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

FORM 10-Q

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

For the quarterly period ended March 31, 1998

OR

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

Commission file number: 0-20853

ANSYS, Inc.
(exact name of registrant as specified in its charter)

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

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

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

The number of shares of the Registrant's Common Stock, par value $.01 per share, outstanding as of April 24, 1998 was 16,316,276 shares.

ANSYS, INC. AND SUBSIDIARIES

INDEX

Trademarks used in this Form 10-Q: ANSYSr and DesignSpacer 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)

ASSETS	March 31, 1998 (unaudited)	Dec. 31, 1997
Current assets:		
Cash and cash equivalents	$ 14,024	$ 13,990
Short-term investments	19,242	13,853
Accounts receivable, less allowance for doubtful accounts of $1,430 in 1998 and $2,080 in 1997	6,929	8,034
Other current assets	815	926
Deferred income taxes	125	125
Total current assets	41,135	36,928
Securities available for sale	287	182
Property and equipment, net	4,440	4,771
Capitalized software costs, net of accumulated amortization of $15,502 in 1998 and $15,471 in 1997	229	260
Other intangibles, net	2,247	2,374
Deferred income taxes	8,843	9,066
Total assets	$ 57,181	$ 53,581
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 272	$ 235
Accrued bonuses	770	2,133
Other accrued expenses and liabilities	2,839	2,562
Accrued income taxes payable	836	46
Customer prepayments	518	746
Deferred revenue	8,596	7,445
Total liabilities	13,831	13,167
Stockholders' equity:		
Preferred stock, $.01 par value, 2,000,000 shares authorized	-	-
Common stock, $.01 par value; 50,000,000 shares authorized; 16,359,134 shares issued in 1998 and 1997	164	164
Additional paid-in capital	36,186	36,089
Less treasury stock, at cost: 46,171 shares held in 1998 and 68,800 shares held in 1997	(10)	(12)
Retained earnings	7,094	4,327
Accumulated other comprehensive income	190	120
Notes receivable from stockholders	(274)	(274)
Total stockholders' equity	43,350	40,414

Total liabilities and stockholders' equity	$ 57,181	$ 53,581

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

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

	Three months ended March 31, 1998	Three months ended March 31, 1997
Revenue:		
Software licenses	$ 9,299	$ 9,105
Maintenance and service	4,928	2,908
Total revenue	14,227	12,013
Cost of sales:		
Software licenses	891	621
Maintenance and service	650	570
Total cost of sales	1,541	1,191
Gross profit	12,686	10,822
Operating expenses:		
Selling and marketing	3,049	2,978
Research and development	3,093	2,770
Amortization	221	2,253
General and administrative	2,488	1,923
Total operating expenses	8,851	9,924
Operating income	3,835	898
Other income	357	147
Income before income tax provision	4,192	1,045
Income tax provision	1,425	386
Net income	2,767	659
Other comprehensive income, net of tax expense of $36:		
Unrealized gains(losses) on securities	70	(20)
Other comprehensive income	70	(20)
Comprehensive income	$2,837	$639
Net income per basic common share:		
Basic earnings per share	$ 0.17	$ 0.04
Weighted average shares - basic	15,921	15,630
Net income per diluted common share:		
Diluted earnings per share	$ 0.17	$ 0.04
Weighted average shares - diluted	16,701	16,571

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, 1998	Three months ended March 31, 1997
Cash flows from operating activities:		

