

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2002

OR

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

Commission file number: 0-20853

ANSYS, Inc.

(exact name of registrant as specified in its charter)

DELAWARE  
(State or other jurisdiction of  
incorporation or organization)

04-3219960  
(IRS Employer  
Identification No.)

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

15317  
(Zip Code)

724-746-3304

Registrant's telephone number, including area code)

Indicate by a check mark whether the registrant (1) has filed all reports  
required to be filed by Section 13 or 15(d) of the Securities Exchange Act  
of 1934 during the preceding 12 months (or for such shorter period that  
the registrant was required to file such reports), and (2) has been  
subject to such filing requirements for the past 90 days.

Yes  No

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The number of shares of the Registrant's Common Stock, par value \$.01 per  
share, outstanding as of November 12, 2002 was 14,559,159 shares.

ANSYS, INC. AND SUBSIDIARIES

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

## PART I - FINANCIAL INFORMATION

## Item 1. - Financial Statements:

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

	September 30, 2002	Dec. 31, 2001
	-----	-----
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 25,429	\$ 28,545
Short-term investments	29,840	24,903
Accounts receivable, less allowance for doubtful accounts of \$1,690 and \$1,610, respectively	12,785	15,352
Other current assets	11,775	12,803
Deferred income taxes	2,030	1,799
	-----	-----
Total current assets	81,859	83,402
	-----	-----
Long-term investments	1,018	500
Property and equipment, net	4,667	4,915
Capitalized software costs, net	709	817
Goodwill, net	17,806	16,937
Other intangibles, net	5,164	6,499
Deferred income taxes	5,051	4,692
	-----	-----
Total assets	\$ 116,274	\$ 117,762
	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 578	\$ 624
Accrued bonuses	2,653	4,578
Other accrued expenses and liabilities	5,914	13,047
Deferred revenue	23,218	25,120
	-----	-----
Total current liabilities	32,363	43,369
	-----	-----
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	41,154	37,822
Less treasury stock, at cost: 2,037,776 and 2,071,123 shares, respectively	(30,567)	(23,953)
Retained earnings	73,119	60,429
Accumulated other comprehensive income (loss)	39	(71)
	-----	-----
Total stockholders' equity	83,911	74,393
	-----	-----
Total liabilities and stockholders' equity	\$ 116,274	\$ 117,762
	=====	=====

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

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

	Three months ended		Nine months ended	
	Sept. 30, 2002	Sept. 30, 2001	Sept. 30, 2002	Sept. 30, 2001
Revenue:				
Software licenses	\$ 11,017	\$ 10,377	\$ 34,125	\$ 30,937
Maintenance and service	10,728	10,233	31,619	28,826
Total revenue	21,745	20,610	65,744	59,763
Cost of sales:				
Software licenses	904	1,042	2,856	3,485
Maintenance and service	2,117	1,669	5,825	4,835
Total cost of sales	3,021	2,711	8,681	8,320
Gross profit	18,724	17,899	57,063	51,443
Operating expenses:				
Selling and marketing	4,690	4,370	15,092	14,416
Research and development	5,155	4,358	14,912	12,571
Amortization	557	1,281	1,724	3,924
General and administrative	2,522	4,523	7,562	9,646
Total operating expenses	12,924	14,532	39,290	40,557
Operating income	5,800	3,367	17,773	10,886
Other income	32	483	526	1,594
Income before income tax provision	5,832	3,850	18,299	12,480
Income tax provision	1,750	1,196	5,609	3,886
Net income	\$ 4,082	\$ 2,654	\$ 12,690	\$ 8,594
Earnings per share - basic:				
Basic earnings per share	\$ 0.28	\$ 0.18	\$ 0.87	\$ 0.59
Weighted average shares - basic	14,578	14,532	14,612	14,596
Earnings per share - diluted:				
Diluted earnings per share	\$ 0.26	\$ 0.17	\$ 0.81	\$ 0.56
Weighted average shares - diluted	15,475	15,577	15,677	15,393

