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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2004

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 ☐

Indicate by a check mark whether the Registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes ☒ No ☐

The number of shares of the Registrant’s Common Stock, par value $.01 per share, outstanding as of April 30, 2004 was 15,360,650 shares.

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ANSYS, INC. AND SUBSIDIARIES

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PART I – UNAUDITED FINANCIAL INFORMATION

Item 1. Financial Statements:

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

	March 31, 2004	Dec. 31, 2003
ASSETS		
Current assets:		
Cash and cash equivalents	$ 91,295	$ 78,038
Short-term investments	4,988	4,976
Accounts receivable, less allowance for doubtful accounts of $2,010 and $2,110, respectively	18,653	20,028
Other current assets	18,873	16,206
Deferred income taxes	3,452	3,311
Total current assets	137,261	122,559
Property and equipment, net	5,923	5,801
Capitalized software costs, net	1,026	959
Goodwill	35,176	35,151
Other intangibles, net	14,070	14,876
Total assets	$ 193,456	$ 179,346
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities:		
Accounts payable	$ 1,555	$ 988
Accrued bonuses	2,140	4,439
Other accrued expenses and liabilities	8,285	8,323
Deferred revenue	43,787	37,874
Total current liabilities	55,767	51,624
Deferred income taxes	609	648
Total liabilities	56,376	52,272
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	46,375	44,535
Less treasury stock, at cost: 1,237,083 and 1,317,488 shares, respectively	(21,830)	(22,768)
Retained earnings	107,842	100,701
Accumulated other comprehensive income	4,527	4,440
Total stockholders’ equity	137,080	127,074
Total liabilities and stockholders’ equity	$ 193,456	$ 179,346

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

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

	Three Months Ended	
	March 31, 2004	**March 31, 2003**
Revenue:		
Software licenses	$ 16,324	$ 12,442
Maintenance and service	15,008	12,158
Total revenue	31,332	24,600
Cost of sales:		
Software licenses	1,337	1,179
Amortization of software and acquired technology	755	525
Maintenance and service	3,083	2,894
Total cost of sales	5,175	4,598
Gross profit	26,157	20,002
Operating expenses:		
Selling and marketing	6,054	5,512
Research and development	6,347	5,656
Amortization	287	223
General and administrative	3,499	2,644
Total operating expenses	16,187	14,035
Operating income	9,970	5,967
Other income, net	230	534
Income before income tax provision	10,200	6,501
Income tax provision	3,060	2,222
Net income	$ 7,140	$ 4,279
Earnings per share - basic:		
Basic earnings per share	$ 0.47	$ 0.29
Weighted average shares - basic	15,315	14,627
Earnings per share - diluted:		
Diluted earnings per share	$ 0.43	$ 0.27
Weighted average shares - diluted	16,461	15,584

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)

	Three Months Ended	
	March 31, 2004	March 31, 2003
Cash flows from operating activities:		
Net income	$ 7,140	$ 4,279
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,866	1,379
Deferred income tax provision	(79)	(74)
Provision for bad debts	15	152
Changes in operating assets and liabilities:		
Accounts receivable	1,496	1,808
Other current assets	(2,639)	(1,011)
Accounts payable, accrued expenses and liabilities	(319)	(558)
Deferred revenue	5,732	5,493
Net cash provided by operating activities	13,212	11,468
Cash flows from investing activities:		
Capital expenditures	(935)	(640)
Capitalization of internally developed software costs	(261)	(103)
Purchases of short-term investments	—	(4,985)
Maturities of short-term investments	—	4,975
Acquisition of CFX, net of cash acquired	—	(21,489)
Net cash used in investing activities	(1,196)	(22,242)
Cash flows from financing activities:		
Proceeds from issuance of common stock under Employee Stock Purchase Plan	216	187
Proceeds from exercise of stock options	779	1,189
Cash provided by financing activities	995	1,376
Effect of exchange rate changes on cash	246	49
Net increase (decrease) in cash and cash equivalents	13,257	(9,349)
Cash and cash equivalents, beginning of period	78,038	46,198
Cash and cash equivalents, end of period	$ 91,295	$ 36,849
Supplemental disclosures of cash flow information:		
Cash paid during the period for income taxes	$ 1,224	$ 676

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

ANSYS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2004
(Unaudited)

1. Summary of Significant Accounting Policies

The accompanying unaudited condensed consolidated financial statements have been prepared by ANSYS, Inc. (the "Company") in accordance with accounting principles generally accepted in the United States of America for interim financial information for commercial and industrial companies and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, the accompanying statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. The accompanying condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements (and notes thereto) included in the Company's Annual Report on Form 10-K for the year ended December 31, 2003. The condensed consolidated December 31, 2003 balance sheet presented is derived from the audited December 31, 2003 balance sheet included in the most recent Form 10-K. In the opinion of management, all adjustments considered necessary for a fair presentation of the financial statements have been included, and all adjustments are of a normal and recurring nature. Operating results for the three months ended March 31, 2004 are not necessarily indicative of the results that may be expected for any future period.

Concentrations of Credit Risk: The Company has a concentration of credit risk with respect to trade receivables due to 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.

