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

(Mark One)

[x] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2001

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

Commission file number: 0-20853

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

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

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

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

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

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

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

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

The aggregate market value of the voting stock held by non-affiliates of the Registrant, based upon the closing sale price of the Common Stock on March 12, 2002 as reported on the NASDAQ National Market, was approximately $342,232,472. Shares of Common Stock held by each officer and director and by each person who owns 5% or more of the outstanding Common Stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares of the Registrant's Common Stock, par value $.01 per share, outstanding as of March 12, 2002 was 14,701,332 shares.

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DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Annual Report to Stockholders for the fiscal year ended December 31, 2001 are incorporated by reference into Parts I, II and IV. Portions of the Proxy Statement for the Registrant's 2002 Annual Meeting of Stockholders to be held on May 9, 2002 are incorporated by reference into Part III.

IMPORTANT FACTORS REGARDING FUTURE RESULTS

Information provided by ANSYS, Inc. (the "Company"), including information contained in this Annual Report on Form 10-K, or by its spokespersons may from time to time contain forward-looking statements concerning such matters as projected financial performance, market and industry segment growth, product development and commercialization, acquisitions or other aspects of future operations. Such statements, made pursuant to the safe harbor established by the securities laws, are based on the assumptions and expectations of the Company's management at the time such statements are made. The Company cautions investors that its performance (and, therefore, any forward-looking statement) is subject to risks and uncertainties. Various important factors, including but not limited to those discussed herein, may cause the Company's future results to differ materially from those projected in any forward-looking statement. Important information about the basis for those assumptions is contained in "Important Factors Regarding Future Results" included in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations," incorporated by reference to pages 20 through 29 of the Company's 2001 Annual Report to Stockholders. All information presented is as of December 31, 2001, unless otherwise indicated.

PART I

ITEM 1: BUSINESS

ANSYS, Inc., founded in 1970 as Swanson Analysis Systems, Inc., develops and globally markets engineering simulation software used by designers and engineers across a broad spectrum of industries, including aerospace, automotive, manufacturing, nuclear, electronics and biomedical. The Company develops open and flexible simulation solutions that enable users to simulate design performance, providing a common platform for fast, efficient and cost-effective product development, from design concept to final-stage testing and performance validation. The Company distributes its ANSYS(R), DesignSpace(R), AI*Solutions(TM), ICEM CFD Engineering and CADOE products and technologies through a network of channel partners in 37 countries, in addition to its own direct sales offices in strategic locations throughout the world.

The Company's major product lines are described as follows:

ANSYS(R) Software Suite

Incorporating design simulation and virtual prototyping into a product development process is critical for all product development organizations. Virtual product simulation minimizes costs and improves time-to-market by allowing all necessary structural, thermal, electromagnetic and fluid-flow design tests to be conducted within a virtual environment. For more than 30 years, the Company has developed the ANSYS software suite, the most comprehensive, technologically advanced package to address the varied simulation needs of all industries. Product teams can determine the real-world behavior of 3-D product designs, including the effects of multiple physics for added accuracy and product reliability.

DesignSpace(R) Software Suite

DesignSpace is a powerful, yet easy-to-use simulation software package that gives product designers and engineers the ability to conceptualize, design and validate all of their ideas on their desktops. This streamlined, user-friendly simulation tool gives designers and engineers the ability to perform real-world structural, thermal, dynamic, weight optimization, performance optimization, vibration mode and safety factor simulations on their designs.

ICEM CFD Engineering Software Suite
- ----------------------------------

ICEM CFD software products are utilized in the pre- and post-processing of engineering applications such as computational fluid dynamics (CFD) and structural analysis. The major products in this suite include ICEM CFD, the leading software for 3-D grid generation for CFD, and Icepak, an electronics cooling simulation system created in collaboration with Fluent, Inc.

AI*Solutions Software Suite
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Introduced in 2001, the AI*Solutions software suite combines state-of-the-art technology from ICEM CFD Engineering with the expertise of the ANSYS software suite to provide product development teams with the latest simulation products and technology platforms.

CADOE Software Suite
- --------------------

During 2001, the Company acquired CADOE S.A. (CADOE), a leading-edge independent software vendor that specializes in the computer-aided design (CAD) and computer-aided engineering (CAE) markets. Based in Lyon, France, CADOE develops unique and innovative industrial solutions for parametric analysis and optimization that can be applied to many disciplines, including computational fluid dynamics, structural analysis, electromagnetism and acoustics. Additionally, CADOE offers a unique collaborative engineering product that provides analysis results in a format understandable by design engineers, facilitating collaboration between designers and analysis specialists.

PRODUCT DEVELOPMENT

The Company makes significant investments in research and development and emphasizes accelerated new product releases. The Company's product development strategy centers on ongoing development and innovation of new technologies to increase productivity and provide solutions that customers can integrate into enterprise-wide engineering systems. The Company's product development efforts focus on extensions of the full product line with new functional modules, further integration with CAD and product lifecycle management (PLM) products and the development of new products based on object-oriented technology. The Company's products run on the most widely-used engineering computing platforms and operating systems, including Windows 2000, Windows NT, Linux and most UNIX workstations.

During 2001, the Company completed the following major product development activities and releases:

- The release of DesignSpace 6.0. This enhanced version of DesignSpace allows product designers and engineers to quickly move their designs through the product development cycle. This release incorporates new enhancements such as surface model simulation, non-linear contact and parametric simulation that accelerate the product development cycle and lay the foundation for collaborative engineering.

- The release of ANSYS 6.0, a new and enhanced version of the Company's flagship multiphysics product, and all component products. ANSYS 6.0 has enhanced virtual product simulation capabilities designed to minimize costs and improve time to market by allowing all necessary structural, thermal, electromagnetic and fluid-flow design tests to be conducted within a virtual environment. Product teams can better determine the real-world behavior of 3-D product designs, including the effects of multiple physics for added accuracy and product reliability. This release also incorporates a new Probabilistic Analysis Method Wizard that simplifies the determining process for the appropriate probabilistic analysis method, and a Shell Section builder that eases the definition of layered composite elements.


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- The introduction of the AI*Solutions software suite includes the following new products:

    - AI*Workbench, an open and flexible application development technology platform that enables customers and partners to create customer- and industry-specific engineering simulation solutions to meet their specific needs.
    - AI*EMAX, a family of high-frequency electromagnetic analysis products for the electronics industry that supports the functionality to analyze RF/microwave passive components and circuits, electromagnetic interference and compatibility (EMI/EMC), antenna design, and object identification.
    - AI*Environment, the next generation of general pre- and post-processing tools for mechanical engineering. AI*Environment includes the industry's leading meshing technologies from the Company's ICEM CFD Engineering subsidiary.

The Company's total research and development expense was $16.9 million, $14.5 million and $13.5 million in 2001, 2000 and 1999, or 19.9%, 19.5% and 21.3% of total revenue, respectively. As of December 31, 2001, the Company's product development staff consisted of 169 full time employees, most of whom hold advanced degrees and have industry experience in engineering, mathematics, computer science or related disciplines.

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

PRODUCT QUALITY

During 2001, the Company enhanced its ISO 9001 quality system and achieved ISO 9001:2000 certification. This standard applies to the ANSYS, DesignSpace and AI*Solutions software suite products, and covers all product-related activities, from establishing product requirements to customer service practices and procedures.

In accordance with the ISO 9001:2000 certification for its quality system, the Company's employees perform all product development and support tasks according to predefined quality plans, procedures and work instructions. These plans define for each project the methods to be used, the responsibilities of project participants and the quality objectives to be met. To ensure that the Company meets or surpasses the IS0 9001 standards, the Company establishes quality plans for all products and services, subjects product designs to multiple levels of testing and verification and selects development subcontractors in accordance with processes established under the Company's quality system.

SALES AND MARKETING

The Company distributes and supports its products through its global ASD and reseller network, as well as through its own strategic direct sales offices. This network provides the Company with a cost-effective, highly specialized channel of distribution and technical support. Approximately 57% of the Company's total revenue in 2001 was derived through the ASD and reseller network.

At December 31, 2001, the ASD network consisted of 30 independent distributors in 37 countries, including 13 in North America, 6 in Europe and 11 throughout the Asia-Pacific region and the remainder of the world. The ASDs sell ANSYS and DesignSpace products to new customers, expand installations within the existing customer base, offer training and consulting services and provide the first line of ANSYS technical support. The Company's ASD certification process helps to ensure that each ASD has the ongoing capacity to adequately represent the Company's expanding product lines and provide an acceptable level of training, consultation and customer support.

The Company also has a direct sales management infrastructure in place to develop an enterprise-wide, focused sales approach and to implement a worldwide major account strategy. The sales management organization also functions as a focal point for requests to ANSYS from the ASD and reseller channel, and provides additional support in strategic locations through the presence of direct sales offices. As of December 31, 2001, a Vice President of Sales and Support, with a supporting North American Vice President of Sales, a European Vice President of Sales, and an International Vice President of Sales, headed the Company's sales management organization. These senior members of sales management were supported by Regional Sales Directors, devoted to the overall management of stated sales territories, and Strategic Account Managers, devoted to specific major accounts within those territories.

During 2001, the Company continued to invest in its existing domestic and international strategic sales offices and established a new sales office in India during the latter part of 2001. In total, the Company's direct sales offices employ 96 persons, who are responsible for the sales, marketing initiatives and administrative activities in those geographic areas designed to support the Company's overall revenue growth and market share expansion strategies.

During 2001, the Company also continued to expand the reseller channel for both its ANSYS and DesignSpace products. This channel complements the ASD network by establishing a broader user base for the Company's products and services. As of December 31, 2001, the Company had signed agreements with over 200 resellers. The resellers are required to have appropriately trained marketing and technical personnel.

The Company's products have an installed base of approximately 74,000 seats at commercial sites and approximately 126,000 seats at university sites worldwide. The Company's products are utilized by organizations ranging in size from small consulting firms to the world's largest industrial companies. No single customer accounted for more than 10% of the Company's revenue in 2001.

Information with respect to foreign and domestic revenue may be found in Note 14 to the Consolidated Financial Statements and the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" of the Annual Report to Stockholders for the year ended December 31, 2001 ("2001 Annual Report to Stockholders"), which financial statements are included in Exhibit 13.1 to this Annual Report on Form 10-K and incorporated herein by reference.

STRATEGIC ALLIANCES AND MARKETING RELATIONSHIPS

The Company has established and continues to pursue strategic alliances with advanced technology suppliers and marketing relationships with hardware vendors, specialized application developers, CAD and PLM providers. The Company believes these relationships allow accelerated incorporation of advanced technology into the ANSYS, DesignSpace, AI*Solutions, ICEM CFD and CADOE product families, provide access to important new markets, expand the Company's sales channels, develop specialized product applications and provide direct integration with leading CAD systems.

The Company has technical and marketing relationships with leading CAD vendors, such as Autodesk, Parametric Technology Corporation, Dassault Systemes and Electronic Data Systems to provide direct links between products. These links facilitate the transfer of electronic data models between the CAD system and ANSYS products.

