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

FORM 10-Q

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

For the quarterly period ended March 31, 2005

OR

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

Commission file number: 0-20853

ANSYS, Inc.

(exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

04-3219960
(IRS Employer
Identification No.)

15317
(Zip Code)

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

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

Indicate by a check mark whether the Registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes No

The number of shares of the Registrant's Common Stock, par value \$.01 per share, outstanding as of April 30, 2005 was 31,638,572 shares.

[Table of Contents](#)

ANSYS, INC. AND SUBSIDIARIES

INDEX

	<u>Page No.</u>
PART I. UNAUDITED FINANCIAL INFORMATION	
Item 1. Financial Statements	
Condensed Consolidated Balance Sheets – March 31, 2005 and December 31, 2004	3
Condensed Consolidated Statements of Income - Three Months Ended March 31, 2005 and 2004	4
Condensed Consolidated Statements of Cash Flows – Three Months Ended March 31, 2005 and 2004	5
Notes to Condensed Consolidated Financial Statements	6-12
Report of Independent Registered Public Accounting Firm	13
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	14-20
Item 3. Quantitative and Qualitative Disclosures Regarding Market Risk	21
Item 4. Controls and Procedures	21-22
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	23
Item 2. Unregistered Sale of Equity Securities and Use of Proceeds	23
Item 3. Defaults Upon Senior Securities	23
Item 4. Submission of Matters to a Vote of Security Holders	23
Item 5. Other Information	23
Item 6. Exhibits	24
SIGNATURES	25
EXHIBIT INDEX	26

ANSYS, ANSYS Workbench, CFX, AUTODYN, and any and all ANSYS, Inc. product and service names are registered trademarks or trademarks of ANSYS, Inc. or its subsidiaries located in the United States or other countries. ICEM CFD is a trademark licensed by ANSYS, Inc. All other trademarks or registered trademarks are the property of their respective owners.

PART I – UNAUDITED FINANCIAL INFORMATION**Item 1. Financial Statements:****ANSYS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share information)
(Unaudited)**

	March 31, 2005	December 31, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 69,906	\$ 83,547
Short-term investments	79,838	54,899
Accounts receivable, less allowance for doubtful accounts of \$1,900 and \$1,890, respectively	17,592	18,792
Other receivables and current assets	24,451	23,612
Deferred income taxes	3,571	3,404
Total current assets	195,358	184,254
Property and equipment, net	6,168	5,551
Capitalized software costs, net	754	898
Goodwill	38,715	36,277
Other intangibles, net	13,130	12,108
Deferred income taxes	854	558
Total assets	\$254,979	\$ 239,646
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,214	\$ 1,100
Accrued bonuses	2,252	7,927
Other accrued expenses and liabilities	12,198	11,244
Deferred revenue	51,340	43,906
Total current liabilities	67,004	64,177
Commitments and contingencies	—	—
Stockholders' equity:		
Preferred stock, \$.01 par value; 2,000,000 shares authorized	—	—
Common stock, \$.01 par value; 50,000,000 shares authorized; 33,169,516 shares issued	332	332
Additional paid-in capital	53,321	50,868
Retained earnings	144,951	135,268
Treasury stock, at cost: 1,554,720 and 1,753,391 shares, respectively	(16,557)	(17,700)
Accumulated other comprehensive income	5,928	6,701
Total stockholders' equity	187,975	175,469
Total liabilities and stockholders' equity	\$254,979	\$ 239,646

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

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

	Three Months Ended	
	March 31, 2005	March 31, 2004
Revenue:		
Software licenses	\$ 20,475	\$ 16,324
Maintenance and service	17,149	15,008
Total revenue	37,624	31,332
Cost of sales:		
Software licenses	1,253	1,337
Amortization of software and acquired technology	907	755
Maintenance and service	3,858	3,083
Total cost of sales	6,018	5,175
Gross profit	31,606	26,157
Operating expenses:		
Selling and marketing	6,428	6,054
Research and development	7,313	6,347
Amortization	326	287
General and administrative	4,118	3,499
Total operating expenses	18,185	16,187
Operating income	13,421	9,970
Other income, net	613	230
Income before income tax provision	14,034	10,200
Income tax provision	4,351	3,060
Net income	\$ 9,683	\$ 7,140
Earnings per share – basic:		
Basic earnings per share	\$ 0.31	\$ 0.23
Weighted average shares – basic	31,492	30,630
Earnings per share – diluted:		
Diluted earnings per share	\$ 0.29	\$ 0.22
Weighted average shares – diluted	33,766	32,922

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

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

	Three Months Ended	
	March 31, 2005	March 31, 2004
Cash flows from operating activities:		
Net income	\$ 9,683	\$ 7,140
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,021	1,866
Deferred income tax benefit	(395)	(79)
Provision for bad debts	125	15
Changes in operating assets and liabilities:		
Accounts receivable	1,415	1,496
Other receivables and current assets	(1,077)	(2,639)
Accounts payable, accrued expenses and liabilities	(3,377)	(319)
Deferred revenue	6,925	5,732
Net cash provided by operating activities	<u>15,320</u>	<u>13,212</u>
Cash flows from investing activities:		
Capital expenditures	(1,461)	(935)
Capitalization of internally developed software costs	—	(261)
Purchases of short-term investments	(24,866)	—
Maturities of short-term investments	200	—
Acquisition of Century Dynamics, net of cash acquired	(4,157)	—
Net cash used in investing activities	<u>(30,284)</u>	<u>(1,196)</u>
Cash flows from financing activities:		
Proceeds from issuance of common stock under Employee Stock Purchase Plan	338	216
Proceeds from exercise of stock options	1,387	779
Cash provided by financing activities	<u>1,725</u>	<u>995</u>
Effect of exchange rate fluctuations on cash and cash equivalents	(402)	246
Net (decrease) increase in cash and cash equivalents	(13,641)	13,257
Cash and cash equivalents, beginning of period	83,547	78,038
Cash and cash equivalents, end of period	<u>\$ 69,906</u>	<u>\$ 91,295</u>
Supplemental disclosures of cash flow information:		
Cash paid during the period for income taxes	<u>\$ 3,384</u>	<u>\$ 1,224</u>

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

ANSYS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2005
(Unaudited)

1. Organization

ANSYS, Inc. (the “Company” or “ANSYS”) develops and globally markets engineering simulation software and technologies widely used by engineers and designers across a broad spectrum of industries, including aerospace, automotive, manufacturing, electronics and biomedical.

