ANSYS®

the world is dynamic

2000

ANNUAL REPORT

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ANSYS, Inc. is the driving force behind the "collaborative engineering" revolution in Computer-Aided Engineering. Our software provides manufacturing organizations with a competitive advantage, allowing them to move products from concept to reality more rapidly and ef½ciently. The ANSYS, Inc. Family of Enterprise Solutions enables companies to see how their designs will react to the physical demands of the real world, enabling them to make crucial changes prior to production.

ANSYS, Inc., formerly Swanson Analysis Systems, Inc., was founded in 1970, to develop, support and market the ANSYS® program, the engineering simulation software widely used in the CAE environment. Since then, the company has grown into an international corporation with more than 300 employees and offers a range of software solutions for design analysis and optimization. The company has long-term relationships with customers in a broad scope of dynamic industries, including transportation, electronics packaging, biomedical, industrial equipment and consumer goods. The company markets its products principally through its global network of independent regional distributors and resellers with local of½ces in more than 37 countries.

Year Ended December 31,

(in thousands, except per share data)	2000	1999	1998	1997	1996
Revenue	$ 74,467	$ 63,139	$ 56,553	$ 50,547	$ 47,066
Operating income	19,579	17,243	15,206	10,731	3,674
Net income	16,310	14,751	11,349	7,400	1,304
Net income per basic share after extraordinary item	1.03	.90	.71	.47	.08
Weighted average shares - basic	15,804	16,366	16,052	15,742	14,000
Net income per diluted share after extraordinary item	1.00	.88	.68	.45	.07
Weighted average shares - diluted	16,269	16,689	16,581	16,518	14,906
Net income before acquisition-related amortization and one-time charges	17,723	14,751	11,349	7,400	1,304
Adjusted earnings per share - diluted	1.09	.88	.68	.45	.07
Total assets	$ 94,225	$ 83,891	$ 67,998	$ 54,566	$ 43,431
Working capital	40,046	52,655	38,049	23,761	14,691
Long-term obligations	–	–	–	–	–
Stockholders' equity	69,364	65,631	52,367	40,414	32,974

Letter to the Shareholders

James E. Cashman III
President and CEO

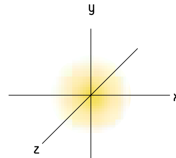
For ANSYS, Inc. and our shareholders, 2000 marked a lucrative period of accelerated growth in our business. We took an already strong, technologically rich company – with an impressive customer list – and made significant enhancements to all aspects of our business in preparation for new levels of growth and customer engagement. As a result, each newly-gained success yielded heightened opportunity.

We entered the 21st century as a high-tech software organization with a mission to aid our customers in achieving market dominance by producing innovative, high-quality products in less time, with reduced costs. We expanded that mission by entering into key partnerships, making significant product enhancements, and increasing our distribution and services. As a result, our diverse customer list grew to an estimated 8,750 companies – among them, the top 10 *Fortune* "Top 100 Global Industrial Companies" plus 74 other companies on that list.

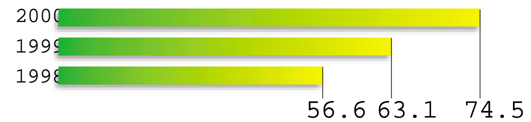
Most importantly, we broadened our relationships with our valued channel partners and customers, and enhanced our market prospects with our first major acquisition. We introduced new products that expand engineering simulation by enabling analysts to bring their designs "Closest to Reality." Ultimately, we gained accelerated revenue growth with strong earnings.

We ended fiscal year 2000 with a record-setting fourth quarter revenue of $24.2 million – a 37% increase from the same period in 1999. Our year 2000 revenue of $74.5 million was up 18%, compared to $63.1 million in 1999. Overall, the company's adjusted net income in 2000 increased 20% to $17.7 million, or $1.09 per diluted share. We have maintained a strong capital base by executing a profitable and consistent business plan focused on increasing market share among traditional engineering analysts, promoting usage of new simulation tools for design engineers and enhancing the "collaborative engineering" process.

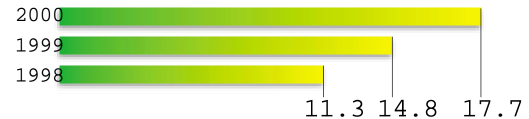
These numbers indicate only a hint of ANSYS, Inc.'s long-term potential. In 2000, we acquired ICEM CFD Engineering, a Berkeley, California, USA-based company, which helped us gain a strong foundation of complementary technology, as well as new distribution channels. ICEM's inroads in the aerospace and automotive industries provide ANSYS with a harmonious new customer base. They also strongly position us for dominance in emerging, high-growth industries such as Micro-Electro-Mechanical Systems (MEMS), electronics, telecommunications and photonics.



Revenue (in millions of dollars)



Adjusted net income (in Millions of dollars)



Furthermore, building our direct major account focus – while simultaneously deepening the partnership with our long-standing distribution network – increased our customer engagement capacity. We enhanced our infrastructure for future growth through the initial implementation of a Customer Relationship Management (CRM) system that integrates all aspects of our business in a virtual environment. Additionally, many talented individuals joined our team this year. These individuals will be instrumental in helping ANSYS meet the challenges of an ever-changing 21st century market.

Maintaining technical leadership for more than 30 years does not come without effort. Our customers depend on us to provide leading simulation software that helps them to produce reliable products faster, while reducing costs. In keeping with our strategic business model, we aggressively invested in the development of the industry's most robust and advanced Computer-Aided Engineering software in 2000.

In August, we released DesignSpace® Version 5.0.2, which provides broader and more effective communication capabilities for the patented engineering Web-based collaboration in DesignSpace Report™. This latest release offers enterprise-level support for popular Computer-Aided Design systems and engineering hardware platforms, thus providing full CAD associativity. The ANSYS® 5.7 product line, released in December, combines technical advancements with breakthrough achievements in design to bring users closer to simulating the real-life effects of product behavior prior to production. This latest release of ANSYS software improves the user's ability to deliver higher-quality products to the market faster by reducing the number of necessary physical prototypes. The newest addition to the ANSYS Family of Enterprise Solutions this year is Parallel Performance for ANSYS, which incorporates the latest hardware and software technology for analyzing large models.

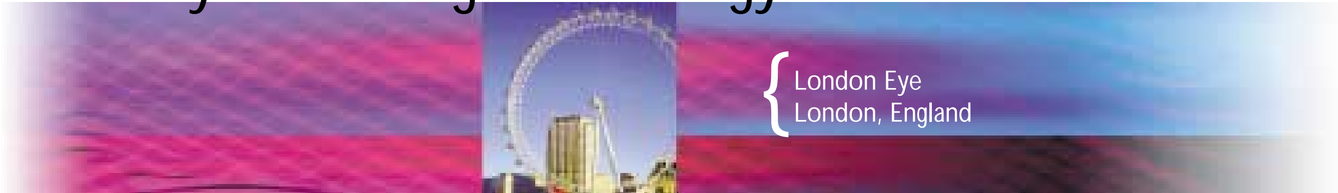
Additionally, we warmly welcomed new events and further expanded upon those long-standing. In August, our ninth biennial International Users' Conference and Exhibition attracted more than 600 attendees and 40 software and hardware partners from 30 countries. It distinguished itself as our most successful exhibition to date. ANSYS, Inc. is committed to engineering education and encourages a curriculum that provides students with the proficiencies needed to compete in today's CAE marketplace. Approximately 2,600 educational institutions throughout the world hold multiple seats of our educational product, and this year, for the first time, we sponsored a national competition for collegiate design teams.

Further, as a result of our solid financial standing and continued advancements in technology, *Forbes* Magazine recognized ANSYS, Inc. as one of its "200 Best Small Companies." We also appeared on *Business Week's* list of "Top 100 Hot Growth Companies" for the second consecutive year. Although these acknowledgements are gratifying compliments, the real success of our company is best measured in our customers' success stories. In this report, you will read four diverse customer stories that prove the dynamic capabilities of our products and illustrate how our software is involved in the most innovative projects, spanning all industries across the world.