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

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

	Nine months ended	
	Sept. 30, 2002	Sept. 30, 2001
	-----	-----
Cash flows from operating activities:		
Net income	\$ 12,690	\$ 8,594
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,411	5,695
Deferred income tax provision	(65)	(669)
Provision for bad debts	228	281
Loss from investment	82	-
Changes in operating assets and liabilities:		
Accounts receivable	2,338	1,174
Other current assets	3,232	515
Accounts payable, accrued expenses and liabilities	(4,023)	(1,098)
Deferred revenue	(1,903)	358
	-----	-----
Net cash provided by operating activities	15,990	14,850
	-----	-----
Cash flows from investing activities:		
Capital expenditures	(1,430)	(1,817)
Capitalization of internally developed software costs	(241)	(116)
Acquisition payments	(1,686)	(150)
Net (purchases) maturities of short-term investments	(4,937)	11,452
ICEM CFD acquisition	(2,591)	(183)
Purchase of long-term investment	(600)	(500)
	-----	-----
Net cash (used in) provided by investing activities	(11,485)	8,686
	-----	-----
Cash flows from financing activities:		
Proceeds from issuance of common stock under Employee Stock Purchase Plan	333	205
Purchase of treasury stock	(11,919)	(15,410)
Proceeds from exercise of stock options	3,932	3,523
	-----	-----
Net cash used in financing activities	(7,654)	(11,682)
	-----	-----
Effect of exchange rate changes on cash	33	(172)
	-----	-----
Net (decrease) increase in cash and cash equivalents	(3,116)	11,682
Cash and cash equivalents, beginning of period	28,545	6,313
	-----	-----
Cash and cash equivalents, end of period	\$ 25,429	\$ 17,995
	=====	=====
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Income taxes	\$ 3,706	\$ 4,594
	=====	=====

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

ANSYS, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2002  
(UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements included herein have been prepared by ANSYS, Inc. (the "Company") in accordance with accounting principles generally accepted in the United States of America for interim financial information for commercial and industrial companies and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. The financial statements as of and for the three and nine months ended September 30, 2002 should be read in conjunction with the Company's consolidated financial statements (and notes thereto) included in the Company's Annual Report on Form 10-K for the year ended December 31, 2001. Accordingly, the accompanying statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation of the financial statements have been included, and all adjustments are of a normal and recurring nature. Operating results for the three and nine months ended September 30, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002.

2. Accumulated Other Comprehensive Income

As of September 30, 2002 and December 31, 2001, accumulated other comprehensive income, as reflected on the condensed consolidated balance sheets, was comprised of foreign currency translation adjustments.

Comprehensive income for the three- and nine-month periods ended September 30, 2002 and 2001 was as follows:

	Three months ended		Nine months ended	
	Sept. 30, 2002	Sept. 30, 2001	Sept. 30, 2002	Sept. 30, 2001
Comprehensive Income	\$ 4,119	\$ 2,722	\$ 12,800	\$ 8,422

3. Other Current Assets

The Company reports accounts receivable related to the portion of annual lease licenses and software maintenance that has not yet been recognized as revenue as a component of other current assets. These amounts totaled \$7.4 million and \$10.3 million as of September 30, 2002 and December 31, 2001, respectively.

#### 4. Recently Issued Accounting Pronouncements

Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standard No. 142 (Statement 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 September 30, 2002 and December 31, 2001, ANSYS had goodwill of \$17.8 million and \$16.9 million, respectively. The Company completed the required transitional goodwill impairment test during the quarter ended June 30, 2002 and determined that goodwill had not been impaired as of the date of the transitional test, January 1, 2002. The following table sets forth the condensed consolidated pro forma results of operations for the three- and nine-month periods ended September 30, 2002 and 2001 as if Statement 142 had been in effect for both periods:

	Three Months Ended Sept. 30, 2002	Three Months Ended Sept. 30, 2001	Nine Months Ended Sept. 30, 2002	Nine Months Ended Sept. 30, 2001
	-----	-----	-----	-----
Reported net income	\$ 4,082	\$ 2,654	\$ 12,690	\$ 8,594
Add back: Goodwill and trademark amortization, net of tax	-	656	-	1,945
Adjusted net income	\$ 4,082	\$ 3,310	\$ 12,690	\$ 10,539
Earnings per share- basic:				
Reported earnings per share	\$ 0.28	\$ 0.18	\$ 0.87	\$ 0.59
Goodwill and trademark amortization	-	.05	-	.13
Adjusted earnings per share	\$ 0.28	\$ 0.23	\$ 0.87	\$ 0.72
Earnings per share- diluted:				
Reported earnings per share	\$ 0.26	\$ 0.17	\$ 0.81	\$ 0.56
Goodwill and trademark amortization	-	.04	-	.12
Adjusted earnings per share	\$ 0.26	\$ 0.21	\$ 0.81	\$ 0.68