Net income	$ 2,767	$ 659
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	660	2,577
Deferred income tax provision (benefit)	188	(10)
Provision for bad debts	225	195
Change in operating assets and liabilities:		
Accounts receivable	880	329
Income taxes	790	-
Other current assets	111	(202)
Accounts payable, accrued expenses and liabilities and customer prepayments	(1,277)	(1,317)
Deferred revenue	1,151	1,674
Net cash provided by operating activities	5,495	3,905
Cash flows from investing activities:		
Capital expenditures	(170)	(1,165)
Capitalization of internally developed software costs	-	(70)
Purchase of short-term investments	(5,389)	-
Net cash used in investing activities	(5,559)	(1,235)
Cash flows from financing activities:		
Proceeds from issuance of common stock under Employee Stock Purchase Plan	94	157
Proceeds from issuance of treasury stock	5	-
Proceeds from exercise of stock options	-	9
Repayment of stockholder notes	-	28
Net cash provided by financing activities	99	194
Net increase in cash and cash equivalents	34	2,864
Cash and cash equivalents, beginning of period	13,990	17,069
Cash and cash equivalents, end of period	$ 14,024	$ 19,933
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Income taxes	$265	$900
Supplemental non cash investing and financing activities:		
Increase (decrease) in securities available for sale	105	(30)

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, 1998
(UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements included herein have been prepared by ANSYS, Inc. (the "Company") in accordance with generally accepted accounting principles for interim financial information for commercial and industrial companies and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. The financial statements as of and for the three months ended March 31, 1998 should be read in conjunction with the Company's consolidated financial statements (and notes thereto) included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1997. Accordingly, the accompanying statements do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation of the financial statements have been included, and all adjustments are of a normal and recurring nature. Operating results for the three months ended March 31, 1998 are not necessarily indicative of the results that may be expected for the year ending December 31, 1998.

2. NET INCOME PER SHARE

Effective December 31, 1997, the Company adopted Statement of Financial Accounting standards No. 128, "Earnings Per Share." This Statement requires the disclosure of basic and diluted earnings per share and revises the method required to calculate these amounts under previous standards. Earnings per share data for the 1997 quarter has been restated to reflect adoption of this Statement. The adoption of this standard did not materially impact previously reported earnings per share for the 1997 quarter.

3. ACCUMULATED OTHER COMPREHENSIVE INCOME BALANCES
(in thousands)

	Unrealized Gains on Securities	Accumulated Other Comprehensive Income
Beginning balance	$120	$120
Current-period change	70	70
Ending balance	$190	$190

REVIEW REPORT OF INDEPENDENT ACCOUNTANTS

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

We have reviewed the condensed consolidated balance sheet of ANSYS, Inc. and Subsidiaries as of March 31, 1998, the related condensed consolidated statements of income and comprehensive income for the three-month periods ended March 31, 1998 and 1997, and condensed consolidated cash flows for the three-month periods ended March 31, 1998 and 1997. These financial statements are the responsibility of ANSYS's management.

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

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

We have previously audited, in accordance with generally accepted auditing standards, the consolidated balance sheet of ANSYS, Inc. and Subsidiaries as of December 31, 1997, and the related consolidated statements of operations, stockholders' equity and cash flows for the year then ended (not presented herein). In our report dated January 29, 1998, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 1997, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Coopers & Lybrand L.L.P.
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Pittsburgh, Pennsylvania
April 16, 1998

Item 2.

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

ANSYS, Inc. (the "Company") is a leading international supplier of analysis and engineering software for optimizing the design of new products. The Company is committed to providing the most open and flexible analysis solutions to suit customer requirements for engineering software in today's competitive marketplace. In addition, the Company partners with leading design software suppliers to develop state-of-the-art computer-aided design ("CAD") integrated products. A global network of ANSYS Support Distributors ("ASDs") provides sales, support and training for customers. Additionally, the Company distributes its DesignSpacer products through its global network of ASDs, as well as a network of independent distributors and dealers (value-added resellers or "VARs") who support sales of DesignSpacer products to end users throughout the world. The following discussion should be read in conjunction with the attached unaudited condensed consolidated financial statements and notes thereto for the three month periods ended March 31, 1998 and March 31, 1997 and with the Company's audited financial statements and notes thereto for the fiscal year ended December 31, 1997.

