ANSYS INC
Form 10-K
February 23, 2012
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D.C. 20549**

# FORM 10-K

**(Mark One)**

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

**For the Fiscal Year Ended December 31, 2011**

**OR**

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

**Commission File Number: 0-20853**

# ANSYS, Inc.

**(Exact name of registrant as specified in its charter)**

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

**724-746-3304**

**(Registrant s telephone number, including area code)**

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

| **Common Stock, $.01 par value per share** | **The NASDAQ Stock Market, LLC** |
|---|---|
| **(Title of each class)** | **(Name of exchange on which registered)** |

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

**None**

**(Title of class)**

Indicate by a check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by a check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ¨ No x

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by a check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein and will not be contained, to the best of the Registrant s knowledge, in definitive proxy or information statements incorporated by reference in PART III of this Form 10-K, or any amendment to this Form 10-K. ¨

Indicate by a check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company (as defined in Exchange Act Rule 12b-2). (Check one):

| | |
|---|---|
| Large accelerated filer x | Accelerated filer ¨ |
| Non-accelerated filer ¨ | Smaller reporting company ¨ |

Indicate by a check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes ¨ No x

The aggregate market value of the voting stock held by non-affiliates of the Registrant, based upon the closing sale price of the Common Stock on June 30, 2011 as reported on the NASDAQ Global Select Market, was approximately $4,186,000,000. Shares of Common Stock held by each officer and director and by each person who owns 5% or more of the outstanding Common Stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares of the Registrant s Common Stock, par value $.01 per share, outstanding as of February 16, 2012 was 92,780,708 shares.

**Documents Incorporated By Reference:**

Portions of the Proxy Statement for the Registrant s 2012 Annual Meeting of Stockholders are incorporated by reference into Part III.

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**ANSYS, Inc.**

**ANNUAL REPORT ON FORM 10-K FOR FISCAL YEAR 2011**

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**Important Factors Regarding Future Results**

Information provided by ANSYS, Inc. (hereafter the Company or ANSYS ), in this Annual Report on Form 10-K, may contain forward-looking statements concerning such matters as projected financial performance, market and industry segment growth, product development and commercialization, acquisitions or other aspects of future operations. Such statements, made pursuant to the safe harbor established by the securities laws, are based on the assumptions and expectations of the Company s management at the time such statements are made. The Company cautions investors that its performance (and, therefore, any forward-looking statement) is subject to risks and uncertainties. Various important factors including, but not limited to, those discussed in Item 1A Risk Factors, may cause the Company s future results to differ materially from those projected in any forward-looking statement. All information presented is as of December 31, 2011, unless otherwise indicated.

## PART I

### ITEM 1: BUSINESS

ANSYS develops and globally markets engineering simulation software and services widely used by engineers, designers, researchers and students across a broad spectrum of industries and academia, including aerospace, automotive, manufacturing, electronics, biomedical, energy and defense. Headquartered south of Pittsburgh, Pennsylvania, the Company and its subsidiaries employ approximately 2,100 people as of December 31, 2011 and focus on the development of open and flexible solutions that enable users to analyze designs directly on the desktop, providing a common platform for fast, efficient and cost-conscious product development, from design concept to final-stage testing and validation. The Company distributes its ANSYS suite of simulation technologies through a global network of independent resellers and distributors (collectively, channel partners) and direct sales offices in strategic, global locations. It is the Company s intention to continue to maintain this hybrid sales and distribution model.

On August 1, 2011, the Company completed its acquisition of Apache Design, Inc., a leading simulation software provider for advanced, low-power solutions in the electronics industry. Under the terms of the merger agreement, ANSYS acquired 100% of the outstanding shares of Apache for a purchase price of $314.0 million, which included $31.9 million in acquired cash and short-term investments on Apache s balance sheet, $3.2 million in ANSYS replacement stock option awards issued to holders of partially-vested Apache stock options and $9.5 million in contingent consideration that is based on the retention of a key member of Apache s management. The Company funded the transaction entirely with existing cash balances. The complementary combination is expected to accelerate development and delivery of new and innovative products to the marketplace while lowering design and engineering costs for customers.

