

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 June 30, 2000

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

04-3219960

(State or other jurisdiction of (IRS Employer  
incorporation or organization) Identification No.)

275 Technology Drive, Canonsburg, PA 15317  
(Address of principal executive offices) (Zip Code)

724-746-3304

(Registrant's telephone number, including area code)

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   
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The number of shares of the Registrant's Common Stock,  
par value \$.01 per share, outstanding as of August 4,  
2000 was 15,172,814 shares.

ANSYS, INC. AND SUBSIDIARIES

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Trademarks used in this Form 10-Q: ANSYS(r) and DesignSpace(r) are registered trademarks of SAS IP, Inc., a wholly-owned subsidiary of ANSYS, Inc.

PART I - FINANCIAL INFORMATION

Item 1. - Financial Statements:

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

	June 30, 2000	Dec. 31, 1999
	-----	-----
(Unaudited)		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 23,873	\$ 10,401
Short-term investments	34,706	46,731
Accounts receivable, less allowance for doubtful accounts of \$1,750 in 2000 and \$1,700 in 1999	9,510	10,518
Other current assets	3,128	2,929
Deferred income taxes	477	336
	-----	-----
Total current assets	71,694	70,915
Securities available for sale	-	182
Long-term investment	375	-
Property and equipment, net	4,390	3,529
Capitalized software costs, net	501	676
Goodwill, net	463	428
Other intangibles, net	1,464	1,518
Deferred income taxes	6,456	6,643
	-----	-----
Total assets	\$ 85,343	\$ 83,891
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 89	\$ 222
Accrued bonuses	1,559	2,882
Other accrued expenses and liabilities	4,062	3,750
Customer prepayments	131	140
Deferred revenue	13,819	11,266
	-----	-----
Total current liabilities	19,660	18,260
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 in both 2000 and 1999	166	166
Additional paid-in capital	37,462	37,543
Less treasury stock, at cost: 1,022,128 shares held in 2000 and 339,358 shares		

held in 1999	(10,951)	(2,375)
Retained earnings	39,006	30,427
Accumulated other comprehensive income	-	120
Note receivable from stockholder	-	(250)
	-----	-----
Total stockholders' equity	65,683	65,631
	-----	-----
Total liabilities and stockholders' equity	\$85,343	\$83,891
	=====	=====

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

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

	Three months ended		Six months ended	
	June 30, 2000	June 30, 1999	June 30, 2000	June 30, 1999
	-----	-----	-----	-----
Revenue:				
Software licenses	\$ 9,409	\$ 8,982	\$ 19,916	\$ 19,019
Maintenance and service	6,844	6,412	13,717	12,243
	-----	-----	-----	-----
Total revenue	16,253	15,394	33,633	31,262
Cost of sales:				
Software licenses	997	922	2,091	1,770
Maintenance and service	797	727	1,706	1,504
	-----	-----	-----	-----
Total cost of sales	1,794	1,649	3,797	3,274
Gross profit	14,459	13,745	29,836	27,988
Operating expenses:				
Selling and marketing	4,023	4,084	7,858	7,647
Research and development	3,203	3,189	6,614	6,634
Amortization	191	181	399	401
General and administrative	2,253	2,408	4,942	4,849
	-----	-----	-----	-----
Total operating expenses	9,670	9,862	19,813	19,531
Operating income	4,789	3,883	10,023	8,457
Other income	895	602	1,892	1,152
	-----	-----	-----	-----
Income before income tax provision	5,684	4,485	11,915	9,609
Income tax provision	1,592	942	3,336	2,349
	-----	-----	-----	-----
Net income	4,092	3,543	8,579	7,260
	=====	=====	=====	=====
Net income per basic common share:				
Basic earnings per share	\$ 0.26	\$ 0.22	\$ 0.54	\$ 0.45
Weighted average shares - basic	15,815	16,366	16,034	16,321
	-----	-----	-----	-----
Net income per diluted common share:				
Diluted earnings per share	\$ 0.25	\$ 0.21	\$ 0.52	\$ 0.43
Weighted average shares - diluted	16,272	16,805	16,546	16,753
	-----	-----	-----	-----