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 which contain such words as "anticipate", "intend", "believe", "plan" and other similar expressions. The Company's actual results could differ materially from those set forth in the forward-looking statements. Certain factors that might cause such a difference include uncertainties regarding customer acceptance of new products, possible delays in developing, completing or shipping new or enhanced products, potential volatility of revenues and profit in any period due to, among other things, lower than expected demand for or the ability to complete large contracts, as well as other risks and uncertainties that are detailed in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section in the 1997 Annual Report to Shareholders , and in the statement of "Certain Factors Affecting Future Results" included herein as Exhibit 99 to this Form 10-Q.

Results of Operations

Three Months Ended March 31, 1998 Compared to Three Months Ended March 31, 1997

Revenue. The Company's total revenue increased 18.4% for the 1998 quarter to $14.2 million from $12.0 million for the 1997 quarter. This increase resulted from an increase in revenue from renewals and sales of leases as noncancellable annual leases, for which a portion of the annual license fee is recognized as paid-up revenue upon renewal or inception of the lease, while the remaining portion is recognized as maintenance revenue ratably over the remaining lease period. The increase in revenue in the first quarter was also attributable to an increase in maintenance and service revenue, which resulted from broader customer usage of maintenance and support services and the Company's continued emphasis on marketing these services. These increases were partially offset by a decrease in monthly lease, as discussed in the paragraph below, as well as a decrease in the demand for paid-up licenses as compared to the 1997 quarter.

Software license revenue increased 2.1% for the 1998 quarter to $9.3 million from $9.1 million for the 1997 quarter, resulting from a shift in existing monthly lease customers renewing as noncancellable annual leases, as well as sales of new noncancellable annual leases. Revenue from the sales of paid-up licenses, and the portion of noncancellable annual leases classified as paid-up revenue, increased 41.4% for the 1998 quarter to $7.6 million from $5.4 million for the 1997 quarter. This increase was partially attributable to a refinement of management's estimate relative to the allocation of noncancellable annual lease revenue between paid-up and maintenance revenue, which occurred in the 1998 quarter. The refinement, which management believes more accurately reflects the Company's current pricing and business practices, resulted in a net revenue increase of approximately $980,000 in the 1998 quarter.

The Company also experienced a 54.6% decrease in monthly lease license revenue to $1.7 million for the 1998 quarter from $3.7 million for the 1997 quarter. This decrease was primarily attributable to an increase in the renewal of existing monthly leases as noncancellable annual leases, as well as the conversion of certain existing lease licenses to paid-up licenses during the course of the past year.

Maintenance and service revenue increased 69.5% for the 1998 quarter to $4.9 million from $2.9 million for the 1997 quarter, as a result of both a broader customer usage of maintenance and support services and the Company's increased emphasis on marketing these services, as well as an increase in the renewal and sale of noncancellable annual leases.

Of the Company's total revenue for the 1998 quarter, approximately 54.1% and 45.9%, respectively, were attributable to international and domestic sales, as compared to 53.3% and 46.7%, respectively, for the 1997 quarter.

Cost of Sales and Gross Profit. The Company's total cost of sales increased 29.4% to $1.5 million, or 10.8% of total revenue, for the 1998 quarter from $1.2 million, or 9.9% of total revenue, for the 1997 quarter. The Company's cost of sales for software license revenue increased 43.5% for the 1998 quarter to $891,000, or 9.6% of software license revenue, from $621,000, or 6.8% of software license revenue, for the 1997 quarter. The increase was primarily due to increases in costs related to manuals, packing supplies and media, and to a lesser extent salaries and benefits. The Company's cost of sales for maintenance and service revenue totaled $650,000 and $570,000, or 13.2% and 19.6% of maintenance and service revenue, for the 1998 and 1997 quarters, respectively. The increase in the 1998 quarter was principally attributable to increases in salaries and benefits as additional staff have been added to support the growth in global service revenue and related customer and ASD support needs.

As a result of the foregoing, the Company's gross profit increased 17.2% to $12.7 million for the 1998 quarter from $10.8 million for the 1997 quarter.