Looking ahead, we plan to continue to provide superior technology in a world of increasing technological complexity, while making our software easier and more effective for our customers to use. At the same time, we will strengthen our strategic technical partnerships, and provide new and innovative ways of providing customer value by leveraging the Internet and our distribution alliance. Our gratitude goes out to our customers, shareholders, employees, distributors and all others who have played an instrumental role in helping us achieve our objectives in 2000. You fuel our ability to push the envelope of advancement in this dynamic world, and have helped position us as the industry leader in the Computer-Aided Engineering market.

James E. Cashman III

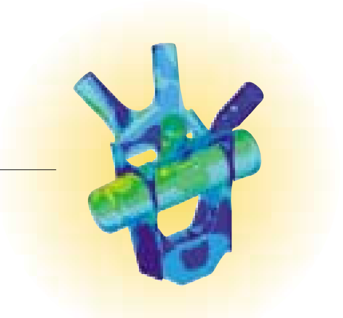
London's "Eye-Catching" Technology



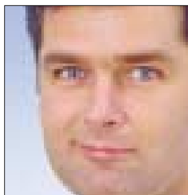
London Eye
London, England

Ride safety is a constant concern for amusement park owners and visitors. With more than 309 million thrill seekers passing through park gates annually, the slightest mechanical error can be disastrous. Fortunately, many ride developers do their part to avoid such situations by employing skilled engineers to perform analyses using ANSYS, Inc. software.

Designed and developed by Marks Barfield Architects, the future of the British Airways' London Eye, the world's tallest observation wheel, lay in the hands of Dutch steel fabrication and construction company Hollandia b.v. In order to complete the project in 16 months from start to finish, Hollandia employed the services of Iv-Infra of Papendrecht, London, England, as a subcontractor for the design calculations and verifications of the structure.

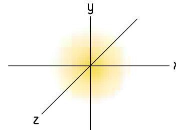


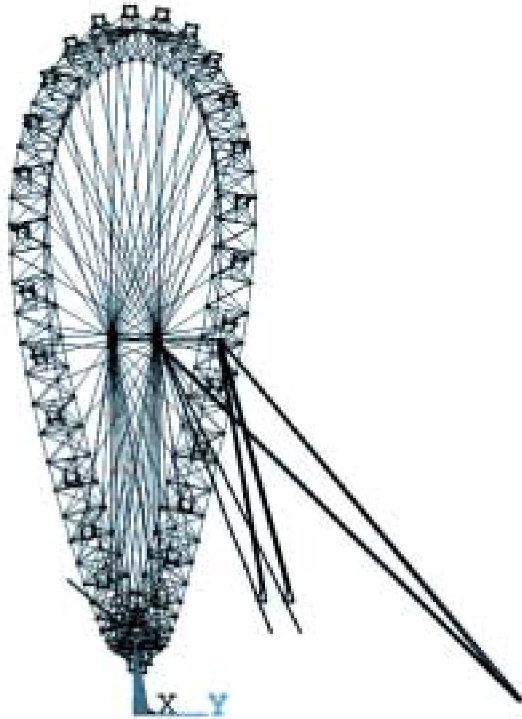
Detail of Spoke Cable connector



Arie Lanser
Manager, Engineering Department
Iv-Infra
Papendrecht, UK

"Within the structural design of the British Airways' London Eye, we have made great use of Ansys. Because of the uniqueness of the wheel, we were able to measure the behavior of the structure on some elements in practice. The comparisons with the calculated values were astonishing."





Model of London Eye

Engineers from Iv-Infra entrusted ANSYS/Multiphysics™ to analyze stability, loading and wind factors prior to constructing the wheel.

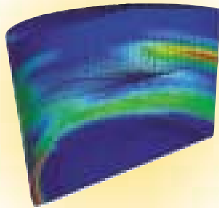
After conducting investigations into overall stability, loading and static strength, the team built a complete model of the structure in ANSYS/Multiphysics. Parameters were then added to determine the fatigue life of the structure. Another major factor in the analysis of the 443 foot tall London Eye was the dynamic behavior of the structure due to wind loading. Iv-Infra conducted wind analyses on every one of the 32 passenger capsules.

The calculation was enormous because the load on each capsule differed during the course of the cycle. The differing capsule calculations caused engineers to investigate 6,400 loadings on each capsule. The output data from ANSYS/Multiphysics determined the size and placement of the dampers and the behavior of the structure.

The 1,800-ton London Eye, located on the River Thames just opposite the Houses of Parliament, is capable of carrying 4,500 riders a day, enabling them to see across the city.

Preparing for "The Big One"

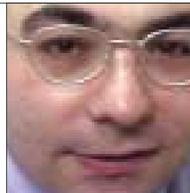
San Andreas Fault
SAN Francisco, CALIFORNIA, USA



Analysis model of the water tank

In the hills just south of San Francisco, California, USA, sits a million-gallon steel water storage tank that provides the local domestic water supply. Buried deep within the hills beneath it lies the infamous San Andreas Fault, almost imperceptibly building up stress for a major seismic event. In the valley below lies a stress of a different kind – lack of housing. This area includes some of San Francisco's most desirable remaining land, and to a subdivision developer, it is valuable real estate.

"We chose ANSYS/LS-DYNA because it had all the functionality at hand. Therefore, we did not need to spend time verifying code options such as rigid wall contact."



Paul Jacob
Senior Engineer
Structural Engineering Unit
URS/Dames & Moore Group
Houston, Texas, USA

The potential for tank failure during some foreseeable earthquake – what Californians call "The Big One" – is a considerable risk to such development, and to estimate the degree of risk and the potential consequences of tank failure was not an easy task.
With public opinion running against land development, structural engineers from URS/Dames & Moore Group of Houston, Texas, USA, were called in to analyze the water tank using ANSYS/LS-DYNA™.

The problem presented to URS/Dames & Moore was to determine what would happen if 1.5 million gallons of water, weighing 7,100 tons, contained in 20 tons of 30-year-old steel, was violently shaken in an earthquake. The tank is 75 feet in diameter and 53 feet high, and sits unanchored on a four-foot-thick ring of concrete. The analysis team modeled the main steelwork of the tank (shell courses, bottom plate and roof)
and the contained water.

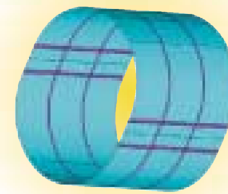
The final results proved that the tank could be expected to withstand the anticipated level earthquake shaking used in studying a number of similar events. The earthquake event considered was evaluated using a probabilistic approach that included fault slip rates and historic earthquake data to develop synthetic earthquake time histories.

Warfare Ingenuity

H.L.Hunley
Charleston, South Carolina, USA

One of 2000's most dramatic developments for both historians and archaeologists was the raising of the Confederate States of America submarine *H.L. Hunley*. It was also a signi½cant success for Oceaneering International, Inc., of Upper Marlboro, Maryland, USA, through its use of ANSYS/Mechanical™.

Despite its pioneering in underwater warfare, the *Hunley* had been virtually forgotten until its rediscovery in 1995. After sinking mysteriously in 1864 off the coast of Charleston, South Carolina, USA, the vessel and her crew remained dormant in water less than 30 feet deep. Through the years, several efforts were made to locate the Confederate Navy's most carefully-guarded secret. Finally, in 1998, The *Hunley* Commission, a non-pro½t organization dedicated to the recovery and preservation of the historic submarine, approached Oceaneering International about the feasibility of recovering the vessel.



Analysis model showing a section of the *Hunley*

DURING THE RECOVERY, 32 SLINGS SUPPORTED THE SUBMARINE'S 65,000 POUNDS AS it was lifted by crane from a watery grave

Oceaneering International's pre-recovery planning objective involved systematically evaluating different recovery methodologies and developing a concept of operations which included modeling the hull structure and analyzing the anticipated loads using ANSYS/Mechanical. The primary concern driving the engineers at Oceaneering International was that the *Hunley's* slender hull – 40 feet long, 4 feet wide and 4 feet high – would come apart as it was lifted from the seabed or as it was raised free of water. Since the *Hunley* has tremendous historical signi½cance, such disintegration would be disastrous.