In 2001, the Company announced a strategic OEM partnership with SAS LLC, a provider of NASTRAN simulation software and services. This global alliance will be focused on the joint development of a new NASTRAN computer-aided engineering solution that will be distributed exclusively by the Company. The solution will integrate the technologies of ANSYS, Inc., CADOE S.A., ICEM CFD Engineering and SAS LLC to provide users with a comprehensive NASTRAN product.

The Company has established relationships with leading suppliers of computer hardware, including Hewlett-Packard, Compaq, SGI, Sun Microsystems, IBM, Dell, Intel and various graphics card vendors. These relationships typically provide the Company with joint marketing opportunities such as advertising, events and internet links with the hardware partner's home page. In addition, the Company receives reduced equipment costs and software porting support to ensure that the Company's software products are certified to run on various hardware platforms.

The Company's Enhanced Solution Partner Program actively encourages specialized developers of niche software solutions to use ANSYS as a development platform for their applications. In most cases, the sale of the Enhanced Solution Partners' products is accompanied by the sale of an ANSYS product.

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

The Company has a software license agreement with International Technology Group, Inc. (ITI) under which ITI provides CADfix software and associated tools and utilities aimed at improving the success of transferring geometry from multiple CAD programs to ANSYS software products. Under this agreement, ITI assists in the integration of CADfix software with the Company's products and provides updates and problem resolution in return for a share of revenue from sales of CADfix for ANSYS.

The Company also partners with SimUtility, Inc. to provide the e-CAE ASP program via e-CAE.com. This program provides a mechanism for running large ANSYS simulations on parallel compute servers at a remote data center site using the Internet or dedicated lines. The system has been developed to allow users the ability to submit jobs in a "batch" style of computing, with specific controls on job execution parameters, and is ideal for users who require occasional "surge" capacity for time critical simulations or periodic simulations of large models.

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 Sorensen, 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 and PLM 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 and results of operations.

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

PROPRIETARY RIGHTS AND LICENSES

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

For certain software products, such as ANSYS/ED, the Company primarily relies on "click-wrapped" licenses. The enforceability of these types of agreements under the laws of certain jurisdictions is uncertain.

The Company also seeks to protect the source code of its software as a trade secret and as unpublished copyrighted work. The Company has obtained federal trademark protection for ANSYS and DesignSpace. The Company has also obtained trademark registrations of ANSYS and DesignSpace in a number of foreign countries and is in the process of seeking such registration in other foreign countries. Additionally, the Company was awarded a patent by the U.S. Patent and Trademark Office for its web-based reporting technology.

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

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

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

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

BACKLOG

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

## EMPLOYEES

As of December 31, 2001, the Company had approximately 450 full-time employees. At that date, there were also approximately 30 contract personnel and co-op students providing ongoing development services and technical support. The Company believes that its relationship with its employees is good.

## ITEM 2: PROPERTIES

The Company's executive offices and those related to product development, marketing, production and administration are located in a 107,000 square feet office facility in Canonsburg, Pennsylvania, which was leased for an annual rent of approximately $1,227,000 in 2001. This annual rent will increase to approximately $1,354,000 in 2002. The Company also leases office space in various locations throughout the world. The Company's subsidiaries lease office space for their operations as well. The Company owns substantially all equipment used in its facilities. Management believes that its facilities allow for sufficient space to support not only its present needs, but also allow for expansion and growth as the business may require in the foreseeable future.

## ITEM 3: LEGAL PROCEEDINGS

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

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

No matters were submitted to a vote of security holders during the fourth quarter of fiscal year 2001.

PART II

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

The information required by this Item is incorporated by reference to page 49 and the section captioned "Corporate Information" appearing in the Company's 2001 Annual Report to Stockholders.

ITEM 6: SELECTED FINANCIAL DATA

The information required by this Item is incorporated by reference to page 1 of the Company's 2001 Annual Report to Stockholders.

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

The information required by this Item is incorporated by reference to pages 20 through 29 of the Company's 2001 Annual Report to Stockholders, including the Important Factors Regarding Future Results.

ITEM 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company has no long-term debt obligations. Approximately 7% of the Company's total assets as of December 31, 2001 were denominated in currencies other than the U.S. Dollar. Accordingly, the Company has no material exposure to foreign currency exchange risk. This materiality assessment is based on the assumption that the foreign currency exchange rates could change unfavorably by 10%. The Company has no foreign currency exchange contracts.

Based on the nature of the Company's business, it has no direct exposure to commodity price risk.

ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this Item is incorporated by reference to pages 30 through 47 of the Company's 2001 Annual Report to Stockholders.

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

None.

PART III

ITEM 10: DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information concerning the Company's directors and executive officers required by this Item is incorporated by reference to the Company's 2002 Proxy Statement and is set forth under "Information Regarding Directors" and "Executive Officers" therein.

ITEM 11: EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference to the Company's 2002 Proxy Statement and is set forth under "Executive Compensation" therein.

ITEM 12: SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item is incorporated by reference to the Company's 2002 Proxy Statement and is set forth under "Principal and Management Stockholders" therein.

ITEM 13: CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is incorporated by reference to the Company's 2002 Proxy Statement and is set forth under "Certain Transactions" therein.

PART IV

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

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

1. Financial Statements: The following consolidated financial statements and report of independent accountants are incorporated by reference to pages 30 through 47 of the Company's 2001 Annual Report to Stockholders:

   - Report of Independent Accountants
   - Consolidated Balance Sheets as of December 31, 2001 and 2000
   - Consolidated Statements of Income for the years ended December 31, 2001, 2000 and 1999
   - Consolidated Statements of Cash Flows for the years ended December 31, 2001, 2000 and 1999
   - Consolidated Statements of Stockholders' Equity for the years ended December 31, 2001, 2000 and 1999
   - Notes to Consolidated Financial Statements

2. Financial Statement Schedules: The following financial statement schedule and report of independent accountants are filed on pages 14 through 15 of this Annual Report on Form 10-K and should be read in conjunction with the consolidated financial statements.

   Report of Independent Accountants on Financial Statement Schedule

   Schedule II - Valuation and Qualifying Accounts

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

3. Exhibits:

   The Exhibits listed on the accompanying Exhibit Index immediately following the financial statement schedule are filed as part of, or incorporated by reference into, this Annual Report on Form 10-K.

(b) Reports on Form 8-K:

The Company did not file any reports on Form 8-K during the fourth quarter of fiscal year 2001.

(c) Exhibits

The Company hereby files as part of this Annual Report on Form 10-K the Exhibits listed in the attached Exhibit Index on page 13 of this Annual Report.

(d) Financial Statement Schedules

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

## SIGNATURES

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

ANSYS, Inc.

Date: March 18, 2002 By: /s/ James E. Cashman III

James E. Cashman III
President and Chief Executive Officer

Date: March 18, 2002 By: /s/ Maria T. Shields

Maria T. Shields
Chief Financial Officer,
Vice President, Finance and Administration

## POWER OF ATTORNEY

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

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

| Signature | Title | Date |
|---|---|---|
| /s/ James E. Cashman III<br>James E. Cashman III | President and Chief Executive Officer (Principal Executive Officer) | March 18, 2002 |
| /s/ Maria T. Shields<br>Maria T. Shields | Chief Financial Officer, Vice President, Finance and Administration; (Principal Financial Officer and Accounting Officer) | March 18, 2002 |
| /s/ Peter J. Smith<br>Peter J. Smith | Chairman of the Board of Directors | March 18, 2002 |
| /s/ Jacqueline C. Morby<br>Jacqueline C. Morby | Director | March 18, 2002 |
| /s/ Roger J. Heinen, Jr.<br>Roger J. Heinen, Jr. | Director | March 18, 2002 |
| /s/ John F. Smith<br>John F. Smith | Director | March 18, 2002 |
| /s/ Patrick Zilvitis<br>Patrick Zilvitis | Director | March 18, 2002 |
| /s/ Bradford C. Morley<br>Bradford C. Morley | Director | March 18, 2002 |

EXHIBIT INDEX

| Exhibit No. | Exhibit |
| --- | --- |
| 3.1 | Restated Certificate of Incorporation of the Company (filed as Exhibit 3.1 to the Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 1996 and incorporated herein by reference). |
| 3.2 | By-laws of the Company (filed as Exhibit 3.3 to the Company's Registration Statement on Form S-1 (File No. 333-4278) and incorporated herein by reference). |
| 10.1 | 1994 Stock Option and Grant Plan, as amended (filed as Exhibit 10.1 to the Company's Registration Statement on Form S-1 (File No. 333-4278) and incorporated herein by reference). * |
| 10.2 | 1996 Stock Option and Grant Plan, as amended (filed as Exhibit 10.1 to the Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 1996 and incorporated herein by reference). * |
| 10.3 | ANSYS, Inc. Employee Stock Purchase Plan, as amended (filed as Exhibit 10.2 to the Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 1996 and incorporated herein by reference). * |
| 10.4 | Employment Agreement between a subsidiary of the Registrant and Peter J. Smith dated as of March 28, 1994 (filed as Exhibit 10.10 to the Company's Registration Statement on Form S-1 (File No. 333-4278) and incorporated herein by reference). * |
| 10.5 | Lease between National Build to Suit Washington County, L.L.C. and the Registrant for the Southpointe property (filed as Exhibit 10.19 to the Company's Registration Statement on Form S-1 (File No. 333-4278) and incorporated herein by reference). |
| 10.6 | Registrant's Pension Plan and Trust, as amended (filed as Exhibit 10.20 to the Company's Registration Statement on Form S-1 (File No. 333-4278) and incorporated herein by reference). * |
| 10.7 | Form of Director Indemnification Agreement (filed as Exhibit 10.21 to the Company's Registration Statement on Form S-1 (File No. 333-4278) and incorporated herein by reference). * |
| 10.8 | Agreement and Plan of Merger among ANSYS, Inc., GenesisOne Acquisition Corporation, Pacific Marketing and Consulting, Inc. (PMAC) and the PMAC stockholders (filed as Exhibit 2.1 to the Company's Current Report on Form 8-K, dated September 13, 2000 and incorporated herein by reference). |
| 10.9 | Employment Agreement between the Registrant and James E. Cashman III dated as of March 29, 2001; filed herewith. * |
| 13.1 | Annual Report to Stockholders for the fiscal year ended December 31, 2001 (which is not deemed to be "filed" except to the extent that portions thereof are expressly incorporated by reference in this Annual Report on Form 10-K); filed herewith. |
| 21 | Subsidiaries of the Registrant; filed herewith. |
| 23.1 | Consent of PricewaterhouseCoopers LLP relating to the report of independent accountants on the consolidated financial statements of ANSYS, Inc.; filed herewith. |
| 23.2 | Consent of PricewaterhouseCoopers LLP relating to the report of independent accountants on the financial statements of the ANSYS, Inc. Employee Stock Purchase Plan; filed herewith. |
| 24.1 | Powers of Attorney. Contained on page 11 of this Annual Report on Form 10-K and incorporated herein by reference. |
| 99 | ANSYS, Inc. Employee Stock Purchase Plan Annual Report on Form 11-K. |

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

Report of Independent Accountants on
Financial Statement Schedule

To the Board of Directors of
ANSYS, Inc.