Selling and Marketing. Total selling and marketing expenses remained relatively constant at $3.0 million for the 1998 and 1997 quarters, and represented 21.4% and 24.8% of total revenue, respectively. During the 1997 quarter, the Company made substantial initial investments in establishing strategic offices in the United Kingdom, Japan and Michigan. These offices continue as an important part of the Company's global sales and marketing strategy in fiscal 1998. The Company anticipates that it will continue to make significant investments throughout fiscal 1998 in its global sales and marketing organization to strengthen its competitive position and to support its worldwide sales channels and marketing strategies.

Research and Development. Research and development expenses totaled $3.1 million and $2.8 million for the 1998 and 1997 quarters, or 21.7% and 23.1% of total revenue, respectively. The increase in the 1998 quarter as compared to the 1997 quarter was primarily related to increases in consulting fees and salaries and benefits, partially offset by a decrease in equipment lease expense. The Company has traditionally invested significant resources in research and development activities and intends to continue to make significant investments in fiscal 1998.

Amortization. Amortization expense was $221,000 in the 1998 quarter as compared to $2.3 million in the 1997 quarter. This significant decrease was attributable to the full amortization of certain of the intangible assets which resulted from the acquisition of the Company from Swanson Analysis Systems, Inc. in 1994, including goodwill and capitalized software, in the first quarter of 1997.

General and Administrative. General and administrative expenses increased 29.4% to $2.5 million, or 17.5% of total revenue, for the 1998 quarter from $1.9 million, or 16.0% of total revenue, for the 1997 quarter. The increase was primarily attributable to an increase in legal fees related to a dispute regarding the expiration of an ASD distribution agreement. Additionally, the Company has added internal resources to support the growth of the Company's operations and information systems.

Income Tax Provision. The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." The Company's effective rate of taxation was 34.0% for the 1998 quarter as compared to 37.0% for the 1997 quarter. These percentages are less than the federal and state combined statutory rate due primarily to the utilization of research and experimentation credits, as well as the use of a foreign sales corporation which was established in the fourth quarter of 1997.

Net Income. The Company's net income in the 1998 quarter was $2.8 million as compared to $660,00 in the 1997 quarter. Diluted earnings per share increased to $.17 in the 1998 quarter as compared to $.04 in the 1997 quarter as a result of the increase in net income. The weighted average shares used in computing net income per diluted common share amounts have increased to 16,701,000 in the 1998 quarter from 16,571,000 in the 1997 quarter.

Liquidity and Capital Resources

As of March 31, 1998, the Company had cash, cash equivalents and short-term investments totaling $33.3 million and working capital of $27.3 million, as compared to cash, cash equivalents and short-term investments of $27.8 million and working capital of $23.8 million at December 31, 1997.

The Company's operating activities provided cash of $5.5 million for the three months ended March 31, 1998 and $3.9 million for the three months ended March 31, 1997. The increase in the Company's cash flow from operations for the 1998 quarter as compared to the 1997 quarter was a result of increased earnings as well as improved management of working capital. Net cash generated by operating activities provided sufficient resources to fund increased headcount and capital needs to support the Company's expansion of its global sales support network and continued investment in research and development activities for the 1998 quarter.

Cash used in investing activities totaled $5.6 million for the three months ended March 31, 1998 and $1.2 million for the three months ended March 31, 1997. The use of cash in the 1998 quarter was primarily attributable to the purchase of short-term investments, while the use of cash in the 1997 quarter was primarily related to capital expenditures for the new corporate office facility. The Company currently plans additional capital spending of approximately $1.8 million throughout the remainder of 1998, however, the level of spending will be dependent upon various factors, including growth of the business and general economic conditions.

Financing activities provided net cash of $99,000 and $194,000 for the three months ended March 31, 1998 and 1997, respectively. Cash provided from financing activities for the 1998 and 1997 quarters principally related to proceeds from the issuance of common stock under the Employee Stock Purchase Plan.

The Company believes that existing cash, cash equivalent and short-term investment balances, together with cash generated from operations, will be sufficient to meet the Company's working capital and capital expenditure requirements through at least the remainder of fiscal 1998. 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 financing can be obtained on favorable terms, if at all.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Not Applicable.