Artist's Rendering of the *H.L. Hunley*

Divers and marine archaeologists determined that many rivets in the hull had turned to powder. For example, the hull's copper rivets had essentially dissolved due to the decomposition of the iron hull plates by salt water. For the analysis, it was assumed that only sand and sediment held the hull plates together.

During the recovery, divers looped 32 slings around the wreck to support its 65,000 pounds and cushioned it with in¾ated foam pillows. The slings, attached to a steel frame, held the submarine as a crane lifted it to the surface, placing it on a barge to be towed back to shore. Presently, the *Hunley* and her entombed ill-fated crew lie in a tub
of water for preservation purposes at the Warren Lasch Conservation Center in the former Charleston Naval Shipyard. Researchers expect that it will take years to examine the vessel and its contents.

"Using ANSYS, we modeled the hull of the submarine to analyze the structure weaknesses of the hull and to determine the critical points in supporting the structure during the recovery. ANSYS was a driving in¾uence in the design of the recovery apparatus and key in a successful recovery operation of the *H.L. Hunley*."

Leonard T. Whitlock
Senior Project Manager
Independent Consultant
Annapolis, Maryland, USA

Directors (left to right):

James E. Cashman III
President and Chief Executive Officer, ANSYS, Inc. Director, Pittsburgh Technology Council. Former Senior Vice President of Operations, ANSYS, Inc. Former Vice President Marketing and International Operations, PAR Technology Corporation. Former Vice President Product Development and Marketing in the Metaphase Division, Structural Dynamics Research Corporation. Director since 2000.

John F. Smith [2]
Partner, NewcoGen Group. Former Chief Operating Officer and Senior Vice President, Digital Equipment Corporation. Other directorships: Hadco Corporation and Data Care Software. Director since 1995.

Jacqueline C. Morby [2]
Managing Director, TA Associates, Inc. Other directorships: Pacific Life Corporation and other private companies. Director since 1994.

Patrick Zilvitis [1]
Former Chief Information Officer and Corporate Vice President of The Gillette Company. Other directorships: Advisory boards at Babson College, Timex Corporation and several start-up companies. Director since 2000.

Roger J. Heinen, Jr. [1]
Former Senior Vice President, Microsoft Corporation and Apple Computer, Inc. Other directorships: Progress Software Corporation and Avid Technology, Inc. Director since 1996.

Peter J. Smith
Chairman of the Board and former Chief Executive Officer, ANSYS, Inc. Partner, NewcoGen Group. Director, The Martin Group, Inc. Director since 1994.

Roger B. Kafker [1]
Managing Director, TA Associates, Inc. Other directorships: And 1, CompBenefits, Cupertino Electric and HVL/Douglas Labs. Director since 1994.

[1] Audit and Ethics Committee

[2] Compensation and Option Committee

Officers and Senior Management

James E. Cashman III
President and
Chief Executive Officer

Paul A. Johnson
Senior Vice President,
Product Development

Maria T. Shields
Chief Financial Officer

Dr. Joseph S. Solecki
Chief Technologist

Michael J. Wheeler
Vice President, Marketing

Grama R. Bhashyam
Corporate Fellow

Dr. Armin Wulf
President, ICEM CFD
Engineering

David L. Conover
Corporate Fellow

James A. Gregory
Vice President,
North American Sales

Wilbur S. Harmon
Vice President,
Human Resources

Mark C. Imgrund
Vice President,
Development

Timothy P. Pawlak
Corporate Fellow

David S. Secunda
Corporate Counsel
and Secretary

James C. Tung
Vice President,
International Operations

Dr. Gary C. Carter
Vice President,
European Sales

2000 Financial Content

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Overview

ANSYS, Inc. (the "Company") is a leading international supplier of analysis and engineering software for optimizing the design of new products. The Company is committed to providing the most open and flexible analysis solutions to suit customer requirements for engineering software in today's competitive marketplace. In addition, the Company partners with leading design software suppliers to develop state-of-the-art computer-aided design ("CAD") integrated products. Sales, support and training for customers are provided primarily through the Company's global network of independent ANSYS Support Distributors ("ASDs"). The Company distributes and supports its ANSYS®, DesignSpace® and ICEM CFD product lines through its ASDs, certain direct sales offices, as well as a network of independent resellers and dealers. The following discussion should be read in conjunction with the audited consolidated financial statements and notes thereto included elsewhere in this Annual Report.

This Annual Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including statements which contain such words as "anticipates," "intends," "believes," "plans" and other similar expressions. The Company's actual results could differ materially from those set forth in the forward-looking statements due to various risks and uncertainties which are detailed in "Important Factors Regarding Future Results" beginning on page 18.

For purposes of the following discussion and analysis, the following table sets forth certain consolidated financial data for the years 2000, 1999, and 1998.

	Year Ended December 31,		
(in thousands)	2000	1999	1998
Revenue:			
Software licenses	$ 43,528	$ 37,675	$ 35,463
Maintenance and service	30,939	25,464	21,090
Total revenue	74,467	63,139	56,553
Cost of sales:			
Software licenses	4,278	3,530	3,404
Maintenance and service	4,407	3,088	2,661
Total cost of sales	8,685	6,618	6,065
Gross profit	65,782	56,521	50,488
Operating expenses:			
Selling and marketing	17,950	15,326	13,137
Research and development	14,502	13,475	11,627
Amortization	2,234	855	884
General and administrative	11,517	9,622	9,634
Total operating expenses	46,203	39,278	35,282
Operating income	19,579	17,243	15,206
Other income	3,579	2,626	1,931
Income before income tax provision	23,158	19,869	17,137
Income tax provision	6,848	5,118	5,788
Net income	$ 16,310	$ 14,751	$ 11,349

Acquisition of Pacific Marketing and Consulting, Inc.

On August 30, 2000, ANSYS, Inc. and GenesisOne Acquisition Corporation, a Delaware corporation and wholly-owned subsidiary of ANSYS, Inc., entered into an Agreement and Plan of Merger (the "Merger Agreement") with Pacific Marketing and Consulting, Inc., a California corporation ("PMAC"), and its officers and stockholders. The transactions contemplated by the Merger Agreement were consummated on August 31, 2000 with the merger of PMAC with and into GenesisOne.

In the merger, holders of PMAC's Class A voting and Class B non-voting common stock received initial merger consideration consisting of an aggregate of 618,992 shares of ANSYS common stock, valued for purposes of such issuance at $10.01563 per share, and cash in an aggregate amount of $5,832,531. Holders of PMAC's Class C non-voting common stock received initial merger consideration aggregating $367,290 solely in cash. Of the total initial stock consideration, an aggregate of 123,795 shares of ANSYS common stock were delivered into escrow, to be released on August 31, 2001 or, if later, upon the resolution of any outstanding indemnification claims secured by such shares. In addition, $3,000,000 of the initial aggregate cash consideration was delivered into escrow, to be released during the first quarter of 2001 upon and subject to the determination of certain post-closing adjustments and claims.

The Merger Agreement also provides for certain additional future payments if the acquired business achieves certain performance criteria. The total amount of funds required to pay the initial aggregate cash consideration was $6,199,821, which was obtained from the working capital of ANSYS. The aggregate merger consideration was determined on the basis of arms' length negotiations between representatives of ANSYS and PMAC.

The acquisition has been accounted for as a purchase and, accordingly, the operating results of PMAC have been included in the Company's consolidated financial statements since the date of acquisition, August 31, 2000. The total purchase price was allocated to the assets and liabilities of PMAC based upon their estimated fair market values. The allocation of the purchase price was based on an independent valuation and included an allocation of $8,242,000 to identifiable intangibles (including $2,700,000 to assembled workforce, $2,345,000 to existing software, $1,790,000 to non-compete agreements and $1,407,000 to customer list) and $9,501,000 to goodwill. The identified intangibles and goodwill are being amortized over three to five years.

PMAC (hereafter, "ICEM CFD Engineering" or "ICEM CFD") is a leading supplier of software for pre- and post-processing of computational fluid dynamics (CFD) and other high-growth engineering applications. ICEM CFD Engineering sells these products to a variety of market segments, including the electronics, automotive and aerospace industries. Additional information related to the acquisition of ICEM CFD is included in the Company's Current Report on Forms 8-K and 8-K/A, filed on September 13, 2000 and November 8, 2000, respectively.

