder at an exercise price of $.11 per share. The shares received upon such exercise were restricted subject to repurchase by the Company in certain circumstances. Of the total shares, 368,160 shares became vested in March 1998 and were issued to the holder; the remaining 591,840 will vest in March 1999.

| 1996 Stock Option and Grant Plan | Stock Options | |
|---|---|---|
| (in thousands, except for range of issue price) | Number of Options | Range of Issue Price |
| Issued/granted | 415 | $11.75-$13.125 |
| Exercised | -- | -- |
| Repurchased/cancelled | (1) | 11.75 |
| Outstanding at December 31, 1996 | 414 | 11.75-13.125 |
| Issued/granted | 759 | 6.25-9.625 |
| Exercised | -- | -- |
| Repurchased/cancelled | (146) | 6.25-13.125 |
| Outstanding at December 31, 1997 | 1,027 | 6.25-13.125 |
| Issued/granted | 919 | 6.00-11.313 |
| Exercised | (40) | 6.25-9.625 |
| Repurchased/cancelled | (157) | 6.25-13.00 |
| Outstanding at December 31, 1998 | 1,749 | $ 6.00-13.13 |
| Exercisable at: | | |
| December 31, 1997 | 95 | |
| December 31, 1998 | 270 | |

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." The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation." Accordingly, no compensation expense has been recognized for restricted stock or options which have been issued under the 1994 and 1996 Stock Plans. Had compensation cost for the Company's two stock option and grant plans been determined based upon the fair value at the grant date for the option awards in 1998, 1997 and 1996 consistent with the provisions of SFAS No. 123, the Company's net income and basic and diluted earnings per share would have been reduced to the pro forma amounts indicated on the following page:

10. STOCK OPTION AND GRANT PLANS (CONTINUED)

| (in thousands, except per share data) | 1998 | 1997 | 1996 |
|---|---|---|---|
| Net income - as reported | $11,349 | $7,400 | $1,304 |
| Net income - pro forma | 10,947 | 7,048 | 927 |
| Net income per basic common share - as reported | $ 0 .71 | $ 0.47 | $ 0.08 |
| Net income per basic common share - pro forma | 0.68 | 0.45 | 0.05 |
| Net income per diluted common share - as reported | 0.68 | 0.45 | 0.07 |
| Net income per diluted common share - pro forma | 0.66 | 0.43 | 0.05 |

The weighted-average fair value of options granted was $8.83 per share in 1998, $6.65 per share in 1997 and $9.03 per share in 1996.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the risk-free interest rates ranging from a low of 4.25% to a high of 5.63%. The interest rates used were determined by using the five year Treasury Note rate at the date of grant. The following assumptions were also used to determine the fair value of each option grant: dividend yields of 0%; expected volatility of 66% and expected term of five years.

11. EMPLOYEE STOCK PURCHASE PLAN

The Company's 1996 Employee Stock Purchase Plan (the "Purchase Plan") was adopted by the Board of Directors on April 19, 1996 and was subsequently approved by the Company's stockholders. Up to 210,000 shares of common stock may be issued under the Purchase Plan. The Purchase Plan is administered by the Compensation Committee. The first offering under the Purchase Plan commenced on August 1, 1996 and closed on January 31, 1997. Subsequent offerings commence on each February 1 and August 1 thereafter, and have a duration of six months. An employee who owns or is deemed to own shares of stock representing in excess of 5% of the combined voting power of all classes of stock of the Company may not participate in the Purchase Plan.

During each offering, an eligible employee may purchase shares under the Purchase Plan by authorizing payroll deductions of up to 10% of his cash compensation during the offering period. The maximum number of shares which may be purchased by any participating employee during any offering period is limited to 960 shares (as adjusted by the Compensation Committee from time to time). Unless the employee has previously withdrawn from the offering, his accumulated payroll deductions will be used to purchase common stock on the last business day of the period at a price equal to 85% of the fair market value of the common stock on the first or last day of the offering period, whichever is lower. Under applicable tax rules, an employee may purchase no more than $25,000 worth of common stock in any calendar year. At December 31, 1998, 61,926 shares of common stock had been issued under the Purchase Plan of which 37,877 were issued as of December 31, 1997.