The Company operates as one segment, as defined by Statement of Financial Accounting Standards No. 131, “*Disclosures about Segments of an Enterprise and Related Information*.” Given the integrated approach to the problem-solving needs of the Company’s customers, a single sale of software may contain components from multiple product areas and include combined technologies. There is no means by which the Company can provide accurate historical (or current) reporting among its ANSYS® Simulation Suite, ANSYS Workbench™, ANSYS ICEM CFD™ Suite, and ANSYS CFX® Suite or any other product-line segmentation. Disclosure of such information is impracticable.

2. Summary of Significant Accounting Policies

The accompanying unaudited condensed consolidated financial statements have been prepared by ANSYS, Inc. in accordance with accounting principles generally accepted in the United States of America for interim financial information for commercial and industrial companies and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, the accompanying statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. The accompanying condensed consolidated financial statements should be read in conjunction with the Company’s consolidated financial statements (and notes thereto) included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2004. The condensed consolidated December 31, 2004 balance sheet presented is derived from the audited December 31, 2004 balance sheet included in the most recent Form 10-K. In the opinion of management, all adjustments considered necessary for a fair presentation of the financial statements have been included, and all adjustments are of a normal and recurring nature. Operating results for the three months ended March 31, 2005 are not necessarily indicative of the results that may be expected for any future period.

Stock Split: During 2004 the Company’s Board of Directors approved a two-for-one stock split of the Company’s common stock which was payable in the form of a stock dividend. The capital accounts, share data, and earnings per share data in this report give effect to the stock split, applied retroactively, to all periods presented.

Concentrations of Credit Risk: The Company has a concentration of credit risk with respect to trade receivables due to 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.

[Table of Contents](#)

In addition to the concentration of credit risk with respect to trade receivables, the Company's cash and cash equivalents are also exposed to concentration of credit risk. The Company maintains its cash accounts primarily in U.S. banks, which are insured by the F.D.I.C. up to \$100,000 per bank. The Company had cash balances on deposit with a U.S. bank at March 31, 2005 that exceeded the balance insured by the F.D.I.C. in the amount of approximately \$39 million. A significant portion of the Company's remaining cash balance is also uninsured.

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

	Three Months Ended	
	March 31, 2005	March 31, 2004
(in thousands, except per share data)		
Net income, as reported	\$ 9,683	\$ 7,140
Add: Stock-based employee compensation expense included in net income, net of related tax effects	—	—
Deduct: Stock-based employee compensation expense determined under the fair value-based method for all awards, net of related tax effects	(865)	(724)
Pro forma net income	\$ 8,818	\$ 6,416
Earnings per share:		
Basic – as reported	\$ 0.31	\$ 0.23
Basic – pro forma	\$ 0.28	\$ 0.21
Diluted – as reported	\$ 0.29	\$ 0.22
Diluted – pro forma	\$ 0.26	\$ 0.19

[Table of Contents](#)

In December 2004, the FASB issued a revised version of FASB Statement No. 123, "*Accounting for Stock-Based Compensation*." The statement requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The cost will be recognized over the period during which an employee is required to provide service in exchange for the award, typically the vesting period. For public entities, the revised statement indicated an effective date as of the beginning of the first interim or annual reporting period that begins after June 15, 2005. However, the Securities and Exchange Commission (the "Commission") announced on April 14, 2005 a new rule which allows companies to implement FASB Statement No. 123 at the beginning of the next fiscal year. The Company intends to adopt Statement No. 123 in compliance with the revised implementation date on January 1, 2006.

Reclassifications: Certain reclassifications have been made to the 2004 financial statements to conform to the 2005 presentation.

3. Accumulated Other Comprehensive Income

As of March 31, 2005 and December 31, 2004, accumulated other comprehensive income, as reflected on the condensed consolidated balance sheets, was comprised of foreign currency translation adjustments.

Comprehensive income for the three-month periods ended March 31, 2005 and 2004 was as follows:

(in thousands)	Three Months Ended	
	March 31, 2005	March 31, 2004
Comprehensive Income	\$ 8,910	\$ 7,227

4. Other Current Assets

The Company reports accounts receivable related to the portion of annual lease licenses and software maintenance that has not yet been recognized as revenue as a component of other current assets. These amounts totaled \$19.4 million and \$20.1 million as of March 31, 2005 and December 31, 2004, respectively.

[Table of Contents](#)

5. Earnings Per Share

Basic earnings per share (“EPS”) amounts are computed by dividing earnings by the average number of common shares outstanding during the period. Diluted EPS amounts assume the issuance of common stock for all potentially dilutive equivalents outstanding. The details of basic and diluted earnings per share are as follows:

	Three Months Ended	
	March 31, 2005	March 31, 2004
(in thousands, except per share data)		
Net income	\$ 9,683	\$ 7,140
Weighted average shares outstanding – basic	31,492	30,630
Basic earnings per share	\$ 0.31	\$ 0.23
Effect of dilutive securities:		
Shares issuable upon exercise of dilutive outstanding stock options	2,274	2,292
Weighted average shares outstanding – diluted	33,766	32,922
Diluted earnings per share	\$ 0.29	\$ 0.22
Anti-dilutive shares/options	252	—

6. Acquisitions

On January 5, 2005, the Company acquired Century Dynamics, Inc. (hereinafter collectively referred to as “CDI”), a leading provider of sophisticated simulation software for solving linear, nonlinear, explicit and multi-body hydro-dynamics problems, for an initial purchase price of approximately \$5.1 million in cash. In addition, the agreement provides for future payments contingent upon the attainment of certain performance criteria, which may result in an increase to goodwill. The acquisition of Century Dynamics, Inc. expands the Company’s product offerings and allows it to deliver a more complete and comprehensive solution to its customers.