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, 2000	June 30, 1999
	-----	-----
Cash flows from operating activities:		
Net income	\$ 8,579	\$ 7,260
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,472	1,402
Deferred income tax provision	108	586
Provision for bad debts	99	125
Change in operating assets and liabilities:		
Accounts receivable	909	616
Other current assets	(199)	(1,652)
Accounts payable, accrued expenses and liabilities and customer prepayments	(1,153)	(1,096)
Deferred revenue	2,553	2,471
Net cash provided by operating activities	12,368	9,712
	-----	-----
Cash flows from investing activities:		
Capital expenditures	(1,939)	(1,176)
Capitalization of internally developed software costs	-	(332)
Repayment of stockholder loan	250	-
Acquisition payments	(200)	-
Purchase of short-term investments	(6,000)	(4,295)
Maturities of short-term investments	18,025	6,711
Purchase of long-term investment	(375)	-
Net cash provided by investing activities	9,761	908
	-----	-----
Cash flows from financing activities:		
Proceeds from issuance of common stock under Employee Stock Purchase Plan	74	76
Proceeds from issuance of treasury stock	-	9
Purchase of treasury stock	(9,851)	(6)
Proceeds from exercise of stock options	1,120	380
Net cash (used in) provided by financing activities	(8,657)	459
	-----	-----
Net increase in cash and cash equivalents	13,472	11,079
cash equivalents		
Cash and cash equivalents, beginning of period	10,401	6,589
	-----	-----
Cash and cash equivalents, end of period	\$ 23,873	\$ 17,668
	=====	=====
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Income taxes	\$ 3,324	\$ 3,479

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, 2000  
(UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying unaudited condensed 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 and six months ended June 30, 2000 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, 1999.

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 and six months ended June 30, 2000 are not necessarily indicative of the results that may be expected for the year ending December 31, 2000.

2. ACCUMULATED OTHER COMPREHENSIVE INCOME

As of December 31, 1999, accumulated other comprehensive income, as reflected on the condensed consolidated balance sheet, was comprised of unrealized gains on securities available for sale.

REVIEW REPORT OF INDEPENDENT ACCOUNTANTS

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

We have reviewed the accompanying condensed consolidated balance sheet of ANSYS, Inc. and Subsidiaries as of June 30, 2000, and the related condensed consolidated statements of income for each of the three-month and six-month periods ended June 30, 2000 and June 30, 1999 and the condensed consolidated statements of cash flows for the six-month periods ended June 30, 2000 and 1999. 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 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 the accompanying condensed consolidated interim financial statements for them to be in conformity with generally accepted accounting principles.

We previously audited in accordance with auditing standards generally accepted in the United States, the consolidated balance sheet as of December 31, 1999 and the related consolidated statements of income, stockholders' equity and of cash flows

for the year then ended (not presented herein), and in our report dated January 27, 2000, 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, 1999, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP

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Pittsburgh, Pennsylvania

July 18, 2000

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 computer-aided design ("CAD") integrated products. Sales, support and training for customers are provided primarily through the Company's global network of independent ANSYS Support Distributors ("ASDs"). The Company distributes and supports its ANSYS(r) and DesignSpace(r) product lines through its ASDs, certain direct sales offices, as well as a network of independent distributors and dealers. The following discussion should be read in conjunction with the attached unaudited condensed consolidated financial statements and notes thereto for the three-month and six-month periods ended June 30, 2000 and June 30, 1999 and with the Company's audited financial statements and notes thereto for the fiscal year ended December 31, 1999.

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 related to paid-up and lease license revenue, expectations of sales growth in the Company's DesignSpace and ANSYS/Professional products, 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 and comments regarding the effective tax rate in future quarters, 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 1999 Annual Report to Shareholders and in "Certain Factors Regarding Future Results" included herein as Exhibit 99 to this Form 10-Q.

Results of Operations

Three Months Ended June 30, 2000 Compared to Three Months Ended June 30, 1999

Revenue. The Company's total revenue increased 5.6% in the 2000 quarter to \$16.3 million from \$15.4 million in the 1999 quarter. The increase primarily resulted from increased paid-up license revenue associated with new sales of paid-up licenses. Higher

maintenance and service revenue, primarily from maintenance contracts sold in association with increased paid-up license sales in the current and recent quarters, also contributed to the increase.

Software license revenue increased 4.8% in the 2000 quarter to \$9.4 million from \$9.0 million in the 1999 quarter, resulting primarily from increased sales of paid-up licenses. Revenue from the sale of paid-up licenses increased 22.0% to \$7.5 million from \$6.1 million in the prior year quarter. The Company anticipates that revenue from sales of paid-up licenses will increase as sales of its DesignSpace and ANSYS/Professional products grow. These products are priced at much lower price points compared to the traditional high-end product offerings and are sold primarily as paid-up licenses.

