

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D.C. 20549  
EXCHANGE ACT OF 1934

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**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 June 30, 2003

OR

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

Commission file number: 0-20853

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**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)

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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 August 5, 2003 was 15,050,939 shares.

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ANSYS INC. AND SUBSIDIARIES

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

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

	<u>June 30, 2003</u>	<u>Dec. 31, 2002</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 47,852	\$ 46,198
Short-term investments	14,980	14,934
Accounts receivable, less allowance for doubtful accounts of \$2,274 and \$1,560, respectively	16,035	15,875
Other current assets	15,226	13,737
Deferred income taxes	3,318	1,747
<b>Total current assets</b>	<b>97,411</b>	<b>92,491</b>
Long-term investment	636	486
Property and equipment, net	5,877	4,302
Capitalized software costs, net	1,047	971
Goodwill	31,093	18,615
Other intangibles, net	15,905	5,098
Deferred income taxes	3,713	5,038
<b>Total assets</b>	<b>\$ 155,682</b>	<b>\$ 127,001</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 930	\$ 627
Accrued bonuses	2,340	2,941
Other accrued expenses and liabilities	7,662	5,645
Deferred revenue	36,245	26,395
<b>Total current liabilities</b>	<b>47,177</b>	<b>35,608</b>
Stockholders' equity:		
Preferred stock, \$.01 par value; 2,000,000 shares authorized	—	—
Common stock, \$.01 par value; 50,000,000 shares authorized; 16,584,758 shares issued	166	166
Additional paid-in capital	43,658	41,416
Less treasury stock, at cost: 1,588,953 and 2,014,999 shares, respectively	(25,886)	(30,337)
Retained earnings	88,139	79,388
Accumulated other comprehensive income	2,428	760
<b>Total stockholders' equity</b>	<b>108,505</b>	<b>91,393</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 155,682</b>	<b>\$ 127,001</b>

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

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

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>June 30,</u> <u>2003</u>	<u>June 30,</u> <u>2002</u>	<u>June 30,</u> <u>2003</u>	<u>June 30,</u> <u>2002</u>
Revenue:				
Software licenses	\$ 13,962	\$ 11,778	\$ 26,404	\$ 23,108
Maintenance and service	13,681	10,956	25,839	20,891
Total revenue	<u>27,643</u>	<u>22,734</u>	<u>52,243</u>	<u>43,999</u>
Cost of sales:				
Software licenses	1,468	915	2,647	1,952
Maintenance and service	3,689	1,894	6,583	3,708
Total cost of sales	<u>5,157</u>	<u>2,809</u>	<u>9,230</u>	<u>5,660</u>
Gross profit	22,486	19,925	43,013	38,339
Operating expenses:				
Selling and marketing	6,096	5,241	11,608	10,402
Research and development	6,074	4,938	11,730	9,757
Amortization	1,181	568	1,929	1,167
General and administrative	3,132	2,710	5,776	5,040
Total operating expenses	<u>16,483</u>	<u>13,457</u>	<u>31,043</u>	<u>26,366</u>
Operating income	6,003	6,468	11,970	11,973
Other income	772	323	1,306	494
Income before income tax provision	6,775	6,791	13,276	12,467
Income tax provision	2,303	2,071	4,525	3,859
Net income	<u>\$ 4,472</u>	<u>\$ 4,720</u>	<u>\$ 8,751</u>	<u>\$ 8,608</u>
Earnings per share - basic:				
Basic earnings per share	\$ 0.30	\$ 0.32	\$ 0.59	\$ 0.59
Weighted average shares – basic	14,859	14,670	14,743	14,629
Earnings per share - diluted:				
Diluted earnings per share	\$ 0.29	\$ 0.30	\$ 0.56	\$ 0.55
Weighted average shares – diluted	15,904	15,829	15,679	15,776

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)**

	Six months ended	
	June 30, 2003	June 30, 2002
Cash flows from operating activities:		
Net income	\$ 8,751	\$ 8,608
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,337	2,309
Deferred income tax provision	37	363
Provision for bad debts	152	159
Loss on investment	50	—
Changes in operating assets and liabilities:		
Accounts receivable	4,650	1,670
Other current assets	1,862	768
Accounts payable, accrued expenses and liabilities	(2,277)	(4,820)
Deferred revenue	5,067	616
Net cash provided by operating activities	<u>21,629</u>	<u>9,673</u>
Cash flows from investing activities:		
Capital expenditures	(1,161)	(1,124)
Capitalization of internally developed software costs	(354)	(241)
Purchases of short-term investments	(15,045)	(63,689)
Maturities of short-term investments	15,000	60,758
Acquisition of CFX, net of cash acquired	(21,747)	—
Other acquisition payments	(588)	(4,277)
Purchase of long-term investment	(200)	(600)
Net cash used in investing activities	<u>(24,095)</u>	<u>(9,173)</u>
Cash flows from financing activities:		
Proceeds from issuance of common stock under Employee Stock Purchase Plan	187	136
Purchase of treasury stock	—	(10,151)
Proceeds from exercise of stock options	4,159	3,764
Net cash provided by (used in) financing activities	<u>4,346</u>	<u>(6,251)</u>
Effect of exchange rate changes on cash	(226)	9
Net increase (decrease) in cash and cash equivalents	1,654	(5,742)
Cash and cash equivalents, beginning of period	46,198	28,545
Cash and cash equivalents, end of period	<u>\$ 47,852</u>	<u>\$ 22,803</u>
Supplemental disclosures of cash flow information:		
Cash paid during the period for income taxes	<u>\$ 2,106</u>	<u>\$ 3,561</u>