The total purchase price was allocated to the foreign and domestic assets and liabilities of CDI based upon estimated fair market values and foreign currency translation rates as of the date of acquisition. Approximately, \$2.4 million was allocated to identifiable intangible assets (including \$1.5 million to core technology, \$400,000 to non-compete agreements, \$300,000 to customer contracts, and \$200,000 to trademarks), and \$2.9 million to goodwill, which is not tax deductible. The identified intangible assets are being amortized over three to five years. The acquisition of CDI was accounted for as a purchase, and accordingly, its operating results have been included in ANSYS, Inc.’s consolidated financial statements since the date of acquisition.

[Table of Contents](#)

Had the acquisition occurred on January 1, 2005, the 2005 results would not be materially different from those presented in these financial statements. The following unaudited pro forma information presents the 2004 results of operations of the Company as if the acquisition had occurred on January 1, 2004. The unaudited pro forma results are not necessarily indicative of results that would have occurred had the acquisition been in effect for the year presented, nor are they necessarily indicative of future results.

	Three Months Ended March 31, 2004
(in thousands, except per share data)	
Total revenue	\$ 32,518
Net income	6,975
Earnings per share:	
Basic	\$ 0.23
Diluted	\$ 0.21

7. Goodwill and Intangible Assets

During the first quarter of 2005, the Company completed the annual impairment test for goodwill and intangibles with indefinite lives and determined these assets had not been impaired as of January 1, 2005. No events occurred or circumstances changed during the quarter ended March 31, 2005 that required an interim goodwill impairment test.

Identifiable intangible assets with finite lives continue to be amortized on a straight-line basis over their estimated useful lives and are reviewed for impairment whenever events or circumstances indicated that the carrying amounts may not be recoverable.

As of March 31, 2005 and December 31, 2004, the Company's intangible assets have estimated useful lives and are classified as follows:

(in thousands)	March 31, 2005		December 31, 2004	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Core technology and trademarks (3–10 years)	\$18,255	\$ (8,182)	\$16,894	\$ (7,491)
Non-compete agreements (4–5 years)	2,901	(2,254)	2,536	(2,126)
Customer lists and contracts (3–5 years)	2,754	(2,017)	2,474	(1,872)
Total	\$23,910	\$ (12,453)	\$21,904	\$ (11,489)
Unamortized intangible assets:				
Trademarks	\$ 1,673		\$ 1,693	

[Table of Contents](#)

Amortization expense for the amortized intangible assets reflected above for the three months ended March 31, 2005 and March 31, 2004 was approximately \$1.1 million and \$900,000, respectively.

Amortization expense for the amortized intangible assets reflected above is expected to be approximately \$4.1 million, \$3.3 million, \$3.2 million, \$700,000 and \$400,000 for the years ending December 31, 2005, 2006, 2007, 2008 and 2009, respectively.

The changes in goodwill during the three-month period ended March 31, 2005 are as follows:

(in thousands)

Balance – January 1, 2005	\$36,277
Acquisition of Century Dynamics, Inc.	2,879
Currency Translation & Other	(441)
	<hr/>
Balance – March 31, 2005	\$38,715
	<hr/>

8. Geographic Information

Revenue by geographic area for the three months ended March 31, 2005 and 2004 is as follows:

(in thousands)	Three Months Ended	
	March 31, 2005	March 31, 2004
United States	\$ 11,935	\$ 10,487
Canada	1,071	928
United Kingdom	2,811	2,860
Germany	5,845	4,914
Japan	5,468	4,764
Other European	6,951	4,664
Other International	3,543	2,715
	<hr/>	<hr/>
Total revenue	\$ 37,624	\$ 31,332
	<hr/>	<hr/>

[Table of Contents](#)

Long-lived assets (excluding deferred tax assets) by geographic area are as follows:

(in thousands)	March 31, 2005	December 31, 2004
United States	\$32,149	\$ 27,728
Canada	6,514	6,831
United Kingdom	9,106	8,607
Germany	3,839	4,080
Japan	946	1,006
Other European	5,951	6,313
Other International	262	269
Total long-lived assets	\$58,767	\$ 54,834

9. Stock Repurchase Program

In October 2001, the Company announced that its Board of Directors had amended its existing stock repurchase program to acquire up to an additional one million shares, or four million shares in total under the program that was initially announced in February 2000. Under this program, there were no shares repurchased in the three-month period ended March 31, 2005. As of March 31, 2005, 2.2 million shares remain authorized for repurchase under the program.

10. Contingencies and Commitments

From time to time the Company is involved in various investigations, claims and legal proceedings that arise in the ordinary course of business activities. Management believes, after consulting with legal counsel, that the ultimate liabilities, if any, resulting from such matters will not materially affect the Company's financial position, liquidity or results of operations.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have reviewed the accompanying condensed consolidated balance sheet of ANSYS, Inc. and subsidiaries as of March 31, 2005, and the related condensed consolidated statements of income and cash flows for the three-month periods ended March 31, 2005 and 2004. These interim financial statements are the responsibility of the Corporation's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of ANSYS, Inc. and subsidiaries as of December 31, 2004, and the related consolidated statements of income, stockholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated March 10, 2005, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2004 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Deloitte & Touche LLP

Pittsburgh, Pennsylvania
May 3, 2005

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview:

ANSYS Inc.'s (the "Company") quarterly results for the three-month period ended March 31, 2005 reflect revenue growth of 20% and diluted earnings per share growth of 32%. These results were impacted by various factors, including higher revenues from the Company's software products and services, the January 2005 acquisition of Century Dynamics, Inc., an improvement in operating margins and foreign currency fluctuations.