The increase in sales of paid-up licenses was partially offset by a \$484,000 reduction in monthly lease license revenue and a \$440,000 reduction in noncancellable annual lease license revenue. The decrease in monthly lease license revenue is consistent with recent quarterly trends and resulted from existing monthly leases being renewed as noncancellable annual leases or converted to paid-up licenses. The Company believes that the reduction in lease license revenue on a quarterly comparison basis will continue throughout the remainder of 2000. The decrease in noncancellable annual lease license revenue was principally attributable to the conversion of existing noncancellable annual leases to paid-up licenses in both the current and recent quarters. The Company believes that a 1999 increase in its annual lease price was a primary economic factor in influencing certain noncancellable annual lease conversions.

Maintenance and service revenue increased 6.7% in the 2000 quarter to \$6.8 million from \$6.4 million in the 1999 quarter. The increase was a result of maintenance contracts sold in association with the paid-up license sales discussed above.

Of the Company's total revenue for the 2000 quarter, approximately 55.5% and 44.5%, respectively, were attributable to international and domestic sales, as compared to 57.9% and 42.1%, respectively, in the 1999 quarter.

Cost of Sales and Gross Profit. The Company's total cost of sales increased 8.8% to \$1.8 million, or 11.0% of total revenue for the 2000 quarter, from \$1.6 million, or 10.7% of total revenue for the 1999 quarter. The increase in the 2000 quarter was principally attributable to higher salaries and related expenses associated with increased headcount to support the growth in license and service sales.

As a result of the foregoing, the Company's gross profit increased 5.2% to \$14.5 million in the 2000 quarter from \$13.7 million in the 1999 quarter.

Selling and Marketing. Total selling and marketing expenses decreased from \$4.1 million, or 26.5% of total revenue in the 1999 quarter, to \$4.0 million, or 24.8% of total revenue in the 2000 quarter. The decrease primarily resulted from a reduction in support fees paid to third parties in the current year quarter. The Company anticipates that it will continue to make significant investments 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 remained stable at \$3.2 million for both the 2000 and 1999 quarters, or 19.7% and 20.7% of total revenue in each respective quarter. The Company has traditionally invested significant resources in research and development activities and intends to continue to make significant investments throughout the remainder of 2000.

Amortization. Amortization expense remained flat at \$191,000 and \$181,000 for the second quarters of 2000 and 1999, respectively.

General and Administrative. General and administrative expenses decreased from \$2.4 million, or 15.6% of total revenue in the 1999 quarter, to \$2.3 million, or 13.9% of total revenue in the 2000 quarter. The change was primarily the result of decreased legal fees and consulting costs in the current year quarter.

Other Income. Other income increased 48.7% to \$895,000 for the 2000 quarter as compared to \$602,000 for the 1999 quarter. This increase was attributable to both higher interest-bearing cash and short-term investment balances, as well as an increasing interest rate environment as compared to the prior year quarter.

Income Tax Provision. The Company's effective rate of taxation was 28.0% for the 2000 quarter as compared to 21.0% for the 1999 quarter. The effective rate in 1999 was lower due to a one-time tax benefit related to an amended prior year tax return. These rates are lower than the federal and state combined statutory rate as a result of the utilization of a foreign sales corporation, as well as the generation of research and experimentation credits.

Net Income. The Company's net income in the 2000 quarter was \$4.1 million as compared to \$3.5 million in the 1999 quarter. Diluted earnings per share increased to \$.25 in the 2000 quarter as compared to \$.21 in the 1999 quarter as a result of the increase in net income. The weighted average shares used in computing net income per diluted common share were 16.3 million in the 2000 quarter and 16.8 million in the 1999 quarter.

Six Months Ended June 30, 2000 Compared to Six Months Ended June 30, 1999

Revenue. The Company's total revenue increased 7.6% for the 2000 six months to \$33.6 million from \$31.3 million for the 1999 six months. The increase was attributable primarily to an increase in revenue from paid-up licenses associated with increased sales of new paid-up licenses and, to a lesser extent, the conversion of existing leases to paid-up licenses. Higher maintenance and service revenue, resulting primarily from maintenance contracts sold in association with increased paid-up license sales, also contributed to the increase.