In addition to the concentration of credit risk with respect to trade receivables, the Company's cash and cash equivalents are also exposed to concentration of credit risk. The Company maintains its cash accounts primarily in U.S. banks which are insured by the F.D.I.C. up to $100,000 per bank. The Company had cash balances on deposit with a U.S. bank at March 31, 2004 that exceeded the balance insured by the F.D.I.C. in the amount of approximately $43 million. A significant portion of the Company's remaining cash balance is also uninsured.

Stock-Based Compensation: The Company has elected to account for stock-based compensation arrangements under the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock-Based Compensation." No compensation expense has been recognized in the condensed consolidated statements of income as option grants generally are made with exercise prices equal to the fair value of the underlying common stock on the award date, which is typically the date of compensation measurement.

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Had compensation cost been determined based on the fair value at the date of grant, in accordance with the provisions of SFAS No. 123, "*Accounting for Stock-Based Compensation*," the Company's net income and basic and diluted earnings per share would have been reduced to the pro forma amounts indicated below:

(in thousands, except per share data)	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003
Net income, as reported	$ 7,140	$ 4,279
Add: Stock-based employee compensation expense included in net income, net of related tax effects	—	—
Deduct: Stock-based employee compensation expense determined under the fair value-based method for all awards, net of related tax effects	(724)	(751)
Pro forma net income	$ 6,416	$ 3,528
Earnings per share:		
Basic – as reported	$ 0.47	$ 0.29
Basic – pro forma	$ 0.42	$ 0.24
Diluted – as reported	$ 0.43	$ 0.27
Diluted – pro forma	$ 0.39	$ 0.23

Reclassifications: Certain reclassifications have been made to the 2003 financial statements to conform to the 2004 presentation.

2. Accumulated Other Comprehensive Income

As of March 31, 2004 and December 31, 2003, accumulated other comprehensive income, as reflected on the condensed consolidated balance sheets, was comprised of foreign currency translation adjustments.

Comprehensive income for the three-month periods ended March 31, 2004 and 2003 was as follows:

(in thousands)	Three months ended March 31, 2004	Three months ended March 31, 2003
Comprehensive Income	$ 7,227	$ 4,671

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 $14.5 million and $13.0 million as of March 31, 2004 and December 31, 2003, respectively.

4. Earnings Per Common Share

Basic earnings per share (“EPS”) amounts are computed by dividing earnings by the average number of common shares outstanding during the period. Diluted EPS amounts assume the issuance of common stock for all potentially dilutive equivalents outstanding. The details of basic and diluted earnings per share are as follows:

	Three months ended	
(in thousands, except per share data)	March 31, 2004	March 31, 2003
Net income	$ 7,140	$ 4,279
Weighted average shares outstanding – basic	15,315	14,627
Basic earnings per share	$ 0.47	$ 0.29
Effect of dilutive securities:		
Shares issuable upon exercise of dilutive outstanding stock options	1,146	957
Weighted average shares outstanding – diluted	16,461	15,584
Diluted earnings per share	$ 0.43	$ 0.27
Anti-dilutive shares/options	—	207

5. Acquisition of CFX

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

The CFX business was a carve-out entity from the acquiree with significant intercompany transactions and, as a result, proforma information on revenue, income before extraordinary items and the cumulative effect of accounting changes (including those on an interim basis), net income and earnings per share are indeterminable.

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6. Goodwill and Intangible Assets

During the first quarter of 2004, the Company completed the annual impairment test for goodwill and intangibles with indefinite lives and determined that goodwill and the trademark had not been impaired as of January 1, 2004. No events occurred or circumstances changed during the quarter ended March 31, 2004 that required an interim goodwill impairment test.

As of March 31, 2004 and December 31, 2003, the Company's intangible assets are classified as follows:

(in thousands)	March 31, 2004 Gross Carrying Amount	March 31, 2004 Accumulated Amortization	December 31, 2003 Gross Carrying Amount	December 31, 2003 Accumulated Amortization
Amortized intangible assets:				
Core technology	$15,927	$ (5,333)	$15,865	$ (4,715)
Non-compete agreements	2,466	(1,677)	2,481	(1,553)
Customer list	2,420	(1,374)	2,415	(1,218)
Total	$20,813	$ (8,384)	$20,761	$ (7,486)
Unamortized intangible assets:				
Trademark	$ 1,641		$ 1,601	

Amortization expense for amortized intangible assets was $904,000 and $621,000 for the three months ended March 31, 2004 and March 31, 2003, respectively.

Amortization expense for the amortized intangible assets reflected above is expected to be approximately $3,589,000, $3,362,000, $2,500,000, $2,443,000 and $635,000 for the years ending December 31, 2004, 2005, 2006, 2007 and 2008, respectively.