Results of Operations

Year Ended December 31, 2000 Compared to Year Ended December 31, 1999

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

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

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

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

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

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

SELLING AND MARKETING: Selling and marketing expenses increased 17.1% in 2000 to $18.0 million, or 24.1% of total revenue, from $15.3 million, or 24.3% of total revenue, in 1999. The increase was primarily the result of additional headcount and facility costs associated with both the acquisition of ICEM CFD, as well as the addition of personnel within the ANSYS direct sales organization. Increased consulting costs related to sales training initiatives for both the direct and indirect sales channels and costs associated with the Company's biennial international users' conference also contributed to the increase. The Company anticipates that it will continue to make significant investments in its global sales and marketing organization to strengthen its competitive position, to enhance major account sales activities and to support its worldwide sales channels and marketing strategies.

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

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

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

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

INCOME TAX PROVISION: The Company's effective tax rate was 29.6% in 2000 as compared to 25.8% in 1999. The 1999 rate was favorably impacted by a one-time tax benefit related to an amended prior year tax return. These percentages are less than the federal and state combined statutory rate as a result of the utilization of a foreign sales corporation, as well as the generation of research and experimentation credits. As a result of the acquisition of ICEM CFD, the Company anticipates that the average effective tax rate will increase to a rate in the range of 32% - 33% in 2001.

NET INCOME: The Company's net income increased 10.6% to $16.3 million, or $1.00 diluted earnings per share, in 2000 as compared to net income of $14.8 million, or $.88 diluted earnings per share, in 1999. The weighted average common and common equivalent shares used in computing diluted earnings per share were 16.3 million in 2000 compared with 16.7 million in 1999. Excluding the effects of amortization and one-time charges associated with the acquisition of ICEM CFD, net income increased 20.1% in 2000 to $17.7 million, or $1.09 diluted earnings per share.

Year Ended December 31, 1999 Compared to Year Ended December 31, 1998

REVENUE: The Company's total revenue increased 11.6% in 1999 to $63.1 million from $56.6 million in 1998. The increase in total revenue was attributable primarily to an increase in revenue from paid-up licenses associated with increased sales of new paid-up licenses and, to a lesser extent, the conversion of existing leases to paid-up licenses. Higher maintenance and service revenue, resulting from broader customer usage of such services and the Company's continued emphasis on marketing these services, also contributed to the overall revenue increase.

Software license revenue totaled $37.7 million in 1999 as compared to $35.5 million in 1998, an increase of 6.2%. The increase resulted principally from an increase in sales of paid-up licenses. The paid-up license revenue increase was partially offset by both a reduction in monthly lease license revenue and by a reduction in noncancellable annual lease revenue that the Company believes was principally the result of an increase in its annual lease price as compared to the prior year.

Maintenance and service revenue increased 20.7% in 1999 to $25.5 million from $21.1 million in 1998. The increase was primarily the result of maintenance contracts sold in association with the increased paid-up license sales discussed above, as well as broader customer usage of support services and the Company's continued emphasis on marketing these services.

Of the Company's total revenue in both 1999 and 1998, approximately 54.4% and 45.6% were attributable to international and domestic sales, respectively.

COST OF SALES AND GROSS PROFIT: The Company's total cost of sales increased 9.1% to $6.6 million, or 10.5% of total revenue, in 1999 from $6.1 million, or 10.7% of total revenue, in 1998. The increase was principally attributable to higher salaries and related expenses associated with increased headcount to support the growth in software license and maintenance revenue.

As a result of the foregoing, the Company's gross profit increased 11.9% to $56.5 million in 1999 from $50.5 million in 1998.

SELLING AND MARKETING: Selling and marketing expenses increased 16.7% in 1999 to $15.3 million, or 24.3% of total revenue, from $13.1 million, or 23.2% of total revenue, in 1998. The increase was primarily the result of additional headcount and facility costs associated with the establishment of strategic direct sales offices in Houston, Texas; Minneapolis, Minnesota and New England in the latter part of

fiscal 1998, as well as the Company's expanded presence in China and a slightly revised sales model in Detroit. Higher commission costs associated with several direct sales to major account customers also contributed to the increase.

RESEARCH AND DEVELOPMENT: Research and development expenses increased 15.9% in 1999 to $13.5 million, or 21.3% of total revenue, from $11.6 million, or 20.6% of total revenue, in 1998. The increase in 1999 resulted from additional headcount and facility costs associated with the acquisition of Centric Engineering Systems and, to a lesser extent, additional headcount within the corporate product creation group. These increases were partially offset by the capitalization of approximately $516,000 of internal labor costs related to new commercial product releases in 1999.

AMORTIZATION: Amortization expense remained comparable at $855,000 and $884,000 in 1999 and 1998, respectively.

GENERAL AND ADMINISTRATIVE: General and administrative expenses remained relatively flat in 1999 at $9.6 million, or 15.2% of total revenue, as compared to $9.6 million, or 17.0% of total revenue, in 1998. Decreases in bad debt expense were offset by higher consulting costs and additional headcount and related expenses. The increases in headcount resulted as the Company continued to add internal information technology, financial and administrative resources to support its global operations and infrastructure.

OTHER INCOME: Other income increased to $2.6 million in 1999 as compared to $1.9 million in 1998. The increase was primarily attributable to higher interest-bearing cash and short-term investment balances in 1999.

INCOME TAX PROVISION: The Company's effective tax rate was 25.8% in 1999 as compared to 33.8% in 1998. The decrease in the 1999 rate as compared to that of 1998 was a result of increased utilization of the Company's foreign sales corporation, as well as increased generation of research and experimentation credits. The 1999 rate was also favorably impacted by a one-time tax benefit related to an amended prior year tax return. These percentages are less than the federal and state combined statutory rate due primarily to the use of a foreign sales corporation, as well as research and experimentation credits.

NET INCOME: The Company's net income increased 30.0% to $14.8 million, or $.88 diluted earnings per share, in 1999 as compared to net income of $11.3 million, or $.68 diluted earnings per share, in 1998. The weighted average common and common equivalent shares used in computing diluted earnings per share were 16.7 million in 1999 compared with 16.6 million in 1998.

Liquidity and Capital Resources

As of December 31, 2000, the Company had cash, cash equivalents and short-term investments totaling $47.5 million and working capital of $40.0 million, as compared to cash, cash equivalents and short-term investments of $57.1 million and working capital of $52.7 million at December 31, 1999. The short-term investments are generally investment grade and liquid-type, which allows the Company to minimize interest rate risk and to facilitate liquidity in the event an immediate cash need arises.

The Company's operating activities provided cash of $22.9 million in 2000, $18.3 million in 1999 and $15.6 million in 1998. The increase in cash generated from operations in 2000 compared to 1999, as well as in 1999 compared to 1998, was primarily the result of increased earnings after the effect of non-cash expenses such as depreciation, amortization and deferred income taxes. Net cash generated by operating activities provided sufficient

resources to fund increased headcount and capital needs, as well as to sustain share repurchase activity under the Company's announced share repurchase program.

Cash used in investing activities was $7.4 million in 2000, $13.0 million in 1999 and $23.5 million in 1998. The Company's uses of cash in 2000 primarily related to the acquisition of ICEM CFD and capital expenditures, including hardware and software costs associated with the Company's investment in a comprehensive customer relationship management system. In 1999 and 1998, the Company's use of cash was primarily related to the purchase of short-term investments and, to a lesser extent, the purchase of equipment and computer hardware and software. The Company expects to spend approximately $2.5 million for capital expenditures in the year 2001, principally for the acquisition of computer hardware and software to support the continued growth of the Company's development activities, as well as for investments in the Company's global sales and customer support infrastructure.

Financing activities used cash of $19.6 million in 2000, $1.5 million in 1999, and provided cash of $453,000 in 1998. In 2000 and 1999, cash outlays related to the purchase of treasury stock were partially offset by proceeds from the issuance of common stock under the employee stock purchase and option plans. In 1998, cash provided from financing activities was substantially related to proceeds from the issuance of common stock under employee stock purchase and option plans.

