

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, 1997

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)

04-3219960
(IRS Employer
Identification No.)

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

15317
(Zip Code)

412-746-3304

(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 X No

The number of shares of the Registrant's Common
Stock, par value \$.01 per share, outstanding as
of April 22, 1997 was 16,182,794 shares.

ANSYS, INC. AND SUBSIDIARIES

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

PART I FINANCIAL INFORMATION

Item 1. Financial Statements:

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

	March 31, 1997	December 31, 1996
ASSETS	----- (unaudited)	-----
Current assets:		
Cash and cash equivalents	\$19,933	\$17,069
Accounts receivable, less allowance for doubtful accounts of \$1,145 in 1997 and \$950 in 1996	6,783	7,307
Other current assets	552	350
Deferred income taxes	422	422
	-----	-----
Total current assets	27,690	25,148
Securities available for sale	643	673
Property and equipment, net	5,115	4,334
Capitalized software costs, net of accumulated amortization of \$15,407 in 1997 and \$14,328 in 1996	166	1,174
Goodwill, net of accumulated amortization of \$14,671 in 1997 and \$13,652 in 1996	-	1,019
Other intangibles, net	1,661	1,756
Deferred income taxes	9,337	9,327
	-----	-----
Total assets	\$44,612	\$43,431
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 146	\$ 486
Accrued bonuses	777	2,281
Accrued pension and profit sharing	1,042	11
Other accrued expenses and liabilities	1,920	1,690
Accrued income taxes payable	5	677
Customer prepayments	1,375	1,447
Deferred revenue	5,539	3,865
	-----	-----
Total liabilities	10,804	10,457
Stockholders' equity:		
Preferred stock, \$.01 par value, 2,000,000 shares authorized	-	-
Common stock, \$.01 par value; 50,000,000 shares authorized; 16,256,344 and 16,228,985 shares issued in 1997 and 1996, respectively	162	162
Additional paid-in capital	35,921	35,755
Less treasury stock, at cost:		
72,650 shares held in 1997 and 71,600 shares held in 1996	(12)	(12)
Retained earnings (deficit)	(2,413)	(3,073)
Unrealized appreciation in securities available for sale, net	424	444
Notes receivable from stockholders	(274)	(302)
	-----	-----
Total stockholders' equity	33,808	32,974
	-----	-----
Total liabilities and stockholders' equity	\$44,612	\$43,431
	=====	=====

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

ANSYS, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
(in thousands, except share and per share data)
(unaudited)

	Three months ended	
	March 31, 1997	March 31, 1996
Revenue:		
Software licenses	\$ 9,105	\$ 8,385
Maintenance and service	2,908	2,348
Total revenue	12,013	10,733
Cost of sales:		
Software licenses	621	666
Maintenance and service	570	529
Total cost of sales	1,191	1,195
Gross profit	10,822	9,538
Operating expenses:		
Selling and marketing	2,978	2,169
Research and development	2,770	2,330
Amortization	2,253	2,719
General and administrative	1,923	1,850
Total operating expenses	9,924	9,068
Operating income	898	470
Interest expense	-	(888)
Other income	147	91
Income (loss) before income tax provision (benefit)	1,045	(327)
Income tax provision (benefit)	386	(126)
Net income (loss)	\$ 659	\$ (201)
Net income (loss) applicable to common stock:		
Net income (loss)	\$ 659	\$ (201)
Redeemable preferred stock dividends	-	(102)
	\$ 659	\$ (303)
Net income (loss) per common share:		
Net income (loss)	\$0.04	\$(0.02)
Shares used in computing per common share amounts	16,624,000	12,457,000

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

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

	Three months ended	
	March 31, 1997	March 31, 1996
	-----	-----
Cash flows from operating activities:		
Net income (loss)	\$ 659	\$ (201)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,577	2,951
Deferred income tax benefit	(10)	(595)
Provision for bad debts	195	13
Change in operating assets and liabilities:		
Accounts receivable	329	(3,758)
Other current assets	(202)	(91)
Accounts payable, accrued expenses and liabilities and customer prepayments	(1,317)	(934)
Deferred revenue	1,674	999
	-----	-----
Net cash provided by (used in) operating activities	3,905	(1,616)
	-----	-----
Cash flows from investing activities:		
Capital expenditures	(1,165)	(111)
Capitalization of internally developed software costs	(70)	-
Notes receivable from stockholders	-	32
	-----	-----
Net cash used in investing activities	(1,235)	(79)
	-----	-----
Cash flows from financing activities:		
Payments on long-term debt	-	(1,250)
Proceeds from issuance of restricted stock	-	326
Proceeds from issuance of common stock under employee stock purchase plan	157	-
Proceeds from exercise of stock options	9	106
Repayment of stockholder notes	28	-
Purchase of treasury stock	-	(1)
	-----	-----
Net cash provided by (used in) financing activities	194	(819)
	-----	-----
Net increase (decrease) in cash and cash equivalents	2,864	(2,514)
Cash and cash equivalents, beginning of period	17,069	8,091
	-----	-----
Cash and cash equivalents, end of period	\$19,933	\$ 5,577
	=====	=====
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	-	\$ 458
Income taxes	\$ 900	-
Supplemental non cash investing and financing activities:		
Decrease in securities available for sale	(30)	-