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The changes in goodwill during the three-month period ended March 31, 2004 are as follows:

(in thousands)	
Balance – January 1, 2004	$35,151
Currency translation & other	25
Balance – March 31, 2004	$35,176

7. Geographic Information

Revenue by geographic area for the three months ended March 31, 2004 and 2003 is as follows:

	Three Months Ended	
(in thousands)	March 31, 2004	March 31, 2003
United States	$ 9,787	$ 8,594
Canada	1,628	823
United Kingdom	4,543	3,772
Germany	4,892	2,572
Japan	4,764	4,275
Other European	3,003	2,718
Other International	2,715	1,846
Total revenue	$31,332	$24,600

Long-lived assets (excluding deferred tax assets) by geographic area is as follows:

(in thousands)	March 31, 2004	December 31, 2003
United States	$28,975	$ 28,675
Canada	6,937	7,307
United Kingdom	9,266	9,333
Germany	3,694	3,818
Japan	984	967
Other European	6,066	6,336
Other International	273	351
Total revenue	$56,195	$ 56,787

8. Borrowing Arrangements and Other Obligations

The Company has an uncommitted and unsecured $10 million demand line of credit (the “LOC”) with a bank. The LOC agreement provides that the Company may borrow up to $10 million, subject to the bank’s willingness to make such a loan at the time of the request at its sole discretion. Interest on any borrowings is at the bank’s prime rate or LIBOR, plus an applicable margin. The bank may demand repayment of the entire amount outstanding under the line of credit at any time and for any reason without notice. The Company, in lieu of a fee for the line of credit, has agreed to maintain certain deposits, which range from $5 million to $10 million, depending on the deposit type, with the bank. At March 31, 2004, there were no borrowings outstanding under the LOC.

The Company’s software licensing agreements generally require it to indemnify the customer against claims that its software infringes third party patent, copyright, trademark or other proprietary rights. Such indemnification obligations are generally limited and consistent with industry standards, including the Company’s right to replace an infringing product. As of March 31, 2004, the Company has not experienced any material losses related to these indemnification obligations and no material claims with respect thereto were outstanding. The Company does not expect significant claims related to these indemnification obligations, and consequently has not established any related reserves.

9. Stock Repurchase Program

In October 2001, the Company announced that its Board of Directors had amended its existing 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, there were no shares repurchased in the three-month period ended March 31, 2004. As of March 31, 2004, 1.1 million shares remain authorized for repurchase under the program.

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 March 31, 2004, and the related condensed consolidated statements of income and cash flows for the three-month periods ended March 31, 2004 and 2003. These financial statements are the responsibility of the Company's management.

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

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

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of ANSYS, Inc. and subsidiaries as of December 31, 2003, and the related consolidated statements of income, cash flows and stockholders' equity for the year then ended (not presented herein); and in our report dated February 16, 2004, we expressed an unqualified opinion on those consolidated financial statements and included an explanatory paragraph, which indicated that the Company changed its method of accounting for goodwill and other intangible assets to conform to Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets." In our opinion, the information set forth in the condensed consolidated balance sheet as of December 31, 2003 included in the Company's Form 10-Q referred to above is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Deloitte & Touche LLP

Pittsburgh, Pennsylvania
May 5, 2004

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview:

ANSYS's quarterly results for the period ended March 31, 2004 reflect revenue and diluted earnings per share growth of 27% and 59%, respectively. These results were impacted by various factors, including a full quarter of CFX operating results in the current year quarter as compared to approximately one month in the prior year quarter, foreign currency fluctuations, reduced headcount-related costs in the Company's services business and a lower effective tax rate.

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 550 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®, DesignSpace®, ICEM CFD Engineering, CFX® and CADOE® products through a global network of channel partners, in addition to its own direct sales offices in strategic, global locations. It is the Company's intention to continue to maintain this mixed sales and distribution model. The following discussion should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and notes thereto for the three-month periods ended March 31, 2004 and 2003, and with the Company's audited financial statements and notes thereto for the year ended December 31, 2003 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 the future trends regarding the Company's total cost of sales increasing as a percentage of revenue, the Company's intentions related to continued investments in sales and marketing and research and development, plans related to future capital spending, the sufficiency of existing cash and cash equivalent balances to meet future working capital and capital expenditure requirements, estimates of tax rates in future periods, as well as statements which contain such words as "anticipates", "intends", "believes", "plans" and other similar expressions. The Company's actual results could differ materially from those set forth in forward-looking statements. Certain factors that might cause such a difference include risks and uncertainties detailed in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section in the 2003 Annual Report to Stockholders and in "Certain Factors Regarding Future Results" included herein as Exhibit 99.1 to this Form 10-Q.

Results of Operations

Three Months Ended March 31, 2004 Compared to Three Months Ended March 31, 2003

Revenue. The Company's total revenue increased 27.4% in the 2004 first quarter to $31.3 million from $24.6 million in the 2003 first quarter. On February 26, 2003 the Company acquired 100% of the shares in certain entities and assets (hereinafter collectively referred to as "CFX.") The financial results of the CFX acquisition are included in the Company's financial statements only for the period after the acquisition. The 2003 first-quarter post-acquisition CFX revenue was approximately $2.3 million, as compared with 2004 first quarter CFX-related revenues of $7.3 million.

On average, for the first quarter of 2004, the U.S. dollar was approximately 13% weaker, when measured against the Company's primary foreign currencies, than for the first quarter of 2003. The weakening resulted in increased revenue and operating income during the 2004 period, as compared with the corresponding 2003 period, of approximately $922,000 and $488,000, respectively.