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

**ANSYS INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2003**  
**(Unaudited)**

**1. Summary of Significant Accounting Policies**

The accompanying unaudited condensed consolidated financial statements have been prepared by ANSYS Inc. (the "Company") in accordance with accounting principles generally accepted in the United States of America for interim financial information for commercial and industrial companies and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, the accompanying statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. The accompanying condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements (and notes thereto) included in the Company's Annual Report on Form 10-K for the year ended December 31, 2002. The condensed consolidated December 31, 2002 balance sheet presented was derived from the audited 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 and six months ended June 30, 2003 are not necessarily indicative of the results that may be expected for any future period.

**2. Accumulated Other Comprehensive Income**

As of June 30, 2003 and December 31, 2002, accumulated other comprehensive income, as reflected on the condensed consolidated balance sheets, was comprised of foreign currency translation adjustments.

Comprehensive income for the three- and six-month periods ended June 30, 2003 and 2002 was as follows:

(in thousands)	Three months ended		Six months ended	
	June 30, 2003	June 30, 2002	June 30, 2003	June 30, 2002
Comprehensive Income	\$ 5,748	\$ 5,088	\$ 10,419	\$ 8,681

**3. Other Current Assets**

The Company reports accounts receivable related to the portion of annual lease licenses and software maintenance that has not yet been recognized as revenue as a component of other current assets. These amounts totaled \$9.0 million and \$11.5 million as of June 30, 2003 and December 31, 2002, respectively.

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### 4. Earnings Per Common 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:

(in thousands, except per share data)	Three months ended		Six months ended	
	June 30, 2003	June 30, 2002	June 30, 2003	June 30, 2002
Net income	\$ 4,472	\$ 4,720	\$ 8,751	\$ 8,608
Weighted average shares outstanding – basic	14,859	14,670	14,743	14,629
Basic earnings per share	\$ 0.30	\$ 0.32	\$ 0.59	\$ 0.59
Effect of dilutive securities:				
Shares issuable upon exercise of dilutive outstanding stock options	1,045	1,159	936	1,147
Weighted average shares outstanding – diluted	15,904	15,829	15,679	15,776
Diluted earnings per share	\$ 0.29	\$ 0.30	\$ 0.56	\$ 0.55
Anti-dilutive shares/options	114	93	200	93

### 5. Acquisition of CFX

On February 26, 2003 the Company acquired 100% of the shares in certain entities and assets (hereinafter collectively referred to as “CFX”) for a purchase price of approximately \$21.7 million in cash. The CFX operating results are included in the Company’s financial statements for only the periods subsequent to the acquisition.

CFX is a leading supplier of computational fluid dynamics (“CFD”) software and services. CFD is the second largest segment of the computer-aided engineering market behind the solid mechanics segment, where ANSYS is well recognized as a global market leader. By acquiring CFX, ANSYS broadened the scope of engineering physics solutions it can offer to its customers, gained access to new customers and entered new markets.

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

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The total purchase price was allocated to the foreign and domestic assets and liabilities of CFX based upon estimated fair market values obtained through independent valuation. The allocations, based upon foreign currency translation rates as of the date of acquisition, were approximately \$11.5 million to identifiable intangible assets (including \$9.5 million to core software technology to be amortized over five years, \$900,000 to customer lists to be amortized over three years and \$1.1 million to trademark) and \$11.8 million to goodwill. The trademark is not being amortized as it is determined to have an indefinite life.

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

CFX reported revenue of approximately \$19 million for its fiscal year ended March 31, 2002. The CFX business was a carve-out entity from the acquiree and, as a result, proforma information on revenue, income before extraordinary items and the cumulative effect of accounting changes (including those on an interim basis), net income and earnings per share are indeterminable.

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

### 6. Goodwill and Intangible Assets

During the first quarter of 2003, the Company completed the annual impairment test for goodwill and determined that goodwill had not been impaired as of the test date, January 1, 2003. No events occurred or circumstances changed during the quarter ended June 30, 2003 that required an interim goodwill impairment test.