12. LEASES

In January 1996 the Company entered into a lease agreement with an unrelated third party for a new corporate office facility, which the Company occupied in February 1997. The lease agreement is for ten years, with an option for five additional years, and includes a rental acceleration at the end of the fifth and tenth years. The Company incurred lease rental expense related to this facility of $1,227,000 and $1,022,000 in 1998 and 1997, respectively. Future minimum lease payments under the facility lease are $1,227,000 per annum through 2001.

Prior to February 1997, the Company had operated from facilities which it had leased from a joint venture held by a corporate officer. The Company incurred lease rental expense related to this lease agreement of $138,000 for the year ended December 31, 1997 and $839,000 for the year ended December 31, 1996.

The Company has also entered into various noncancellable operating leases for equipment and sales offices. Lease rental expense related to these leases totaled $1,136,000, $1,125,000 and $1,211,000 for the years ended December 31, 1998, 1997 and 1996, respectively. Future minimum lease payments under noncancellable operating leases for equipment and sales offices in effect at December 31, 1998 are $616,000 in 1999, $189,000 in 2000 and $79,000 in 2001.

13. ROYALTY AGREEMENTS

The Company has entered into various renewable nonexclusive license agreements under which the Company has been granted access to the licensor's patent technology and the right to sell the patent technology in the Company's product line. Royalties are payable to developers of the software at various rates and amounts generally based upon unit sales or revenue. Royalty fees, which are included in cost of sales, were approximately $489,000, $422,000 and $450,000 for the years ended December 31, 1998, 1997 and 1996, respectively.

14. RELATED PARTY TRANSACTIONS

In connection with his initial employment, the Company's Chief Executive Officer purchased 626,000 restricted shares of common stock in July 1994 for a cash purchase price of $250,000 with proceeds from a loan from the Company evidenced by a promissory note bearing interest at 8.23% and maturing on July 8, 2006. The promissory note is collateralized by a pledge of the shares purchased with the proceeds of the loan. The shares purchased by the Chief Executive Officer became fully vested during 1998.

## 15. GEOGRAPHIC INFORMATION

Revenue by geographic area is as follows:

| (in thousands) | United States | Canada | Germany | Other Europe | Japan | Other International | Total |
|---|---|---|---|---|---|---|---|
| Year ended December 31, 1998 | $24,282 | $1,509 | $5,704 | $13,986 | $7,565 | $3,507 | $56,553 |
| Year ended December 31, 1997 | 22,881 | 771 | 5,113 | 11,258 | 6,878 | 3,646 | 50,547 |
| Year ended December 31, 1996 | 22,624 | 1,196 | 4,674 | 9,124 | 6,248 | 3,200 | 47,066 |

## 16. COMMITMENTS AND CONTINGENCIES

The Company had an outstanding irrevocable standby letter of credit for $1,577,000 at December 31, 1998. This letter of credit, which expires on April 8, 1999, was issued as a guarantee for court-awarded damages related to litigation initiated by the Company. The fair value of the letter of credit approximates the contract value based on the nature of the fee arrangements with the issuing bank. No material losses on this commitment have been incurred, nor are any anticipated.

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 include a current Internal Revenue Service examination of the Federal income tax return for the fiscal year ended December 31, 1996. 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. The Company has established accruals for matters that are probable and reasonably estimable. Management believes that any liability that may ultimately result from the resolution of these matters in excess of the amounts provided will not have a material adverse effect on the financial position or results of operations of the Company.

## 17. EARNINGS PER SHARE

Basic earnings per common share ("EPS") amounts are computed by dividing earnings after the deduction of preferred stock dividends by the average number of common shares outstanding. Diluted EPS amounts assume the issuance of common stock for all potentially dilutive equivalents outstanding.