International and domestic revenues, as a percentage of total revenue, were 68.8% and 31.2%, respectively, in the quarter ended March 31, 2004 and 65.1% and 34.9%, respectively, in the quarter ended March 31, 2003.

Software license revenue increased $3.9 million or 31.2% in the 2004 quarter to $16.3 million from $12.4 million in the 2003 quarter. A significant portion of this increase is due to a full quarter of CFX revenue in 2004. The software license revenue related to CFX products was approximately $4.5 million during the quarter ended March 31, 2004 as compared with approximately $1.2 million for the period subsequent to the acquisition to March 31, 2003.

Maintenance and service revenue increased 23.4% in the 2004 quarter to $15.0 million from $12.2 million in the 2003 quarter. This increase was primarily the result of an increase of $1.7 million in CFX-related revenue from $1.1 million of revenue for the quarter ended March 31, 2003 to $2.8 million in revenue for the quarter ended March 31, 2004. Also contributing to the increase were maintenance contracts sold in association with paid-up license sales in recent quarters.

In valuing deferred revenue for inclusion on the CFX opening balance sheet as of February 26, 2003, the Company complied with the fair value provisions of Emerging Issues Task Force ("EITF") Issue No. 01-3 "Accounting in a Business Combination for Deferred Revenue of an Acquiree." In accordance with EITF 01-3, acquired deferred software license revenue of approximately $4.8 million was recorded on the opening balance sheet. This amount was approximately $3.4 million lower than the historical carrying value. Although this purchase accounting requirement will have no impact on the Company's business or cash flow, it adversely impacts the Company's reported GAAP software license revenue post-acquisition. The adverse impact on reported revenue was approximately $122,000 and $454,000 for the three months ended March 31, 2004 and 2003, respectively. The impact during the quarters ended June 30, 2003, September 30, 2003 and December 30, 2003 was approximately $1.1 million, $900,000 and $500,000, respectively. The adverse impact on reported revenue is expected to be approximately $70,000 in each of the three quarters remaining in the year ending December 31, 2004.

Cost of Sales and Gross Profit. The Company's total cost of sales increased to $5.2 million, or 16.5% of total revenue, in the 2004 first quarter from $4.6 million, or 18.7% of total revenue, in the 2003 first quarter. The increase in the 2004 quarter as compared to the 2003 quarter was primarily related to an additional $1.3 million in costs, including an additional $400,000 in acquired software amortization expense, associated with a full quarter of CFX activity in the current year quarter, as compared to approximately one month of activity in the prior year quarter, and a $200,000 increase in third party royalties. These increases were partially offset by a $700,000 decrease in headcount-related costs and a $200,000 decrease in outside technical support consulting costs.

As a result of the changes in revenue and cost of sales, the Company's gross profit increased 30.8% to $26.2 million in the 2004 quarter from $20.0 million in the 2003 quarter.

Selling and Marketing. Total selling and marketing expenses increased from $5.5 million, or 22.4% of total revenue in the 2003 quarter, to $6.1 million, or 19.3% of total revenue in the 2004 quarter. The increase resulted primarily from approximately $670,000 in additional costs related to CFX, mainly the result of the inclusion of a full quarter of CFX operational activity in 2004. The Company anticipates that it will continue to make significant investments throughout 2004 in its global sales and marketing organization to strengthen its competitive position, to enhance major account sales activities and to support its worldwide sales distribution and marketing strategies.

Research and Development. Research and development expenses increased in the 2004 first quarter to $6.3 million, or 20.3% of total revenue, from $5.7 million, or 23.0% of total revenue, in the 2003 quarter. The increase resulted primarily from approximately $1 million in additional costs related to CFX, mainly the result of the inclusion of a full quarter of CFX operational activity in 2004. These costs were partially offset by $158,000 of internal software costs capitalized in excess of the prior year quarter.

The Company has traditionally invested significant resources in research and development activities and intends to continue to make significant investments in this area.

Amortization. Amortization expense increased to $287,000 in the 2004 first quarter from $223,000 in the prior year quarter. The increase relates to the full quarter of amortization expense associated with certain intangible assets acquired in the CFX acquisition in 2004 as compared to 2003.

General and Administrative. General and administrative expenses increased from $2.6 million, or 10.7% of total revenue in the 2003 first quarter, to $3.5 million, or 11.2% of total revenue in the 2004 first quarter. The 2004 quarter included increased costs of approximately $490,000 related to a full versus partial quarter of CFX expenses and of approximately $200,000 related to increased salary and headcount related costs.

The Company maintains commercial insurance to protect against and manage the risks involved in conducting business. The cost to obtain insurance coverage for such risks has significantly increased due to the environment within the commercial insurance industry. When the Company renewed its U.S. contract for employee health insurance coverage in 2004, the new contract resulted in significantly higher health insurance costs than in prior years. Based on this contract and the general trend in domestic health care costs, these costs are expected to continue to significantly increase in future periods. 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, 2002 the Sarbanes-Oxley Act (the “Act”) was signed into law. The Act contains far-reaching corporate governance reforms and new disclosure requirements for public companies. Certain of the Act’s provisions became effective immediately, while other provisions will be implemented through December 31, 2004. Costs to comply with the provisions of the Act, including legal, accounting and consulting fees, will result in higher general and administrative expenses in future periods.