Software license revenue totaled \$19.9 million for the 2000 six months as compared to \$19.0 million for the 1999 six months, an increase of 4.7%. The increase resulted principally from an increase in sales of paid-up licenses. Revenue from the sale of paid-up licenses increased 24.6% for the 2000 six-month period to \$14.3 million from \$11.5 million in the comparable prior year period. The Company anticipates that revenue from sales of paid-up licenses will increase as sales of its DesignSpace and ANSYS/Professional products grow. These products are priced at much lower price points compared to the traditional high-end product offerings and are sold primarily as paid-up licenses.

The increase in sales of paid-up licenses was partially offset by a \$1.1 million decrease in noncancellable annual lease license revenue and an \$849,000 reduction in monthly lease license revenue for the 2000 six-month period as compared to the comparable 1999 period. The decrease in noncancellable annual lease license revenue was principally attributable to the conversion of existing noncancellable annual leases to paid-up licenses in both the current and recent periods. The Company believes that a 1999 increase in its annual lease price was a primary economic factor in influencing certain noncancellable annual lease conversions. The reduction in monthly lease license revenue resulted from existing monthly leases being renewed as noncancellable annual leases or converted to paid-up licenses.

Maintenance and service revenue increased 12.0% in the 2000 six-month period to \$13.7 million from \$12.2 million in the comparable 1999 period. The increase was primarily the result of maintenance contracts sold in association with the paid-up license sales discussed above.

Of the Company's total revenue for the 2000 six months, approximately 56.1% and 43.9%, respectively, were attributable to international and domestic sales, as compared to 56.9% and 43.1%, respectively, for the 1999 six months.

Cost of Sales and Gross Profit. The Company's total cost of sales increased 16.0% to \$3.8 million, or 11.3% of total revenue for the 2000 six months, from \$3.3 million, or 10.5% of total revenue for the 1999 six months. The increase in the 2000 period was principally attributable to higher salaries and related



expenses associated with increased headcount to support the growth in license and service sales, as well as increased royalty costs.

As a result of the foregoing, the Company's gross profit increased 6.6% to \$29.8 million for the 2000 six months from \$28.0 million for the 1999 six months.

**Selling and Marketing.** Selling and marketing expenses increased 2.8% for the six months ended June 30, 2000 to \$7.9 million, or 23.4% of total revenue, from \$7.6 million, or 24.5% of total revenue for the comparable 1999 period. The increase was primarily the result of higher salaries and related expenses associated with the hiring of key personnel to bolster the Company's sales and marketing capabilities. These costs were partially offset by a reduction in technical support fees and commissions paid to third parties.

**Research and Development.** Research and development costs remained consistent at \$6.6 million in each of the 2000 and 1999 six-month periods, or 19.7% and 21.2% of total revenue in each respective period.

**Amortization.** Amortization expense remained comparable at \$399,000 and \$401,000 in the respective 2000 and 1999 six-month periods.

**General and Administrative.** General and administrative expenses increased 1.9% for the 2000 six months to \$4.9 million, or 14.7% of total revenue, from \$4.8 million, or 15.5% of total revenue for the 1999 six months. The increase was primarily the result of increased litigation costs in the first quarter related to the expiration of an ASD distribution agreement.

**Other Income.** Other income increased 64.2% to \$1.9 million in the 2000 six-month period as compared to \$1.2 million in the 1999 six-month period. This increase was attributable to higher interest-bearing cash and short-term investment balances, an increasing interest rate environment as compared to the comparable prior year period and a \$151,000 one-time gain related to the sale of investment securities in the first quarter of 2000.

**Income Tax Provision.** The Company's effective rate of taxation was 28.0% for the six months ended June 30, 2000, as compared to 24.4% for the comparable 1999 period. The 1999 rate was favorably impacted by a one-time tax benefit related to an amended prior year tax return. These percentages are less than the federal and state combined statutory rate as a result of the utilization of a foreign sales corporation, as well as the generation of research and experimentation credits.

**Net Income.** The Company's net income in the first six months of 2000 totaled \$8.6 million as compared to net income of \$7.3 million in the first six months of 1999. As a result of the increase in net income, diluted earnings per share increased to \$0.52 in the 2000 six months as compared to diluted earnings per share of \$0.43 in the 1999 six months. The weighted average shares used in computing net income per diluted common share totaled 16.5 million and 16.8 million in the 2000 and 1999 six-month periods, respectively.

#### Liquidity and Capital Resources

As of June 30, 2000, the Company had cash, cash equivalents and short-term investments totaling \$58.6 million and working capital of \$52.0 million, as compared to cash, cash equivalents and short-term investments of \$57.1 million and working capital of \$52.7 million at December 31, 1999. The short-term investments are generally investment grade and liquid-type, which allows the Company to minimize interest rate risk and to facilitate liquidity in the event an immediate cash need arises.