As of June 30, 2003 and December 31, 2002, the Company’s intangible assets are classified as follows:

(in thousands)	June 30, 2003		December 31, 2002	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
<b>Amortized intangible assets:</b>				
Core technology	\$ 15,078	\$ (3,297)	\$ 4,675	\$ (2,171)
Non-compete agreements	2,423	(1,265)	2,367	(880)
Customer list	2,359	(903)	1,407	(657)
<b>Total</b>	<b>\$ 19,860</b>	<b>\$ (5,465)</b>	<b>\$ 8,449</b>	<b>\$ (3,708)</b>
<b>Unamortized intangible assets:</b>				
Trademark	\$ 1,510		\$ 357	



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Total amortization expense for the three months ended June 30, 2003 and 2002 was \$1,181,000 and \$568,000, respectively. Total amortization expense for the six months ended June 30, 2003 and 2002 was \$1,929,000 and \$1,167,000, respectively.

Amortization expense for the amortized intangible assets reflected above is expected to be approximately \$3,532,000, \$3,353,000, \$2,934,000, \$2,243,000 and \$2,190,000 for the years ending December 31, 2003, 2004, 2005, 2006 and 2007, respectively.

The changes in goodwill during the six-month period ended June 30, 2003 are as follows:

<b>(in thousands)</b>	
Balance – January 1, 2003	\$18,615
CFX Acquisition	11,826
Currency Translation	652
	<hr/>
Balance – June 30, 2003	\$31,093
	<hr/>

## **7. Stock-Based Compensation**

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

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(in thousands)	Three Months Ended		Six Months Ended	
	June 30, 2003	June 30, 2002	June 30, 2003	June 30, 2002
Net income, as reported	\$ 4,472	\$ 4,720	\$ 8,751	\$ 8,608
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	(767)	(709)	(1,518)	(1,438)
Pro forma net income	\$ 3,705	\$ 4,011	\$ 7,233	\$ 7,170
Earnings per share:				
Basic – as reported	\$ 0.30	\$ 0.32	\$ 0.59	\$ 0.59
Basic – pro forma	\$ 0.25	\$ 0.27	\$ 0.49	\$ 0.49
Diluted – as reported	\$ 0.29	\$ 0.30	\$ 0.56	\$ 0.55
Diluted – pro forma	\$ 0.23	\$ 0.25	\$ 0.46	\$ 0.45

## 8. Geographic Information

Revenue by geographic area for the three and six months ended June 30, 2003 and 2002 are as follows:

(in thousands)	Three Months Ended		Six Months Ended	
	June 30, 2003	June 30, 2002	June 30, 2003	June 30, 2002
North America	\$ 10,915	\$ 10,658	\$ 20,331	\$ 20,410
Europe	10,417	7,218	19,479	13,803
Japan/Other International	6,311	4,858	12,433	9,786
Total Revenue	\$ 27,643	\$ 22,734	\$ 52,243	\$ 43,999

## 9. Recently Issued Accounting Pronouncements

In November 2002, the FASB issued Interpretation No. 45, “*Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others.*” Interpretation No. 45 requires the recognition of liabilities for guarantees that are issued or modified subsequent to December 31, 2002.

The Company’s agreements generally require it to indemnify the customer against claims that its software infringes third party patent, copyright, trademark or other proprietary rights. Such indemnification obligations are generally limited and consistent with industry standards, including the Company’s right to replace an infringing product.

As of June 30, 2003, the Company has not experienced any material losses related to these indemnification obligations and no material claims with respect thereto were outstanding. The Company does not expect significant claims related to these indemnification obligations, and consequently has not established any related reserves. The Company implemented the provisions of Interpretation No. 45 on January 1, 2003 as required with no effect on its financial position, results of operations or cash flows.

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In November 2002, the EITF reached a consensus on Issue No. 00-21, “*Revenue Arrangements with Multiple Deliverables*.” Issue 00-21 provides guidance on how to account for arrangements that involve the delivery or performance of multiple products, services and/or rights to use assets. The provisions of Issue 00-21 will apply to revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The Company believes that the adoption of Issue 00-21 will not have a material effect on its financial position, results of operations or cash flows.

In January 2003, the FASB issued Interpretation No. 46, “*Consolidation of Variable Interest Entities*.” Interpretation No. 46 requires unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse the risks and rewards of ownership among their owners and other parties involved. The Company has no variable interest entities; therefore, this Interpretation has no impact on the Company’s financial position, results of operations or cash flows.

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

**INDEPENDENT ACCOUNTANTS' REPORT**

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

We have reviewed the accompanying condensed consolidated balance sheet of ANSYS Inc. and subsidiaries (the "Company") as of June 30, 2003, and the related condensed consolidated statements of income for the three-month and six-month periods ended June 30, 2003 and 2002 and of cash flows for the six-month periods ended June 30, 2003 and 2002. These financial statements are the responsibility of the Company's management.

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

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

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

/s/ Deloitte & Touche LLP

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Pittsburgh, Pennsylvania  
July 18, 2003

Item 2.