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

ANSYS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 1997
(UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements included herein have been prepared by ANSYS, Inc. (the "Company") in accordance with generally accepted accounting principles for interim financial information for commercial and industrial companies and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. The financial statements as of and for the three months ended March 31, 1997 should be read in conjunction with the Company's consolidated financial statements (and notes thereto) included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1996. Accordingly, the accompanying statements do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation of the financial statements have been included, and all adjustments are of a normal and recurring nature. Operating results for the three months ended March 31, 1997 are not necessarily indicative of the results that may be expected for the year ending December 31, 1997.

REVIEW REPORT OF INDEPENDENT ACCOUNTANTS

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

We have reviewed the unaudited condensed consolidated balance sheet of ANSYS, Inc. and Subsidiaries as of March 31, 1997, the unaudited condensed consolidated statements of operations and cash flows for the three-month periods ended March 31, 1997 and 1996, which are included in ANSYS' Form 10-Q for the period ended March 31, 1997. These financial statements are the responsibility of ANSYS's management.

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

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

We have previously audited, in accordance with generally accepted auditing standards, the consolidated balance sheet of ANSYS, Inc. and Subsidiaries as of December 31, 1996, and the related consolidated statements of operations, stockholders' equity and cash flows for the year then ended (not presented herein). In our report dated February 7, 1997, 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, 1996, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Coopers & Lybrand L.L.P.

Pittsburgh, Pennsylvania
April 21, 1997

Item 2.

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

ANSYS, Inc. (the "Company") is a leading international supplier of analysis and engineering software for optimizing the design of new products. The Company is committed to providing the most open and flexible analysis solutions to suit customer requirements for engineering software in today's competitive marketplace. In addition, the Company partners with leading design software suppliers to develop state-of-the-art CAD integrated products. A global network of ANSYS Support Distributors ("ASDs") provides sales, support and training for customers. Additionally, the Company distributes its ANSYS/AutoFEA(TM) product through its global network of ASDs as well as a network of independent distributors and dealers (value-added resellers or "VARs") who support sales of ANSYS/AutoFEA(TM) to end users throughout the world. The following discussion should be read in conjunction with the attached unaudited consolidated financial statements and notes thereto for the periods ended March 31, 1997 and March 31, 1996 and with the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 1996.

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. The Company's actual results could differ materially from those set forth in the forward-looking statements. Certain factors that might cause such a difference include possible delays in developing, completing or shipping new or enhanced products, potential volatility of revenues and profit in any period due to, among other things, lower than expected demand for or the ability to complete large contracts, as well as other risks and uncertainties that are detailed in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section in the 1996 Annual Report to Shareholders, and in the statement of "Certain Factors Affecting Future Results" included herein as Exhibit 99 to this Form 10-Q.

Results of Operations

Three Months Ended March 31, 1997 Compared to Three Months Ended March 31, 1996

Revenue. The Company's revenue increased 11.9% for the 1997 quarter to \$12.0 million from \$10.7 million for the 1996 quarter. This increase resulted from an increase in revenue from renewals of leases as 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. The increase in revenue in the 1997 quarter was also attributable to increased domestic and international sales of paid-up licenses, increased maintenance and services revenue and increased sales of new noncancellable annual leases. These increases were due, in part, to the active sales and licensing of noncancellable annual leases to existing and new lease customers, the Company's continued marketing emphasis, and broader customer usage of maintenance and support services in response to the Company's increased emphasis on marketing its maintenance services.

Software license revenue increased 8.6% for the 1997 quarter to \$9.1 million from \$8.4 million for the 1996 quarter, resulting from a shift in existing monthly lease customers renewing as noncancellable annual leases, as well as increased sales of paid-up licenses in domestic and international markets and sales of new noncancellable annual leases. Revenue from the sales of paid-up licenses, and the portion of noncancellable annual leases classified as paid-up revenue, increased 49.1% for the 1997 quarter to \$5.4 million from \$3.6 million for the 1996 quarter. The Company also experienced a 22.1% decrease in

lease license revenue to \$3.7 million for the 1997 quarter from \$4.8 million for the 1996 quarter. This decrease was attributable to both an increase in the renewal of existing monthly leases as noncancellable annual leases, as well as the conversion of certain existing lease licenses to paid-up licenses in the third and fourth quarters of 1996. Maintenance and service revenue increased 23.9% for the 1997 quarter to \$2.9 million from \$2.3 million for the 1996 quarter, as a result of an increase in the sale of paid-up licenses, an increase in the renewal of noncancellable annual leases, broader customer usage of maintenance and support services and reduction in the warranty period.