Item 2. Changes in Securities

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

Month/Year	Number of Shares	Number of Employees	Aggregate Exercise Price
January 1998	63	1	$80.33
February 1998	6,126	3	$5,185.65
March 1998	0	0	0.00

Item 3. Defaults upon Senior Securities

Not Applicable.

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

Not Applicable.

Item 5. Other information

Not Applicable.

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

(a) Exhibits.

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

(b) Reports on Form 8-K.

Not Applicable.

SIGNATURES

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

ANSYS, Inc.

Date: April 24, 1998 By: /s/ Peter J. Smith
Peter J. Smith
Chairman, President and
Chief Executive Officer

Date: April 24, 1998 By: /s/ John M. Sherbin II
John M. Sherbin II
Chief Financial Officer;
Senior Vice President, Finance
and Administration; Secretary

Item 6.

EXHIBIT INDEX

Exhibit No.	
15	Independent Accountants' Letter Regarding Unaudited Financial Information
27.1	Financial Data Schedule
99	Certain Factors Regarding Future Results

EXHIBIT 15
April 16, 1998

Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

RE: ANSYS, Inc. and Subsidiaries

1. Form S-8 (Registration No. 333-8613) 1996 Stock Option and Grant Plan Employee Stock Purchase Plan

Ladies & Gentlemen:

We are aware that our report dated April 16, 1998 on our review of the interim financial information of ANSYS, Inc. and Subsidiaries for the three-month period ended March 31, 1998 is incorporated by reference in the registration statement referred to above. Pursuant to Rule 436(c) under the Securities Act of 1933, this report should not be considered a part of the registration statement prepared or certified by us within the meaning of Sections 7 and 11 of that Act.

Very truly yours,

/s/ Coopers & Lybrand L.L.P.
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EXHIBIT 99 Certain Factors Regarding Future Results

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

Potential Fluctuations in Operating Results. The Company may experience significant fluctuations in future quarterly operating results. Fluctuations may be caused by many factors, including the timing of new product releases or product enhancements by the Company or its competitors; the size and timing of individual orders, including a fluctuation in the demand for and the ability to complete large contracts; software errors or other product quality problems; competition and pricing; customer order deferrals in anticipation of new products or product enhancements; reduction in demand for the Company's products; changes in operating expenses; 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 personnel expenses cannot be adjusted quickly and is based, in significant part, on the Company's expectation for future revenues. 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, and increasingly is dependent upon receiving large orders of perpetual licenses involving the payment of a single up-front fee. The Company believes that large orders of this type may reflect an increasing demand for enterprise-wide software solutions from certain of the Company's customers, which, if continued, may increase the volatility of the Company's revenues and profit from period to period. More recently, the Company has also experienced an increase in renewals and sales of noncancellable annual leases, for which a portion of the annual license fee is recognized as paid-up revenue upon renewal or inception of the lease. As a result, product revenues in any quarter are substantially dependent on orders booked and shipped in the latter part of that quarter, and revenues for any future quarter are not predictable with any significant degree of accuracy.

Stock Market 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 and software industry or securities markets in general.

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

Rapidly Changing Technology; New Products; Risk of Product Defects. The markets for the Company's products are generally characterized by rapidly changing technology and frequent new product introductions that can render existing products obsolete or unmarketable. A major factor in the Company's future success will be its ability to anticipate technological changes and to develop and introduce in a timely manner enhancements to its existing products and new products to meet those changes. If the Company is unable to introduce new products and respond to industry changes on a timely basis, 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 or warranty costs, any of which could have a materially adverse effect upon the Company's business, financial condition and results of operations.