Our audits of the consolidated financial statements referred to in our report dated January 30, 2002 appearing in the 2001 Annual Report to Shareholders of ANSYS, Inc. (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the financial statement schedule listed in Item 14(a)(2) of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Pittsburgh, Pennsylvania
January 30, 2002

SCHEDULE II

ANSYS, INC.

Valuation and Qualifying Accounts

| Description | Balance at Beginning of Year | Additions - Charges to Costs and Expenses | Deductions - Returns and Write-Offs | Balance at End of Year |
|---|---|---|---|---|
| Year ended December 31, 2001 | | | | |
| Allowance for doubtful accounts | $2,350,000 | $368,000 | $1,108,000 | $1,610,000 |
| Year ended December 31, 2000 | | | | |
| Allowance for doubtful accounts | $1,700,000 | $739,000 | $ 89,000 | $2,350,000 |
| Year ended December 31, 1999 | | | | |
| Allowance for doubtful accounts | $1,900,000 | $464,000 | $ 664,000 | $1,700,000 |

EXHIBIT 10.9

February 7, 2002

James E. Cashman III
c/o ANSYS, Inc.
Southpointe
275 Technology Drive
Canonsburg, PA 15317

Dear Jim:

Per our discussions and on behalf of the Board of Directors, I am pleased to confirm the following details of your compensation package:

| | |
|---|---|
| BASE SALARY: | For FY2002, you will be paid a base salary of $300,000.00 per annum, effective January 1, 2002. |
| BONUS: | Your annual target bonus for achieving agreed upon objectives is $200,000.00. Such objectives will be specified by the Board of Directors of ANSYS, Inc. (The Board) and shall be mutually agreed upon. Your performance against agreed upon objectives will be reviewed semi annually (July 2002 and January 2003) to determine appropriate bonus payment amount. The Board may, in its discretion, award additional bonus compensation for exceptional performance. |
| STOCK OPTIONS: | You will be granted eighty thousand (80,000) stock option shares. |
| VACATION: | You are eligible for 20 days of vacation per annum. Unused vacation time in any year, not to exceed 20 days on an aggregate and cumulative basis, may accumulate for later use, subject to the establishment of arrangements mutually satisfactory to you and The Board. Upon termination, you shall receive Base Salary in respect of each day of accrued, but, unused vacation time, not to exceed 20 days. |
| CAR ALLOWANCE: | You are eligible for a car allowance of $600.00 per month and you shall be reimbursed for all gas, oil, maintenance and insurance. |
| LIFE INSURANCE: | ANSYS, Inc. will purchase on your behalf a term life insurance policy providing a death benefit of $2,000,000.00 in the event of your death and naming such person or persons as you may designate as loss payee or payees. The obligation to purchase and maintenance of such life insurance policy, however, shall be contingent upon your satisfactory completion of all requirements in connection therewith including without limitation a physical examination. The annual premium payments for such policy shall not exceed $10,000.00. |

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TERMINATION: In the event of your "mutual consent" termination or "involuntary" termination, except for "cause", (definitions provided on attached document), ANSYS, Inc. shall make payments at the rate of $300,000.00 per annum, subject to withholding to the extent applicable, with such payments to be made semi-monthly, in equal installments until the first anniversary of the date of termination. ANSYS, Inc. shall continue existing benefits (other than plans that you may not participate as a matter of law following the termination of employment) until the first anniversary of the date of termination. Additional termination contingencies to qualify for provisions outlined in this document, include your full and complete cooperation on all matters pertaining to ANSYS, Inc. business, including but not exclusive of press announcements, and legal proceedings, etc. You will be held to all of the provisions of the ANSYS, Inc. Employee Agreement Regarding Inventions, Confidentiality and Competitive Activities signed, by you, on September 9, 1997.

CHANGE OF CONTROL: In the case of (a) the dissolution or liquidation of the Company, (b) a merger, reorganization or consolidation in which the Company is acquired by another person or entity (other than a holding company formed by the Company), (c) the sale of all or substantially all of the assets of the Company to another person or entity, or (d) the sale of all of the outstanding stock of the Company to an unrelated person or entity (in each case, a "Transaction"), all assigned Stock Options shall become fully vested upon the effective day of the Transaction. These Stock Options shall terminate on the effective date of the Transaction, unless provision is made in the Transaction in the sole discretion of the parties thereto for the assumption of these Stock Options or the substitution for these Stock Options of a new stock option of the successor person or entity or a parent or subsidiary thereof, with appropriate adjustment as to the number and kind of shares and the per share exercise price. In the event of such termination, the Company shall give to the Optionee written notice thereof at least fifteen (15) days prior to the effective date of the Transaction. During this fifteen-day period, the Optionee may deliver to the Company a notice of exercise with respect to all or any portion of such Stock Options, including any portion that will become fully vested upon the effective day of the Transaction; provided, however, that (i) such exercise shall be subject to the consummation of the Transaction and (ii) the Optionee shall not be required to deliver to the Company the exercise price for such exercised stock option until the effective date of such Transaction. After such effective date and the termination of stock options as set forth above, the Optionee may not exercise Stock Options.

COMPENSATION REVIEW: The Board will review your base salary and bonus amounts at least annually (and not later than the anniversary of this document) and may at their sole discretion adjust the same for the ensuing year.

Jim, your contribution to the success of ANSYS, Inc. and the Board of Director's desire to ensure you are rewarded for your efforts has driven the development of the above outlined provisions. Please recognize our appreciation for all you have and will continue to do for ANSYS, Inc.

Sincerely,

/s/ Peter J. Smith

Chairman

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EXHIBIT 13.1

FINANCIAL HIGHLIGHTS

Year Ended December 31,

| (in thousands, except per share data) | 2001 | 2000 | 1999 | 1998 | 1997 |
|---|---|---|---|---|---|
| Revenue | $ 84,836 | $ 74,467 | $ 63,139 | $ 56,553 | $ 50,547 |
| Operating income | 18,548 | 19,579 | 17,243 | 15,206 | 10,731 |
| Net income | 13,692 | 16,310 | 14,751 | 11,349 | 7,400 |
| Net income per common share - basic | .94 | 1.03 | .90 | .71 | .47 |
| Weighted average shares - basic | 14,554 | 15,804 | 16,366 | 16,052 | 15,742 |
| Net income per common share - diluted | .89 | 1.00 | .88 | .68 | .45 |
| Weighted average shares - diluted | 15,438 | 16,269 | 16,689 | 16,581 | 16,518 |
| Net income before acquisition-related amortization /(1)/ | 17,144 | 17,723 | 14,751 | 11,349 | 7,400 |
| Adjusted earnings per share - diluted /(1)/ | 1.11 | 1.09 | .88 | .68 | .45 |
| Total assets /(2)/ | $ 117,762 | $101,120 | $ 89,174 | $ 72,146 | $ 59,498 |
| Working capital | 40,033 | 40,046 | 52,655 | 38,049 | 23,761 |
| Long-term obligations | - | - | - | - | - |
| Stockholders' equity | 74,393 | 69,364 | 65,631 | 52,367 | 40,414 |

/(1)/ Adjusted net income and adjusted earnings per share represent net income and earnings per share determined in accordance with generally accepted accounting principles, excluding amortization expense, net of related income tax benefit, associated with intangible assets and goodwill resulting from business combinations accounted for under the purchase method.

/(2)/ Certain amounts have been reclassified from previously reported amounts for 1997-2000 to conform to 2001 presentation.

2001 FINANCIAL CONTENT

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

OVERVIEW

ANSYS Inc. (the "Company" or "ANSYS"), founded in 1970 as Swanson Analysis Systems, Inc., develops and globally markets engineering simulation software and technologies widely used by engineers and designers across a broad spectrum of industries, including aerospace, automotive, manufacturing, electronics and biomedical. Headquartered at Southpointe in Canonsburg, Pennsylvania, the Company employs approximately 450 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/(R)/, DesignSpace/(R)/, AI*Solutions and ICEM CFD Engineering products through a network of channel partners in 37 countries, in addition to its own direct sales offices in 18 strategic locations throughout the world. The following discussion should be read in conjunction with the audited consolidated financial statements and notes thereto included elsewhere in this Annual Report.

The Company's discussion and analysis of its financial condition and results of operations are based upon ANSYS Inc.'s consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires ANSYS to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, ANSYS evaluates its estimates, including those related to bad debts, investments, intangible assets, income taxes, and contingencies and litigation. ANSYS bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

This Annual Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including statements which contain such words as "anticipates," "intends," "believes," "plans" and other similar expressions. The Company's actual results could differ materially from those set forth in the forward-looking statements due to various risks and uncertainties which are detailed in "Important Factors Regarding Future Results" beginning on page 26.

ACQUISITIONS

In November 2001, ANSYS acquired CADOE S.A. ("CADOE"), a company based in Lyon, France. The acquisition of CADOE's stock included an up-front payment of approximately $3.9 million in cash, $900,000 of which was placed in escrow. The escrowed funds will be released upon the completion of certain product development milestones and the resolution of any outstanding indemnification claims. The total up-front purchase price was allocated to the assets and liabilities of CADOE based upon their estimated fair market values. The allocation of the purchase price was based on an independent valuation and included an allocation of $2,480,000 to identifiable intangibles (including $1,990,000 to the core technology and $490,000 to non-compete agreements) and $1,289,000 to goodwill. The identified intangibles are being amortized over four to ten years. In accordance with the provisions of Statement of Financial Accounting Standards No. 142, "Goodwill and Intangible Assets" (See Recently Issued Accounting Pronouncements), the goodwill is not being amortized. The acquisition agreement provides for additional future cash payments if the acquired business achieves certain performance criteria in 2002, 2003 and 2004. If the performance criteria are achieved, the future cash payments could equal or exceed the up-front purchase price.

In August 2000, ANSYS acquired Pacific Marketing and Consulting, Inc., a California corporation (hereafter "ICEM CFD"). The total up-front purchase price was allocated to the assets and liabilities of ICEM CFD based upon their estimated fair market values. The allocation of the purchase price was based on an independent valuation and included an allocation of $5,542,000 to identifiable intangibles (including $2,345,000 to existing software, $1,790,000 to non-compete agreements and $1,407,000 to customer list) and $12,201,000 to goodwill. The identified intangibles are being amortized over three to five years. The acquisition agreement also provides for additional future payments if the acquired business achieves certain performance criteria. Such payments in 2001 included $183,000 in cash and 15,465 shares of ANSYS Inc. common stock. The acquisition agreement also provides for a final payment based upon performance of the acquired business in 2001. In the first quarter of 2002, ANSYS made final payments of $2,591,000 in cash and 98,847 shares of ANSYS Inc. common stock. The additional payments resulted in an increase in goodwill associated with this acquisition.

The acquisitions of CADOE and ICEM CFD were accounted for as purchases and, accordingly, their operating results have been included in ANSYS Inc.'s consolidated financial statements since the dates of acquisition.

## RESULTS OF OPERATIONS

As previously discussed, the Company completed the acquisition of ICEM CFD in August of 2000. Accordingly, the results of operations for 2001 reflect a full year of activity for ICEM CFD versus only four months for 2000. The acquisition of CADOE in November of 2001 did not have a material impact on the results of operations for 2001.