As of September 30, 2002, the Company's intangible assets are classified as follows:

(in thousands)	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:		
Core technology	\$ 4,335	\$ (1,890)
Non-compete agreements	2,280	(739)
Customer list	1,407	(586)
	-----	-----
Total	\$ 8,022	\$ (3,215)
	=====	=====
Unamortized intangible assets:		
Trademark	\$ 357	
	=====	

Prior to the adoption of Statement 142, the Company had separately identified and valued the assembled workforce associated with the acquisition of ICEM CFD Engineering as an intangible asset. In accordance with the guidance in Statement 142, the net unamortized balance of \$1,500,000 was reclassified to goodwill.

The increase in goodwill from December 31, 2001 to September 30, 2002 primarily relates to a territory acquisition payment in France.

Amortization expense for the amortized intangible assets reflected above is expected to be approximately \$1,743,000, \$1,482,000, \$961,000, \$738,000 and \$199,000 for the years ending December 31, 2002, 2003, 2004, 2005 and 2006, respectively.



## 5. Earnings Per Share

Basic earnings per share ("EPS") amounts are computed by dividing earnings by the average number of common shares outstanding during the period. Diluted EPS amounts assume the issuance of common stock for all potentially dilutive equivalents outstanding.

The details of basic and diluted earnings per share are as follows:

(in thousands, except per share amounts)	Three Months Ended Sept. 30, 2002	Three Months Ended Sept. 30, 2001	Nine Months Ended Sept. 30, 2002	Nine Months Ended Sept. 30, 2001
	-----	-----	-----	-----
Net income	\$ 4,082	\$ 2,654	\$ 12,690	\$ 8,594
Weighted average shares outstanding - basic	14,578	14,532	14,612	14,596
Basic earnings per share	\$ 0.28	\$ 0.18	\$ 0.87	\$ 0.59
	=====	=====	=====	=====
Effect of dilutive securities - shares issuable upon exercise of dilutive outstanding stock options	897	1,045	1,065	797
Weighted average shares outstanding - diluted	15,475	15,577	15,677	15,393
Diluted earnings per share	\$ 0.26	\$ 0.17	\$ 0.81	\$ 0.56
	=====	=====	=====	=====
Anti-dilutive stock options	177	456	83	456
	=====	=====	=====	=====

## 6. Reclassifications

Certain reclassifications have been made to the 2001 condensed consolidated financial statements to conform to the 2002 presentation.

INDEPENDENT ACCOUNTANTS' REPORT

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

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

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

Based on our review, we are not aware of any material modifications that should be made to such condensed consolidated financial statements as of September 30, 2002, and for the three-month and nine-month periods then ended for them to be in conformity with accounting principles generally accepted in the United States of America.

The accompanying condensed financial information as of December 31, 2001, and for the three-month and nine-month periods ended September 30, 2001, were not audited or reviewed by us and, accordingly, we do not express an opinion or any other form of assurance on them.

/s/ Deloitte & Touche LLP  
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Pittsburgh, Pennsylvania  
October 11, 2002

Item 2.

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

ANSYS, Inc. (the "Company") develops and globally markets engineering simulation software and technologies widely used by engineers and designers across a broad spectrum of industries, including aerospace, automotive, manufacturing, electronics and biomedical. Headquartered at Southpointe in Canonsburg, Pennsylvania, the Company employs approximately 460 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, ICEM CFD Engineering and CADOE products and services 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 accompanying unaudited condensed consolidated financial statements and notes thereto for the three-month and nine-month periods ended September 30, 2002 and 2001, and with the Company's audited financial statements and notes thereto for the year ended December 31, 2001 filed on Form 10-K with the Securities and Exchange Commission.

This Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including statements below concerning future trends regarding the Company's intentions related to continued investments in sales and marketing and research and development, regarding increased general and administrative expenses due to additional legal and accounting compliance costs, plans related to future capital spending, potential changes in the Company's effective tax rate, the sufficiency of existing cash and cash equivalent balances to meet future working capital and capital expenditure requirements, estimates of tax rates in future periods, as well as statements which contain such words as "anticipates", "intends", "believes", "plans" and other similar expressions. The Company's actual results could differ materially from those set forth in forward-looking statements. Certain factors that might cause such a difference include risks and uncertainties detailed in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section in the 2001 Annual Report to Shareholders and in "Certain Factors Regarding Future Results" included herein as Exhibit 99 to this Form 10-Q.

## Results of Operations

Three Months Ended September 30, 2002 Compared to Three Months Ended September 30, 2001

Revenue. The Company's total revenue increased 5.5% in the 2002 third quarter to \$21.7 million from \$20.6 million in the 2001 third quarter. Reported revenue for the prior year was affected by a modification of the Company's revenue recognition policy related to noncancellable annual software leases.

As previously disclosed, in 2001 the Company modified its revenue recognition policy for annual software leases to comply 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. Prior to the revenue recognition modification, the Company recognized a portion of the license fee from annual software leases upon inception or renewal of the lease, while the remaining portion was recognized ratably over the lease period. The TPA requires all revenue from noncancellable annual software lease licenses to be recognized ratably over the lease term. Had this revenue recognition policy modification been initially made in January 2002, third quarter 2002 revenue would have been approximately \$21.0 million.

Software license revenue increased 6.2% in the 2002 quarter to \$11.0 million from \$10.4 million in the 2001 quarter. The quarterly revenue increase in 2002 was primarily the result of an increase in license revenue related to annual software leases, which resulted from the adverse impact of the revenue recognition policy modification discussed above on reported revenue in the third quarter of 2001. Also contributing to the increase in the 2002 quarter was higher license revenue from the Company's ICEM CFD Engineering product line.

Maintenance and service revenue increased 4.8% in the 2002 quarter to \$10.7 million from \$10.2 million in the 2001 quarter. This increase was primarily the result of maintenance contracts sold in association with paid-up license sales in recent quarters.

The Company has recently developed and introduced many new software products. Certain of these products require a higher level of sales and support expertise. The ability of the Company's sales channel, in particular the indirect channel, to obtain this expertise and sell the new product offerings could have an effect on the Company's sales in future periods. Additionally, royalties and consulting engagements associated with the new software products may result in the Company's cost of sales increasing as a percentage of revenue in future periods.

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

Of the Company's total revenue in the 2002 quarter, approximately 56.5% and 43.5%, respectively, were attributable to international and domestic sales, as compared to 58.3% and 41.7%, respectively, in the 2001 quarter.

Cost of Sales and Gross Profit. The Company's total cost of sales increased 11.4% to \$3.0 million, or 13.9% of total revenue, in the 2002 third quarter from \$2.7 million, or 13.2% of total revenue, in the 2001 third quarter. The increase in the 2002 quarter was principally attributable to contracted technical support costs in France, as well as service costs associated with the Company's recently acquired CADOE subsidiary.

As a result of the foregoing, the Company's gross profit increased 4.6% to \$18.7 million in the 2002 quarter from \$17.9 million in the 2001 quarter.

Selling and Marketing. Total selling and marketing expenses increased from \$4.4 million, or 21.2% of total revenue in the 2001 quarter, to \$4.7 million, or 21.6% of total revenue in the 2002 quarter. The increase primarily resulted from higher salaries and related headcount costs associated with the addition of personnel within the Company's direct sales and sales support organization. These additions include personnel associated with the Company's recently established direct sales offices in India and France. These increases were partially offset by a reduction in discretionary advertising and promotion expenditures.

Research and Development. Research and development expenses increased 18.3% in the 2002 third quarter to \$5.2 million, or 23.7% of total revenue, from \$4.4 million, or 21.1% of total revenue, in the 2001 quarter. The increase primarily resulted from additional headcount and related costs, including those associated with the CADOE acquisition, as well as resources necessary to support the continued expansion of our various product offerings. The Company has traditionally invested significant resources in research and development activities and intends to continue to make significant investments in this area.