The details of basic and diluted earnings per common share are as follows:

| (in thousands, except per share data) | 1998 | 1997 | 1996 |
|---|---|---|---|
| Net income | $11,349 | $ 7,400 | $ 1,304 |
| Redeemable preferred stock dividends | -- | -- | (236) |
| Income available to common stockholders | $11,349 | $ 7,400 | $ 1,068 |
| Weighted average shares outstanding - basic/(1)/ | 16,052 | 15,742 | 14,000 |
| Basic earnings per share after extraordinary item | $ 0.71 | $ 0.47 | $ 0.08 |
| Effect of dilutive securities: | | | |
| Shares issuable upon exercise of dilutive outstanding restricted stock and stock options | 529 | 776 | 906 |
| Weighted average shares outstanding - diluted | 16,581 | 16,518 | 14,906 |
| Diluted earnings per share after extraordinary item | $ 0.68 | $ 0.45 | $ 0.07 |
| Anti-dilutive shares/options | 1,200 | 642 | 720 |

/(1)/Weighted average shares outstanding - basic excludes unvested restricted stock.

## 18. LITIGATION

The Company is currently the plaintiff in litigation related to the expiration of an ASD distribution agreement. However, the action has not progressed sufficiently for the Company to estimate a range of possible gain, if any, should it prevail in its pursuit of damages related to this action.

## 19. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," which defines derivatives, requires that all derivatives be carried at fair value and provides for hedge accounting when certain conditions are met. The Standard is effective for all fiscal quarters of fiscal years beginning after June 15, 1999. The Company is currently in the process of evaluating the prospective impact of Statement No. 133 on its financial position and results of operations.

QUARTERLY FINANCIAL INFORMATION, (UNAUDITED)

| | Fiscal Quarter Ended | | | |
|---|---|---|---|---|
| (in thousands, except per share data) | December 31, 1998 | September 30, 1998 | June, 30 1998 | March 31, 1998 |
| Revenue | $15,257 | $13,507 | $13,562 | $14,227 |
| Gross profit | 13,730 | 11,992 | 12,079 | 12,686 |
| Operating income | 4,241 | 3,577 | 3,552 | 3,835 |
| Net income | 3,152 | 2,710 | 2,720 | 2,767 |
| Net income per basic share | .20 | .17 | .17 | .17 |
| Net income per diluted share | .19 | .16 | .16 | .17 |
| Common stock price per share/(1)/: | | | | |
| High | 11.50 | 11.25 | 11.75 | 10.44 |
| Low | 5.75 | 6.25 | 9.00 | 7.00 |

| | Fiscal Quarter Ended | | | |
|---|---|---|---|---|
| (in thousands, except per share data) | December 31, 1997 | September 30, 1997 | June, 30 1997 | March 31, 1997 |
| Revenue | $14,487 | $11,489 | $12,557 | $12,014 |
| Gross profit | 13,070 | 10,225 | 11,231 | 10,822 |
| Operating income | 3,993 | 2,504 | 3,335 | 890 |
| Net income | 2,748 | 1,719 | 2,274 | 659 |
| Net income per basic share | .17 | .11 | .15 | .04 |
| Net income per diluted share | .17 | .10 | .14 | .04 |
| Common stock price per share/(1)/: | | | | |
| High | 11.00 | 11.25 | 9.25 | 13.25 |
| Low | 6.31 | 7.00 | 5.38 | 7.63 |

/(1)/The Company's common stock trades on the Nasdaq National Market tier of The Nasdaq Stock Market under the symbol: ANSS. The common stock prices shown are based on the Nasdaq daily closing stock price.

The Company has not paid cash dividends on its common stock as it has retained earnings for use in its business. The Company intends to review its policy with respect to the payment of dividends from time to time; however, there can be no assurance that any dividends will be paid in the future.