For purposes of the following discussion and analysis, the table below sets forth certain consolidated financial data for the years 2001, 2000 and 1999.

| | Year Ended December 31, | | |
|---|---|---|---|
| (in thousands) | 2001 | 2000 | 1999 |
| Revenue: | | | |
| Software licenses | $ 45,318 | $ 43,528 | $ 37,675 |
| Maintenance and service | 39,518 | 30,939 | 25,464 |
| Total revenue | 84,836 | 74,467 | 63,139 |
| Cost of sales: | | | |
| Software licenses | 4,726 | 4,278 | 3,530 |
| Maintenance and service | 6,627 | 4,407 | 3,088 |
| Total cost of sales | 11,353 | 8,685 | 6,618 |
| Gross profit | 73,483 | 65,782 | 56,521 |
| Operating expenses: | | | |
| Selling and marketing | 19,726 | 17,950 | 15,326 |
| Research and development | 16,893 | 14,502 | 13,475 |
| Amortization | 5,271 | 2,234 | 855 |
| General and administrative | 13,045 | 11,517 | 9,622 |
| Total operating expenses | 54,935 | 46,203 | 39,278 |
| Operating income | 18,548 | 19,579 | 17,243 |
| Other income | 1,434 | 3,579 | 2,626 |
| Income before income tax provision | 19,982 | 23,158 | 19,869 |
| Income tax provision | 6,290 | 6,848 | 5,118 |
| Net income | $ 13,692 | $ 16,310 | $ 14,751 |

YEAR ENDED DECEMBER 31, 2001 COMPARED TO YEAR ENDED DECEMBER 31, 2000

REVENUE: The Company's total revenue increased 13.9% from $74.5 million in 2000 to $84.8 million in 2001. Reported revenue in 2001 was affected by a modification of the Company's revenue recognition policy related to noncancellable annual software leases.

The Company currently recognizes revenue for annual software leases in accordance with Technical Practice Aid ("TPA") 5100.53, "Fair Value of PCS in a Short-Term Time-Based License and Software Revenue Recognition," issued by the American Institute of Certified Public Accountants, which requires all revenue from annual software lease licenses to be recognized ratably over the lease period. Prior to the revenue recognition modification to comply with the TPA, the Company recognized a portion of the license fee from annual leases upon inception or renewal of the lease, while the remaining portion was recognized ratably over the lease period. The Company estimates that revenue would have been approximately $88.5 million, or an 18.8% increase over the prior year, had this modification not been made.

Software license revenue totaled $45.3 million in 2001 as compared to $43.5 million in 2000, an increase of 4.1%. Excluding the impact of the revenue recognition policy modification discussed above, software license revenue would have increased approximately 9.3% to $47.6 million. This increase was primarily the result of increased license sales of ICEM CFD products.

Maintenance and service revenue increased 27.7% from $30.9 million in 2000 to $39.5 million in 2001. Reported maintenance and service revenue would have been approximately $40.9 million, or 32.3% higher than the prior year, had the revenue recognition modification not occurred. This increase primarily resulted from maintenance contracts sold in association with the paid-up license sales of ANSYS and DesignSpace products in both the current and prior year, as well as higher engineering consulting and maintenance revenue from ICEM CFD.

Of the Company's total revenue in 2001, approximately 52.4% and 47.6% were attributable to international and domestic sales, respectively, as compared to 51.6% and 48.4% in 2000.

COSTS OF SALES AND GROSS PROFIT: The Company's total cost of sales increased 30.7% to $11.4 million, or 13.4% of total revenue, in 2001 from $8.7 million, or 11.7% of total revenue, in 2000. The increase was principally attributable to costs associated with engineering consulting services provided by ICEM CFD.

As a result of the foregoing, the Company's gross profit increased 11.7% to $73.5 million in 2001 from $65.8 million in 2000.

SELLING AND MARKETING: Selling and marketing expenses increased 9.9% in 2001 to $19.7 million, or 23.3% of total revenue, from $18.0 million, or 24.1% of total revenue, in 2000. The increase was primarily the result of additional headcount and facility costs associated with both the acquisition of ICEM CFD, as well as the addition of personnel within the ANSYS direct sales organization. Higher third-party commission costs associated with direct sales to certain of the Company's major account customers also contributed to the increase. 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 increased 16.5% in 2001 to $16.9 million, or 19.9% of total revenue, from $14.5 million, or 19.5% of total revenue, in 2000. The increase in 2001 was principally the result of higher salaries and related headcount costs associated with both the acquisition of ICEM CFD, as well as the hiring of additional development personnel within the ANSYS product creation organization. These increases were partially offset by the capitalization of approximately $457,000 of internal labor costs, a significant portion of which related to the releases of ANSYS 6.0 and DesignSpace 6.0. The Company has traditionally invested significant resources in research and development activities and intends to continue to make significant investments in the future.

AMORTIZATION: Amortization expense increased to $5.3 million in 2001 compared to $2.2 million in 2000. The increase resulted from a full year of amortization of goodwill and intangible assets, associated with the acquisition of ICEM CFD, as compared with four months of amortization in 2000. As a result of the adoption of new accounting standards related to goodwill and intangible assets, goodwill will not be amortized in 2002, but will be subject to an annual review for impairment. Goodwill amortization amounted to $3.3 million and $1.1 million in 2001 and 2000, respectively. This change does not affect amortization of other intangible assets.

GENERAL AND ADMINISTRATIVE: General and administrative expenses increased 13.3% in 2001 to $13.0 million, or 15.4% of total revenue, as compared to $11.5 million, or 15.5% of total revenue, in 2000. The increase was primarily the result of a $2.0 million charge related to the settlement of a dispute with a former distributor, as well as a full year of general and administrative costs incurred by ICEM CFD. These increases were partially offset by reductions in both consulting fees and bad debt expenses.

OTHER INCOME: Other income decreased to $1.4 million in 2001 as compared to $3.6 million in 2000. The decrease was primarily attributable to a declining interest rate environment as compared to the prior year, as well as a $500,000 impairment charge related to an investment accounted for under the cost method.

INCOME TAX PROVISION: The Company's effective tax rate was 31.5% in 2001 as compared to 29.6% in 2000. The effective rate increased from the prior year as a result of non-deductible amortization expense associated with certain intangible assets related to the acquisition of ICEM CFD. These effective tax rates 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 decreased 16.1% to $13.7 million, or $0.89 diluted earnings per share, in 2001 as compared to net income of $16.3 million, or $1.00 diluted earnings per share, in 2000. The weighted average common and common equivalent shares used in computing diluted earnings per share were 15.4 million in 2001 compared with 16.3 million in 2000. Excluding the effects of acquisition-related amortization and the impact of the revenue recognition modification discussed above, net income increased 10.9% in 2001 to $19.6 million, or $1.27 diluted earnings per share. Excluding only the effects of acquisition-related amortization, net income decreased 3.3% in 2001 to $17.1 million, or $1.11 diluted earnings per share.

YEAR ENDED DECEMBER 31, 2000 COMPARED TO YEAR ENDED DECEMBER 31, 1999

REVENUE: The Company's total revenue increased 17.9% from $63.1 million in 1999 to $74.5 million in the year 2000. The increase in total revenue was primarily the result of increased sales of both paid-up licenses and related maintenance contracts associated with the paid-up licenses, as well as contributions from the acquisition of ICEM CFD.

Software license revenue totaled $43.5 million in 2000 as compared to $37.7 million in 1999, an increase of 15.5%. The increase was primarily the result of increased sales of paid-up licenses related to the Company's ANSYS and DesignSpace products, as well as approximately $2.7 million related to the acquisition of ICEM CFD.

Maintenance and service revenue increased 21.5% from $25.5 million in 1999 to $30.9 million in 2000. The increase primarily resulted from maintenance contracts sold in association with the increased paid-up license sales discussed above. Approximately $1.7 million in maintenance and service revenue from the acquisition of ICEM CFD also contributed to the increase.

Of the Company's total revenue in 2000, approximately 51.6% and 48.4% were attributable to international and domestic sales, respectively, as compared to 54.4% and 45.6% in 1999.

COSTS OF SALES AND GROSS PROFIT: The Company's total cost of sales increased 31.2% to $8.7 million, or 11.7% of total revenue, in 2000 from $6.6 million, or 10.5% of total revenue, in 1999. The increase was principally attributable to higher salaries and related expenses associated with increased headcount to support the growth in license and service sales, costs related to consulting services provided by ICEM CFD, as well as increased royalty costs.

As a result of the foregoing, the Company's gross profit increased 16.4% to $65.8 million in 2000 from $56.5 million in 1999.

SELLING AND MARKETING: Selling and marketing expenses increased 17.1% in 2000 to $18.0 million, or 24.1% of total revenue, from $15.3 million, or 24.3% of total revenue, in 1999. The increase was primarily the result of additional headcount and facility costs associated with both the acquisition of ICEM CFD, as well as the addition of personnel within the ANSYS direct sales organization. Increased consulting costs related to sales training initiatives for both the direct and indirect sales channels and costs associated with the Company's biennial international users' conference also contributed to the increase.

RESEARCH AND DEVELOPMENT: Research and development expenses increased 7.6% in 2000 to $14.5 million, or 19.5% of total revenue, from $13.5 million, or 21.3% of total revenue, in 1999. The increase in 2000 was principally the result of development costs associated with the acquisition of ICEM CFD, as well as higher consulting costs. These increases were partially offset by the capitalization of approximately $213,000 of internal labor costs related to the commercial release of ANSYS 5.7.

AMORTIZATION: Amortization expense increased to $2.2 million in 2000 compared to $855,000 in 1999. The increase resulted from amortization associated with the acquisition of ICEM CFD.

GENERAL AND ADMINISTRATIVE: General and administrative expenses increased 19.7% in 2000 to $11.5 million, or 15.5% of total revenue, as compared to $9.6 million, or 15.2% of total revenue, in 1999. The increase resulted primarily from additional headcount and facility costs, as well as increased professional fees associated with the acquisition of ICEM CFD. Higher legal fees and bad debt expense in connection with a dispute with a former distributor also contributed to the increase.

OTHER INCOME: Other income increased to $3.6 million in 2000 as compared to $2.6 million in 1999. The increase was primarily attributable to a higher interest rate environment as compared to the prior year and a $151,000 one-time gain related to the sale of investment securities.

INCOME TAX PROVISION: The Company's effective tax rate was 29.6% in 2000 as compared to 25.8% in 1999. The 1999 rate was favorably impacted by a one-time tax benefit related to an amended prior year tax return. These effective tax rates 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 increased 10.6% to $16.3 million, or $1.00 diluted earnings per share, in 2000 as compared to net income of $14.8 million, or $.88 diluted earnings per share, in 1999. The weighted average common and common equivalent shares used in computing diluted earnings per share were 16.3 million in 2000 compared with 16.7 million in 1999. Excluding the effects of amortization associated with the acquisition of ICEM CFD, net income increased 20.1% in 2000 to $17.7 million, or $1.09 diluted earnings per share.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2001, the Company had cash, cash equivalents and short-term investments totaling $53.4 million and working capital of $40.0 million, as compared to cash, cash equivalents and short-term investments of $47.5 million and working capital of $40.0 million at December 31, 2000. The short-term investments are generally investment grade and liquid, which allows the Company to minimize interest rate risk and to facilitate liquidity in the event an immediate cash need arises.