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

ANSYS Inc. (the "Company") develops and globally markets engineering simulation software and technologies widely used by engineers and designers across a broad spectrum of industries, including aerospace, automotive, manufacturing, electronics and biomedical. Headquartered at Southpointe in Canonsburg, Pennsylvania, the Company employs approximately 700 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<sup>®</sup>, DesignSpace<sup>®</sup>, AI\*NASTRAN, ICEM CFD Engineering and CADOE products through a global network of channel partners, in addition to its own direct sales offices in strategic, global locations. It is the Company's intention to continue to maintain this mixed sales and distribution model. The Company's CFX<sup>®</sup> products are currently distributed primarily through direct sales offices located in seven countries throughout the world. The following discussion should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and notes thereto for the three-month and six-month periods ended June 30, 2003 and 2002, and with the Company's audited financial statements and notes thereto for the year ended December 31, 2002 filed on Form 10-K with the Securities and Exchange Commission.

This Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including statements below concerning future trends regarding the Company's total cost of sales increasing as a percentage of revenue, the Company's intentions related to continued investments in sales and marketing and research and development, plans related to future capital spending, the sufficiency of existing cash and cash equivalent balances to meet future working capital and capital expenditure requirements, estimates of tax rates in future periods, as well as statements which contain such words as "anticipates", "intends", "believes", "plans" and other similar expressions. The Company's actual results could differ materially from those set forth in forward-looking statements. Certain factors that might cause such a difference include risks and uncertainties detailed in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section in the 2002 Annual Report to Shareholders and in "Certain Factors Regarding Future Results" included herein as Exhibit 99.1 to this Form 10-Q.

## Results of Operations

### Three Months Ended June 30, 2003 Compared to Three Months Ended June 30, 2002

**Revenue.** The Company's total revenue increased 21.6% in the 2003 second quarter to \$27.6 million from \$22.7 million in the 2002 second quarter. Total revenue in the second quarter of 2003 included approximately \$4.8 million related to certain entities and assets acquired during the first quarter of 2003 (hereinafter referred to as "CFX").

On average, for the second quarter of 2003, the U.S. dollar was approximately 15% weaker, when measured against the Company's primary European foreign currencies, than for the second quarter of 2002. The weakening resulted in increased revenue and operating income during the 2003 period, as compared with the corresponding 2002 period, of approximately \$580,000 and \$340,000, respectively.

International and North American revenues, as a percentage of total revenue, were 60.5% and 39.5%, respectively, in the quarter ended June 30, 2003 and 53.1% and 46.9%, respectively, in the quarter ended June 30, 2002.

Software license revenue increased 18.5% in the 2003 quarter to \$14.0 million from \$11.8 million in the 2002 quarter. The quarterly revenue increase was primarily the result of approximately \$2.5 million related to the inclusion of the CFX operations since the acquisition date.

Maintenance and service revenue increased 24.9% in the 2003 quarter to \$13.7 million from \$11.0 million in the 2002 quarter. This increase was primarily the result of approximately \$2.3 million in revenue related to the inclusion of CFX since the acquisition date, as well as maintenance contracts sold in association with paid-up license sales in recent quarters.

In valuing deferred revenue for inclusion on the CFX opening balance sheet as of the acquisition date, February 26, 2003, the Company complied with the fair value provisions of Emerging Issues Task Force ("EITF") Issue No. 01-3 "*Accounting in a Business Combination for Deferred Revenue of an Acquiree.*" In accordance with EITF 01-3, acquired deferred software license revenue of approximately \$4.8 million was recorded on the opening balance sheet. This amount was approximately \$3.4 million lower than the historical carrying value. Although this purchase accounting requirement will have no impact on the Company's business or cash flow, it will adversely impact the Company's reported software license revenue under accounting principles generally accepted in the United States of America ("GAAP") for the first twelve months post-acquisition. The adverse impact on reported revenue was approximately \$1.1 million for the quarter ended June 30, 2003 and is expected to be approximately \$900,000 and \$500,000 for the quarters ending September 30, 2003 and December 31, 2003, respectively. The adverse impact on reported revenue for the year ending December 31, 2004 is expected to be approximately \$300,000.

**Cost of Sales and Gross Profit.** The Company's total cost of sales increased to \$5.2 million, or 18.7% of total revenue, in the 2003 second quarter from \$2.8 million, or 12.4% of total

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revenue, in the 2002 second quarter. The increase in the 2003 quarter was primarily attributable to costs associated with engineering consulting services provided by CFX, as well as royalty costs associated with CFX software sales.

As a result of the changes in revenue and cost of sales, the Company's gross profit increased 12.8% to \$22.5 million in the 2003 quarter from \$19.9 million in the 2002 quarter.

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

**Selling and Marketing.** Total selling and marketing expenses increased from \$5.2 million, or 23.1% of total revenue in the 2002 quarter, to \$6.1 million, or 22.0% of total revenue in the 2003 quarter. The increase resulted primarily from the addition of headcount and facility costs associated with CFX. These costs were partially offset by lower headcount costs within the non-CFX portion of the ANSYS organization, as well as a reduction in costs associated with the Company's biennial users' conference. The Company anticipates that it will continue to make significant investments throughout the remainder of 2003 in its global sales and marketing organization to strengthen its competitive position, to enhance major account sales activities and to support its worldwide sales channels and marketing strategies.