The Company believes that existing cash and cash equivalent balances, together with cash generated from operations, will be sufficient to meet the Company's working capital and capital expenditure requirements through at least the next fiscal year. The Company's cash requirements in the future may also be financed through additional equity or debt financings. There can be no assurance that such financings can be obtained on favorable terms, if at all.

Recently Issued Accounting Pronouncements

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

In December 1999, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) 101, "Revenue Recognition in Financial Statements," which provides guidance related to the recognition and disclosure of revenue in the financial statements. SAB 101 was effective for the fourth quarter of 2000. The adoption of SAB 101 did not have a material effect on the Company's consolidated financial statements.

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

Important Factors Regarding Future Results

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

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

STOCK MARKET AND STOCK PRICE VOLATILITY: Market prices for securities of software companies have generally been volatile. In particular, the market price of the Company's common stock has been and may continue to be subject to significant fluctuations as a result of factors affecting the

Company, the software industry or the securities markets in general. Such factors include, but are not limited to, declines in trading price that may be triggered by the Company's failure to meet the expectations of securities analysts and investors. The Company cannot provide assurance that in such circumstances the trading price of the Company's common stock will recover or that it will not experience a further decline. Moreover, the trading price could be subject to additional fluctuations in response to quarter-to-quarter variations in the Company's operating results, material announcements made by the Company or its competitors, conditions in the software industry generally or other events and factors, many of which are beyond the Company's control.

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

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

DEPENDENCE ON DISTRIBUTORS: The Company continues to distribute its products principally through its global network of 36 independent, regional ASDs. The ASDs sell ANSYS and DesignSpace products to new and existing customers, expand installations within their existing customer base, offer consulting services and provide the first line of ANSYS technical support. The ASDs have more immediate contact with most customers who use ANSYS software than does the Company. Consequently, the Company is highly dependent on the efforts of the ASDs. Difficulties in ongoing relationships with ASDs, such as delays in collecting accounts receivable, failure to meet performance criteria or to promote the Company's products as aggressively as the Company expects and differences in the handling of customer relationships could adversely affect the Company's performance. Additionally, the loss of any major ASD for any reason, including an ASD's decision to sell competing products rather than the Company's products, could have a materially adverse effect on the Company. Moreover, the Company's future success will depend substantially on the ability and willingness of its ASDs to continue to dedicate the resources necessary to promote the Company's products and to support a larger installed base of the Company's products. If the ASDs are unable or unwilling to do so, the Company may be unable to sustain revenue growth.

COMPETITION: The CAD, CAE and computer-aided manufacturing ("CAM") markets are intensely competitive. In the traditional CAE market, the Company's primary competitors include MSC.Software Corporation and Hibbitt, Karlsson and Sorenson, Inc. The Company also faces competition from

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

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

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

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

Recently, the World Trade Organization ruled that tax incentives provided to U.S.-based companies that export their products via a foreign sales corporation are prohibited tax subsidies. In September 2000, the House of Representatives approved the FSC Repeal and Extraterritorial Income Exclusion Act (the "Act"). The Act generally repeals the foreign sales corporation and implements an extraterritorial income tax benefit. The Act provides short-term and long-term relief for foreign sales corporations in existence as of September 30, 2000. The short-term transition rules permit foreign sales corporations to retain benefits through December 31, 2001. Any prospective changes regarding tax benefits associated with the Company's export sales may directly impact the Company's effective tax rate.

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

INCREASED RELIANCE ON PERPETUAL LICENSES: The Company has historically maintained stable recurring revenue from the sale of monthly lease

licenses and noncancellable annual leases for its software products. More recently, the Company has experienced an increase in customer preference for perpetual licenses that involve payment of a single up-front fee and that are more typical in the computer software industry. While revenue generated from monthly lease licenses and noncancellable annual leases currently represents a portion of the Company's software license revenue, to the extent that perpetual license revenue continues to increase as a percentage of total software license revenue, the Company's revenue in any period will increasingly depend on sales completed during that period.

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

On August 31, 2000, the Company acquired ICEM CFD Engineering. The Company cannot guarantee that it will be able to fully realize the benefits or strategic objectives it sought in acquiring ICEM CFD. The acquisition of ICEM CFD was accounted for as a purchase and, as a result, a significant amount of goodwill and other identifiable intangible assets were recorded, the amortization of which will adversely affect the Company's results of operations in future periods.

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

REPORT OF INDEPENDENT ACCOUNTANTS

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, stockholders' equity and cash flows present fairly, in all material respects, the financial position of ANSYS, Inc. and its subsidiaries at December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.
An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Pittsburgh, PA

January 30, 2001

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)	December 31, 2000	December 31, 1999
ASSETS		
Current assets:		
Cash and cash equivalents	$ 6,313	$ 10,401
Short-term investments	41,227	46,731
Accounts receivable, less allowance for doubtful accounts of $2,350 in 2000 and $1,700 in 1999	14,403	10,518
Other current assets	2,269	2,929
Deferred income taxes	695	336
Total current assets	64,907	70,915
Long-term investment	500	-
Securities available for sale	-	182
Property and equipment, net	5,152	3,529
Capitalized software costs, net	574	676
Goodwill, net	9,227	428
Other intangibles, net	8,970	1,518
Deferred income taxes	4,895	6,643
Total assets	$ 94,225	$ 83,891
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 459	$ 222
Accrued bonuses	4,869	2,882
Other accrued expenses and liabilities	6,429	3,750
Customer prepayments	202	140
Deferred revenue	12,902	11,266
Total current liabilities	24,861	18,260
Stockholders' equity:		
Preferred stock, $.01 par value; 2,000,000 shares authorized	-	-
Common stock, $.01 par value; 50,000,000 shares authorized; 16,584,758 shares issued	166	166
Additional paid-in capital	37,588	37,543
Less treasury stock, at cost: 1,451,692 shares held in 2000 and 339,358 shares held in 1999	(15,127)	(2,375)
Retained earnings	46,737	30,427
Accumulated other comprehensive income	-	120
Note receivable from stockholder	-	(250)
Total stockholders' equity	69,364	65,631
Total liabilities and stockholders' equity	$ 94,225	$ 83,891

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

Consolidated Statements of Income

(in thousands, except per share data)	2000	1999	1998
Revenue:			
Software licenses	$ 43,528	$ 37,675	$ 35,463
Maintenance and service	30,939	25,464	21,090
Total revenue	74,467	63,139	56,553
Cost of sales:			
Software licenses	4,278	3,530	3,404
Maintenance and service	4,407	3,088	2,661
Total cost of sales	8,685	6,618	6,065
Gross profit	65,782	56,521	50,488
Operating expenses:			
Selling and marketing	17,950	15,326	13,137
Research and development	14,502	13,475	11,627
Amortization	2,234	855	884
General and administrative	11,517	9,622	9,634
Total operating expenses	46,203	39,278	35,282
Operating income	19,579	17,243	15,206
Other income	3,579	2,626	1,931
Income before income tax provision	23,158	19,869	17,137
Income tax provision	6,848	5,118	5,788
Net income	$ 16,310	$ 14,751	$ 11,349
Net income per basic common share:			
Basic earnings per share	$ 1.03	$ .90	$ .71
Weighted average shares - basic	15,804	16,366	16,052
Net income per diluted common share:			
Diluted earnings per share	$ 1.00	$ .88	$ .68
Weighted average shares - diluted	16,269	16,689	16,581