ANSYS, Inc. develops and globally markets engineering simulation software and technologies widely used by engineers and designers across a broad spectrum of industries, including aerospace, automotive, manufacturing, electronics and biomedical. Headquartered at Southpointe in Canonsburg, Pennsylvania, the Company employs approximately 600 people and focuses on the development of open and flexible solutions that enable users to analyze designs directly on the desktop, providing a common platform for fast, efficient and cost-conscious product development, from design concept to final-stage testing and validation. The Company distributes its ANSYS®, ANSYS Workbench™, CFX®, DesignSpace™, ICEM CFD™, CADOE™ and AUTODYN® products through a global network of channel partners, in addition to its own direct sales offices in strategic, global locations. It is the Company's intention to continue to maintain this mixed sales and distribution model.

The Company licenses its technology to businesses, educational institutions and governmental agencies. The growth in the Company's revenues is affected by the strength of the economy, general business conditions, customer budgetary constraints and the competitive position of the Company's products. The Company believes that the features, functionality and integrated multiphysics capabilities of its software products are as strong as they have ever been. However, the software business is generally characterized by long sales cycles. These long sales cycles increase the difficulty of predicting sales for any particular quarter. As a result, the Company believes that its overall performance is best measured by fiscal year results rather than by quarterly results.

The following discussion should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and notes thereto for the three-month periods ended March 31, 2005 and 2004, and with the Company's audited financial statements and notes thereto for the year ended December 31, 2004 filed on Form 10-K with the Securities and Exchange Commission.

This Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including the following statements, as well as statements which contain such words as "anticipates", "intends", "believes", "plans" and other similar expressions:

- The Company's intention to continue to maintain a mixed sales and distribution model.
- The Company's intentions related to investments in global sales and marketing, and research and development.
- The impact on general and administrative costs due to the ongoing costs associated with the Sarbanes-Oxley Act of 2002 and overall compliance costs related to being a public company.

Table of Contents

- Increased exposure to volatility of foreign exchange rates and of domestic and foreign tax laws in future periods.
- Plans related to future capital spending.
- The sufficiency of existing cash and cash equivalent balances to meet future working capital and capital expenditure requirements.
- Management's assessment of the ultimate liabilities arising from various investigations, claims and legal proceedings.

Forward looking statements should not be unduly relied upon because they involve known and unknown risks, uncertainties and other factors, some of which are beyond the Company's control. The Company's actual results could differ materially from those set forth in forward-looking statements. Certain factors that might cause such a difference include risks and uncertainties detailed in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section in the 2004 Annual Report to Stockholders and in "Important Factors Regarding Future Results" included herein as Exhibit 99.1 to this Form 10-Q.

[Table of Contents](#)**Results of Operations****Three Months Ended March 31, 2005 Compared to Three Months Ended March 31, 2004**Revenue:

	Three Months Ended March 31,		Change	
	2005	2004	\$	%
(dollars in thousands)				
Software licenses	\$ 20,475	\$ 16,324	4,151	25.4
Maintenance & service	17,149	15,008	2,141	14.3
Total revenue	37,624	31,332	6,292	20.1

The increase in revenue is primarily due to the following reasons:

- Post-acquisition revenue of \$1.5 million (\$800,000 in license revenue and \$700,000 of maintenance and service revenue) related to CDI which was purchased on January 5, 2005.
- Newly generated software license revenue of \$3.3 million in core software products.
- Increase of \$1.8 million in core product maintenance revenue, primarily associated with maintenance subscriptions sold in connection with new perpetual license sales in recent quarters.
- Decrease of \$300,000 in core engineering service revenue.

On average, for the first quarter of 2005, the U.S. dollar was approximately 3.9% weaker, when measured against the Company's primary foreign currencies, than for the first quarter of 2004. The weakening resulted in increased revenue and operating income during the 2005 first quarter, as compared with the corresponding 2004 first quarter, of approximately \$500,000 and \$100,000, respectively.

International and domestic revenues, as a percentage of total revenue, were 68.3% and 31.7%, respectively, in the quarter ended March 31, 2005 and 66.5% and 33.5%, respectively, in the quarter ended March 31, 2004.

[Table of Contents](#)

Cost of Sales and Gross Profit:

	Three Months Ended March 31,					
	2005		2004		Change	
	Amount	% of Revenue	Amount	% of Revenue	\$	%
(dollars in thousands)						
Cost of sales:						
Software licenses	\$ 1,253	3.3	\$ 1,337	4.3	(84)	(6.3)
Amortization of software and acquired technology	907	2.4	755	2.4	152	20.1
Maintenance & service	3,858	10.3	3,083	9.8	775	25.1
Total cost of sales	6,018	16.0	5,175	16.5	843	16.3
Gross profit	31,606	84.0	26,157	83.5	5,449	20.8

The change in cost of sales is due to the following primary reasons:

- Increased amortization of \$150,000 related to the technology acquired in the CDI acquisition.
- Salaries & external technical support fees each that increased by \$200,000.
- Costs related to CDI of approximately \$200,000.

The improvement in the gross profit was a result of the increase in revenue offset by a smaller increase in related cost of sales.

Operating Expenses:

	Three Months Ended March 31,					
	2005		2004		Change	
	Amount	% of Revenue	Amount	% of Revenue	\$	%
(dollars in thousands)						
Operating expenses:						
Selling & marketing	\$ 6,428	17.1	\$ 6,054	19.3	374	6.2
Research & development	7,313	19.4	6,347	20.3	966	15.2
Amortization	326	0.9	287	0.9	39	13.6
General & administrative	4,118	10.9	3,499	11.2	619	17.7
Total operating expenses	18,185	48.3	16,187	51.7	1,998	12.3

[Table of Contents](#)

Selling and Marketing Expenses: Selling and marketing expenses increased by approximately \$300,000 due to CDI. In addition, salary and headcount related expenses increased by \$300,000, offset by a net decrease in third party commission payments of \$200,000. The Company anticipates that it will continue to make investments throughout the remainder of 2005 in its global sales and marketing organization to strengthen its competitive position, to enhance major account sales activities and to support its worldwide sales distribution and marketing strategies.