The Company s product portfolio consists of the following:

*ANSYS Workbench™*

ANSYS Workbench is the framework upon which the Company s suite of advanced engineering simulation technologies is built. The innovative project schematic view ties together the entire simulation process, guiding the user through complex multiphysics analyses with drag-and-drop simplicity. With bi-directional computer-aided design ( CAD ) connectivity, powerful highly-automated meshing, a project-level update mechanism, pervasive parameter management and integrated optimization tools, the ANSYS Workbench platform delivers unprecedented productivity, enabling Simulation Driven Product Development™.

*Multiphysics*

The Company s multiphysics product suite allows engineers and designers to create virtual prototypes of their designs operating under real-world multiphysics conditions. As the range of need for simulation expands,

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companies must be able to accurately predict how complex products will behave in real-world environments, where multiple types of coupled physics interact. ANSYS multiphysics software enables engineers and scientists to simulate the interactions between structural mechanics, heat transfer, fluid flow and electromagnetics all within a single, unified engineering simulation environment.

*Structural Mechanics*

The Company s structural mechanics product suite offers simulation tools for product design and optimization that increase productivity, minimize physical prototyping and help to deliver better and innovative products in less time. These tools tackle real-world analysis problems by making product development less costly and more reliable. In addition, these tools have capabilities that cover a broad range of analysis types, elements, contacts, materials, equation solvers and coupled physics capabilities all targeted toward understanding and solving complex design problems.

*Fluid Dynamics*

The Company s fluid dynamics product suite offers modeling of fluid flow and other related physical phenomena. Fluid flow analysis capabilities provide all the tools needed to design and optimize new fluids equipment and to troubleshoot already existing installations. The fluid dynamics product suite contains general-purpose computational fluid dynamics software and specialized products to address specific industry applications.

*Explicit Dynamics*

The Company s explicit dynamics product suite simulates events involving short-duration, large-strain, large-deformation, fracture, complete material failure or structural problems with complex interactions. This product suite is ideal for simulating physical events that occur in a short period of time and may result in material damage or failure. Such events are often difficult or expensive to study experimentally.

*Electromagnetics*

The Company s electromagnetics product suite provides field simulation software for designing high-performance electronic and electromechanical products. The software streamlines the design process and predicts performance - all prior to building a prototype - of mobile communication and internet-access devices, broadband networking components and systems, integrated circuits ( IC ) and printed circuit boards ( PCB ), as well as electromechanical systems such as automotive components and power electronics equipment.

*System Simulation*

The Company delivers the unique ability to perform complete simulation studies as a system for some of the most modern and complex product designs. This is accomplished through a complete set of physics solutions that are integrated into a multiphysics capabilities set. A collaborative simulation environment provides modeling scalability specifically for evaluating entire systems, including 3-D high-fidelity models, multibody dynamics, circuit reduced-order models, and any combination of these. These technologies provide a complete view into predicted product performance, which creates greater design confidence for engineers.

*Simulation Process and Data Management*

ANSYS Engineering Knowledge Manager™ ( ANSYS EKM ) is a comprehensive solution for simulation-based process and data management challenges. ANSYS EKM provides solutions and benefits to all levels of a company, enabling an organization to address the critical issues associated with simulation data, including backup and archival, traceability and audit trail, process automation, collaboration and capture of engineering expertise, and intellectual property protection.

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*Academic*

The Company s academic product suite provides a highly scalable portfolio of academic products based on several usage tiers: associate, research and teaching. Each tier includes various noncommercial products that bundle a broad range of physics and advanced coupled field solver capabilities. The academic product suite provides entry-level tools intended for class demonstrations and hands-on instruction. It provides flexible terms of use and more complex analysis suitable for doctoral and post-doctoral research projects. The Company also provides a low-cost, problem-size-limited product suitable for student use at home.