Dependence on Distributors. The Company distributes its products principally through its global network of 36 independent, regional ANSYS Support Distributors ("ASDs"). The ASDs sell ANSYS and DesignSpace products to new and existing customers, expand installations within their existing customer base, offer consulting services and provide the first line of ANSYS technical support. The ASDs have more immediate contact with most customers who use ANSYS software than does the Company. Consequently, the Company is highly dependent on the efforts of the ASDs. Difficulties in ongoing relationships with ASDs, such as delays in collecting accounts receivable, ASDs' 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, 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, computer-aided engineering ("CAE") and computer-aided manufacturing ("CAM") markets are intensely competitive. In the traditional CAE market, the Company's primary competitors include MacNeal-Schwendler Corporation, Hibbitt, Karlsson and Sorenson, Inc. and MARC Analysis Research Corporation. 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 and Structural Dynamics Research Corporation provide varying levels of design analysis and 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 market. 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 entered into employment agreements with two executives, the loss of these, 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 and growing portion of the Company's business comes from outside the United States. Risks inherent in the Company's international business activities include imposition of government controls, export license requirements, restrictions on the export of critical technology, political and economic instability, trade restrictions, changes in tariffs and taxes, difficulties in staffing and managing international operations, longer accounts receivable payment cycles and the burdens of complying with a wide variety of foreign laws and regulations. Effective patent, copyright and trade secret protection may not be available in every foreign country in which the Company sells its products. The Company's business, financial condition and results of operations could be materially adversely affected by any of these risks.

Additionally, countries in the Asia Pacific region, including Japan, have recently experienced weaknesses in their currency, banking and equity markets. These weaknesses could adversely affect consumer demand for the Company'' products and ultimately the Company's financial position or results of operations.

Dependence on Proprietary Technology. The Company's success is highly dependent upon its proprietary technology. The Company does not have patents on any of its technology and 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 and Noncancellable Annual Leases. The Company has historically maintained stable recurring revenue from the sale of monthly lease licenses for its software products. While 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, most recently, it has also experienced an increase in customer preference for noncancellable annual leases. Although lease license revenue currently represents a significant portion of the Company's software license fee revenue, to the extent that perpetual license and noncancellable annual lease license revenue increase as a percent of total software license fee revenue, the Company's revenue in any period will increasingly depend on sales completed during that period.

Year 2000 Computer Systems Compliance. The Company has established a corporate-wide Year 2000 task force, led by the Company's Vice President of Corporate Quality, with the representation of all major business segments. This task force is responsible for identifying, evaluating and overseeing the implementation of necessary changes to computer systems and applications to achieve a Year 2000 date conversion with no effect on customers or disruption of business operations. The task force is currently in the process of assessing its exposure to contingencies related to the Year 2000 Issue for previous releases of its products. The Company plans to utilize both internal and external resources to reprogram, or replace and test the software for Year 2000 modifications. The Company plans to complete the Year 2000 project within the next year, but no later than December 31, 1998. The total remaining cost of the Year 2000 project will be funded through operating cash flows. The Company does not expect the amounts required to be expensed over the next two years to have a material effect on its financial position or results of operations. During 1997 and the first quarter of 1998, the costs related to the assessment of, and preliminary efforts in connection with, its Year 2000 project and the development of its action plan were not material.

The Company is also communicating with its significant suppliers and customers to identify critical related issues which need to be resolved. The Company's total Year 2000 project costs and estimates to complete include the estimated costs and time associated with the impact of a third party's Year 2000 issue, and are based on presently available information. However, there can be no guarantee that the systems of other companies on which the Company's systems rely will be converted on a timely basis, or that a failure to convert by another company, or a conversion that is incompatible with the Company's systems, would not have a material adverse effect on the Company.

The costs of the project and the date on which the Company plans to complete the year 2000 action plan are based upon management's best estimates, which are derived utilizing numerous assumptions of future events including the availability of certain resources, third party modification plans and other factors. However, there can be no guarantee that these estimates will be achieved and actual results could differ materially from those plans. Specific factors that might cause such material differences include, but are not limited to, the availability and cost of personnel with necessary expertise in this area, the ability to identify and correct all relevant computer codes and similar uncertainties.