Amortization. Amortization expense decreased to \$557,000 in the 2002 third quarter from \$1.3 million in the prior year quarter. The reduction primarily related to the adoption of Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets. This standard eliminates the amortization of goodwill and other intangible assets with indefinite useful lives and requires annual testing for impairment. Had this standard been in effect for the third quarter of 2001, amortization expense in that quarter would have been approximately \$440,000.

General and Administrative. General and administrative expenses decreased from \$4.5 million, or 21.9% of total revenue in the 2001 quarter, to \$2.5 million, or 11.6% of total revenue in the 2002 quarter. The decrease was primarily related to a \$2.0 million non-recurring charge in the prior year quarter related to the settlement of a dispute with a former distributor.

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

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

Other Income. Other income decreased to \$32,000 in the 2002 third quarter from \$483,000 in the prior year quarter. The decrease was primarily attributable to a reduced interest rate environment in the 2002 third quarter as compared to that in the 2001 third quarter, and, to a lesser extent, equity affiliate and foreign currency transaction losses in the current year period.

Income Tax Provision. The Company's effective rates of taxation were 30.0% in the 2002 quarter and 31.1% in the 2001 quarter. These rates are lower than the federal and state combined statutory rate as a result of benefits related to export sales, as well as the generation of research and experimentation credits. The Company expects that the effective tax rate will remain in the range of 30.0% - 31.0% for the remainder of the year.

In November 2000, the United States enacted the FSC Repeal and Extraterritorial Income Exclusion Act (the "Act") in response to a challenge from the World Trade Organization ("WTO") that the existing tax benefits provided by foreign sales corporations were prohibited tax subsidies. The Act generally repeals the foreign sales corporation and implements an extraterritorial income ("ETI") tax benefit. Recently, the European Union stated that it did not believe the ETI provisions bring U.S. tax law into WTO-compliance and asked the WTO to rule on the matter. On August 30, 2002, the WTO ruled that the European Union may impose up to \$4 billion per year in retaliatory duties against U.S. exports. As a result, there may be further related changes to U.S. export tax law in connection with this ruling. In 2001, export benefits reduced the Company's effective tax rate by 6.6%. Any such prospective changes regarding tax benefits associated with the Company's export sales may result in an increase in the Company's effective tax rate and decrease its net income in future periods.

Net Income. The Company's net income in the 2002 quarter was \$4.1 million as compared to \$2.7 million in the 2001 quarter. Diluted earnings per share increased to \$.26 in the 2002 quarter as compared to \$.17 in the 2001 quarter as a result of the increase in net income. The weighted average shares used in computing diluted earnings per share were 15.5 million in the 2002 quarter and 15.6 million in the 2001 quarter.

Excluding acquisition-related amortization, net income increased 25.1% to \$4.4 million, or diluted earnings per share of \$0.28, in the 2002 quarter as compared with \$3.5 million, or diluted earnings per share of \$0.23, in the 2001 quarter.

Nine Months Ended September 30, 2002 Compared to Nine Months Ended September 30, 2001

Revenue. The Company's total revenue increased 10.0% for the 2002 nine months to \$65.7 million from \$59.8 million for the 2001 nine months. Reported revenue for the first nine months of 2001 was affected by a modification of the Company's revenue recognition policy related to noncancellable annual software leases.

As previously disclosed, in 2001 the Company modified its revenue recognition policy for annual software leases. Had this revenue recognition policy modification been initially made in January 2002, revenue for the first nine months of 2002 would have been approximately \$62.3 million.

Software license revenue totaled \$34.1 million in the 2002 nine months as compared to \$30.9 million in the 2001 nine months, an increase of 10.3%. The revenue increase was primarily the result of an increase in license revenue related to annual software leases, which resulted from the adverse impact of the revenue recognition policy modification on reported revenue during 2001.

Maintenance and service revenue increased 9.7% for the nine months ended September 30, 2002 to \$31.6 million from \$28.8 million in the comparable 2001 period. This increase was primarily the result of maintenance contracts sold in association with paid-up license sales in recent quarters, and, to a lesser extent, an increase in consulting revenue.