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

Consolidated Statements of Cash Flows

(in thousands)	2000	1999	1998
Cash flows from operating activities:			
Net income	$16,310	$ 14,751	$ 11,349
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	4,333	2,762	2,710
Deferred income tax provision	(69)	855	1,357
Provision for bad debts	739	464	1,309
Changes in operating assets and liabilities:			
Accounts receivable	(2,574)	(2,039)	(2,151)
Other current assets	891	(1,081)	63
Accounts payable, accrued expenses and liabilities and customer prepayments	2,279	735	265
Deferred revenue	941	1,894	744
Net cash provided by operating activities	22,850	18,341	15,646
Cash flows from investing activities:			
Cash paid for business acquisition, net of cash acquired	(7,481)	-	-
Acquisition-related loan	(1,366)	-	-
Capital expenditures	(3,173)	(1,758)	(917)
Capitalization of internally developed software costs	(213)	(591)	(322)
Other acquisition payments	(400)	(100)	-
Purchases of short-term investments	(32,688)	(38,331)	(28,533)
Maturities of short-term investments	38,191	27,738	6,248
Repayment of stockholder loan	250	-	24
Purchase of long-term investment	(500)	-	-
Net cash used in investing activities	(7,380)	(13,042)	(23,500)
Cash flows from financing activities:			
Proceeds from issuance of common stock under Employee Stock Purchase Plan	163	159	168
Proceeds from exercise of stock options	1,814	872	290
Purchase of treasury stock	(21,588)	(2,550)	(5)
Net cash (used in) provided by financing activities	(19,611)	(1,519)	453
Effect of exchange rate fluctuations	53	32	-
Net (decrease) increase in cash and cash equivalents	(4,088)	3,812	(7,401)
Cash and cash equivalents, beginning of year	10,401	6,589	13,990
Cash and cash equivalents, end of year	$ 6,313	$ 10,401	$ 6,589
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Income taxes	$ 4,615	$ 3,894	$ 3,245

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

Consolidated Statements of Stockholders' Equity

(in thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital
Balance, December 31, 1997	16,359	$164	$36,089
Treasury stock acquired	-	-	-
Exercise of stock options	27	-	401
Issuance of common stock under Employee Stock Purchase Plan	10	-	167
Repayment of note receivable from stockholder	-	-	-
Net income for the year	-	-	-
Other comprehensive income	-	-	-
Balance, December 31, 1998	16,396	164	36,657
Treasury stock acquired	-	-	-
Exercise of stock options	168	2	727
Issuance of common stock under Employee Stock Purchase Plan	21	-	159
Net income for the year	-	-	-
Other comprehensive income	-	-	-
Balance, December 31, 1999	16,585	166	37,543
Treasury stock acquired	-	-	-
Acquisition of PMAC	-	-	(106)
Exercise of stock options	-	-	124
Issuance of common stock under Employee Stock Purchase Plan	-	-	27
Repayment of note receivable from stockholder	-	-	-
Net income for the year	-	-	-
Other comprehensive income	-	-	-
Balance, December 31, 2000	16,585	$ 166	$37,588

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

Treasury Stock Shares	Treasury Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income	Notes Receivable from Stockholders	Total Stockholders' Equity	Total Comprehensive Income
69	$ (12)	$ 4,327	$ 120	$ (274)	$40,414	
15	(5)	-	-	-	(5)	
(70)	15	-	-	-	416	
(14)	2	-	-	-	169	
-	-	-	-	24	24	
-	-	11,349	-	-	11,349	$ 11,349
-	-	-	-	-	-	-
-	-	15,676	120	(250)	52,367	11,349
382	(2,550)	-	-	-	(2,550)	
(43)	175	-	-	-	904	
-	-	-	-	-	159	
-	-	14,751	-	-	14,751	14,751
-	-	-	-	-	-	-
339	(2,375)	30,427	120	(250)	65,631	14,751
2,010	(21,588)	-	-	-	(21,588)	
(619)	6,644	-	-	-	6,538	
(259)	2,056	-	-	-	2,180	
(19)	136	-	-	-	163	
-	-	-	-	250	250	
-	-	16,310	-	-	16,310	16,310
-	-	-	(120)	-	(120)	(120)
1,452	$(15,127)	$46,737	-	-	$69,364	$16,190

1. Organization

ANSYS, Inc. (the "Company") develops, markets and supports a family of mechanical computer-aided engineering software products. The Company's products are marketed and sold to companies throughout the world that operate in many industries, including automotive, aerospace and electronics.

2. Summary of Significant Accounting Policies

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

REVENUE RECOGNITION: The Company's products are sold primarily through distributors, who are resellers with respect to the Company's products. Revenue is derived principally from the licensing of computer software products and from related maintenance contracts. Revenue from software licenses is recognized upon delivery of the product, acceptance by the customer and receipt of a signed contractual obligation, provided that no significant Company obligations remain and collection of the receivable is probable. Revenue 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.

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

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

SECURITIES AVAILABLE FOR SALE: The Company follows the provisions of Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities," which addresses the classification, accounting and disclosure of investments in debt and equity securities. At December 31, 1999, the Company had investments in marketable equity securities that were classified as available-for-sale and, accordingly, were carried at fair value, with the unrealized gains and losses, net of tax, reported in a separate component of stockholders' equity.

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

CAPITALIZED SOFTWARE: Internally developed computer software costs and costs of product enhancements are capitalized subsequent to the determination of technological feasibility; such capitalization continues until the product becomes available for general release. Amortization of capitalized software costs, both for internally developed as well as for purchased software products, is computed on a product-by-product basis over the estimated economic life of the product, which is generally three years. Amortization is the greater of the amount computed using: (i) the ratio of the current year's gross revenue to the total current and anticipated future gross revenue for that product or (ii) the straight-line method over the estimated life of the product. The Company periodically reviews the carrying value of capitalized software and impairments are recognized in the results of operations when the expected future undiscounted operating cash flow derived from the capitalized software is less than its carrying value.

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

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

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

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

During 2000, sales by distributors comprised approximately 62% of the Company's total revenue, with two distributors accounting for approximately 11% and 10% of total revenue. During 1999, sales by distributors comprised approximately 70% of the Company's total revenue, with two distributors accounting for approximately 12% and 11% of total revenue. During 1998, sales by distributors comprised approximately 82% of the Company's total revenue, with two distributors accounting for approximately 13% and 10% of total revenue.

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

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

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

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

RECLASSIFICATIONS: Certain reclassifications have been made to the 1999 and 1998 financial statements to conform to the 2000 presentation.

3. Acquisition of Pacific Marketing and Consulting, Inc.

On August 30, 2000, ANSYS, Inc. and GenesisOne Acquisition Corporation, a Delaware corporation and wholly-owned subsidiary of ANSYS, Inc., entered into an Agreement and Plan of Merger (the "Merger Agreement") with Pacific Marketing and Consulting, Inc., a California corporation ("PMAC"),

and its officers and stockholders. The transactions contemplated by the Merger Agreement were consummated on August 31, 2000 with the merger of PMAC with and into GenesisOne.

In the merger, each share of common stock of PMAC outstanding at the time of the Merger ceased to be outstanding and each such share was converted into the right to receive the initial merger consideration provided for under the Merger Agreement. Holders of PMAC's Class A voting and Class B non-voting common stock received initial merger consideration consisting of an aggregate of 618,992 shares of ANSYS common stock, valued for purposes of such issuance at $10.01563 per share, and cash in an aggregate amount of $5,832,531. Holders of PMAC's Class C non-voting common stock received initial merger consideration aggregating $367,290 solely in cash. Of the total initial stock consideration, an aggregate of 123,795 shares of ANSYS common stock were delivered into escrow, to be released on August 31, 2001 or, if later, upon the resolution of any outstanding indemnification claims secured by such shares. In addition, $3,000,000 of the initial aggregate cash consideration was delivered into escrow, to be released during the first quarter of 2001 upon and subject to the determination of certain post-closing adjustments and claims.

The Merger Agreement also provides for certain additional future payments if the acquired business achieves certain performance criteria. Such additional contingent consideration will be paid to the former holders of PMAC Class A and Class B common stock 48.4737% in cash and 51.5263% in shares of ANSYS common stock, valued for such purposes at the average closing price for the twenty consecutive trading days preceding the date of such payment. The total amount of funds required to pay the initial aggregate cash consideration was $6,199,821, which was obtained from the working capital of ANSYS. The aggregate merger consideration was determined on the basis of arms' length negotiations between representatives of ANSYS and PMAC.