Other Income. Other income decreased by $304,000 from $534,000 during the quarter ended March 31, 2003 to $230,000 for the quarter ended March 31, 2004.

During the quarter ended March 31, 2004 the Company had a net foreign exchange loss of $5,000 as compared with a gain of $319,000 for the quarter ended March 31, 2003. The majority of the net foreign exchange gain from the quarter ended March 31, 2003 resulted from the strengthening of the U.S. Dollar versus the British Pound.

Because the CFX acquisition consisted primarily of non-U.S. locations, the Company, for the foreseeable future, will have increased exposure to volatility of foreign exchange rates. The Company does not use any futures or derivative contracts to manage foreign exchange risk. Future foreign exchange fluctuations may not offset as they did during the quarter ended March 31, 2004. The Company is most impacted by movements among and between the Canadian Dollar, British Pound, Euro, Indian Rupee, Japanese Yen and the U.S. Dollar.

Interest and dividend income, on cash and cash equivalents and short-term investments, was approximately $200,000 for each of the quarters ended March 31, 2004 and 2003. The decline in interest rates from 2003 to 2004 was offset by an increased level of funds invested in 2004 as compared with 2003.

Income Tax Provision. The Company’s effective rates of taxation were 30.0% in the 2004 quarter and 34.2% in the 2003 quarter. These rates are lower than the federal and state combined statutory rate as a result of export benefits, as well as the generation of research and experimentation credits. The Company expects that the effective tax rate will be in the range of 30% - 31% for the year ending December 31, 2004.

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 repealed the foreign sales corporation and implemented an extraterritorial income (“ETI”) tax benefit. Upon introduction of the ETI tax benefit, 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. In March 2003, the European Union approved a retaliation list of specific products but has not yet imposed sanctions. The WTO decision does not repeal the ETI tax benefit and it does not require the European Union to impose trade sanctions, so it is not possible to currently predict the future impact of the WTO decision. In fiscal year 2003, export benefits reduced the Company’s effective tax rate by approximately 6.3%. Any prospective changes regarding tax benefits associated with the Company’s export sales or other federal and state tax planning vehicles may adversely impact the Company’s effective tax rate and decrease its net income in future periods.

Net Income. The Company’s net income in the 2004 quarter was $7.1 million as compared to $4.3 million in the 2003 quarter. Diluted earnings per share increased to $.43 in the 2004 quarter as compared to $.27 in the 2003 quarter as a result of the increase in net income. The weighted average shares used in computing diluted earnings per share were 16.5 million in the 2004 quarter and 15.6 million in the 2003 quarter.

Liquidity and Capital Resources

As of March 31, 2004, the Company had cash, cash equivalents and short-term investments totaling $96.3 million and working capital of $81.5 million, as compared to cash, cash equivalents and short-term investments of $83.0 million and working capital of $70.9 million at December 31, 2003. 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 of an immediate cash need requirement.

The Company's operating activities provided cash of $13.2 million and $11.5 million during the three months ended March 31, 2004 and 2003, respectively. The $1.7 million increase in the Company's cash flow from operations in the 2004 three-month period as compared to the comparable 2003 period was primarily the result of $2.9 million in increased earnings offset against the $1.6 million increase in other current assets mostly from an increased level of accounts receivable related to the portion of annual lease licenses and software maintenance that has not been recognized as revenue.

The Company's investing activities used net cash of $1.2 million and $22.2 million for the three months ended March 31, 2004 and 2003, respectively. The $21.0 million decrease in the level of investing activities between the 2004 and 2003 periods resulted from the February 2003 cash outlay of $21.5 million for the acquisition of CFX. The Company currently plans additional capital spending of approximately $2.5 to $3.0 million throughout the remainder of 2004; however, the level of spending will be dependent upon various factors, including growth of the business and general economic conditions.

Financing activities provided cash of $1.0 million in the three months ended March 31, 2004 as compared with cash provided of $1.4 million during the three months ended March 31, 2003. The proceeds from the exercise of stock options were $400,000 lower in the quarter ended March 31, 2004 as compared with the corresponding 2003 quarter.

The Company believes that existing cash and cash equivalent balances of $91.3 million, 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 2004. The Company's future cash requirements may be obtained through additional equity or debt financings. There can be no assurance that such financings can be obtained on favorable terms, if at all.

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

During the quarter ended March 31, 2004 the Company had no borrowings under an uncommitted and unsecured $10.0 million line of credit.

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 from perpetual licenses is recognized upon delivery of the licensed product and the utility that enables the customer to request authorization keys, provided that acceptance has occurred and a signed contractual obligation has been received, the price is fixed and determinable, and collectibility of the receivable is probable. Revenue for software lease licenses is recognized ratably over the period of the lease contract. Revenue is recorded net of the distributor fee for sales through the ANSYS distribution network. The Company estimates the value of post-contract customer support sold together with perpetual licenses by reference to published price lists which generally represent the prices at which customers could purchase renewal contracts for such services. Revenue from maintenance contracts is recognized ratably over the term of the contract. Costs related to maintenance obligations are expensed as incurred. Revenue from training, support and other services is recognized as the services are performed.