Of the Company's total revenue in the 2002 nine months, approximately 55.3% and 44.7%, respectively, were attributable to international and domestic sales, as compared to 55.1% and 44.9%, respectively, in the 2001 nine months.

Cost of Sales and Gross Profit. The Company's total cost of sales increased 4.3% to \$8.7 million, or 13.2% of total revenue, for the 2002 nine months as compared to \$8.3 million, or 13.9% of total revenue, for the 2001 nine months. The increase in 2002 was principally attributable to contracted technical support costs in France, as well as service costs associated with the Company's recently acquired CADOE subsidiary.

As a result of the foregoing, the Company's gross profit increased 10.9% to \$57.1 million in the 2002 nine-month period from \$51.4 million in the comparable 2001 period.

**Selling and Marketing.** Selling and marketing expenses increased 4.7% in the nine months ended September 30, 2002 to \$15.1 million, or 23.0% of total revenue, from \$14.4 million, or 24.1% of total revenue, in the comparable 2001 period. The increase primarily resulted from higher salaries and related headcount costs associated with the addition of personnel within the Company's direct sales and sales support organization. These additions include personnel associated with the Company's recently established direct sales offices in India and France. Also contributing were costs associated with the Company's biennial worldwide users' conference, which occurred in the second quarter. These increases were partially offset by a reduction in discretionary advertising and promotion expenditures, as well as reduced commissions related to major account sales.

**Research and Development.** Research and development expenses increased 18.6% in the 2002 nine months to \$14.9 million, or 22.7% of total revenue, from \$12.6 million, or 21.0% of total revenue, in the 2001 nine months. The increase primarily resulted from additional headcount and related costs, including those associated with the CAD0E acquisition, related to the development and introduction of new and enhanced products. The Company has traditionally invested significant resources in research and development activities and intends to continue to make significant investments in this area.

**Amortization.** Amortization expense decreased to \$1.7 million in the 2002 nine-month period from \$3.9 million in the comparable prior year period. The reduction primarily related to the adoption of Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets. This standard eliminates the amortization of goodwill and other intangible assets with indefinite useful lives and requires annual testing for impairment. Had this standard been in effect for the first nine months of 2001, amortization expense in that period would have been approximately \$1.4 million.

**General and Administrative.** General and administrative expenses decreased 21.6% to \$7.6 million, or 11.5% of total revenue, in the 2002 nine months, as compared to \$9.6 million, or 16.1% of total revenue, in the 2001 nine months. The decrease was primarily related to a \$2.0 million non-recurring charge in the prior year related to the settlement of a dispute with a former distributor.

**Other Income.** Other income decreased from \$1.6 million in the 2001 nine-month period to \$526,000 in the comparable 2002 period. The decrease was primarily attributable to a declining interest rate environment, and, to a lesser extent, equity affiliate and foreign currency transaction losses in the current year.

**Income Tax Provision.** The Company's effective rates of taxation were 30.7% for the 2002 nine months and 31.1% for the 2001 nine months. These rates are lower than the federal and state combined statutory rate as a result of benefits related to export sales, as well as the generation of research and experimentation credits. The Company expects that the effective tax rate will be in the range of 30.0% - 31.0% for the remainder of the year.



Net Income. The Company's net income in the 2002 nine months was \$12.7 million as compared to \$8.6 million in the 2001 nine months. Diluted earnings per share increased to \$.81 in the 2002 period as compared to \$.56 in the 2001 period as a result of the increase in net income. The weighted average shares used in computing diluted earnings per share were 15.7 million and 15.4 million in the 2002 and 2001 nine-month periods, respectively.

Excluding acquisition-related amortization, net income increased 21.2% to \$13.5 million, or diluted earnings per share of \$0.86, in the 2002 nine months as compared with \$11.2 million, or diluted earnings per share of \$0.73, in the 2001 nine months.