*High-Performance Computing*

The Company s high-performance computing ( HPC ) product suite enables enhanced insight into product performance and improves the productivity of the design process. The HPC product suite delivers cross-physics parallel processing capabilities for the full spectrum of the Company s simulation software by supporting structural, fluids, thermal and electromagnetic simulations in a single HPC solution. This product suite decreases the turnaround time for individual simulations, allowing users to consider multiple design ideas and make the right design decisions early in the design cycle.

*Geometry Interfaces*

The Company offers comprehensive geometry handling solutions for engineering simulation in an integrated environment with direct interfaces to all major CAD systems, support of additional readers and translators, and an integrated geometry modeler exclusively focused on analysis.

*Meshing*

Creating a mesh that transforms a physical model into a mathematical model is a critical and foundational step in almost every engineering simulation study. Accurate meshing is especially challenging today with increasing product design complexity and heightened expectations of product performance. The Company s meshing technology provides a means to balance these requirements, obtaining the right mesh for each simulation in the most automated way possible. The technology is built on the strengths of world-class leading algorithms; these are integrated in a single environment to produce the most robust and reliable meshing available.

*Apache Design Low-Power Electronic Solutions*

The Company s suite of Apache software delivers power analysis and optimization platforms along with comprehensive and integrated methodologies that provide capabilities for managing the power budget, power delivery integrity, and power-induced noise in an electronic design, from initial prototyping to system sign-off. These solutions deliver accuracy with correlation to silicon measurement; the capacity to handle an entire electronic system including IC, package, and PCB; efficiency for ease-of-debug and fast turnaround time; and comprehensiveness to facilitate cross-domain communications and electronic ecosystem enablement.

**PRODUCT DEVELOPMENT**

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

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During 2011, the Company completed the following major product development activities and releases:

The release of version 14.0 of ANSYS® software, which includes new, advanced features that make it easier, faster and less costly for organizations to bring new products to market. The software automates many user-intensive operations, which helps product developers minimize time spent setting up problems. The release also allows engineers to simulate product complexities such as state changes, nonlinear phenomena and multiphysics interactions as they exist in the real world, from a single component to entire systems. The release capitalizes on modern hardware advancements to deliver complex simulation calculations faster than other alternatives on the market today.

The release of Apache s RTL Power Model (RPM™), which is designed to optimize a wide range of power-sensitive applications, such as ultra-low-power electronics. RPM bridges the power gap from register-transfer-language ( RTL ) design to physical implementation. The new technology accurately predicts IC power behavior at the RTL level with consideration for how the design is physically implemented. As a result, the technology helps to enable chip power delivery network and IC package design decisions early in the design process, as well as to ensure chip power integrity sign-off.

The Company s total research and development expenses were $108.5 million, $89.0 million and $79.9 million in 2011, 2010 and 2009, respectively, or 15.7%, 15.3% and 15.4% of total revenue, respectively. As of December 31, 2011, the Company s product development staff consisted of approximately 730 full-time employees, most of whom hold advanced degrees and have industry experience in engineering, mathematics, computer science or related disciplines. The Company has traditionally invested significant resources in research and development activities and intends to continue to make investments in this area, particularly as it relates to expanding the capabilities of its flagship products and other products within its broad portfolio of simulation software, evolution of its ANSYS® Workbench™ platform, HPC capabilities and ongoing integration.

**PRODUCT QUALITY**

The Company s employees generally perform product development tasks according to predefined quality plans, procedures and work instructions. Certain technical support tasks are also subject to a quality process. These plans define for each project the methods to be used, the responsibilities of project participants and the quality objectives to be met. The majority of software products are developed under a quality system that is certified to the ISO 9001:2008 standard. The Company establishes quality plans for its products and services, and subjects product designs to multiple levels of testing and verification in accordance with processes established under the Company s quality system.