Research and Development: Research and development expenses increased due to three primary reasons. First, post-acquisition costs for CDI were \$400,000. Second, higher salary and headcount related expenses were \$300,000. Third, no internal software development costs were capitalized during the first quarter of 2005; whereas, \$261,000 was capitalized during the prior year comparative quarter. The Company has traditionally invested significant resources in research and development activities and intends to continue to make significant investments in this area.

Amortization: Amortization expense increased due to the acquisition of CDI in January 2005.

General and Administrative: General and administrative expenses increased due to \$400,000 in costs related to CDI and \$300,000 in higher salary and headcount related expenses. Public company expenses and costs to comply with the provisions of the Sarbanes-Oxley Act, including accounting, legal and consulting fees, will be ongoing.

Other Income: Other income increased from \$230,000 during the quarter ended March 31, 2004 to \$613,000 for the quarter ended March 31, 2005. This net increase was the result of the following two factors:

Investment Income - Interest and dividend income was \$700,000 for the quarter ended March 31, 2005, compared to \$200,000 for the quarter ended March 31, 2004. This increase of \$500,000 is a result of an increased level of funds invested, as well as higher interest rates in 2005 as compared with 2004.

Foreign Currency Transaction - During the quarter ended March 31, 2005, the Company had a net foreign exchange loss of \$100,000 as compared with a loss of \$5,000 for the quarter ended March 31, 2004. Because the Company has significant operations in non-U.S. locations, the Company, for the foreseeable future, will have financial and operational exposure to volatility of foreign exchange rates. The Company is most impacted by movements among and between the Canadian Dollar, British Pound, Euro, Indian Rupee, Japanese Yen and the U.S. Dollar.

Income Tax Provision: The Company's effective tax rate was 31.0% in the 2005 quarter as compared to 30.0% in the 2004 quarter. These rates are lower than the federal and state combined statutory rate as a result of export benefits, as well as the generation of research and experimentation credits. The Company expects that the effective tax rate will be in the range of 31%—33% for the year ending December 31, 2005.

Net Income: The Company's net income in the 2005 quarter was \$9.7 million as compared to \$7.1 million in the 2004 quarter. Diluted earnings per share increased to \$0.29 in the 2005 quarter as compared to \$0.22 in the 2004 quarter as a result of the increase in net income. The weighted average shares used in computing diluted earnings per share were 33.8 million in the 2005 first quarter and 32.9 million in the 2004 first quarter.

Liquidity and Capital Resources

As of March 31, 2005, the Company had cash, cash equivalents and short-term investments totaling \$149.7 million and working capital of \$128.4 million, as compared to cash, cash equivalents and short-term investments of \$138.4 million and working capital of \$120.1 million at December 31, 2004. The short-term investments are generally investment grade and liquid, which allows the Company to minimize interest rate risk and to facilitate liquidity in the event of an immediate cash requirement.

The Company's operating activities provided cash of \$15.3 million and \$13.2 million during the three months ended March 31, 2005 and 2004, respectively. The \$2.1 million increase in the Company's cash flow from operations in the 2005 three-month period as compared to the comparable 2004 period was primarily the result of \$2.5 million in increased earnings, partially offset by a net decrease of \$400,000 in cash from other working capital fluctuations.

The Company's investing activities used net cash of \$30.3 million and \$1.2 million for the three months ended March 31, 2005 and 2004, respectively. In 2005, the Company purchased approximately \$24.7 million more in short-term investments than related maturities. In addition, during 2005, the Company had net cash outlays of approximately \$4.2 million related to the acquisition of Century Dynamics, Inc. The Company currently plans additional capital spending of approximately \$2.0 million to \$2.5 million throughout the remainder of 2005; however, the level of spending will be dependent upon various factors, including growth of the business and general economic conditions.

Financing activities provided cash of \$1.7 million in the three months ended March 31, 2005 as compared with cash provided of \$1.0 million during the three months ended March 31, 2004. The proceeds from the exercise of stock options were \$600,000 higher in the three months ended March 31, 2005 as compared with the corresponding 2004 period.

The Company believes that existing cash and cash equivalent balances of \$69.9 million, together with short-term investment balances and cash generated from operations, will be sufficient to meet the Company's working capital and capital expenditure requirements through the remainder of fiscal 2005. The Company's cash requirements in the future may also be financed through additional equity or debt financings. There can be no assurance that such financings can be obtained on favorable terms, if at all.

The Company continues to generate positive cash flows from operating activities and believes that the best use of its excess cash is to grow the business and, under certain conditions, repurchase stock. Additionally, the Company has in the past and expects in the future to acquire or make investments in complementary companies, products, services and technologies. The Company believes it can fund future acquisitions with available cash and investments, cash generated from operations, existing or additional credit facilities, or from the issuance of additional securities.

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

[Table of Contents](#)

During the quarters ended March 31, 2005 and 2004, the Company had no borrowings under an uncommitted and unsecured \$10.0 million line of credit.

In the first quarter of 2005, the Company entered into a new facility lease agreement for an international office. This new agreement caused a significant change to the other office leases contractual obligations which were previously reported on the Company's Form 10-K. Such changes are summarized below:

(in thousands)	Payments Due by Period				
	Total	Within 1 Year	2-3 Years	4-5 Years	After 5 Years
Prior to New Lease	\$4,316	\$ 1,698	\$ 1,882	\$ 665	\$ 71
After New Lease	5,274	1,937	2,521	745	71

There were no other material changes to the Company's significant contractual obligations during the three months ended March 31, 2005.

Item 3. Quantitative and Qualitative Disclosures Regarding Market Risk

As the Company continues to expand its direct sales presence in international regions, the portion of its revenue, expenses, cash, accounts receivable and payment obligations denominated in foreign currencies continues to increase. As a result, changes in currency exchange rates from time to time may affect the Company's financial position, results of operations and cash flows.

In April 2005 the Company's British Pound-denominated intercompany loan with a UK subsidiary was satisfied in full.