**Research and Development.** Research and development expenses increased in the 2003 second quarter to \$6.1 million, or 22.0% of total revenue, from \$4.9 million, or 21.7% of total revenue, in the 2002 quarter. The increase primarily resulted from additional headcount and facility costs associated with CFX. The Company has traditionally invested significant resources in research and development activities and intends to continue to make significant investments in this area.

**Amortization.** Amortization expense increased to \$1.2 million in the 2003 second quarter from \$568,000 in the prior year quarter. The increase relates to amortization expense associated with intangible assets acquired in the CFX acquisition.

**General and Administrative.** General and administrative expenses increased from \$2.7 million, or 11.9% of total revenue in the 2002 quarter, to \$3.1 million, or 11.3% of total revenue in the 2003 quarter. Increased costs related to the CFX acquisition were partially offset by reduced legal expenses and lower headcount related costs.

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

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On July 30, 2002 the Sarbanes-Oxley Act (the "Act") was signed into law. The Act contains far-reaching corporate governance reforms and new disclosure requirements for public companies. Certain of the Act's provisions became effective immediately, while other provisions will be implemented through December 31, 2004. Costs to comply with the provisions of the Act, including legal and accounting fees, will result in higher general and administrative expenses in future periods.

*Other Income.* Other income increased to \$772,000 in the 2003-second quarter from \$323,000 in the prior-year quarter. The increase primarily related to foreign currency translation gains during 2003.

*Income Tax Provision.* The Company's effective rates of taxation were 34.0% in the 2003 quarter and 30.5% in the 2002 quarter. These rates are lower than the federal and state combined statutory rate as a result of export benefits, as well as the generation of research and experimentation credits. The increase in the effective tax rate in the 2003 period relates to the impact of the CFX acquisition. The Company expects that the effective tax rate will be in the range of 32% - 34% for the year ending December 31, 2003.

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

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

*Net Income.* The Company's net income in the 2003 quarter was \$4.5 million as compared to \$4.7 million in the 2002 quarter. Diluted earnings per share decreased to \$.29 in the 2003 quarter as compared to \$.30 in the 2002 quarter as a result of the decrease in net income. The weighted average shares used in computing diluted earnings per share were 15.9 million in the 2003 quarter and 15.8 million in the 2002 quarter.



## Six Months Ended June 30, 2003 Compared to Six Months Ended June 30, 2002

**Revenue.** The Company's total revenue increased 18.7% in the six months ended June 30, 2003 to \$52.2 million as compared with \$44.0 million for the six months ended June 30, 2002. Total revenue in the six-month period of 2003 included approximately \$7.1 million related to CFX.

On average, for the six-month period of 2003, the U.S. dollar was approximately 15% weaker, when measured against the Company's primary European foreign currencies, than for the six months ended June 30, 2002. The weakening resulted in increased revenue and operating income during the 2003 period, as compared with the corresponding 2002 period, of approximately \$1.2 million and \$690,000, respectively. International and North American revenues, as a percentage of total sales, were 61.1% and 38.9%, respectively, in the six months ended June 30, 2003 and 53.6% and 46.4%, respectively, in the six months ended June 30, 2002.

Software license revenue increased 14.3% in the 2003 six-month period to \$26.4 million from \$23.1 million in the 2002 corresponding period. The CFX-related software license revenue was approximately \$3.6 million for the period from the acquisition date of February 26, 2003 through June 30, 2003.

Maintenance and service revenue increased 23.7% in the six months ended June 30, 2003 to \$25.8 million from \$20.9 million in the six months ended June 30, 2002. This increase was primarily the result of maintenance contracts sold in association with paid-up license sales in recent quarters, as well as approximately \$3.4 million in revenue related to CFX.

As previously mentioned above, in accordance with EITF 01-3, acquired deferred software license revenue of approximately \$4.8 million was recorded on the opening balance sheet. This amount was approximately \$3.4 million lower than the historical carrying value. The adverse impact on reported revenue under GAAP was approximately \$1.6 million for the six months ended June 30, 2003.

**Cost of Sales and Gross Profit.** The Company's total cost of sales increased to \$9.2 million, or 17.7% of total revenue, in the 2003 six months as compared to \$5.7 million, or 12.9% of total revenue, for the 2002 second quarter. The increase in the 2003 six-month period was primarily attributable to costs associated with engineering consulting services provided by CFX, as well as royalty costs associated with CFX software sales.

As a result of the changes in revenue and cost of sales, the Company's gross profit increased 12.2% to \$43.0 million for the six months ended June 30, 2003 as compared to \$38.3 million in the corresponding 2002 period.