The acquisition has been accounted for as a purchase and, accordingly, the operating results of PMAC have been included in the Company's consolidated financial statements since the date of acquisition, August 31, 2000. The total purchase price was allocated to the assets and liabilities of PMAC based upon their estimated fair market values. The allocation of the purchase price was based on an independent valuation and included an allocation of $8,242,000 to identifiable intangibles (including $2,700,000 to assembled workforce, $2,345,000 to existing software, $1,790,000 to non-compete agreements and $1,407,000 to customer list) and $9,501,000 to goodwill. The identified intangibles and goodwill are being amortized over three to five years.

The following unaudited pro forma information presents the results of operations of the Company as if the acquisition had occurred on January 1, 2000 and 1999. The unaudited pro forma consolidated results are not necessarily indicative of results that would have occurred had the acquisition been in effect for the years presented, nor are they necessarily indicative of future results.

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

Supplemental cash flow information with respect to the aquisition of PMAC is as follows:

(in thousands)	
Fair value of assets acquired, net of cash acquired	$20,599
Fair value of liabilities assumed	(6,580)
Fair value of common stock issued	(6,538)

Cash paid for acquisition	$ 7,481

4. Property and Equipment

Property and equipment consists of the following:

(in thousands)	December 31, 2000	December 31, 1999
Equipment	$ 7,995	$ 6,106
Computer software	3,556	2,562
Furniture	993	923
Leasehold improvements	845	829
	13,389	10,420
Less: accumulated depreciation and amortization	(8,237)	(6,891)
	$ 5,152	$ 3,529

Depreciation and amortization expense related to property and equipment was approximately $1,994,000, $1,907,000 and $2,040,000 for the years ended December 31, 2000, 1999, and 1998, respectively.

5. Other Intangible Assets

Other intangible assets consists of the following:

(in thousands)	Estimated Useful Lives	December 31, 2000	December 31, 1999
Trade name	10 years	$ 1,824	$ 1,824
Non-compete agreements	5-8 years	3,090	1,000
Customer list	5 years	1,407	-
Assembled workforce	3 years	2,700	-
Acquired software	3 years	2,345	-
		11,366	2,824
Less: accumulated amortization		(2,396)	(1,306)
		$ 8,970	$ 1,518

6. Income Taxes

The provision (benefit) for income taxes is comprised of the following:

(in thousands)	December 31, 2000	December 31, 1999	December 31, 1998
Current:			
Federal	$ 5,701	$ 3,297	$ 3,357
State	246	90	220
Foreign	942	876	854
Deferred:			
Federal	(34)	869	1,235
State	(7)	(14)	122
Total	$ 6,848	$ 5,118	$ 5,788

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

	December 31, 2000	December 31, 1999	December 31, 1998
Federal statutory tax rate	35.0%	35.0%	34.0%
State income taxes, net of federal benefit	0.7	0.3	0.8
Research and experimentation credit	(1.7)	(2.0)	(1.2)
Other	(4.4)	(7.5)	.2
	29.6%	25.8%	33.8%

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

(in thousands)	December 31, 2000	December 31, 1999
Deferred tax assets:		
Goodwill	$ 3,578	$ 3,762
Capitalized software	3,831	3,948
Allowance for doubtful accounts	827	638
Accrued expenses and liabilities	81	89
Other	716	817
	9,033	9,254
Deferred tax liabilities:		
Accounts receivable mark-to-market	206	390
Property and equipment	88	62
Acquisition-related intangible assets	1,198	-
Other	1,951	1,823
	3,443	2,275
Net deferred tax assets	$ 5,590	$ 6,979

Based upon the Company's current and historical taxable income and the anticipated level of future taxable income, management believes it is more likely than not that all of the deferred tax assets will be realized. Accordingly, no valuation allowance has been established against the deferred tax assets.

7. Pension and Profit-Sharing Plans

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

Total expense related to the Pension and Profit-Sharing plans was $1,712,000 in 2000, $1,266,000 in 1999 and $1,144,000 in 1998.

8. Non-Compete and Employment Agreements

During 1997, the Company exercised an option for a non-compete agreement related to activities in the Company's United Kingdom and Netherlands territories. The agreement precludes the former ASD from engaging in any competitive business activities previously undertaken pursuant to the former ASD agreement.

In accordance with the acquisition of Pacific Marketing and Consulting, Inc. (see Note 3), the existing stockholders of PMAC agreed to non-competition clauses restricting certain competitive business activities for periods of two or five years, depending on the involvement of each stockholder in the daily operations of PMAC.

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

9. Stock Option and Grant Plans

The Company has two stock option and grant plans – the 1994 Stock Option and Grant Plan ("1994 Stock Plan") and the 1996 Stock Option and Grant Plan ("1996 Stock Plan"). The 1994 and 1996 Stock Plans authorize the grant of up to 868,110 and 3,250,000 shares, respectively, of the Company's common stock in the form of: (i) incentive stock options ("ISOs"), (ii) nonqualified stock options or (iii) the issuance or sale of common stock with or without vesting or other restrictions. Additionally, the 1996 Stock Plan permits the grant of common stock upon the attainment of specified performance goals and the grant of the right to receive cash dividends with the holders of the common stock as if the recipient held a specified number of shares of the common stock. No further grants may be made under the 1994 Stock Plan.

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

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

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

1994 Stock Option and Grant Plan	Restricted Stock		Stock Options	
(in thousands, except for range of issue price)	Number of Shares	Range of Issue Price	Number of Options	Range of Issue Price
Outstanding at December 31, 1997	1,367	$ .01-2.40	654	$ .40-11.00
Issued/granted	-	-	-	-
Exercised	(507)	.01-.40	(56)	.40-1.275
Repurchased/cancelled	(23)	.10-.40	(72)	.40-10.00
Outstanding at December 31,1998	837	.01-2.40	526	.40-11.00
Issued/granted	-	-	-	-
Exercised	(815)	.10-2.40	(143)	.40-2.40
Repurchased/cancelled	(18)	.01-.40	(33)	.40-10.00
Outstanding at December 31,1999	4	.40	350	.40-11.00
Issued/granted	-	-	-	-
Exercised	(4)	.40	(101)	.40-10.00
Repurchased/cancelled	-	-	(9)	10.00
Outstanding at December 31, 2000	-	-	240	$ .40-11.00
Exercisable at:				
December 31, 1998	90		292	
December 31, 1999	-		286	
December 31, 2000	-		240	

1996 Stock Option and Grant Plan	Stock Options	
(in thousands, except for range of issue price)	Number of Options	Range of Issue Price
Outstanding at December 31, 1997	1,027	$ 6.25-13.125
Issued/granted	919	6.00-11.313
Exercised	(40)	6.25-9.625
Repurchased/cancelled	(157)	6.25-13.00
Outstanding at December 31, 1998	1,749	6.00-13.13
Issued/granted	697	6.88-11.00
Exercised	(68)	6.00-9.625
Repurchased/cancelled	(261)	6.00-13.00
Outstanding at December 31, 1999	2,117	6.00-13.13
Issued/granted	805	9.875-11.875
Exercised	(158)	6.00-11.75
Repurchased/cancelled	(241)	6.00-11.75
Outstanding at December 31, 2000	2,523	$ 6.00-13.13
Exercisable at:		
December 31, 1998	270	
December 31, 1999	577	
December 31, 2000	891	

The Company has elected to account for stock-based compensation arrangements under the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock-Based Compensation." The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation." Accordingly, no compensation expense has been recognized for restricted stock or options which have been issued under the 1994 and 1996 Stock Plans. Had compensation cost for the Company's two stock option and grant plans been determined based upon the fair value at the grant date for the option awards in 2000, 1999 and 1998, consistent with the provisions of SFAS No. 123, the Company's net income and basic and diluted earnings per share would have been reduced to the pro forma amounts indicated below:

(in thousands, except per share data)	2000	1999	1998
Net income - as reported	$ 16,310	$ 14,751	$ 11,349
Net income - pro forma	15,764	14,386	10,947
Net income per basic common share - as reported	$ 1.03	$ .90	$ .71
Net income per basic common share - pro forma	1.00	.88	.68
Net income per diluted common share - as reported	1.00	.88	.68
Net income per diluted common share - pro forma	.97	.86	.66

The weighted-average fair value of options granted was $10.53 per share in 2000, $8.43 per share in 1999 and $8.83 per share in 1998.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the risk-free interest rates ranging from a low of 5.22% to a high of 6.79%. The interest rates used were determined by using the five year Treasury Note rate at the date of grant. The following assumptions were also used to determine the fair value of each option grant: dividend yields of 0%; expected volatility of 63% and expected term of five years.