On February 11, 1999, there were 396 shareholders of record and approximately 3,799 beneficial shareholders of the Company's common stock.

## CORPORATE INFORMATION

### HEADQUARTERS

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## OFFICERS AND SENIOR MANAGEMENT

Peter J. Smith
Chairman of the Board of Directors, President and Chief Executive Officer

Dr. John A. Swanson
Chief Technologist

James E. Cashman III
Senior Vice President, Operations

Paul A. Johnson
Senior Vice President, Product Development

Maria T. Shields
Chief Financial Officer

Dr. Joseph S. Solecki
Corporate Fellow

Dr. Shah M. Yunus
Corporate Fellow

Paul Bemis
Vice President, Marketing

Brian Butcher
Managing Director, European Operations

Paul A. Chilensky
Vice President, Customer Service

David Conover
Manager, Product Development

Karen C. Harker
Director, Human Resources

Mark C. Imgrund
Vice President, Corporate Quality

David S. Secunda
Corporate Counsel and Secretary

James C. Tung
Vice President, International Operations

## SHAREHOLDER INFORMATION

Requests for information about the Company should be directed to: Investor Relations, ANSYS, Inc., Southpointe, 275 Technology Drive, Canonsburg, PA 15317. Telephone: 724.514.1782.

### Report on Form 10-K

Stockholders may obtain additional financial information about ANSYS, Inc. from the Company's Report on Form 10-K filed with the Securities and Exchange Commission. Copies are available from the Company without charge upon written request.

### Stock Listing

Nasdaq National Market Symbol: ANSS

### Counsel

Goodwin, Procter, & Hoar L.L.P., Boston, MA

### Annual Meeting

The Annual Meeting of Stockholders will be held on May 5, 1999 at 2:00 p.m. at the law offices of Buchanan Ingersoll, One Oxford Centre, 301 Grant Street, Pittsburgh, PA 15219.

### Transfer Agent

Chase Mellon Shareholder Services, Ridgefield Park, NJ

### Independent Accountants

PricewaterhouseCoopers LLP, Pittsburgh, PA

ANSYS, Inc. is an Equal Opportunity Employer. As such, it is the Company's policy to promote equal employment opportunity and to prohibit discrimination on the basis of race, color, religion, sex, age, national origin, disability or status as a veteran in all aspects of employment including recruiting, hiring, training or promoting personnel. In fulfilling this commitment, the Company shall comply with the letter and spirit of the laws, regulations and Executive Orders governing equal opportunity in employment; including the Civil Rights Act of 1964, Executive Order 11246, Revised Order Number 4 and amendments thereto.



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EXHIBIT 21

Subsidiaries of the Registrant
- ------------------------------

SAS IP, Inc., a Wyoming Corporation

ASN Systems Limited, a UK Subsidiary

ANSYS Foreign Sales Corporation, a Barbados Corporation

EXHIBIT 23.1

Report of Independent Accountants

To the Board of Directors of
ANSYS, Inc. and Subsidiaries

Our report on the consolidated financial statements of ANSYS, Inc. and Subsidiaries has been incorporated by reference in this Form 10-K from page 20 of the 1998 Annual Report to Stockholders of ANSYS, Inc. and Subsidiaries. In connection with our audits of such financial statements, we have also audited the related financial statement schedule listed in Item 14(a)(2) on page 13 of this Form 10-K.

In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information required to be included therein.

/S/ PricewaterhouseCoopers LLP
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PricewaterhouseCoopers LLP
Pittsburgh, Pennsylvania
January 28, 1999

EXHIBIT 23.2

# Consent of Independent Accountants

We consent to the incorporation by reference in the Registration Statement of ANSYS, Inc. and Subsidiaries on Form S-8 (File No. 333-4278) of our reports dated January 28, 1999, on our audit of the consolidated financial statements and financial statement schedule of ANSYS, Inc. and Subsidiaries as of December 31, 1998 and 1997 and for each of the three years in the period ended December 31, 1998, which reports are included or incorporated by reference in this Annual Report on Form 10-K.