ANSYS makes judgments as to its ability to collect outstanding receivables and provides allowances for a portion of receivables when collection becomes doubtful. Provisions are made based upon a specific review of all significant outstanding invoices from both a value and delinquency perspective. For those invoices not specifically reviewed, provisions are provided at differing rates, based upon the age of the receivable and the geographical area of origin. In determining these percentages, the Company analyzes its historical collection experience and current economic trends in the customer's industry and geographic region. If the historical data used to calculate the allowance for doubtful accounts does not reflect the future ability to collect outstanding receivables, additional provisions for doubtful accounts may be needed and future results of operations could be materially affected.

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

ANSYS makes significant estimates in determining its worldwide income tax provision. These estimates are subject to many transactions and calculations where the ultimate tax outcome is uncertain. Although the Company believes that its estimates are reasonable, the final outcome of tax matters could be different than the estimates reflected in the historical income tax provision and accruals. Such differences could have a material impact on income tax expense and net income in the period in which such determination is made.

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

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Item 3. Quantitative and Qualitative Disclosures Regarding Market Risk

As the Company continues to expand its direct sales presence in international regions, the portion of its revenue, expenses, cash, accounts receivable and payment obligations denominated in foreign currencies continues to increase. As a result, changes in currency exchange rates from time to time may affect the Company's financial position, results of operations and cash flows.

No material change has occurred in the Company's market risk subsequent to December 31, 2003.

Item 4. Controls and Procedures

As required by Rules 13a-15 and 15d-15 of the Securities Exchange Act of 1934, the Company has evaluated, with the participation of management, including the Chief Executive Officer and the Chief Financial Officer, the effectiveness of its disclosure controls and procedures as of the end of the period covered by this report. Based on such evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that such disclosure controls and procedures are effective in ensuring that material information relating to the Company, including its consolidated subsidiaries, is made known to the certifying officers by others within the Company and its consolidated subsidiaries during the period covered by this report.

In 2002, the Company created a Disclosure Review Committee to assist in the quarterly evaluation of the Company's internal disclosure controls and procedures and in the review of the Company's periodic filings under the Exchange Act. The membership of the Disclosure Review Committee consists of the Company's Chief Executive Officer, Chief Financial Officer, Controller, General Counsel, Treasurer, Vice President of Sales and Services, Vice President of Human Resources and Business Unit General Managers. This committee is advised by external counsel, particularly on SEC-related matters.

From time to time, the Company reviews the disclosure controls and procedures, and may from time to time make changes aimed at enhancing their effectiveness and to ensure that the Company's systems evolve with its business. There was no change in the Company's internal control over financial reporting that occurred during the quarter ended March 31, 2004 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

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

The Internal Revenue Service has examined the Company's federal income tax returns for all years through 2000. The IRS is currently examining the Company's federal income tax returns for the year 2001.

Item 2. Changes in Securities

None.

Item 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information

None.

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

(a) Exhibits.

3.1	Restated Certificate of Incorporation
3.2	By-laws of the Company
10.1	1996 Stock Option and Grant Plan, as amended and restated
15	Independent Accountants' Letter Regarding Unaudited Financial Information
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.1	Certain Factors Regarding Future Results

(b) Reports on Form 8-K.

The Company furnished a Current Report on Form 8-K to the Securities and Exchange Commission on February 12, 2004 containing the earnings release announcement of its financial results for the year ended December 31, 2003.

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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: May 7, 2004	By:	/s/ James E. Cashman, III
		James E. Cashman, III President and Chief Executive Officer
Date: May 7, 2004	By:	/s/ Maria T. Shields
		Maria T. Shields Chief Financial Officer

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EXHIBIT INDEX

Exhibit No.	
	Articles of Incorporation and By-laws
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).
	Material Contracts
10.1	1996 Stock Option and Grant Plan, as amended and restated (filed as Exhibit 10.1 to the Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 1996 and incorporated herein by reference).
15	Independent Accountants' Letter Regarding Unaudited Financial Information
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.1	Certain Factors Regarding Future Results

EXHIBIT 15

May 7, 2004

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 as of March 31, 2004 and for the three month periods ended March 31, 2004 and 2003, as indicated in our report dated May 5, 2004; 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 March 31, 2004, is incorporated by reference in Registration Statement Nos. 333-110728, 333-69506 and 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

Pittsburgh, Pennsylvania

EXHIBIT 31.1

CHIEF EXECUTIVE OFFICER CERTIFICATION

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

1. I have reviewed this quarterly report on Form 10-Q of ANSYS, Inc. ("ANSYS");
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of ANSYS as of, and for, the periods presented in this quarterly report;
4. ANSYS's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for ANSYS and we have:
   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to ANSYS, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
   b) evaluated the effectiveness of ANSYS's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   c) disclosed in this report any change in ANSYS's internal control over financial reporting that occurred during ANSYS's most recent fiscal quarter (ANSYS's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, ANSYS's internal control over financial reporting; and
5. ANSYS's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to ANSYS's auditors and the audit committee of ANSYS's Board of Directors:
   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect ANSYS's ability to record, process, summarize and report financial information; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in ANSYS's internal control over financial reporting.