Of the Company's total revenue for the 1997 quarter, approximately 51.4% and 48.6% were attributable to domestic and international sales, as compared to 48.4% and 51.6% for the 1996 quarter.

Cost of Sales and Gross Profit. The Company's total cost of sales remained relatively stable at \$1.2 million for the 1997 and 1996 quarters, representing 9.9% and 11.1% of total revenue, respectively. The Company's cost of sales for software license revenue decreased 6.8% for the 1997 quarter to \$621,000, or 6.8% of software license revenue, from \$666,000, or 7.9% of software license revenue, for the 1996 quarter. This decrease was attributable to a reduction of expenses through lower headcount and a reduction in product media and packaging costs, and was partially offset by increased royalty fees. The Company's cost of sales for maintenance and service revenue was \$570,000 and \$529,000, or 19.6% and 22.5% of maintenance and service revenue, for the 1997 and 1996 quarters, respectively, reflecting increases in headcount, royalties and consulting fees.

As a result of the foregoing, the Company's gross profit increased 13.5% to \$10.8 million for the 1997 quarter from \$9.5 million for the 1996 quarter.

Selling and Marketing. Selling and marketing expenses increased 37.3% for the 1997 quarter to \$3.0 million, or 24.8% of total revenue, from \$2.2 million, or 20.2% of total revenue, for the 1996 quarter. This planned growth was attributable principally to increased personnel costs, including costs associated with increased headcount and compensation expenses related to building a global sales and marketing organization and establishing strategic offices in the UK, Japan and Michigan, as well as increased commissions associated with increased revenue.

Research and Development. Research and development expenses increased 18.9% for the 1997 quarter to \$2.8 million, or 23.1% of total revenue, from \$2.3 million, or 21.7% of total revenue, for the 1996 quarter. 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(TM) product.

Amortization. Amortization expense was \$2.3 million in the 1997 quarter as compared to \$2.7 million in the 1996 quarter. This amortization expense resulted principally from the acquisition of the Company in 1994 (the "1994 Acquisition") and relates to intangible assets, including goodwill, which are being amortized from the date of the acquisition, March 14, 1994. The decrease in amortization expense was primarily due to the unamortized portion of the goodwill and capitalized software acquired in connection with the 1994 Acquisition being fully amortized during the 1997 quarter.

General and Administrative. General and administrative expenses remained relatively stable at \$1.9 million for the 1997 and 1996 quarters, representing 16.0% and 17.2% of total revenue, respectively. The Company has maintained a relatively stable headcount, while adding internal legal and financial resources to support the operations of a publicly owned company. In addition, the Company also incurred expenses related to the increase in the allowance for doubtful accounts, which was offset by a reduction in consulting fees.

Interest. Interest expense, which was zero in the 1997 quarter, totaled \$888,000 for the 1996 quarter. 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.

Income Tax Provision (Benefit). The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." The Company's effective rate of taxation was 37.0% for the 1997 quarter, as compared to 38.5% for the 1996 quarter. These percentages are less than the federal and state combined statutory rate of approximately 39.0% due primarily to the utilization of research and experimentation credits.

Net Income (Loss). The Company's net income in the 1997 quarter was \$659,000 as compared to a net loss of \$303,000 in the 1996 quarter. Net income per share increased to \$.04 in the 1997 quarter as compared to a net loss per share of (\$.02) in the 1996 quarter. The increase in net income per share is 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. The weighted average common and common equivalent shares increased to 16,624,000 in the 1997 quarter from 12,457,000 in the 1996 quarter, primarily as a result of the Company's initial public offering.

Liquidity and Capital Resources

As of March 31, 1997, the Company had cash and cash equivalents of \$19.9 million and working capital of \$16.9 million, as compared to cash and cash equivalents of \$17.1 million and working capital of \$14.7 million at December 31, 1996.

The Company's operating activities provided cash of \$3.9 million for the three months ended March 31, 1997 and used cash of \$1.6 million for the three months ended March 31, 1996. The increase in the Company's cash flow from operations in the 1997 quarter as compared to the 1996 quarter is the result of increased earnings before the effect of depreciation and amortization, as well as improved management of working capital.

Cash used in investing activities was \$1.2 million for the three months ended March 31, 1997 and \$79,000 for the three months ended March 31, 1996. The Company's use of cash in these periods was substantially related to capital expenditures. The Company expects to spend approximately \$4.5 million for capital equipment in 1997, principally for the acquisition of furniture and equipment for the new corporate office facility, which the Company initially occupied in February 1997, as well as computer hardware and software to support the continued growth of the Company's development activities and the expansion of its global sales and support infrastructure. However, the level of spending will be dependent upon various factors, including the growth of the business and general economic conditions.