/S/ PricewaterhouseCoopers LLP
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PricewaterhouseCoopers LLP
Pittsburgh, Pennsylvania
March 22, 1999

EXHIBIT 23.3

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the Registration Statement of ANSYS, Inc. and Subsidiaries on Form S-8, (Registration No. 333-4278) of our report dated March 19, 1999, on our audits of the financial statements of the 1996 Employee Stock Purchase Plan of ANSYS, Inc. and Subsidiaries as of January 31, 1999 and 1998, and for the years ended January 31, 1999 and 1998 and for the period August 1, 1996 through January 31, 1997, which report is included in this Annual Report on Form 11-K.

/s/ PricewaterhouseCooopers LLP

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PricewaterhouseCooopers LLP
Pittsburgh, Pennsylvania
March 22, 1999

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE
FINANCIAL STATEMENTS INCLUDED IN THE FORM 10-K FOR THE FISCAL YEAR ENDED AND IS
QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS

1,000

12-MOS
DEC-31-1998
JAN-01-1998
DEC-31-1998
6,589
36,138
10,843
1,900
0
53,680
3,748
0
67,998
15,631
0
0
0
164
52,203
67,998
35,463
56,553
3,404
6,065
35,282
0
0
17,137
5,788
11,349
0
0
0
11,349
.71
.68

EXHIBIT 99

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

FORM 11-K

(Mark One)
[X] ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

As of January 31, 1999 and 1998
and for the periods February 1, 1998 through January 31, 1999,
February 1, 1997 through January 31, 1998
And August 1, 1996 through January 31, 1997

OR

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

Commission file number: 0-20853

1996 EMPLOYEE STOCK PURCHASE PLAN
(Full title of Plan)

ANSYS, Inc.
Southpointe
275 Technology Drive
Canonsburg, PA 15317
(Name of issuer of securities held pursuant to the plan and the address of its principal executive office)

ANSYS, INC. AND SUBSIDIARIES
1996 Employee Stock Purchase Plan
Index of Financial Statements

## REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of
Ansys Inc. and Subsidiaries:

We have audited the financial statements of the 1996 Employee Stock Purchase Plan of ANSYS, Inc. and Subsidiaries as of January 31, 1999 and 1998 and for the years ended January 31, 1999 and 1998 and for the period August 1, 1996 through January 31, 1997, as listed in the accompanying index on Page 2. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the statements of financial condition of the 1996 Employee Stock Purchase Plan of ANSYS, Inc. and Subsidiaries as of January 31, 1999 and 1998, and changes in Plan equity for the years ended January 31, 1999 and 1998 and for the period August 1, 1996 through January 31, 1997, in conformity with generally accepted accounting principles.

/s/ PricewaterhouseCoopers LLP
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PricewaterhouseCoopers LLP
Pittsburgh, Pennsylvania
March 19, 1999

ANSYS, INC. AND SUBSIDIARIES
1996 EMPLOYEE STOCK PURCHASE PLAN
STATEMENTS OF FINANCIAL CONDITION
January 31, 1999 and 1998

| | 1999 | 1998 |
|---|---|---|
| ASSETS: | | |
| Cash | $ 95,661 | $ 128,961 |
| Total assets | $ 95,661 | $ 128,961 |
| Liabilities and Plan equity: | | |
| ANYS, Inc. Stock Due To Participants | $ 95,081 | $ 117,751 |
| Total liabilities | 95,081 | 117,751 |
| Plan equity | 580 | 11,210 |
| Total liabilities and Plan equity | $ 95,661 | $ 128,961 |