Date: May 7, 2004

/s/ James E. Cashman, III

James E. Cashman, III
President and Chief Executive Officer

EXHIBIT 31.2

CHIEF FINANCIAL OFFICER CERTIFICATION

I, Maria T. Shields, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ANSYS, Inc. (“ANSYS”);
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of ANSYS as of, and for, the periods presented in this quarterly report;
4. ANSYS’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for ANSYS and we have:
    a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to ANSYS, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
    b) evaluated the effectiveness of ANSYS’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    c) disclosed in this report any change in ANSYS’s internal control over financial reporting that occurred during ANSYS’s most recent fiscal quarter (ANSYS’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, ANSYS’s internal control over financial reporting; and
5. ANSYS’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to ANSYS’s auditors and the audit committee of ANSYS’s Board of Directors:
    a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect ANSYS’s ability to record, process, summarize and report financial information; and
    b) any fraud, whether or not material, that involves management or other employees who have a significant role in ANSYS’s internal control over financial reporting.

Date: May 7, 2004

/s/ Maria T. Shields

Maria T. Shields
Chief Financial Officer

EXHIBIT 32.1

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 March 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, James E. Cashman III, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

This certification is provided solely pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and shall not be deemed to be part of the Report or filed for any purpose whatsoever.

/s/ James E. Cashman, III

James E. Cashman, III
President and Chief Executive Officer
May 7, 2004

EXHIBIT 32.2

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 March 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Maria T. Shields, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

This certification is provided solely pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and shall not be deemed to be part of the Report or filed for any purpose whatsoever.

/s/ Maria T. Shields

Maria T. Shields
Chief Financial Officer
May 7, 2004

Important Factors Regarding Future Results

Information provided by the Company or its spokespersons, including information contained in this Quarterly Report on Form 10-Q, may from time to time contain forward-looking statements concerning projected financial performance, market and industry sector growth, product development and commercialization or other aspects of future operations. Such statements will be based on the assumptions and expectations of the Company's management at the time such statements are made. The Company cautions investors that its performance (and, therefore, any forward-looking statement) is subject to risks and uncertainties. Various important factors including, but not limited to, the following may cause the Company's future results to differ materially from those projected in any forward-looking statement.

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

SEASONAL VARIATIONS: The Company's business has experienced significant seasonality, including quarterly reductions in software sales resulting from the slowdown in Europe during the summer months, as well as from the seasonal purchasing and budgeting patterns of the Company's customers.

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

The Company has customers, who supply a wide spectrum of goods and services, in virtually all of the world's major economic regions. The Company's performance is materially impacted by general economic conditions and the performance of its customers. The Company's management team forecasts macroeconomic trends and developments and integrates them through long-range planning into budgets, research and development strategies and a wide variety of general management duties. When forecasting future economic trends and technological developments, management does not have a comparative advantage. To the extent that the Company's forecasts are in error by being overly optimistic or overly pessimistic about the performance of an economy or sector, the Company's performance may be hindered because of a failure to properly match corporate strategy with economic conditions.

The Severe Acute Respiratory Syndrome (SARS) outbreak adversely impacted the Company's operations in certain parts of Asia, particularly in China during 2003. To the extent this outbreak, or similar occurrences, become more widespread, it could affect the Company's business in other geographic areas, resulting in an adverse impact on the Company's financial condition, results of operations and cash flows. In addition, terrorist attacks and other increased global hostilities have contributed to widespread uncertainty and speculation in the world financial markets. This uncertainty and speculation may result in further economic contraction, resulting in the suspension or delay of purchasing by our customers.

STOCK MARKET AND STOCK PRICE VOLATILITY: Market prices for securities of software companies have generally been volatile. In particular, the market price of the Company's common stock has been, and may continue to be, subject to significant fluctuations as a result of factors affecting the Company, the software industry or the securities markets in general. Such factors include, but are not limited to, declines in trading price that may be triggered by the Company's failure to meet the expectations of securities analysts and investors. The Company cannot provide assurance that in such circumstances the trading price of the Company's common stock will recover or that it will not experience a further decline. Moreover, the trading price could be subject to additional fluctuations in response to quarter-to-quarter variations in the Company's operating results, material announcements made by the Company or its competitors, conditions in the software industry generally or other events and factors, many of which are beyond the Company's control.

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

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

SALES OF NEW PRODUCTS: The Company has recently developed and introduced many new software products. Certain of these products require a higher level of sales and support expertise. The ability of the Company’s sales channel, particularly the indirect channel, to obtain this expertise and to sell the new product offerings effectively could have an impact on the Company’s sales in future periods. Additionally, royalties and engineering service engagements associated with the new software products may result in the Company’s cost of sales increasing as a percentage of revenue in future periods.