**Selling and Marketing.** Total selling and marketing expenses increased by \$1.2 million from \$10.4 million, or 23.6% of total revenue for the six months ended June 30, 2002, to \$11.6 million, or 22.2% of total revenue in same period of 2003. The increase was primarily the result of headcount and facility costs associated with CFX. These costs were partially offset by lower headcount costs within the non-CFX portion of the ANSYS organization, as well as a reduction in costs associated with the Company's biennial users' conference. The Company anticipates that it will continue to make significant investments throughout the remainder of 2003 in its global sales and

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marketing organization to strengthen its competitive position, to enhance major account sales activities and to support its worldwide sales channels and marketing strategies.

**Research and Development.** Research and development expenses increased in the six months ended June 30, 2003 to \$11.7 million, or 22.5% of total revenue, from \$9.8 million, or 22.2% of total revenue, in the 2002 corresponding period. This increase resulted from headcount and facility costs associated with CFX, as well as additional headcount and costs related to the development and introduction of new and enhanced products within the ANSYS product creation group. The Company has traditionally invested significant resources in research and development activities and intends to continue to make significant investments in this area.

**Amortization.** Amortization expense increased to \$1.9 million in the 2003 six-month period from \$1.2 million in the comparable prior year period. The increase relates to amortization expense associated with intangible assets acquired in the CFX acquisition.

**General and Administrative.** General and administrative expenses increased from \$5.0 million, or 11.5% of total revenue in the 2002 first six months, to \$5.8 million, or 11.1% of total revenue in the six-month period of 2003. Increased costs related to the CFX acquisition were partially offset by reduced legal expenses and lower headcount related costs.

**Other Income.** Other income increased to \$1.3 million during the six months ended June 30, 2003 as compared with \$494,000 during the same six-month period of 2002. The increase primarily related to foreign currency translation gains during 2003.

**Income Tax Provision.** The Company's effective rates of taxation were 34.1% and 31.0% for the six months ended June 30, 2003 and 2002, respectively. These rates are lower than the federal and state combined statutory rate as a result of export benefits, as well as the generation of research and experimentation credits. The increase in the effective tax rate in the 2003 period relates to the impact of the CFX acquisition. The Company expects that the effective tax rate will be in the range of 32% - 34% for the year ending December 31, 2003. As previously mentioned further legislative actions may adversely impact the Company's effective tax rate and decrease its net income in future periods.

**Net Income.** The Company's net income for the six months ended June 30, 2003 was \$8.8 million as compared with \$8.6 million in the 2002 six-month period. Diluted earnings per share increased to \$0.56 in the 2003 period as compared to \$0.55 in the 2002 period as a result of the increase in net income. The weighted average shares used in computing diluted earnings per share were 15.7 million in the 2003 period and 15.8 million in the 2002 period.

### **Liquidity and Capital Resources**

As of June 30, 2003, the Company had cash, cash equivalents and short-term investments totaling \$62.8 million and working capital of \$50.2 million, as compared to cash, cash equivalents and short-term investments of \$61.1 million and working capital of \$56.9 million at December 31, 2002. The short-term investments are generally investment grade and

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liquid, which allows the Company to minimize interest rate risk and to facilitate liquidity in the event of an immediate cash need requirement.

The Company's operating activities provided cash of \$21.6 million during the six months ended June 30, 2003 and \$9.7 million for the six months ended June 30, 2002. The \$11.9 million increase in the Company's cash flow from operations in the 2003 six-month period as compared to the comparable 2002 period was the result of increased earnings after the effect of non-cash expenses such as depreciation and amortization, improved accounts receivable collection activity and a prior year, one-time payment of approximately \$2.0 million to settle a dispute with a former distributor.

The Company's investing activities used cash of \$24.1 million and \$9.2 million for the six months ended June 30, 2003 and 2002, respectively. In the 2003 six-month period, cash outlays primarily related to the acquisition of CFX. In the 2002 six-month period, cash usage primarily related to the purchase of short-term investments, as well as the final payment related to the 2000 acquisition of ICEM CFD Engineering. The Company currently plans additional capital spending of approximately \$1.2 million throughout the remainder of 2003; however, the level of spending will be dependent upon various factors, including growth of the business and general economic conditions.

Financing activities provided cash of \$4.3 million in the six months ended June 30, 2003 and used cash of approximately \$6.3 million in the six months ended June 30, 2002. In the 2003 period, cash was provided by proceeds from the issuance of common stock under employee stock purchase and option plans. In the 2002 period, cash outlays related to the Company's share repurchase program were partially offset by proceeds from the issuance of common stock under employee stock purchase and option plans.

The Company believes that existing cash and cash equivalent balances, together with cash generated from operations, will be sufficient to meet the Company's working capital and capital expenditure requirements through the remainder of fiscal 2003. The Company's future cash requirements may be obtained through additional equity or debt financings. There can be no assurance that such financings can be obtained on favorable terms, if at all.