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

ANSYS, INC. AND SUBSIDIARIES
1996 EMPLOYEE STOCK PURCHASE PLAN
STATEMENTS OF CHANGES IN PLAN EQUITY
for the periods

| | February 1, 1998 through January 31, 1999 | February 1, 1997 through January 31, 1998 | August 1, 1996 through January 31, 1997 |
|---|---|---|---|
| ADDITIONS: | | | |
| Contributions: | | | |
| Employee | $ 162,259 | $ 255,553 | $ 181,514 |
| Employer | 36,187 | 45,621 | 27,765 |
| Total additions | 198,446 | 301,174 | 209,279 |
| DEDUCTIONS: | | | |
| Stock distributions | 186,845 | 449,992 | -- |
| Participant withdrawals | 22,231 | 38,879 | 10,372 |
| Total deductions | 209,076 | 488,871 | 10,372 |
| Net (decrease) increase in Plan equity | (10,630) | (187,697) | 198,907 |
| Plan equity, beginning of period | 11,210 | 198,907 | -- |
| Plan equity, end of period | $ 580 | $ 11,210 | $ 198,907 |

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

ANSYS, INC. AND SUBSIDIARIES
1996 EMPLOYEE STOCK PURCHASE PLAN
NOTES TO FINANCIAL STATEMENTS

1. DESCRIPTION OF PLAN:

The purpose of the 1996 Employee Stock Purchase Plan of Ansys, Inc. and Subsidiaries (the "Plan"), which became effective August 1, 1996, is to provide eligible employees of ANSYS, Inc. and certain of its subsidiaries (the "Company") with opportunities to purchase shares of common stock upon favorable terms. The aggregate maximum number of shares for which options may be issued under the Plan is 210,000 shares of common stock, subject to adjustments for changes in the Company's capitalization. The Plan is administered by the Compensation Committee of the Board of Directors (the "Compensation Committee").

Participation in the Plan is voluntary. Offerings under the Plan commence on each February 1 and August 1 and have a duration of six months. The Compensation Committee may establish a different period of six months or less for any offering. Generally, all employees who are employed for more than 20 hours per week as of the first day of the applicable offering period are eligible to participate in the Plan. An employee who owns or is deemed to own shares of stock representing in excess of 5% of the combined voting power of all classes of stock of the Company may not participate in the Plan.

During each offering, an eligible employee may purchase shares under the Plan by authorizing payroll deductions of up to 10% per pay period, to be deducted from such employee's total cash compensation. The maximum number of shares which may be purchased by any participating employee during any offering period is limited to 960 shares (as adjusted by the Compensation Committee from time to time). Unless the employee has previously withdrawn from the offering, such employee's accumulated payroll deductions will be used to purchase common stock at a price equal to 85% of the fair market value of the common stock on the first or last day of the offering period, whichever is lower. The Company will contribute the remaining 15% of the fair market value of the common stock. Under applicable tax rules, an employee may purchase no more than $25,000 worth of common stock in any calendar year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Administrative Expenses:

The Company pays all expenses incident to the operation of the Plan, including the costs of record keeping, accounting fees, legal fees, the costs of delivery of stock certificates to participants and the costs of shareholder communications. The Company does not pay any expenses, broker's or other commissions or taxes incurred in connection with the purchases of Common Stock, or the sale of shares of Common Stock.

Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires the plan administrator to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates may also affect the changes in Plan equity during the reporting period. Actual results may differ from those estimates.

Reclassifications:

Certain prior year balances have been reclassified to conform with the current year presentation. The financial statements have been classified to reflect the obligation for stock distributions due to participants as of the plan year end as a liability.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Board of Directors of ANSYS, Inc. has duly caused this Annual Report to be signed on behalf of the Plan by the undersigned hereunto duly authorzized, on March 22, 1999.

ANSYS, INC. AND SUBSIDIARIES
1996 EMPLOYEE STOCK PURCHASE PLAN

Date: March 22, 1999

By: /S/ Peter J. Smith
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Peter J. Smith
Chairman, President and Chief
Executive Officer

Date: March 22, 1999

By: /S/ Maria T. Shields
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Maria T. Shields
Chief Financial Officer,
Vice President, Finance and
Administration