DEPENDENCE ON DISTRIBUTORS: The Company continues to distribute a substantial portion of its products through its global network of independent, regional channel partners. The channel partners sell the Company’s software products to new and existing customers, expand installations within their existing customer base, offer consulting services and provide the first line of technical support. The channel partners have more immediate contact with most customers in their territories who use ANSYS software than does the Company. Consequently, the Company is highly dependent upon the efforts of the channel partners. Difficulties in ongoing relationships with channel partners, such as delays in collecting accounts receivable, failure to meet performance criteria or to promote the Company’s products as aggressively as the Company expects and differences in the handling of customer relationships could adversely affect the Company’s performance. Additionally, the loss of any major channel partner for any reason, including a channel partner’s decision to sell competing products rather than the Company’s products, could have a material adverse effect on the Company. Moreover, the Company’s future success will depend substantially on the ability and willingness of its channel partners to continue to dedicate the resources necessary to promote the Company’s products and to support a larger installed base of the Company’s products. If the channel partners are unable or unwilling to do so, the Company may be unable to sustain revenue growth.

Currently the Company is partially protected from exchange rate fluctuations among the U.S. Dollar and other currencies as a result of its indirect sales channel, which generally pays the Company in U.S. Dollars. The revenues and expenses associated with the Company’s international direct sales channel are subject to foreign currency exchange fluctuations and, as a result, the Company’s future financial results may be impacted by fluctuations in exchange rates. Additionally, any future changes to the Company’s sales channel involving proportionally higher direct sales from international locations could result in additional exposure to the foreign currency exchange fluctuations. This exposure could adversely impact the Company’s financial position and results of operations in future periods.

COMPETITION: The Company continues to experience intense competition across all markets for its products and services. 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. These competitive pressures may result in decreased sales volumes, price reductions and/or increased operating costs, and could result in lower revenues, margins and net income.

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

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

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

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

In November 2000, the United States enacted the FSC Repeal and Extraterritorial Income Exclusion Act (the "Act") in response to a challenge from the World Trade Organization ("WTO") that the existing tax benefits provided by foreign sales corporations were prohibited tax subsidies. The Act generally repealed the foreign sales corporation and implemented an extraterritorial income ("ETI") tax benefit. Upon introduction of the ETI tax benefit, 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. In March 2003, the European Union approved a retaliation list of specific products but has not yet imposed sanctions. The WTO decision does not repeal the ETI tax benefit and it does not require the European Union to impose trade sanctions, so it is not possible to currently predict the future impact of the WTO decision. In fiscal year 2003, export benefits reduced the Company's effective tax rate by approximately 6.3%. Any prospective changes regarding tax benefits associated with the Company's export sales or other federal and state tax planning vehicles may adversely impact the Company's effective tax rate and decrease its net income in future periods.

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

INCREASED RELIANCE ON PERPETUAL LICENSES: Although the Company has historically maintained stable recurring revenue from the sale of software lease licenses, software maintenance subscriptions and third party royalties, it also has relied on sales of perpetual licenses that involve payment of a single up-front fee and that are more typical in the computer software industry. While revenue generated from software lease licenses, software maintenance subscriptions and third party royalties currently represents a portion of the Company’s software license revenue, to the extent that perpetual license revenue continues to represent a significant percentage of total software license revenue, the Company’s revenue in any period will depend increasingly on sales completed during that period.

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

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

PERIODIC REORGANIZATION OF SALES FORCE: The Company relies heavily on its direct sales force. From time to time, the Company reorganizes and makes adjustments to its sales force in response to such factors as management changes, performance issues and other considerations. During 2003, the Company made certain structural and personnel changes to its North American sales force. These changes may result in a temporary lack of sales production and may adversely impact revenue in future quarters. There can be no assurance that the Company will not restructure its sales force in future periods or that the transition issues associated with such a restructuring will not recur.

THIRD PARTY ROYALTY AGREEMENTS: The Company has agreements with third parties whereby it receives royalty revenues in return for the right of the third party to utilize the Company's technology or embed the Company's technology in the third party's products. To the extent that the Company is unable to maintain these third party relationships, or that the third party is unsuccessful in selling the embedded products, there could be a material, adverse impact on the Company's business, financial condition, results of operations and cash flows.

SALES FORECASTS: The Company makes many operational and strategic decisions based upon short- and long-term sales forecasts. The Company's sales personnel continually monitor the status of all proposals, including the estimated closing date and the dollar amount of the sale, in order to forecast quarterly sales. These forecasts are subject to significant estimation and are impacted by many external factors. For example, a slowdown in information technology spending or economic factors could cause purchasing decisions to be delayed. A variation in actual sales activity from that forecasted could cause the Company to plan or to budget incorrectly and, therefore, could adversely affect the Company's business, financial condition, results of operations and cash flows.

INCOME TAX ESTIMATES: The Company makes significant estimates in determining its worldwide income tax provision. These estimates are subject to many transactions and calculations where the ultimate tax outcome is uncertain. Although the Company believes that its estimates are reasonable, the final outcome of tax matters could be different than the estimates reflected in the historical income tax provision and related accruals. Such differences could have a material impact on income tax expense and net income in the period in which such determination is made.

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.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK: The Company is exposed to certain market risks, primarily foreign currency exchange rates, which arise from transactions entered into in the normal course of business. The Company seeks to minimize these risks primarily through its normal operating and financing activities.