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

### **Critical Accounting Policies**

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

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perpetual licenses by reference to published price lists which generally represent the prices at which customers could purchase renewal contracts for such services. Revenue from maintenance contracts is recognized ratably over the term of the contract. Revenue from training, support and other services is recognized as the services are performed.

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

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

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

**Item 3. Quantitative and Qualitative Disclosures Regarding Market Risk**

As the Company continues to expand its direct sales presence in international regions, the portion of its revenue, 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.

As of June 30, 2003 the Company had a British Pound-denominated intercompany loan related to the CFX acquisition with one of its subsidiaries. This note was recorded as a receivable on a U.S. company and was subject to foreign currency translation risk between the British Pound and the U.S. Dollar. Monthly translations to the current spot-rate are recorded in the statement of income. As of June 30, 2003, a U.K. subsidiary had a U.S. dollar cash balance, which provided a natural partial hedge against the intercompany loan. Subsequent to June 30, 2003 the U.K. subsidiary's U.S. Dollar balance had increased to the amount of the intercompany loan, thereby eliminating foreign currency exchange risk on this loan.

No other material change has occurred in the Company's market risk subsequent to December 31, 2002.

**Item 4. 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.

In 2002, the Company created a Disclosure Review Committee to assist in the quarterly evaluation of the Company's internal disclosure controls and procedures and in the review of the Company's periodic filings under the Exchange Act. The membership of the Disclosure Review Committee consists of the Company's Chief Executive Officer, Chief Financial Officer, Controller, Corporate Counsel, Treasurer, Vice President of Sales and Services, Vice President of Human Resources, Vice President of Marketing and Business Unit General Managers.

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. There was no change in the Company's internal control over financial reporting that occurred during the quarter ended June 30, 2003 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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

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

**Item 2. Changes in Securities**

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

<u>Month/Year</u>	<u>Number of Shares</u>	<u>Number of Individuals</u>	<u>Aggregate Exercise Price</u>
May 2003	1,000	1	\$400.00

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

At the Annual Meeting of Stockholders of the Company held on May 8, 2003, two proposals were considered and voted upon.

First, the stockholders of the Company elected Peter J. Smith, Bradford C. Morley and Patrick J. Zilvitis as Class I directors of the Company to hold office until the 2006 Annual Meeting of Stockholders and until such Directors' successors are duly elected and qualified. The votes were as follows:

	<u>Votes For</u>	<u>Votes Withheld</u>
Peter J. Smith	12,283,385	920,264
Bradford C. Morley	12,273,024	930,625
Patrick J. Zilvitis	12,272,824	930,825

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Second, the stockholders of the Company approved an amendment and restatement of the 1996 Stock Plan which (1) increases the number of shares of Common Stock available for issuance under the 1996 Stock Plan from 4,250,000 to 5,350,000, (2) eliminates the limitation on the number of shares available for issuance to the Company's Independent Directors, (3) limits non-option awards to 50% of the total number of shares remaining available for issuance and (4) prohibits repricing options without prior stockholder approval. The votes were as follows:

<u>Votes For</u>	<u>Votes Withheld</u>	<u>Abstain</u>
6,743,816	5,316,025	35,501

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

#### (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
- 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

#### (b) Reports on Form 8-K.

The Company furnished a Current Report on Form 8-K to the Securities and Exchange Commission on April 30, 2003 containing the earnings release announcement of its financial results for the first quarter ended March 31, 2003.



**SIGNATURES**

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

Date: August 13, 2003

**ANSYS Inc.**

By: /s/ James E. Cashman, III

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James E. Cashman, III  
President and Chief  
Executive Officer

Date: August 13, 2003

By: /s/ Maria T. Shields

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Maria T. Shields  
Chief Financial Officer

**EXHIBIT INDEX**

<u>Exhibit No.</u>	
	<b>Articles of Incorporation and By-laws</b>
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).
	<b>Material Contracts</b>
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).
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

August 13, 2003

ANSYS Inc.  
275 Technology Drive  
Canonsburg, PA 15317

We have made a review, in accordance with standards established by the American Institute of Certified Public Accountants, of the unaudited interim financial information of ANSYS Inc. and subsidiaries for the periods ended June 30, 2003 and 2002, as indicated in our report dated July 18, 2003; because we did not perform an audit, we expressed no opinion on that information.

We are aware that our report referred to above, which is included in your Quarterly Report on Form 10-Q for the quarter ended June 30, 2003, is incorporated by reference in Registration Statement No. 333-08613 on Form S-8.