The Company's operating activities provided cash of \$12.4 million for the six months ended June 30, 2000 and \$9.7 million for the six months ended June 30, 1999. The increase in the Company's

cash flow from operations for the 2000 six-month period as compared to the comparable 1999 period was a result of increased earnings and improved accounts receivable collections. Net cash generated by operating activities provided sufficient resources to fund increased headcount and capital needs, as well as to sustain share repurchase activity under the Company's announced share repurchase program.

Net cash provided by investing activities totaled \$9.8 million for the six months ended June 30, 2000 and \$908,000 for the six months ended June 30, 1999. The cash provided in the 2000 and 1999 six-month periods resulted primarily from maturities of short-term investments and was partially offset by purchases of short-term investments and capital expenditures. The Company currently plans additional capital spending of approximately \$1.0 million throughout the remainder of 2000; however, the level of spending will be dependent upon various factors, including growth of the business and general economic conditions.

Financing activities used net cash of \$8.7 million for the six months ended June 30, 2000 and provided cash of \$459,000 for the comparable 1999 period. In 2000, 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. In the 1999 quarter, cash provided from financing activities related to 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, as well as cash required for the Company's share repurchase program through the remainder of 2000. The Company's cash requirements in the future may also be financed through additional equity or debt financings. There can be no assurance that such financings can be obtained on favorable terms, if at all.

#### Conversion to the Euro

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

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

#### Recently Issued Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," which defines derivatives, requires that all derivatives be carried at fair value and provides for hedge accounting when certain conditions are met. The Standard was effective for all fiscal quarters of fiscal years beginning after June 15, 1999. In June 1999, the FASB delayed the effective date of this Statement for one year through the issuance of Statement No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of SFAS No. 133 and an Amendment of SFAS No. 133." The Company implemented Statement No. 133 during the quarter ended March 31, 2000. The adoption of this Statement did not have a material effect on the Company's consolidated financial statements.

In March 2000, the Financial Accounting Standards Board issued

FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation." This Interpretation clarifies such issues as: (a) the definition of employee for purposes of applying APB Opinion No. 25, (b) the criteria for determining whether a plan qualifies as a noncompensatory plan, (c) the accounting consequence of various modifications to the terms of a previously fixed stock option or award, and (d) the accounting for an exchange of stock compensation awards in a business combination. This Interpretation is effective July 1, 2000, but certain conclusions in this Interpretation cover specific events that occur after either December 15, 1998, or January 12, 2000. To the extent that this Interpretation covers events occurring during the period after December 15, 1998, or January 12, 2000, but before the effective date of July 1, 2000, the effects of applying this Interpretation are recognized on a prospective basis from July 1, 2000. The adoption of this Interpretation is not expected to have a material impact on the Company's financial position or results of operations.

## 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 activities. Each of these matters is subject to various uncertainties, and it is possible that these matters may be resolved unfavorably to the Company.

### Item 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.

Month/Year	Number of Shares	Number of Employees	Aggregate Exercise Price
April 2000	4,000	1	\$1,600.00
May 2000	13,500	3	\$103,150.00
June 2000	2,000	1	\$800.00

### Item 3. Defaults upon Senior Securities

Not Applicable.

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

At the Annual Meeting of Stockholders of the Company held on May 2, 2000, the stockholders of the Company elected Peter J. Smith as a Class I Director of the Company to hold office until the 2003 Annual Meeting of Stockholders and until such Director's successor is duly elected and qualified. The votes were as follows:

Votes For:	13,329,211
Votes Withheld:	2,041,457

### 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: August 9, 2000

By: /s/ James E. Cashman, III  
James E. Cashman, III  
President and Chief  
Executive Officer

Date: August 9, 2000

By: /s/ Maria T. Shields  
Maria T. Shields  
Chief Financial Officer

Item 6.

#### EXHIBIT INDEX

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Exhibit  
No.

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

6-MOS

DEC-31-2000		
JAN-01-2000		
JUN-30-2000		
		23,873
	34,706	
	11,260	
	1,750	
		0
	71,694	
		4,390
		0
	85,343	
19,660		
		0
		0
		166
	65,517	
85,343		
		19,916
	33,633	
		2,091
		3,797
	19,813	
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		0
	11,915	
		3,336
	8,579	
		0
		0
		0
		8,579
		.54
		.52

July 18, 2000

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

Commissioners:

We are aware that our report dated July 18, 2000 on our review of interim financial information of ANSYS, Inc. and Subsidiaries (the "Company") as of and for the period ended June 30, 2000 and included in the Company's quarterly report on Form 10-Q for the quarter then ended is incorporated by reference in the registration statement referred to above.