No other material change has occurred in the Company's market risk subsequent to December 31, 2004.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. As required by Rules 13a-15 and 15d-15 of the Securities Exchange Act of 1934, the Company has evaluated, with the participation of management, including the Chief Executive Officer and the Chief Financial Officer, the effectiveness of its disclosure controls and procedures as of the end of the period covered by this report. Based on such evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that such disclosure controls and procedures are effective in ensuring that material information relating to the Company, including its consolidated subsidiaries, is made known to the certifying officers by others within the Company and its consolidated subsidiaries during the period covered by this report.

The Company has a Disclosure Review Committee to assist in the quarterly evaluation of the Company's internal disclosure controls and procedures and in the review of the Company's periodic filings under the Exchange Act. The membership of the Disclosure Review Committee consists of the Company's Chief Executive Officer, Chief Financial Officer, Controller, General Counsel, Treasurer, Vice President of Sales and Support, Vice President of Human Resources and Business Unit General Managers. This committee is advised by external counsel, particularly on SEC-related matters. Additionally, other members of the Company's global management team advise the committee with respect to disclosure via a sub-certification process.

The Company believes, based on its knowledge, that the financial statements and other financial information included in this report fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report. The Company cannot provide assurance that new problems will not be found in the future, nor does it expect that its disclosure controls and procedures, or its internal controls, will prevent all errors and all fraud because no system can provide absolute assurance that the objectives of the control system are met. Because of the inherent limitations on all control systems, no evaluation of controls can provide absolute assurance that all control issues and instance of fraud within ANSYS have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some person or by collusion of two or more people. The Company is committed to both a sound internal control environment and to good corporate governance.

[Table of Contents](#)

From time to time, the Company reviews the disclosure controls and procedures, and may from time to time make changes aimed at enhancing their effectiveness and to ensure that the Company's systems evolve with its business.

Changes in Internal Controls. The Company is in the process of extending its internal controls to its acquisition of Century Dynamics, Inc. Otherwise, there were no changes that materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting during the quarter ended March 31, 2005.

PART II – OTHER INFORMATION**Item 1. Legal Proceedings**

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

Item 2. Unregistered Sale of Equity Securities and Use of Proceeds

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

<u>Month/Year</u>	<u>Number of Shares</u>	<u>Number of Individuals</u>	<u>Aggregate Exercise Price</u>
March 2005	24,056	2	\$18,867.20

Item 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information

None.

[Table of Contents](#)

Item 6. Exhibits

(a) Exhibits.

- 3.1 Restated Certificate of Incorporation
- 3.2 By-laws of the Company
- 10.1 1996 Stock Option and Grant Plan, as amended and restated
- 10.2 First Amended Lease Agreement between Southpointe Park Corp. and ANSYS, Inc.
- 15 Independent Accountants' Letter Regarding Unaudited Financial Information
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 99.1 Certain Factors Regarding Future Results

SIGNATURES

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

ANSYS, Inc.

Date: May 6, 2005

By: /s/ James E. Cashman, III

James E. Cashman, III
President and Chief
Executive Officer

Date: May 6, 2005

By: /s/ Maria T. Shields

Maria T. Shields
Chief Financial Officer

EXHIBIT INDEX

Exhibit No.

Articles of Incorporation and By-laws

- 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).

Material Contracts

- 10.1 1996 Stock Option and Grant Plan, as amended and restated (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).
- 10.2 First Amended Lease Agreement between Southpointe Park Corp. and ANSYS, Inc. (filed as Exhibit 10.2 to the Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2004 and incorporated herein by reference).
- 15 Consent of Deloitte & Touche LLP, independent registered public accounting firm.
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 99.1 Certain Factors Regarding Future Results

May 6, 2005

ANSYS, Inc.
275 Technology Drive
Canonsburg, PA 15317

We have made a review, in accordance with the standards of the Public Company Accounting Oversight Board (United States), of the unaudited interim financial information of ANSYS, Inc. and subsidiaries for the three-month periods ended March 31, 2005 and 2004, and have issued our report dated May 3, 2005. As indicated in such report, because we did not perform an audit, we expressed no opinion on that information.

We are aware that our report referred to above, which is included in your Quarterly Report on Form 10-Q for the quarter ended March 31, 2005, is incorporated by reference in this Registration Statement Nos. 333-110728, 333-69506, and 333-08613 on Forms S-8.

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

/s/ Deloitte & Touche LLP

Pittsburgh, Pennsylvania

CHIEF EXECUTIVE OFFICER CERTIFICATION

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

1. I have reviewed this quarterly report on Form 10-Q of ANSYS, Inc. ("ANSYS");
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of ANSYS as of, and for, the periods presented in this quarterly report;
4. ANSYS's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for ANSYS and we have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to ANSYS, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of ANSYS's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) disclosed in this report any change in ANSYS's internal control over financial reporting that occurred during ANSYS's most recent fiscal quarter (ANSYS's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, ANSYS's internal control over financial reporting; and
5. ANSYS's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to ANSYS's auditors and the audit committee of ANSYS's Board of Directors:
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect ANSYS's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in ANSYS's internal control over financial reporting.

Date: May 6, 2005

/s/ James E. Cashman, III

James E. Cashman, III
President and Chief Executive Officer

CHIEF FINANCIAL OFFICER CERTIFICATION

I, Maria T. Shields, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ANSYS, Inc. ("ANSYS");
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of ANSYS as of, and for, the periods presented in this quarterly report;
4. ANSYS's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for ANSYS and we have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to ANSYS, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of ANSYS's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) disclosed in this report any change in ANSYS's internal control over financial reporting that occurred during ANSYS's most recent fiscal quarter (ANSYS's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, ANSYS's internal control over financial reporting; and
5. ANSYS's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to ANSYS's auditors and the audit committee of ANSYS's Board of Directors:
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect ANSYS's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in ANSYS's internal control over financial reporting.