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

/s/ Deloitte & Touche LLP

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Pittsburgh, Pennsylvania

## 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 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: August 13, 2003

/s/ James E. Cashman, III

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James E. Cashman, III  
President and Chief  
Executive Officer

## CHIEF FINANCIAL OFFICER CERTIFICATION

I, Maria T. Shields, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ANSYS Inc. ("ANSYS");
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of ANSYS as of, and for, the periods presented in this quarterly report;
4. ANSYS's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-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 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: August 13, 2003

/s/ Maria T. Shields

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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 June 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James E. Cashman III, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

/s/ James E. Cashman, III

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James E. Cashman, III  
President and Chief Executive Officer

August 13, 2003

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

In connection with the Quarterly Report of ANSYS Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Maria T. Shields, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

/s/ Maria T. Shields

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Maria T. Shields  
Chief Financial Officer

August 13, 2003

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

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



**SEASONAL VARIATIONS:** The Company's business has experienced significant seasonality, including second and third quarter 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. Typically, the Company's revenue is lowest during the quarters ended June 30 and September 30.

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

The 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 the economic conditions and the supply and demand of its customers' goods and services. 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 market sector, the Company's performance may be hindered because of a failure to properly match corporate strategy with market conditions.

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

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

**STOCK MARKET AND STOCK PRICE VOLATILITY:** Market prices for securities of software companies have generally been volatile. In particular, the market price of the Company's common stock has been, and may continue to be, subject to significant fluctuations as a result of factors affecting the Company, the software industry or the securities

markets in general. Such factors include, but are not limited to, declines in trading price that may be triggered by the Company's failure to meet the expectations of securities analysts and investors. The Company cannot provide assurance that in such circumstances the trading price of the Company's common stock will recover or that it will not experience a further decline. Moreover, the trading price could be subject to additional fluctuations in response to quarter-to-quarter variations in the Company's operating results, material announcements made by the Company or its competitors, conditions in the software industry generally or other events and factors, many of which are beyond the Company's control.

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

There can be no assurance that the Company will be successful in developing and marketing, on a timely basis, new products or product enhancements, that its new products will adequately address the changing needs of the marketplace or that it will successfully manage the transition from existing products. Software products as complex as those offered by the Company may contain undetected errors or failures when first introduced or as new versions are released, and the likelihood of errors is increased as a result of the Company's commitment to accelerating the frequency of its product releases. There can be no assurance that errors will not be found in new or enhanced products after commencement of commercial shipments. Any of these problems may result in the loss of or delay in market acceptance, diversion of development resources, damage to the Company's reputation or increased service and warranty costs, any of which could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

**SALES OF NEW PRODUCTS:** The Company has recently developed and introduced many new software products. Certain of these products require a higher level of sales and support expertise. The ability of the Company's sales channel, particularly the indirect channel, to obtain this expertise and sell the new product offerings

effectively could have an effect on the Company's sales in future periods. Additionally, royalties and 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. The channel partners have more immediate contact with most customers in their territories who use ANSYS software than does the Company. Consequently, the Company is highly dependent on the efforts of the channel partners. Difficulties in ongoing relationships with channel partners, such as delays in collecting accounts receivable, failure to meet performance criteria or to promote the Company's products as aggressively as the Company expects and differences in the handling of customer relationships could adversely affect the Company's performance. Additionally, the loss of any major channel partner for any reason, including a channel partner's decision to sell competing products rather than the Company's products, could have a material adverse effect on the Company. Moreover, the Company's future success will depend substantially on the ability and willingness of its channel partners to continue to dedicate the resources necessary to promote the Company's products and to support a larger installed base of the Company's products. If the channel partners are unable or unwilling to do so, the Company may be unable to sustain revenue growth.

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

rapidly acquire significant market share or that competition will increase as a result of software industry consolidation. Increased competition may result in price reductions, reduced profitability and loss of market share, any of which would materially adversely affect the Company's business, financial condition, results of operations and cash flows.

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

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

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

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

In November 2000, the United States enacted the FSC Repeal and Extraterritorial Income Exclusion Act (the "Act") in response to a challenge from the World Trade Organization ("WTO") that the

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

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

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.

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

**INCREASED RELIANCE ON PERPETUAL LICENSES:** Although the Company has historically maintained stable recurring revenue from the sale of monthly lease licenses and noncancellable annual leases for its software products, it has relied increasingly on sales of perpetual licenses that involve payment of a single up-front fee and that are more typical in the computer software industry. While revenue generated from monthly lease licenses and noncancellable annual leases currently represents a portion of the Company's software license revenue, to the extent that perpetual license revenue continues to represent a significant percentage of total software license revenue, the

Company's revenue in any period will depend increasingly on sales completed during that period.

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

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

**PERIODIC RESTRUCTURING OF SALES FORCE:** The Company relies heavily on its direct sales force. From time to time, the Company restructures and makes adjustments to its sales force in response to such factors as management changes, performance issues and other considerations. The Company has recently made certain structural and personnel changes to its North American sales force. These changes may result in a temporary lack of sales production and may adversely impact revenue in future quarters. Additionally, the Company has made some personnel changes to address productivity issues within a direct sales office in China. 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.

**GENERAL CONTINGENCIES:** The Company is subject to various investigations, claims and legal proceedings from time to time that arise in the ordinary course of its business activities. These proceedings currently include customary audit activities by various taxing authorities. Each of these matters is subject to various uncertainties,

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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.