#### Liquidity and Capital Resources

As of September 30, 2002, the Company had cash, cash equivalents and short-term investments totaling \$55.3 million and working capital of \$49.5 million, as compared to cash, cash equivalents and short-term investments of \$53.4 million and working capital of \$40.0 million at December 31, 2001. 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 \$16.0 million for the nine months ended September 30, 2002 and \$14.9 million for the nine months ended September 30, 2001. The increase in the Company's cash flow from operations in the 2002 nine-month period as compared to the comparable 2001 period was primarily a result of increased earnings after the effect of non-cash expenses such as depreciation, amortization and deferred income taxes. This increase was partially offset by the payment in 2002 of approximately \$2.0 million associated with the settlement of a dispute with a former distributor. This settlement amount was fully accrued in the third quarter of 2001. 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 share repurchase program.

The Company's investing activities used cash of \$11.5 million in the nine months ended September 30, 2002 and provided cash of \$8.7 million in the nine months ended September 30, 2001. In the 2002 nine-month period, cash outlays primarily related to net purchases of short-term investments and a final payment of \$2.6 million related to the 2000 acquisition of ICEM CFD Engineering. In the 2001 nine-month period, cash was primarily generated from net maturities of short-term investments. The Company currently plans additional capital spending of approximately \$400,000 throughout the remainder of 2002; however, the level of spending will be dependent upon various factors, including growth of the business and general economic conditions.

Financing activities used cash of approximately \$7.7 million and \$11.7 million in the nine months ended September 30, 2002 and 2001, respectively. In both periods, cash outlays related to the Company's share repurchase program were partially offset by proceeds from the issuance of common stock under employee stock purchase and option plans. The Company repurchased 504,900 shares during the first nine months of 2002.

The Company believes that existing cash and cash equivalent balances, together with cash generated from operations, will be sufficient to meet the Company's working capital and capital expenditure requirements through the remainder of fiscal 2002. 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 utility which enables the customer to request authorization keys, 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 for software lease licenses is recognized ratably over the period of the lease contract. 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. Management specifically analyzes accounts receivable, historical bad debts, credit concentrations and customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. 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 will be recognized in the results of operations if the expected future undiscounted operating cash flow derived from the capitalized software is less than its carrying value.

Item 3.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There were no material changes in the Company's exposure to market risk from December 31, 2001.

Item 4.

CONTROLS AND PROCEDURES

- (a) Disclosure controls and procedures. As required by new Rule 13a-15 under the Securities Exchange Act of 1934, within the 90 days prior to the date of this report, the Company carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures under the supervision and with the participation of the Company's management, including James E. Cashman, III, the Company's President and Chief Executive Officer, and Maria T. Shields, the Company's Chief Financial Officer. In advance of this evaluation, the Company created a Disclosure Review Committee to assist in the quarterly evaluation of the Company's internal disclosure controls and procedures and in the review of the Company's periodic filings under the Exchange Act. The membership of the Disclosure Review Committee consists of the Company's Chief Executive Officer, Chief Financial Officer, Controller, Corporate Counsel, Treasurer, Vice President of Sales and Services, Vice President of Human Resources, and Business Unit General Managers. Based upon that evaluation, Mr. Cashman and Ms. Shields concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. In connection with the new rules, the Company will continue to review and document its disclosure controls and procedures, including its internal controls and procedures for financial reporting, and may from time to time make changes aimed at enhancing their effectiveness and to ensure that its systems evolve with its business.
- (b) Internal controls. Since the date of the evaluation described above, there have not been any significant changes in our internal accounting controls or in other factors that could significantly affect those controls.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 2. Changes in Securities and Use of Proceeds

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

Month/Year -----	Number of Shares -----	Number of Individuals -----	Aggregate Exercise Price -----
August 2002	100	1	\$ 1,000.00

Item 3. Defaults upon Senior Securities

Not Applicable.

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

None.

Item 5. Other information

The Company's Chief Executive Officer and Chief Financial Officer have furnished to the SEC the certification with respect to this Form 10-Q that is required by Section 906 of the Sarbanes-Oxley Act of 2002. See Exhibits 99.2 and 99.3 attached hereto.

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

(a) Exhibits.

- 15 Independent Accountants' Letter Regarding Unaudited Financial Information
- 99.1 Certain Factors Regarding Future Results
- 99.2 Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 Of The Sarbanes-Oxley Act of 2002
- 99.3 Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 Of The Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K.

Not Applicable.

SIGNATURES

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

ANSYS, Inc.