Date: May 6, 2005

/s/ Maria T. Shields

Maria T. Shields
Chief Financial Officer

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

In connection with the Quarterly Report of ANSYS, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James E. Cashman III, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

This certification is provided solely pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and shall not be deemed to be part of the Report or filed for any purpose whatsoever.

/s/ James E. Cashman, III

James E. Cashman, III
President and Chief Executive Officer
May 6, 2005

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

In connection with the Quarterly Report of ANSYS, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Maria T. Shields, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

This certification is provided solely pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and shall not be deemed to be part of the Report or filed for any purpose whatsoever.

/s/ Maria T. Shields

Maria T. Shields
Chief Financial Officer
May 6, 2005

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

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

SEASONAL VARIATIONS: The Company's business has experienced significant seasonality, including quarterly reductions in software sales resulting from the slowdown in Europe during the summer months, as well as from the seasonal purchasing and budgeting patterns of the Company's customers.

ECONOMIC SLOWDOWN IN CERTAIN SECTORS: The Company's sales are based significantly on end user demand for products in key industrial sectors. Many of these sectors have recently experienced economic declines which have adversely affected the Company's business. A continuation of this general economic decline may adversely affect the Company's business by extending sales cycles and reducing revenue.

The Company has customers, who supply a wide spectrum of goods and services, in virtually all of the world's major economic regions. The Company's performance is materially impacted by general economic conditions and the performance of its customers. The Company's management team forecasts macroeconomic trends and developments and integrates them through long-range planning into budgets, research and development strategies and a wide variety of general management duties. When forecasting future economic trends and technological developments, management does not have a comparative advantage. To the extent that the Company's forecasts are in error by being overly optimistic or overly pessimistic about the performance of an economy or sector, the Company's performance may be hindered because of a failure to properly match corporate strategy with economic conditions.

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

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

RAPIDLY CHANGING TECHNOLOGY; NEW PRODUCTS; RISK OF PRODUCT DEFECTS: The Company operates in an industry generally characterized by rapidly changing technology and frequent new product introductions that can render existing products obsolete or unmarketable. A major factor in the Company's future success will be its ability to anticipate technological changes and to develop and introduce, in a timely manner, enhancements to its existing products and new products to meet those changes. If the Company is unable to introduce new products and to respond quickly to industry changes, its business, financial condition, results of operations and cash flows could be materially adversely affected.

The introduction and marketing of new or enhanced products require the Company to manage the transition from existing products in order to minimize disruption in customer purchasing patterns. There can be no assurance that the Company will be successful in developing and marketing, on a timely basis, new products or product enhancements, that its new products will adequately address the changing needs of the marketplace or that it will successfully manage the transition from existing products. Software products as complex as those offered by the Company may contain undetected errors or failures when first introduced or as new versions are released, and the likelihood of errors is increased as a result of the Company's

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

SALES OF NEW PRODUCTS: The Company continues to develop and introduce many new software products. Certain of these products require a higher level of sales and support expertise. The ability of the Company's sales channel, particularly the indirect channel, to obtain this expertise and to sell the new product offerings effectively could have an impact on the Company's sales in future periods. Additionally, royalties and engineering service engagements associated with the new software products may result in the Company's cost of sales increasing as a percentage of revenue in future periods.

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

Currently the Company is partially protected from exchange rate fluctuations among the U.S. Dollar and other currencies as a result of its indirect sales channel, which generally pays the Company in U.S. Dollars. The revenues and expenses associated with the Company's international direct sales channel are subject to foreign currency exchange fluctuations and, as a result, the Company's future financial results may be impacted by fluctuations in exchange rates. Additionally, any future changes to the Company's sales channel involving proportionally higher direct sales from international locations could result in additional exposure to the foreign currency exchange fluctuations. This exposure could adversely impact the Company's financial position and results of operations in future periods.

COMPETITION: The Company continues to experience intense competition across all markets for its products and services. 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.

These competitive pressures may result in decreased sales volumes, price reductions and/or increased operating costs, and could result in lower revenues, margins and net income.

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

RISKS ASSOCIATED WITH INTERNATIONAL ACTIVITIES: A majority of the Company's business comes from outside the United States of America. Risks inherent in the Company's international business activities include imposition of government controls, export license requirements, restrictions on the export of critical technology, products and services, 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 and services. The Company's business, financial condition, results of operations and cash flows could be materially adversely affected by any of these risks.

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

As the Company has grown, it has become increasingly subject to the risks arising from adverse changes in domestic and global economic conditions. As a result of the current economic slowdown, many companies are delaying or reducing technology purchases, which has had an impact on the Company's visibility into the closing of new business, as opposed to its recurring business. This slowdown has also contributed to, and may continue to contribute to, reductions in sales, longer sales cycles and increased price pressure. Each of these items could adversely affect the Company's sales in future periods.

The Company has historically received significant tax benefits related to its exports activities. In October 2004, the American Jobs Creation Act of 2004 was signed into law and included replacement legislation for existing export benefits. This bill retains certain export benefits for transactions in the ordinary course of business under binding contracts with unrelated persons in effect on September 17, 2003. The phase-out of the existing export benefits associated with the pending legislation is summarized as follows:

	Export Benefit Phase-out
2004	No Effect
2005	80% of otherwise-applicable benefits
2006	60% of otherwise-applicable benefits
2007 - beyond	Export Benefits Fully Eliminated

In addition to repealing the export tax benefits, the American Jobs Creation Act of 2004 provides significant tax relief for domestic manufacturers. Effective for taxable years beginning after December 31, 2004, qualifying entities will be able to deduct a certain percentage (as defined below) of the lesser of their qualified production activities income or their taxable income for a taxable year. The deduction, however, will be limited to 50% of an employer's W-2 wages for a taxable year. Beginning in 2010, when the 9% deduction is fully phased in, corporations facing a marginal tax rate of 35% would be subject to an effective tax rate of 31.85% on qualifying income.