The Company's operating activities provided cash of $23.6 million in 2001, $22.9 million in 2000 and $18.3 million in 1999. The increase in cash generated from operations in 2001 compared to 2000 was primarily the result of improved accounts receivable collections. The increase in 2000 compared to 1999 was mainly the result of increased earnings after the effect of non-cash expenses such as depreciation, amortization and deferred income taxes. 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 ongoing stock repurchase program.

Cash provided by investing activities was $9.0 million in 2001. In 2000 and 1999 investing activities used cash of $7.4 million and $13.0 million, respectively. In 2001, cash provided by net maturities of investments was partially offset by cash outflows related to the acquisition of CADOE, S.A., as well as capital expenditures. The Company's use of cash in 2000 primarily related to the acquisition of ICEM CFD and capital expenditures, including hardware and software costs associated with the Company's investment in a comprehensive customer relationship management system. In 1999, the Company's use of cash was primarily related to the purchase of short-term investments and, to a lesser extent, the purchase of equipment and computer hardware and software. The Company expects to spend approximately $2.5 million for capital expenditures in the year 2002, principally for the acquisition of computer hardware and software to support the continued growth of the Company's development activities, as well as for investments in the Company's global sales and customer support infrastructure.

Financing activities used cash of $10.4 million in 2001, $19.6 million in 2000 and $1.5 million in 1999. In each of the three years, cash outlays related to the purchase of treasury stock were partially offset by proceeds from the issuance of common stock under the 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 at least the next fiscal year. The Company's cash requirements in the future may also be financed through additional equity or debt financings. There can be no assurance that such financings can be obtained on favorable terms, if at all.

## CRITICAL ACCOUNTING POLICIES

ANSYS believes 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 for perpetual licenses is recognized upon delivery of the authorization keys to the end user, acceptance by the customer and receipt of a signed contractual obligation, provided that no significant Company obligations remain and collection of the receivable is probable. Revenue is recorded at the net price to ANSYS for sales through the ANSYS distribution network. The Company estimates the value of post-contract customer support sold together with perpetual licenses by reference to published price lists which generally represent the prices at which customers could purchase renewal contracts for such services. ANSYS maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. If the financial condition of ANSYS customers, including ANSYS distributors, were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. 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 impairments are recognized in the results of operations when the expected future undiscounted operating cash flow derived from the capitalized software is less than its carrying value. Intangible assets acquired in connection with business combinations are recorded at appraised fair values at the time of the acquisition by reference to independent valuations.

## RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

ANSYS adopted Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations," for all business combinations initiated after June 30, 2001. This standard requires that all business combinations be accounted for using the purchase method and it further clarifies the criteria for recognition of intangible assets separately from goodwill.

Effective January 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets," for existing goodwill and other intangible assets, including the non-amortization provisions of this standard arising from business combinations after June 30, 2001. This standard eliminates the amortization of goodwill and intangible assets with indefinite useful lives and requires annual testing for impairment. This standard also requires the assignment of assets acquired and liabilities assumed, including goodwill, to reporting units for purposes of the annual impairment test. As of December 31, 2001, ANSYS had net unamortized goodwill of $16.9 million and amortization expense associated with goodwill of $3.3 million, $1.1 million and $0.1 million for the years ended December 31, 2001, 2000 and 1999, respectively. The Company has evaluated the impact of the adoption of this standard on the consolidated financial statements and does not expect the adoption to have a material impact on the Company's financial position.

## IMPORTANT FACTORS REGARDING FUTURE RESULTS

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

POTENTIAL FLUCTUATIONS IN OPERATING RESULTS: The Company may experience significant fluctuations in future quarterly operating results. Fluctuations may be caused by many factors, including the timing of new product releases or product enhancements by the Company or its competitors; the size and timing of individual orders, including a fluctuation in the demand for and the ability to complete large contracts; software errors or other product quality problems; competition and pricing; customer order deferrals in anticipation of new products or product enhancements; reduction in demand for the Company's products; changes in operating expenses; changes in the mix of software license and maintenance and service revenue; personnel changes and general economic conditions. A substantial portion of the Company's operating expenses is related to personnel, facilities and marketing programs. The level of personnel and related expenses cannot be adjusted quickly and is based, in significant part, on the Company's expectation for future revenue. The Company does not typically experience significant order backlog. Further, the Company has often recognized a substantial portion of its revenue in the last month of a quarter, with this revenue frequently concentrated in the last weeks or days of a quarter. During certain quarterly periods, the Company has been dependent upon receiving large orders of perpetual licenses involving the payment of a single up-front fee 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. 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.

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 most of its products through its global network of 30 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 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, 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 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 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 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 condition or results of operations.

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 January 14, 2002, the WTO ruled in favor of the European Union's charge. As a result, there may be further related changes to U.S. export tax law in connection with this ruling. Any such 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.

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: 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 represent a significant 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. These proceedings currently include customary audit activities by various taxing authorities. Each of these matters is subject to various uncertainties, and it is possible that some of these matters may be resolved unfavorably to the Company.

REPORT OF INDEPENDENT ACCOUNTANTS

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, stockholders, equity and cash flows present fairly, in all material respects, the financial position of ANSYS Inc. and its subsidiaries at December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP
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PricewaterhouseCoopers LLP
Pittsburgh, Pennsylvania
January 30, 2002

## CONSOLIDATED BALANCE SHEETS

| (in thousands, except share data) | December 31, 2001 | December 31, 2000 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 28,545 | $ 6,313 |
| Short-term investments | 24,903 | 41,227 |
| Accounts receivable, less allowance for doubtful accounts of $1,610 in 2001 and $2,350 in 2000 | 15,352 | 14,403 |
| Other receivables and current assets | 12,803 | 9,164 |
| Deferred income taxes | 1,799 | 695 |
| Total current assets | 83,402 | 71,802 |
| Long-term investment | 500 | 500 |
| Property and equipment, net | 4,915 | 5,152 |
| Capitalized software costs, net | 817 | 574 |
| Goodwill, net | 16,937 | 12,529 |
| Other intangibles, net | 6,499 | 5,668 |
| Deferred income taxes | 4,692 | 4,895 |
| Total assets | $ 117,762 | $ 101,120 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | $ 624 | $ 459 |
| Accrued bonuses | 4,578 | 4,869 |
| Other accrued expenses and liabilities | 13,047 | 6,631 |
| Deferred revenue | 25,120 | 19,797 |
| Total current liabilities | 43,369 | 31,756 |
| 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 | 37,822 | 37,588 |
| Less treasury stock, at cost: 2,071,123 shares held in 2001 and 1,451,692 shares held in 2000 | (23,953) | (15,127) |
| Retained earnings | 60,429 | 46,737 |
| Accumulated other comprehensive income (loss) | (71) | - |
| Total stockholders' equity | 74,393 | 69,364 |
| Total liabilities and stockholders' equity | $ 117,762 | $ 101,120 |

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

CONSOLIDATED STATEMENTS OF INCOME

| (in thousands, except per share data) | 2001 | 2000 | 1999 |
|---|---|---|---|
| Revenue: | | | |
| Software licenses | $ 45,318 | $ 43,528 | $ 37,675 |
| Maintenance and service | 39,518 | 30,939 | 25,464 |
| Total revenue | 84,836 | 74,467 | 63,139 |
| Cost of sales: | | | |
| Software licenses | 4,726 | 4,278 | 3,530 |
| Maintenance and service | 6,627 | 4,407 | 3,088 |
| Total cost of sales | 11,353 | 8,685 | 6,618 |
| Gross profit | 73,483 | 65,782 | 56,521 |
| Operating expenses: | | | |
| Selling and marketing | 19,726 | 17,950 | 15,326 |
| Research and development | 16,893 | 14,502 | 13,475 |
| Amortization | 5,271 | 2,234 | 855 |
| General and administrative | 13,045 | 11,517 | 9,622 |
| Total operating expenses | 54,935 | 46,203 | 39,278 |
| Operating income | 18,548 | 19,579 | 17,243 |
| Other income | 1,434 | 3,579 | 2,626 |
| Income before income tax provision | 19,982 | 23,158 | 19,869 |
| Income tax provision | 6,290 | 6,848 | 5,118 |
| Net income | $ 13,692 | $ 16,310 | $ 14,751 |

| | | | |
|---|---|---|---|
| Net income per basic common share: | | | |
| Basic earnings per share | $ .94 | $ 1.03 | $ .90 |
| Weighted average shares - basic | 14,554 | 15,804 | 16,366 |
| Net income per diluted common share: | | | |
| Diluted earnings per share | $ .89 | $ 1.00 | $ .88 |
| Weighted average shares - diluted | 15,438 | 16,269 | 16,689 |

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

| (in thousands) | 2001 | 2000 | 1999 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Net income | $ 13,692 | $ 16,310 | $ 14,751 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 7,631 | 4,333 | 2,762 |
| Deferred income tax provision (benefit) | (800) | (69) | 855 |
| Provision for bad debts | 368 | 739 | 464 |
| Impairment of investment | 500 | - | - |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | (1,602) | (2,574) | (2,039) |
| Other receivables and current assets | (3,483) | (1,417) | (2,216) |
| Accounts payable, accrued expenses and liabilities | 2,009 | 2,279 | 735 |
| Deferred revenue | 5,323 | 3,249 | 3,029 |
| Net cash provided by operating activities | 23,638 | 22,850 | 18,341 |
| Cash flows from investing activities: | | | |
| Cash paid for business acquisition, net of cash acquired | (3,981) | (7,481) | - |
| Other acquisition payments | (333) | (400) | (100) |
| Acquisition-related loan | - | (1,366) | - |
| Capital expenditures | (2,070) | (3,173) | (1,758) |
| Capitalization of internally developed software costs | (457) | (213) | (591) |
| Purchases of short-term investments | (34,969) | (32,688) | (38,331) |
| Maturities of short-term investments | 51,293 | 38,191 | 27,738 |
| Repayment of stockholder loan | - | 250 | - |
| Purchase of long-term investment | (500) | (500) | - |
| Net cash provided by (used in) investing activities | 8,983 | (7,380) | (13,042) |
| Cash flows from financing activities: | | | |
| Proceeds from issuance of common stock under Employee Stock Purchase Plan | 205 | 163 | 159 |
| Proceeds from exercise of stock options | 5,090 | 1,814 | 872 |
| Purchase of treasury stock | (15,715) | (21,588) | (2,550) |
| Net cash used in financing activities | (10,420) | (19,611) | (1,519) |
| Effect of exchange rate fluctuations | 31 | 53 | 32 |
| Net increase (decrease) in cash and cash equivalents | 22,232 | (4,088) | 3,812 |
| Cash and cash equivalents, beginning of year | 6,313 | 10,401 | 6,589 |
| Cash and cash equivalents, end of year | $ 28,545 | $ 6,313 | $ 10,401 |

| | | | |
|---|---|---|---|
| Supplemental disclosures of cash flow information: | | | |
| Cash paid during the year for: Income taxes | $ 5,235 | $ 4,615 | $ 3,894 |