Financing activities provided net cash of \$194,000 for the three months ended March 31, 1997 and used cash of \$819,000 for the three months ended March 31, 1996. Cash provided from financing activities for the 1997 and 1996 quarters principally related to proceeds from issuance of common stock under employee stock and option plans. Cash used for financing activities for the 1996 quarter primarily constituted principal repayments made on outstanding indebtedness related to the 1994 Acquisition, which was fully repaid with net proceeds from the Company's initial public offering in June 1996.

New Accounting Pronouncements

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No.128, "Earnings per Share." The new standard, which is effective for financial statements issued for periods ending after December 15, 1997, establishes standards for computing and presenting earnings per share (EPS) and requires restatement of all prior-period EPS data presented. Management believes that the implementation of the standard will not have a material effect on its consolidated financial statements.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

Not Applicable.

Item 2. Changes in Securities

Not Applicable.

Item 3. Defaults upon Secured Securities

Not Applicable.

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

Not Applicable.

Item 5. Other information

Not Applicable.

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

(a) Exhibits.

15 Independent Accountants' Letter Regarding Unaudited
Financial Information

27.1 Financial Data Schedule

99 Certain Factors Regarding Future Results

(b) Reports on Form 8-K.

Not Applicable.

SIGNATURES

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

ANSYS, Inc.

Date: April 22, 1997 By: /s/ Peter J. Smith

Peter J. Smith
Chairman, President and Chief Executive Officer

Date: April 22, 1997 By: /s/ John M. Sherbin II

John M. Sherbin II
Chief Financial Officer; Vice President, Finance and
Administration; Secretary

EXHIBIT INDEX

Exhibit No.

15	Independent Accountants' Letter Regarding Unaudited Financial Information
27.1	Financial Data Schedule
99	Certain Factors Regarding Future Results

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

RE: ANSYS, Inc. and Subsidiaries

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

Ladies & gentlemen:

We are aware that our report dated April 21, 1997 on our review of the interim financial information of ANSYS, Inc. and Subsidiaries for the three-month period ended March 31, 1997 is incorporated by reference in the registration statement referred to above. Pursuant to Rule 436(c) under the Securities Act of 1933, this report should not be considered a part of the registration statement prepared or certified by us within the meaning of Sections 7 and 11 of that Act.

Very truly yours,

/s/ Coopers & Lybrand L.L.P.

3-MOS

	DEC-31-1996	JAN-01-1997	MAR-31-1997
			19,933
		643	
		7,928	
		1,145	
		0	
	27,690		5,115
		0	
	44,612		
10,804			0
	0		0
		0	162
		33,646	
44,612			9,105
	12,013		621
		1,191	
	9,924		
		0	
	0		
	1,045		
		386	
659			
		0	
		0	
			0
		659	
		.04	
		.04	

Certain Factors Regarding Future Results

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

Potential Fluctuations in Operating Results. The Company may experience significant fluctuations in future quarterly operating results. Fluctuations may be caused by many factors, including the timing of new product releases or product enhancements by the Company or its competitors; the size and timing of individual orders, including a fluctuation in the demand for and the ability to complete large contracts; software errors or other product quality problems; competition and pricing; customer order deferrals in anticipation of new products or product enhancements; reduction in demand for the Company's products; changes in operating expenses; 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 personnel expenses cannot be adjusted quickly and is based, in significant part, on the Company's expectation for future revenues. 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. As a result, product revenues in any quarter are substantially dependent on orders booked and shipped in the latter part of that quarter, and revenues for any future quarter are 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 and software industry or securities markets in general.

In addition, a large percentage of the Company's common stock is held by institutional investors. Consequently, actions with respect to the Company's common stock by 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 to

industry changes on a timely basis, 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 upon the Company's business, financial condition and results of operations.

Dependence on Distributors. The Company distributes its products principally through its global network of 37 independent, regional ANSYS Support Distributors ("ASDs"). The ASDs sell ANSYS products and other noncompeting 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, ASDs' 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 ANSYS 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, computer-aided engineering ("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 and Structural Dynamics Research Corporation provide varying levels of design analysis and optimization and verification capabilities as part of their product offerings.

The entrance of new competitors would be likely to intensify competition in all or a portion of the overall CAD, CAE and CAM market. 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 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.

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 Perpetual Licenses. The Company has historically maintained stable recurring revenue from the sale of time-based licenses for its software products. Recently, the Company has experienced an increase in customer preference for perpetual licenses that involve payment of a single up-front fee and that are more typical in the computer software industry. Although lease license revenue currently represents a significant portion of the Company's software license fee revenue, to the extent that perpetual license revenue increases as a percent of total software license fee revenue, the Company's revenue in any period will increasingly depend on sales completed during that period.