	Manufacturing Income Deduction Phase-in
2004	No Effect
2005 - 2006	3% applicable deduction for qualified income
2007 - 2009	6% applicable deduction for qualified income
2010 - beyond	9% applicable deduction for qualified income

In 2004, export benefits reduced the Company's effective tax rate by approximately 4.2%. The impact of the above legislation on the Company's effective tax rate in 2005 is not expected to be significant. Any changes to taxation regulations in the jurisdictions in which the Company operates may have an adverse impact on the Company's effective tax rate and decrease its net income in future periods.

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

INCREASED RELIANCE ON PERPETUAL LICENSES: Although the Company has historically maintained stable recurring revenue from the sale of software lease licenses, software maintenance subscriptions and third party royalties, it also has relied on sales of perpetual licenses that involve payment of a single up-front fee and that are more typical in the computer software industry. While revenue generated from software lease licenses, software maintenance subscriptions and third party royalties currently represents a portion of the Company's software license revenue, to the extent that perpetual license revenue continues to represent a significant percentage of total software license revenue, the Company's revenue in any period will depend increasingly on sales completed during that period.

RISKS ASSOCIATED WITH ACQUISITIONS: The Company has consummated and may continue to consummate certain strategic acquisitions in order to provide increased capabilities to its existing products, supply new products and services or enhance its distribution channels. In the future, the Company may not be able to identify suitable acquisition candidates or, if suitable candidates are identified, the Company may not be able to complete the business combination on commercially acceptable terms. Business acquisitions may result in devotion of significant management and financial resources. The ability of the Company to integrate the acquired businesses, including delivering sales and support, ensuring continued customer commitment, obtaining further commitments and challenges associated with expanding sales in particular markets and retaining key personnel, will impact the success of these acquisitions. If the Company is unable to properly and timely integrate the acquired businesses, there could be a material, adverse effect on the Company's business, financial condition, results of operations and cash flows.

DISRUPTION OF OPERATIONS OR INFRASTRUCTURE FAILURES: A significant portion of the Company's software development personnel, source code and computer equipment is located at operating facilities in the United States, Canada and Europe. The occurrence of a natural disaster or other unforeseen catastrophe at any of these facilities could cause interruptions in the Company's operations, services and product development activities. Additionally, if the Company experiences problems that impair its business infrastructure, such as a computer virus, telephone system failure or an intentional disruption of its information technology systems by a third party, these interruptions could have a material, adverse effect on the Company's business, financial condition, results of operations, cash flows and the ability to meet financial reporting timelines. Further, because the Company's sales are not generally linear during any quarterly period, the potential adverse effects resulting from any of the events described above or any other disruption of the Company's business could be accentuated if it occurs close to a quarter-end.

PERIODIC REORGANIZATION OF SALES FORCE: The Company relies heavily on its direct sales force. From time to time, the Company reorganizes and makes adjustments to its sales force in response to such factors as management changes, performance issues, market opportunities and other considerations. These changes may result in a temporary lack of sales production and may adversely impact revenue in future quarters. There can be no assurance that the Company will not restructure its sales force in future periods or that the transition issues associated with such a restructuring will not recur.

THIRD PARTY ROYALTY AGREEMENTS: The Company has agreements with third parties whereby it receives royalty revenues in return for the right of the third party to utilize the Company's technology or embed the Company's technology in the third party's products. To the extent that the Company is unable to maintain these third party relationships, or that the third party is unsuccessful in selling the embedded products, there could be a material, adverse impact on the Company's business, financial condition, results of operations and cash flows.

SALES FORECASTS: The Company makes many operational and strategic decisions based upon short- and long-term sales forecasts. The Company's sales personnel continually monitor the status of all proposals, including the estimated closing date and the dollar amount of the sale, in order to forecast quarterly sales. These forecasts are subject to significant estimation and are impacted by many external factors. For example, a slowdown in information technology spending or economic factors could cause purchasing decisions to be delayed. A variation in actual sales activity from that forecasted could cause the Company to plan or to budget incorrectly and, therefore, could adversely affect the Company's business, financial condition, results of operations and cash flows.

INCOME TAX ESTIMATES: The Company makes significant estimates in determining its worldwide income tax provision. These estimates involve complex tax regulations in a number of jurisdictions across the Company's global operations and are subject to many transactions and calculations where the ultimate tax outcome is uncertain. Although the Company believes that its estimates are reasonable, the final outcome of tax matters could be different than the estimates reflected in the historical income tax provision and related accruals. Such differences could have a material impact on income tax expense and net income in the period in which such determination is made.

REGULATORY COMPLIANCE: Like all other public companies, the Company is subject to the rules and regulations of the Securities and Exchange Commission ("SEC"), including those that require the Company to report on and receive a certification from its independent accounting firm regarding the Company's internal controls. Compliance with these requirements causes the Company to incur additional expenses and causes management to divert time from the day to day operation of the Company. While the Company anticipates being able to fully comply with these internal control requirements, if it is not able to comply with the Sarbanes-Oxley reporting or certification requirements relating to internal controls, the Company may be subject to sanction by the SEC or NASDAQ.

The Company's sales to the Government of the United States must comply with the regulations set forth in the Federal Acquisition Regulations. Failure to comply with these regulations could result in penalties being assessed against the Company or an order preventing the Company from making future sales to the United States Government. Further, the Company's international activities must comply with the export control laws of the United States, the Foreign Corrupt Practices Act and a variety of other laws and regulations of the United States of America and other countries in which the Company operates. Failure to comply with any of these laws and regulations could adversely affect the Company's business, financial results, results of operation and cash flows.

CONTINGENCIES: The Company is involved in various investigations, claims and legal proceedings from time to time that arise in the ordinary course of its business activities. These proceedings currently include customary audit activities by various taxing authorities. Each of these matters is subject to various uncertainties, and it is possible that some of these matters may be resolved unfavorably to the Company.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK: The Company is exposed to certain market risks, primarily foreign currency exchange rates, which arise from transactions entered into in the normal course of business. The Company seeks to minimize these risks primarily through its normal operating and financing activities.