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

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

| (in thousands) | Common Stock Shares | Common Stock Amount | Additional Paid-in Capital | Treasury Stock Shares | Treasury Stock Amount | Retained Earnings | Accumulated Other Compre-hensive Income | Notes Receivable from Stockholders | Total Stock-holders' Equity | Total Compre-hensive Income |
|---|---|---|---|---|---|---|---|---|---|---|
| Balance, December 31, 1998 | 16,396 | $ 164 | $ 36,657 | - | $ - | $ 15,676 | $ 120 | $ (250) | $ 52,367 | |
| Treasury stock acquired | - | - | - | 382 | (2,550) | - | - | - | (2,550) | |
| Exercise of stock options | 168 | 2 | 727 | (43) | 175 | - | - | - | 904 | |
| Issuance of common stock under Employee Stock Purchase Plan | 21 | - | 159 | - | - | - | - | - | 159 | |
| Net income for the year | - | - | - | - | - | 14,751 | - | - | 14,751 | $ 14,751 |
| Other comprehensive income | - | - | - | - | - | - | - | - | - | - |
| Balance, December 31, 1999 | 16,585 | 166 | 37,543 | 339 | (2,375) | 30,427 | 120 | (250) | 65,631 | 14,751 |
| Treasury stock acquired | - | - | - | 2,010 | (21,588) | - | - | - | (21,588) | |
| Acquisition of ICEM CFD Engineering | - | - | (106) | (619) | 6,644 | - | - | - | 6,538 | |
| Exercise of stock options | - | - | 124 | (259) | 2,056 | - | - | - | 2,180 | |
| Issuance of common stock under Employee Stock Purchase Plan | - | - | 27 | (19) | 136 | - | - | - | 163 | |
| Repayment of note receivable from stockholder | - | - | - | - | - | - | - | 250 | 250 | |
| Net income for the year | - | - | - | - | - | 16,310 | - | - | 16,310 | 16,310 |
| Other comprehensive income (loss) | - | - | - | - | - | - | (120) | - | (120) | (120) |
| Balance, December 31, 2000 | 16,585 | 166 | 37,588 | 1,452 | (15,127) | 46,737 | - | - | 69,364 | 16,190 |
| Treasury stock acquired | - | - | - | 1,241 | (15,715) | - | - | - | (15,715) | |
| Acquisition of ICEM CFD Engineering | - | - | 29 | (15) | 161 | - | - | - | 190 | |
| Exercise of stock options | - | - | 256 | (584) | 6,472 | - | - | - | 6,728 | |
| Issuance of common stock under Employee Stock Purchase Plan | - | - | (51) | (23) | 256 | - | - | - | 205 | |
| Net income for the year | - | - | - | - | - | 13,692 | - | - | 13,692 | 13,692 |
| Other comprehensive income (loss) | - | - | - | - | - | - | (71) | - | (71) | (71) |
| Balance, December 31, 2001 | 16,585 | $ 166 | $ 37,822 | 2,071 | $(23,953) | $60,429 | $ (71) | $ - | $ 74,393 | $ 13,621 |

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION

ANSYS Inc. (the "Company" or "ANSYS"), founded in 1970 as Swanson Analysis Systems, Inc., develops and globally markets engineering simulation software and technologies widely used by engineers and designers across a broad spectrum of industries, including aerospace, automotive, manufacturing, electronics and biomedical.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION: The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

REVENUE RECOGNITION: Revenue is derived principally from the licensing of computer software products and from related maintenance contracts. ANSYS recognizes revenue in accordance with SOP 97-2, "Software Revenue Recognition," and related interpretations. Revenue for perpetual licenses is recognized upon delivery of the authorization keys to the end user, acceptance by the customer and receipt of a signed contractual obligation, provided that no significant Company obligations remain and collection of the receivable is probable. Revenue is recorded at the net price to ANSYS for sales through the ANSYS distribution network. The Company estimates the value of post-contract customer support sold together with 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 monthly leases is recognized monthly as earned. Revenue from maintenance contracts is recognized ratably over the term of the contract. Costs related to maintenance obligations are expensed as incurred. Revenue from training, support and other services is recognized as the services are performed.

The Company recognizes revenue for annual software leases in accordance with Technical Practice Aid ("TPA") 5100.53, "Fair Value of PCS in a Short-Term Time-Based License and Software Revenue Recognition," issued by the American Institute of Certified Public Accountants, which requires all revenue from annual software lease licenses to be recognized ratably over the lease period. Prior to the revenue recognition modification to comply with the TPA, the Company recognized a portion of the license fee from annual leases upon inception or renewal of the lease, while the remaining portion was recognized ratably over the lease period.

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

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

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

CAPITALIZED SOFTWARE: Internally developed computer software costs and costs of product enhancements are capitalized subsequent to the determination of technological feasibility; such capitalization continues until the product becomes available for general release. Amortization of capitalized software costs, both for internally developed as well as for purchased software products, is computed on a product-by-product basis over the estimated economic life of the product, which is generally three years. Amortization is the greater of the amount computed using: (i) the ratio of the current year's gross revenue to the total current and anticipated future gross revenue for that product or (ii) the straight-line method over the estimated life of the product.

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

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

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

The Company adopted Statement of Financial Accounting Standards ("SFAS") No.141, "Business Combinations," for all business combinations initiated after June 30, 2001 and the non-amortization provisions of SFAS No. 142, "Goodwill and Other Intangibles," for goodwill relating to business combinations initiated after June 30, 2001. Therefore, goodwill relating to business combinations completed during the second half of 2001 has not been amortized in 2001. See Recently Issued Accounting Pronouncements for additional information.

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

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

During 2001, sales by distributors comprised approximately 57% of the Company's total revenue, with two distributors accounting for approximately 13% and 9% of total revenue. During 2000, sales by distributors comprised approximately 62% of the Company's total revenue, with two distributors accounting for approximately 11% and 10% of total revenue. During 1999, sales by distributors comprised approximately 70% of the Company's total revenue, with two distributors accounting for approximately 12% and 11% of total revenue.

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

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

The financial statements of the Company's foreign subsidiaries are translated from the functional currency, generally the local currency, to U.S. Dollars. Assets and liabilities are translated at the exchange rates on the balance sheet date. Results of operations are translated at average exchange rates. The resulting exchange difference is recorded as a component of accumulated other comprehensive income.

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

EARNINGS PER SHARE: Net income per basic common share is computed using the weighted average number of common shares outstanding during each period. Net income per diluted common share is computed using the weighted average number of common and common equivalent shares outstanding during each period. Common equivalent shares are not included in the per share calculations where their inclusion would be anti-dilutive.

RECLASSIFICATIONS: Certain reclassifications have been made to the 2000 and 1999 financial statements to conform to the 2001 presentation.

## 3. ACQUISITIONS

In November 2001, ANSYS acquired CADOE, S.A. ("CADOE"), a company based in Lyon, France. The acquisition of CADOE's stock included an up-front payment of approximately $3.9 million in cash, $900,000 of which was placed in escrow. The escrowed funds will be released upon the completion of certain product development milestones and the resolution of any outstanding indemnification claims. The total up-front purchase price was allocated to the assets and liabilities of CADOE based upon their estimated fair market values. The allocation of the purchase price was based on an independent valuation and included an allocation of $2,480,000 to identifiable intangibles (including $1,990,000 to the core technology and $490,000 to non-compete agreements) and $1,289,000 to goodwill. The identified intangibles are being amortized over four to ten years. In accordance with the provisions of Statement of Financial Accounting Standards No. 142, "Goodwill and Intangible Assets" (see Note 17), the goodwill is not being amortized. The acquisition agreement provides for additional future cash payments if the acquired business achieves certain performance criteria in 2002, 2003 and 2004. If the performance criteria are achieved, the future cash payments could equal or exceed the up-front purchase price.

In August 2000, ANSYS acquired Pacific Marketing and Consulting, Inc., a California corporation (hereafter "ICEM CFD"). The total up-front purchase price was allocated to the assets and liabilities of ICEM CFD based upon their estimated fair market values. The allocation of the purchase price was based on an independent valuation and included an allocation of $5,542,000 to identifiable intangibles (including $2,345,000 to existing software, $1,790,000 to non-compete agreements and $1,407,000 to customer list) and $12,201,000 to goodwill. The identified intangibles are being amortized over three to five years. The acquisition agreement also provides for additional future payments if the acquired business achieves certain performance criteria. Such payments in 2001 included $183,000 in cash and 15,465 shares of ANSYS Inc. common stock. The acquisition agreement also provides for a final payment based upon performance of the acquired business in 2001. In the first quarter of 2002, ANSYS made final payments of $2,591,000 in cash and 98,847 shares of ANSYS Inc. common stock. The additional payments resulted in an increase in goodwill associated with this acquisition.

The acquisitions of CADOE and ICEM CFD were accounted for as purchases and, accordingly, their operating results have been included in ANSYS Inc.'s consolidated financial statements since the dates of acquisition.

On a pro forma basis, the results of operations as if the acquisition of CADOE had occurred on January 1, 2001 and 2000, are not materially different from the reported amounts.

The following unaudited pro forma information presents the results of operations of the Company as if the ICEM CFD acquisition had occurred on January 1, 2000 and 1999. The unaudited pro forma consolidated results are not necessarily indicative of results that would have occurred had the acquisition been in effect for the years presented.

| (in thousands) | Year ended December 31, 2000 | Year ended December 31,1999 |
|---|---|---|
| Total revenue | $80,405 | $70,875 |
| Net income | 13,837 | 12,508 |
| Net income per share | | |
| Basic | .85 | .74 |
| Diluted | .83 | .72 |

4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

| (in thousands) | December 31, 2001 | December 31, 2000 |
|---|---|---|
| Equipment | $ 9,048 | $ 7,995 |
| Computer software | 4,275 | 3,556 |
| Furniture | 1,057 | 993 |
| Leasehold improvements | 873 | 845 |
| | 15,253 | 13,389 |
| Less: accumulated depreciation and amortization | (10,338) | (8,237) |
| | $ 4,915 | $ 5,152 |

Depreciation and amortization expense related to property and equipment was approximately $2,360,000, $1,994,000 and $1,907,000 for the years ended December 31, 2001, 2000, and 1999, respectively.