Very truly yours,

/s/ PricewaterhouseCoopers LLP  
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## EXHIBIT 99 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; 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 are 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 and may have the effect of increasing the volatility of the Company's revenue and profit from period to period. The Company also depends upon renewals and sales of noncancellable annual leases, for which a portion of the annual license fee is recognized as paid-up revenue upon renewal or inception of the lease. As a result, product revenue in any quarter is substantially dependent on sales completed in the latter part of that quarter, and revenue for any future quarter is not predictable with any significant degree of accuracy.

**Stock Market 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.

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

Rapidly Changing Technology; New Products; Risk of Product Defects. The markets for the Company's products are generally characterized by rapidly changing technology and frequent new product introductions that can render existing products obsolete or unmarketable. A major factor in the Company's future success will be its ability to anticipate technological changes and to develop and introduce in a timely manner enhancements to its existing products and new products to meet those changes. If the Company is unable to introduce new products and respond quickly to industry changes, its business, financial condition and results of operations could be materially adversely affected. The introduction and marketing of new or enhanced products require the Company to manage the transition from existing products in order to minimize disruption in customer purchasing patterns. There can be no assurance that the Company will be successful in developing and marketing, on a timely basis, new products or product enhancements, that its new products will adequately address the changing needs of the marketplace or that it will successfully manage the transition from existing products. Software products as complex as those offered by the Company may contain undetected errors or failures when first introduced or as new versions are released, and the likelihood of errors is increased as a result of the Company's commitment to accelerating the frequency of its product releases.

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

Dependence on Distributors. The Company continues to distribute its products principally through its global network of 29 independent, regional ASDs. The ASDs sell ANSYS and DesignSpace products to new and existing customers, expand installations within their existing customer base, offer consulting services and provide the first line of ANSYS technical support. The ASDs have more immediate contact with most customers who use ANSYS software than does the Company. Consequently, the Company is highly dependent on the efforts of the ASDs. Difficulties in ongoing relationships with ASDs, such as delays in collecting accounts receivable, failure to meet performance criteria or to promote the Company's products as aggressively as the Company expects and differences in the handling of customer relationships could adversely affect the Company's performance. Additionally, the loss of any major ASD for any reason, including an ASD's decision to sell competing products rather than the



Company's products, could have a materially adverse effect on the Company. Moreover, the Company's future success will depend substantially on the ability and willingness of its ASDs to continue to dedicate the resources necessary to promote the Company's products and to support a larger installed base of the Company's products. If the ASDs are unable or unwilling to do so, the Company may be unable to sustain revenue growth.

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

Dependence on Senior Management and Key Technical Personnel. The Company is highly dependent upon the ability and experience of its senior executives and its key technical and other management employees. Although the Company has an employment agreement with one executive, the loss of this employee, 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. Risks inherent in the Company's international business activities include imposition of government controls, export license requirements, restrictions on the export of critical technology, political and economic instability, trade restrictions, changes in tariffs and taxes, difficulties in staffing and managing international operations, longer accounts receivable payment cycles and the burdens of complying with a wide variety of foreign laws and regulations. Effective patent, copyright and trade secret protection may not be available in every foreign country in which the Company sells its products. The Company's business, financial condition and results of operations could be materially adversely affected by any of these risks.

Additionally, countries in 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 position or results of operations.

Recently, the World Trade Organization ("WTO") ruled that tax incentives provided to U.S.-based companies that export their products via a foreign sales

corporation are prohibited tax subsidies. The United States has until October 1, 2000 to comply with the WTO decision. The House Ways and Means Committee recently approved legislation that would repeal the foreign sales corporation as of September 30, 2000. The intent of this legislation, however, is to preserve certain benefits currently available to foreign sales corporation beneficiaries. Any prospective changes regarding tax benefits associated with the Company's export sales may directly impact the Company's effective tax rate.

**Dependence on Proprietary Technology.** The Company's success is highly dependent upon its proprietary technology. Although the Company was recently 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.** The Company has historically maintained stable recurring revenue from the sale of monthly lease licenses and noncancellable annual leases for its software products. More 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. 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 increase as a percentage of total software license revenue, the Company's revenue in any period will increasingly depend on sales completed during that period.

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

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