10. Stock Repurchase Plan

On February 8, 2000, the Company announced that its Board of Directors had approved a share repurchase program. Under the repurchase program the Company has repurchased two million shares which included one million shares approved in February 2000 and an additional one million shares approved in July 2000. In December 2000, the Board of Directors amended its common stock repurchase program to permit the Company to acquire up to an additional one million shares, or approximately 7% of the Company's outstanding common stock.

11. Employee Stock Purchase Plan

The Company's 1996 Employee Stock Purchase Plan (the "Purchase Plan") was adopted by the Board of Directors on April 19, 1996 and was subsequently approved by the Company's stockholders. Up to 210,000 shares of common stock may be issued under the Purchase Plan. The Purchase Plan is administered by the Compensation Committee. The first offering under the Purchase Plan commenced on August 1, 1996 and closed on January 31, 1997. Subsequent offerings commence on each February 1 and August 1 thereafter, and have a duration of six months. An employee who owns or is deemed to own shares of stock representing in excess of 5% of the combined voting power of all classes of stock of the Company may not participate in the Purchase Plan.

During each offering, an eligible employee may purchase shares under the Purchase Plan by authorizing payroll deductions of up to 10% of his cash compensation during the offering period. The maximum number of shares which may be purchased by any participating employee during any offering period is limited to 960 shares (as adjusted by the Compensation Committee from time to time). Unless the employee has previously withdrawn from the offering, his accumulated payroll deductions will be used to purchase common stock on the last business day of the period at a price equal to 85% of the fair market value of the common stock on the first or last day of the offering period, whichever is lower. Under applicable tax rules, an employee may purchase no more than $25,000 worth of common stock in any calendar year. At December 31, 2000, 102,284 shares of common stock had been issued under the Purchase Plan of which 82,654 were issued as of December 31, 1999.

12. Leases

In January 1996, the Company entered into a lease agreement with an unrelated third party for a new corporate office facility, which the Company occupied in February 1997. The lease agreement is for ten years, with an option for five additional years, and includes a rental acceleration at the end of the fifth and tenth years. The Company incurred lease rental expense related to this facility of $1,227,000 in 2000, 1999 and 1998. Minimum lease payments for the next five years under the facility lease are $1,227,000 in 2001, and $1,354,000 per annum in 2002 through 2005.

The Company has also entered into various noncancellable operating leases for equipment and sales offices. Lease rental expense related to these leases totaled $908,000, $998,000 and $1,136,000 for the years ended December 31, 2000, 1999 and 1998, respectively. Future minimum lease payments under noncancellable operating leases for equipment and sales offices in effect at December 31, 2000 are $610,000 in 2001, $437,000 in 2002, $407,000 in 2003, $164,000 in 2004 and $23,000 in 2005.

13. Royalty Agreements

The Company has entered into various renewable nonexclusive license agreements under which the Company has been granted access to the licensor's patent technology and the right to sell the patent technology in the Company's product line. Royalties are payable to developers of the software at various rates and amounts generally based upon unit sales or revenue. Royalty fees, which are included in cost of sales, were approximately $884,000, $524,000 and $489,000 for the years ended December 31, 2000, 1999 and 1998, respectively.

14. Related Party Transactions

In connection with his initial employment, the Company's Chairman of the Board of Directors purchased 626,000 restricted shares of common stock in July 1994 for a cash purchase price of $250,000 with proceeds from a loan from the Company evidenced by a promissory note bearing interest at 8.23% and maturing on July 8, 2006. The promissory note is collateralized by a pledge of the shares purchased with the proceeds of the loan. The shares purchased by the Chairman are fully vested. The note and all related interest were repaid in full during 2000.

15. Geographic Information

Revenue by geographic area is as follows:

(in thousands)	United States	Canada	Germany	Other Europe	Japan	Other International	Total
Year ended December 31, 2000	$34,304	$1,757	$8,595	$14,752	$8,843	$6,216	$74,467
Year ended December 31, 1999	27,673	1,151	7,091	14,924	7,678	4,622	63,139
Year ended December 31, 1998	24,282	1,509	5,704	13,986	7,565	3,507	56,553

16. Contingencies

The Company had an outstanding irrevocable standby letter of credit for $1,418,000 at December 31, 2000. This letter of credit was issued as a guarantee for damages that could be awarded related to a legal matter in which the Company was involved. The fair value of the letter of credit approximates the contract value based on the nature of the fee arrangements with the issuing bank. No material losses on this commitment have been incurred, nor are any anticipated.

17. Earnings Per Share

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

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

(in thousands, except per share data)	2000	1999	1998
Net income	$ 16,310	$ 14,751	$ 11,349
Weighted average shares outstanding - basic [(1)]	15,804	16,366	16,052
Basic earnings per share	$ 1.03	$ .90	$ .71
Effect of dilutive securities:			
Shares issuable upon exercise of dilutive outstanding restricted stock and stock options	465	323	529
Weighted average shares outstanding - diluted	16,269	16,689	16,581
Diluted earnings per share	$ 1.00	$ .88	$ .68
Anti-dilutive shares/options	201	570	1,200

[(1)] Weighted average shares outstanding - basic excludes unvested restricted stock.

18. Recently Issued Accounting Pronouncements

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

In December 1999, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) 101, "Revenue Recognition in Financial Statements," which provides guidance related to the recognition and disclosure of revenue in the financial statements. SAB 101 was effective for the fourth quarter of 2000. The adoption of SAB 101 did not have a material effect on the Company's consolidated financial statements.

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

QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

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

(in thousands, except per share data)	December 31, 1999	September 30, 1999	June 30, 1999	March 31, 1999
	Fiscal Quarter Ended			
Revenue	$ 17,598	$ 14,279	$ 15,394	$ 15,868
Gross profit	15,834	12,699	13,745	14,243
Operating income	4,858	3,928	3,883	4,574
Net income	4,125	3,366	3,543	3,717
Net income per basic share	.25	.20	.22	.23
Net income per diluted share	.25	.20	.21	.22
Common stock price per share[1]:				
High	11.88	10.38	10.25	10.94
Low	8.75	8.81	6.50	6.88

[1] The Company's common stock trades on the Nasdaq National Market tier of The Nasdaq Stock Market under the symbol: ANSS. The common stock prices shown are based on the Nasdaq daily closing stock price.

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

On February 23, 2001, there were 266 shareholders of record and approximately 3,300 beneficial shareholders of the Company's common stock.

Shareholder Information

Requests for information about the Company should be directed to: Investor Relations, ANSYS, Inc., Southpointe, 275 Technology Drive, Canonsburg, PA 15317. Telephone: 724.514.1782.

Report on Form 10-K

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

Stock Listing

Counsel

Goodwin Procter LLP, Boston, MA

Annual Meeting

The Annual Meeting of Stockholders will be held on May 2, 2001 at 2:00 p.m. at the Southpointe Club, 360 Southpointe Blvd., Canonsburg, PA 15317.

Transfer Agent

Mellon Investor Services, Ridgefield Park, NJ

Independent Accountants

PricewaterhouseCoopers LLP, Pittsburgh, PA

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

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Headquarters

ANSYS, Inc.
ansysinfo@ansys.com
T 724.746.3304
F 724.514.9494
Toll Free USA and Canada:
1.800.WE.R.FEA.1
(1.800.937.3321)
Toll Free Mexico:
95.800.9373321

ICEM CFD Engineering
info@icemcfd.com
T 510.549.1890
F 510.841.8523

Regional Offices

North America
na.sales@ansys.com
T 724.514.3122
F 724.514.1990

International
int.sales@ansys.com
T 724.514.2991
F 724.514.1990

Europe
eu.sales@ansys.com
T 44.118.9880229
F 44.118.9880925

http://www.ansys.com

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ANSYS, Inc. · Southpointe · 275 Technology Drive · Canonsburg, PA 15317
Telephone: 1.800.WE.R.FEA.1

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