5. OTHER INTANGIBLE ASSETS

Other intangible assets consists of the following:

| (in thousands) | Estimated Useful Lives | December 31, 2001 | December 31, 2000 |
|---|---|---|---|
| Trade name | 10 years | $ 1,824 | $ 1,824 |
| Non-compete agreements | 2-5 years | 2,280 | 1,790 |
| Customer list | 5 years | 1,407 | 1,407 |
| Acquired software/core technology | 3-10 years | 4,335 | 2,345 |
| | | 9,846 | 7,366 |
| Less: accumulated amortization | | (3,347) | (1,698) |
| | | $ 6,499 | $ 5,668 |

6. INCOME TAXES

The provision for income taxes is comprised of the following:

| (in thousands) | December 31, 2001 | December 31, 2000 | December 31, 1999 |
| --- | --- | --- | --- |
| Current: | | | |
| Federal | $ 5,562 | $ 5,701 | $ 3,297 |
| State | 318 | 246 | 90 |
| Foreign | 1,210 | 942 | 876 |
| Deferred: | | | |
| Federal | (696) | (34) | 869 |
| State | (104) | (7) | (14) |
| Total | $ 6,290 | $ 6,848 | $ 5,118 |

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

| | December 31, 2001 | December 31, 2000 | December 31, 1999 |
| --- | --- | --- | --- |
| Federal statutory tax rate | 35.0% | 35.0% | 35.0% |
| State income taxes, net of federal benefit | 1.0 | 0.7 | 0.3 |
| Research and experimentation credit | (1.5) | (1.7) | (2.0) |
| Non-deductible goodwill | 3.5 | 1.0 | - |
| Foreign sales corporation | (6.6) | (5.0) | (5.7) |
| Other | 0.1 | (0.4) | (1.8) |
| | 31.5% | 29.6% | 25.8% |

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

| (in thousands) | December 31, 2001 | December 31, 2000 |
| --- | --- | --- |
| Deferred tax assets: | | |
| Goodwill | 3,259 | $ 3,578 |
| Tradename | 279 | 274 |
| Capitalized software | 3,170 | 3,831 |
| Allowance for doubtful accounts | 515 | 827 |
| Deferred revenue | 1,213 | 175 |
| Other | 529 | 348 |
| | 8,965 | 9,033 |
| Deferred tax liabilities: | | |
| Accounts receivable mark-to-market | - | 206 |
| Property and equipment | 91 | 88 |
| Acquisition-related intangible assets | 345 | 1,198 |
| Other | 2,038 | 1,951 |
| | 2,474 | 3,443 |
| Net deferred tax assets | $ 6,491 | $ 5,590 |

Based upon the Company's current and historical taxable income and the anticipated level of future taxable income, management believes it is more likely than not that all of the deferred tax assets will be realized.

Accordingly, no valuation allowance has been established against the deferred tax assets.

7. PENSION AND PROFIT-SHARING PLANS

The Company maintains both a money purchase pension plan (the "Pension Plan") and a 401(k)/profit-sharing plan (the "Profit-Sharing Plan") for all qualifying full-time employees. The Pension Plan is a noncontributory plan and requires the Company to contribute 5% of each participant's eligible compensation. The 401(k) feature of the Profit-Sharing Plan permits employee contributions up to 10% of eligible compensation. The Company makes matching contributions on behalf of each participant in an amount equal to 100% of the employee contribution up to a maximum of 5% of employee compensation. There is a five year graduated vesting schedule for employer contributions. Under the profit-sharing provisions of the plan, the Company contribution is determined annually by the Board of Directors, subject to a maximum limitation of 5% of eligible compensation.

Total expense related to the Pension and Profit-Sharing plans was $2,121,000 in 2001, $1,712,000 in 2000 and $1,266,000 in 1999.

8. NON-COMPETE AND EMPLOYMENT AGREEMENTS

In accordance with the acquisition of ICEM CFD. (see Note 3) the existing stockholders agreed to non-competition clauses restricting certain competitive business activities for periods of two or five years, depending on the involvement of each stockholder in the daily operations of the business. Additionally, the existing CADOE stockholders agreed to similar non-competition clauses for a period of four years in connection with the acquisition of CADOE by ANSYS.

The Company has entered into an employment agreement with the Chairman of the Board of Directors. In the event the Chairman is terminated without cause, his employment agreement provides for severance at the annual rate of $300,000 for the later of a period of one year after termination or when he accepts other employment. The Chairman is subject to a one-year restriction on competition following termination of employment under the circumstances described in the contract.

The Company also has an agreement with the Chief Executive Officer. This agreement provides for, among other things, severance payments totaling $300,000, in equal semi-monthly installments, through the first anniversary of the termination date if the Chief Executive Officer is terminated without cause

## 9. STOCK OPTION AND GRANT PLANS

The Company has two stock option and grant plans-the 1994 Stock Option and Grant Plan ("1994 Stock Plan") and the 1996 Stock Option and Grant Plan ("1996 Stock Plan"). The 1994 and 1996 Stock Plans, as amended, authorize the grant of up to 868,110 and 4,250,000 shares, respectively, of the Company's common stock in the form of: (i) incentive stock options ("ISOs"), (ii) nonqualified stock options or (iii) the issuance or sale of common stock with or without vesting or other restrictions. Additionally, the 1996 Stock Plan permits the grant of common stock upon the attainment of specified performance goals and the grant of the right to receive cash dividends with the holders of the common stock as if the recipient held a specified number of shares of the common stock. No further grants may be made under the 1994 Stock Plan.

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

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

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

| 1994 Stock Option and Grant Plan | Restricted Stock | | Stock Options | |
|---|---|---|---|---|
| (in thousands, except for range of issue price) | Number of Shares | Range of Issue Price | Number of Options | Range of Issue Price |
| Outstanding at December 31,1998 | 837 | $ .01-2.40 | 526 | $ .40-11.00 |
| Issued/granted | - | - | - | - |
| Exercised | (815) | .10-2.40 | (143) | .40-2.40 |
| Repurchased/cancelled | (18) | .01-.40 | (33) | .40-10.00 |
| Outstanding at December 31,1999 | 4 | .40 | 350 | .40-11.00 |
| Issued/granted | - | - | - | - |
| Exercised | (4) | .40 | (101) | .40-10.00 |
| Cancelled | - | - | (9) | 10.00 |
| Outstanding at December 31, 2000 | - | - | 240 | .40-11.00 |
| Issued/granted | - | - | - | - |
| Exercised | - | - | (97) | .40-11.00 |
| Cancelled | - | - | - | - |
| Outstanding at December 31, 2001 | - | - | 143 | $ .40-10.00 |
| Exercisable at: | | | | |
| December 31, 1999 | - | - | 286 | |
| December 31, 2000 | - | - | 240 | |
| December 31, 2001 | - | - | 143 | |

| 1996 Stock Option and Grant Plan | Stock Options | |
|---|---|---|
| (in thousands, except for range of issue price) | Number of Options | Range of Issue Price |
| Outstanding at December 31, 1998 | 1,749 | $ 6.00-13.13 |
| Issued/granted | 697 | 6.88-11.00 |
| Exercised | (68) | 6.00-9.63 |
| Cancelled | (261) | 6.00-13.00 |
| Outstanding at December 31, 1999 | 2,117 | 6.00-13.13 |
| Issued/granted | 805 | 9.88-11.88 |
| Exercised | (158) | 6.00-11.75 |
| Cancelled | (241) | 6.00-11.75 |
| Outstanding at December 31, 2000 | 2,523 | 6.00-13.13 |
| Issued/granted | 774 | 10.63-26.56 |
| Exercised | (485) | 6.00-11.75 |
| Cancelled | (103) | 6.00-18.70 |
| Outstanding at December 31, 2001 | 2,709 | $ 6.00 - $26.56 |
| Exercisable at: | | |
| December 31, 1999 | 577 | |
| December 31, 2000 | 891 | |
| December 31, 2001 | 974 | |

The Company has elected to account for stock-based compensation arrangements under the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock-Based Compensation." The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation." Accordingly, no compensation expense has been recognized for restricted stock or options which have been issued under the 1994 and 1996 Stock Plans. Had compensation cost for the Company's two stock option and grant plans been determined based upon the fair value at the grant date for the option awards in 2001, 2000 and 1999, consistent with the provisions of SFAS No. 123, the Company's net income and basic and diluted earnings per share would have been reduced to the pro forma amounts indicated below:

| (in thousands, except per share data) | 2001 | 2000 | 1999 |
|---|---|---|---|
| Net income - as reported | $ 13,692 | $16,310 | $ 14,751 |
| Net income - pro forma | 11,295 | 14,132 | 12,653 |
| Net income per basic common share - as reported | $ .94 | $ 1.03 | $ .90 |
| Net income per basic common share - pro forma | .78 | .89 | .77 |
| Net income per diluted common share - as reported | .89 | 1.00 | .88 |
| Net income per diluted common share - pro forma | .73 | .87 | .76 |

The weighted-average fair value of options granted was $10.13 per share in 2001, $6.22 per share in 2000 and $5.01 per share in 1999.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the risk-free interest rates ranging from a low of 3.80% to a high of 5.01%. The interest rates used were determined by using the five year Treasury Note rate at the date of grant. The following assumptions were also used to determine the fair value of each option grant: dividend yields of 0%; expected volatility of 64% and expected term of five years.

## 10. STOCK REPURCHASE PROGRAM

On October 25, 2001, the Company announced that its Board of Directors had amended its common stock repurchase program to acquire up to an additional one million shares, or four million shares in total under the program that was initially announced in February 2000. Under this program, ANSYS repurchased 374,700 and 2,010,000 shares in 2001 and 2000, respectively. In addition to the repurchases under this program, the Company also purchased 866,300 shares in a privately negotiated transaction during 2001.

## 11. EMPLOYEE STOCK PURCHASE PLAN

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

During each offering, an eligible employee may purchase shares under the Purchase Plan by authorizing payroll deductions of up to 10% of his cash compensation during the offering period. The maximum number of shares which may be purchased by any participating employee during any offering period is limited to 960 shares (as adjusted by the Compensation Committee from time to time). Unless the employee has previously withdrawn from the offering, his accumulated payroll deductions will be used to purchase common stock on the last business day of the period at a price equal to 85% of the fair market value of the common stock on the first or last day of the offering period, whichever is lower. Under applicable tax rules, an employee may purchase no more than $25,000 worth of common stock in any calendar year. At December 31, 2001, 125,658 shares of common stock had been issued under the Purchase Plan of which 102,284 were issued as of December 31, 2000.

## 12. LEASES

In January 1996, the Company entered into a lease agreement with an unrelated third party for a new corporate office facility, which the Company occupied in February 1997. The lease agreement is for ten years, with an option for five additional years, and includes scheduled rent increases at the end of the fifth and tenth years. The Company incurred lease rental expense related to this facility of $1,227,000 in 2001, 2000 and 1999. Minimum lease payments for the next five years under the facility lease are $1,354,000 per annum in 2002 through 2006.

The Company has also entered into various noncancellable operating leases for equipment and sales offices. Lease rental expense related to these leases totaled $1,232,000, $908,000 and $998,000 for the years ended December 31, 2001, 2000 and 1999, respectively. Future minimum lease payments under noncancellable operating leases for equipment and sales offices in effect at December 31, 2001 are $567,000 in 2002, $531,000 in 2003, $273,000 in 2004, $103,000 in 2005 and $77,000 in 2006.

13. ROYALTY AGREEMENTS

The Company has entered into various renewable nonexclusive license agreements under which the Company has been granted access to the licensor's patent technology and the right to sell the patent technology in the Company's product line. Royalties are payable to developers of the software at various rates and amounts generally based upon unit sales or revenue. Royalty fees, which are included in cost of sales, were approximately $939,000, $884,000 and $524,000 for the years ended December 31, 2001, 2000 and 1999, respectively.