Date: November 12, 2002

By: /s/ James E. Cashman, III

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James E. Cashman, III  
President and Chief  
Executive Officer

Date: November 12, 2002

By: /s/ Maria T. Shields

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Maria T. Shields  
Chief Financial Officer

CHIEF EXECUTIVE OFFICER CERTIFICATION

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

1. I have reviewed this quarterly report on Form 10-Q of ANSYS, Inc. ("ANSYS");
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of ANSYS as of, and for, the periods presented in this quarterly report;
4. ANSYS's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for ANSYS and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to ANSYS, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of ANSYS's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. ANSYS's other certifying officer and I have disclosed, based on our most recent evaluation, to ANSYS's auditors and the audit committee of ANSYS's Board of Directors:
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect ANSYS's ability to record, process, summarize and report financial data and have identified for ANSYS's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in ANSYS's internal controls; and
6. ANSYS's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 12, 2002

/s/ James E. Cashman, III

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James E. Cashman, III  
President and Chief  
Executive Officer

CHIEF FINANCIAL OFFICER CERTIFICATION

I, Maria T. Shields, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ANSYS, Inc. ("ANSYS");
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of ANSYS as of, and for, the periods presented in this quarterly report;
4. ANSYS's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for ANSYS and we have:
  - a. designed such disclosure controls and procedures to ensure that material information relating to ANSYS, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b. evaluated the effectiveness of ANSYS's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. ANSYS's other certifying officer and I have disclosed, based on our most recent evaluation, to ANSYS's auditors and the audit committee of ANSYS's Board of Directors:
  - a. all significant deficiencies in the design or operation of internal controls which could adversely affect ANSYS's ability to record, process, summarize and report financial data and have identified for ANSYS's auditors any material weaknesses in internal controls; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in ANSYS's internal controls; and
6. ANSYS's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 12, 2002

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



EXHIBIT INDEX

Exhibit No.

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- 15 Independent Accountants' Letter Regarding Unaudited Financial Information
- 99.1 Certain Factors Regarding Future Results
- 99.2 Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 Of The Sarbanes-Oxley Act of 2002
- 99.3 Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 Of The Sarbanes-Oxley Act of 2002

November 12, 2002

ANSYS, Inc.  
275 Technology Drive  
Canonsburg, PA 15317

We have made a review, in accordance with standards established by the American Institute of Certified Public Accountants, of the unaudited interim financial information of ANSYS, Inc. and subsidiaries for the period ended September 30, 2002, as indicated in our report dated October 11, 2002; because we did not perform an audit, we expressed no opinion on that information.

We are aware that our report referred to above, which is included in your Quarterly Report on Form 10-Q for the quarter ended September 30, 2002, is incorporated by reference in Registration Statement No. 333-08613 on Form S-8.

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

/s/ Deloitte & Touche LLP  
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Pittsburgh, Pennsylvania

## Certain Factors Regarding Future Results

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

POTENTIAL FLUCTUATIONS IN OPERATING RESULTS: The Company may experience significant fluctuations in future quarterly operating results. Fluctuations may be caused by many factors, including the timing of new product releases or product enhancements by the Company or its competitors; the size and timing of individual orders, including a fluctuation in the demand for and the ability to complete large contracts; software errors or other product quality problems; competition and pricing; customer order deferrals in anticipation of new products or product enhancements; reduction in demand for the Company's products; changes in operating expenses; changes in the mix of software license and maintenance and service revenue; personnel changes and general economic conditions. A substantial portion of the Company's operating expenses 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 ABAQUS Inc. (formerly 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 August 30, 2002, the WTO ruled that the European Union may impose up to \$4 billion per year in retaliatory duties against U.S. exports. As a result, there may be further related changes to U.S. export tax law in connection with this ruling. In 2001, export benefits reduced the Company's effective tax rate by 6.6%. 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 material

adverse effect on the Company's business, financial condition and results of operations.

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

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



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

In connection with the Quarterly Report of ANSYS, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James E. Cashman III, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ James E. Cashman, III

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James E. Cashman, III  
President and Chief Executive Officer  
November 12, 2002

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

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

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

/s/ Maria T. Shields

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Maria T. Shields  
Chief Financial Officer  
November 12, 2002