14. GEOGRAPHIC INFORMATION

Revenue by geographic area is as follows:

| (in thousands) | United States | Canada | Germany | Other Europe | Japan | Other Interna-tional | Total |
|---|---|---|---|---|---|---|---|
| Year ended December 31, 2001 | $38,693 | $1,659 | $10,434 | $15,094 | $11,000 | $7,956 | $84,836 |
| Year ended December 31, 2000 | 34,304 | 1,757 | 8,595 | 14,752 | 8,843 | 6,216 | 74,467 |
| Year ended December 31, 1999 | 27,673 | 1,151 | 7,091 | 14,924 | 7,678 | 4,622 | 63,139 |

15. CONTINGENCIES

The Company had an outstanding irrevocable standby letter of credit for $1,378,000 at December 31, 2001. This letter of credit was issued as a guarantee for damages that could be awarded related to a legal matter in which the Company was involved. The fair value of the letter of credit approximates the contract value based on the nature of the fee arrangements with the issuing bank. No material losses on this commitment have been incurred, nor are any anticipated.

16. EARNINGS PER SHARE

Basic earnings per common 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 common share are as follows:

| (in thousands, except per share data) | 2001 | 2000 | 1999 |
|---|---|---|---|
| Net income | $ 13,692 | $ 16,310 | $ 14,751 |
| Weighted average shares outstanding - basic | 14,554 | 15,804 | 16,366 |
| Basic earnings per share | $ .94 | $ 1.03 | $ 0.90 |
| Effect of dilutive securities: | | | |
| Shares issuable upon exercise of dilutive outstanding restricted stock and stock options | 884 | 465 | 323 |
| Weighted average shares outstanding - diluted | 15,438 | 16,269 | 16,689 |
| Diluted earnings per share | $ .89 | $ 1.00 | $ 0.88 |
| Anti-dilutive shares/options | 541 | 201 | 570 |

17. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

ANSYS adopted Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations," for all business combinations initiated after June 30, 2001. This standard requires that all business combinations be accounted for using the purchase method and it further clarifies the criteria for recognition of intangible assets separately from goodwill.

Effective January 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets," for existing goodwill and other intangible assets, including the non-amortization provisions of this standard arising from business combinations after June 30, 2001. This standard eliminates the amortization of goodwill and intangible assets with indefinite useful lives and requires annual testing for impairment. This standard also requires the assignment of assets acquired and liabilities assumed, including goodwill, to reporting units for purposes of the annual impairment test. As of December 31, 2001, ANSYS had net unamortized goodwill of $16.9 million and amortization expense associated with goodwill of $3.3 million, $1.1 million and $0.1 million for the years ended December 31, 2001, 2000 and 1999, respectively. The Company has evaluated the impact of the adoption of this standard on the consolidated financial statements and does not expect the adoption to have a material impact on the Company's financial position.

QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

| | Fiscal Quarter Ended | | | |
|---|---|---|---|---|
| (in thousands, except per share data) | December 31, 2001 | September 30, 2001 | June 30, 2001 | March 31, 2001 |
| Revenue | $ 25,073 | $ 20,610 | $ 20,931 | $ 18,222 |
| Gross profit | 22,040 | 17,899 | 17,985 | 15,559 |
| Operating income | 7,662 | 3,367 | 4,705 | 2,814 |
| Net income | 5,098 | 2,654 | 3,569 | 2,371 |
| Net income per common share - basic | .35 | .18 | .25 | .16 |
| Net income per common share - diluted | .33 | .17 | .24 | .15 |
| Adjusted earnings per share - diluted /(1)/ | .38 | .23 | .29 | .21 |
| Common stock price per share/(2)/: | | | | |
| High | 27.73 | 19.15 | 18.72 | 13.63 |
| Low | 16.80 | 14.65 | 11.70 | 10.13 |

| | Fiscal Quarter Ended | | | |
|---|---|---|---|---|
| | December 31, | September 30, | June 30, | March 31, |
| (in thousands, except per share data) | 2000 | 2000 | 2000 | 2000 |
| Revenue | $ 24,152 | $ 16,682 | $ 16,253 | $ 17,380 |
| Gross profit | 21,345 | 14,601 | 14,459 | 15,377 |
| Operating income | 5,751 | 3,805 | 4,789 | 5,234 |
| Net income | 4,459 | 3,272 | 4,092 | 4,487 |
| Net income per common share - basic | .28 | .21 | .26 | .28 |
| Net income per common share - diluted | .27 | .21 | .25 | .27 |
| Adjusted earnings per share - diluted /(1)/ | .33 | .24 | .25 | .27 |
| Common stock price per share/(2)/: | | | | |
| High | 12.06 | 12.44 | 11.88 | 14.31 |
| Low | 9.44 | 9.38 | 9.00 | 9.88 |

/(1)/ Adjusted earnings per share represents earnings per share determined in accordance with generally accepted accounting principles, excluding amortization expense, net of related income tax benefit, associated with intangible assets and goodwill resulting from business combinations accounted for under the purchase method.
/(2)/ The Company's common stock trades on the Nasdaq National Market tier of The Nasdaq Stock Market under the symbol: ANSS. The common stock prices shown are based on the Nasdaq daily closing stock price.

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

On February 7, 2002, there were 236 shareholders of record and approximately 3,400 beneficial shareholders of the Company's common stock.

## CORPORATE INFORMATION

### Shareholder Information

Requests for information about the Company should be directed to:

Mark Dozzo, Treasurer, ANSYS Inc., Southpointe,
275 Technology Drive, Canonsburg, PA 15317, U.S.A.
Telephone: 724.514.1782

### REPORT ON FORM 10-K

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

### STOCK LISTING

ANSS
NASDAQ

### COUNSEL

Goodwin Procter LLP, Boston, MA

### ANNUAL MEETING

The Annual Meeting of Stockholders will be held on May 9, 2002 at 2:00 p.m. at the Southpointe Club, 360 Southpointe Blvd., Canonsburg, PA 15317, U.S.A.

### TRANSFER AGENT

Mellon Investor Services, Ridgefield Park, NJ

### INDEPENDENT ACCOUNTANTS

PricewaterhouseCoopers LLP, Pittsburgh, PA

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



### HEADQUARTERS

ANSYS INC.
Southpointe
275 Technology Drive
Canonsburg, PA 15317
U.S.A.
1.866.ANSYS.AI

HTTP://WWW.ANSYS.COM

EXHIBIT 21

SUBSIDIARIES OF THE REGISTRANT
- ------------------------------

SAS IP, Inc., a Wyoming corporation

ASN Systems Limited, a United Kingdom company

ANSYS Foreign Sales Corporation, a Barbados corporation

ANSYS Software Engineering Technology (Beijing) Co., Ltd., a China wholly-owned foreign enterprise

ICEM CFD Engineering, Inc., a Delaware corporation

ANSYS Software Private Limited, an India corporation

CADOE S.A., a France corporation

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EXHIBIT 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-4278) of ANSYS, Inc. of our report dated January 30, 2002 relating to the consolidated financial statements, which appears in the Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated January 30, 2002 relating to the financial statement schedule, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
- ------------------------------

PricewaterhouseCoopers LLP
Pittsburgh, Pennsylvania
March 22, 2002

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EXHIBIT 23.2

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-4278) of ANSYS, Inc. of our report dated March 15, 2002 relating to the financial statements of the ANSYS Inc. Employee Stock Purchase Plan, which appears in this Form 11-K.

/s/ PricewaterhouseCoopers LLP

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PricewaterhouseCoopers LLP
Pittsburgh, Pennsylvania
March 22, 2002

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EXHIBIT 99

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

FORM 11-K

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

As of January 31, 2002 and 2001
and for Each of the Three Years in the Period Ended January 31, 2002

OR

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

Commission file number: 0-20853

ANSYS, INC. EMPLOYEE STOCK PURCHASE PLAN
(Full title of Plan)

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

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ANSYS, INC.
EMPLOYEE STOCK PURCHASE PLAN
INDEX OF FINANCIAL STATEMENTS



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REPORT OF INDEPENDENT ACCOUNTANTS

To the Participants and Administrator of the
ANSYS, Inc. Employee Stock Purchase Plan:

In our opinion, the accompanying statements of financial condition and related statements of changes in plan equity present fairly, in all material respects, the financial position of the ANSYS, Inc. Employee Stock Purchase Plan at January 31, 2002 and 2001, and changes in plan equity for each of the three years in the period ended January 31, 2002 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Plan's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP
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PricewaterhouseCoopers LLP
Pittsburgh, Pennsylvania
March 15, 2002

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ANSYS, INC.
EMPLOYEE STOCK PURCHASE PLAN
STATEMENTS OF FINANCIAL CONDITION
January 31, 2002 and 2001

| | 2002 | 2001 |
| --- | --- | --- |
| Assets: | | |
| Cash | $ 161,201 | $ 101,848 |
| Total assets | $ 161,201 | $ 101,848 |
| Liabilities and Plan Equity: | | |
| Payable to ANSYS Inc. for | | |
| stock issued to participants | $ 160,687 | $ 101,005 |
| Total liabilities | 160,687 | 101,005 |
| Plan equity | 514 | 843 |
| Total liabilities and Plan equity | $ 161,201 | $ 101,848 |

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

ANSYS, INC.
EMPLOYEE STOCK PURCHASE PLAN
STATEMENTS OF CHANGES IN PLAN EQUITY
for the Years Ended

| | January 31, 2002 | January 31, 2001 | January 31, 2000 |
|---|---|---|---|
| ADDITIONS: | | | |
| Contributions: | | | |
| Employee | $ 263,168 | $ 187,929 | $ 176,006 |
| Employer | 45,157 | 30,977 | 34,487 |
| Total additions | 308,325 | 218,906 | 210,493 |
| DEDUCTIONS: | | | |
| Stock distributions | 301,044 | 206,511 | 191,043 |
| Participant withdrawals | 7,610 | 13,002 | 18,580 |
| Total deductions | 308,654 | 219,513 | 209,623 |
| Net (decrease) increase in Plan equity | (329) | (607) | 870 |
| Plan equity, beginning of year | 843 | 1,450 | 580 |
| Plan equity, end of year | $ 514 | $ 843 | $ 1,450 |

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

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

1. DESCRIPTION OF PLAN:

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Administrative Expenses:

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

Use of Estimates:

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

Securities Transactions:

Securities transactions are accounted for on the date the securities are issued, which is generally the last day of each six-month offering period. Securities are issued directly by the Company from shares held in treasury or unissued shares designated for the Plan, and a corresponding liability from the Plan to the Company is recorded. This liability is typically settled in the month following the close of each six-month offering period. The Plan does not hold any securities or other deposits as temporary investments. Shares issued during the plan years ended January 31, 2002, 2001 and 2000 were 23,374, 19,630 and 20,728, respectively.

Participant contributions which result from the inability to purchase a fractional share, under the terms of the Plan, are carried forward to the next offering period.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Board of Directors of ANSYS, Inc. has duly caused this Annual Report to be signed on behalf of the Plan by the undersigned hereunto duly authorized, on March 18, 2002.

ANSYS, INC.
EMPLOYEE STOCK PURCHASE PLAN

Date: March 18, 2002 By: /s/ James E. Cashman III

James E. Cashman III
President and Chief Executive Officer

Date: March 18, 2002 By: /s/ Maria T. Shields

Maria T. Shields
Chief Financial Officer,
Vice President, Finance and Administration