**SALES AND MARKETING**

The Company distributes and supports its products through a global network of independent channel partners, as well as through its own direct sales offices. This network provides the Company with a cost-effective, highly specialized channel of distribution and technical support. It also enables the Company to draw on business and technical expertise from a global network, provides relative stability to the Company s operations to offset geography-specific economic trends and provides the Company with an opportunity to take advantage of new geographic markets. Approximately 26% in 2011, 27% in 2010 and 26% in 2009 of the Company s total revenue was derived through the indirect sales channel.

The channel partners sell ANSYS products to new customers, expand installations within the existing customer base, offer training and consulting services, and provide the first line of ANSYS technical support. The Company s channel partner certification process helps to ensure that each channel partner has the ongoing capability to adequately represent the Company s expanding product lines and to provide an acceptable level of training, consultation and customer support.

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The Company also has a direct sales management organization in place to develop an enterprise-wide, focused sales approach and to implement a worldwide major account strategy. The sales management organization also functions as a focal point for requests to ANSYS from the channel partners and provides additional support in strategic locations through the presence of direct sales offices. A Vice President of Worldwide Sales and Support heads the Company s sales management organization.

During 2011, the Company continued to invest in its existing domestic and international strategic sales offices. In total, the Company s direct sales offices employ approximately 1,050 full-time employees who are responsible for the sales, technical support, engineering consulting services, marketing initiatives and administrative activities designed to support the Company s overall revenue growth and expansion strategies.

The Company s products are utilized by organizations ranging in size from small consulting firms to the world s largest industrial companies. No single customer accounted for more than 5% of the Company s revenue in 2011, 2010 or 2009.

Information with respect to foreign and domestic revenue may be found in Note 17 to the consolidated financial statements in Part IV, Item 15 of this Annual Report on Form 10-K and in the section entitled Management s Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of this Annual Report on Form 10-K.

**STRATEGIC ALLIANCES AND MARKETING RELATIONSHIPS**

The Company has established and continues to pursue strategic alliances with advanced technology suppliers, and marketing relationships with hardware vendors, specialized application developers, and CAD, ECAD and PLM providers. The Company believes that these relationships facilitate accelerated incorporation of advanced technology into the Company s products, provide access to new customers, expand the Company s sales channels, develop specialized product applications and provide direct integration with leading CAD, electronic design automation ( EDA ), product data management and PLM systems.

The Company has technical and marketing relationships with leading CAD vendors, such as Autodesk, Dassault Systèmes, Parametric Technology Corporation and Siemens Product Lifecycle Management Software Inc., to provide direct links between products. These links facilitate the transfer of electronic data models between the CAD systems and ANSYS products. In addition, the Company has an agreement with Dassault Systèmes under which ANSYS fluid flow modeling technology is embedded in the CATIA V5 product lifecycle management environment. This fully integrated product, FLUENT for CATIA V5, enables model building, computation, post-processing and data management within the analysis infrastructure of CATIA V5.

Similarly, the Company maintains marketing and software development relationships with leading EDA software companies, including Cadence, Synopsys and Mentor Graphics. These relationships support transfer of data between electronics design and layout packages and the ANSYS electronics simulation portfolio.

The Company has established relationships with leading suppliers of computer hardware, including Intel, AMD, Microsoft, NVIDIA, Hewlett-Packard, IBM, Dell, Cray, QLogic, Mellanox, Platform Computing and other leading regional resellers and system integrators. These relationships provide the Company with joint marketing opportunities, such as advertising, public relations, editorial coverage and customer events. In addition, these alliances provide the Company with early access and technical collaboration on new and emerging computing technologies, ensuring that the Company s software products are certified to run effectively on the most current hardware platforms. Key 2011 milestones included software tuning for the latest Intel processors, resulting in significant performance boosts, and extension of support for computations using General-Purpose Graphical Processing Units.

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The Company s Enhanced Solution Partner Program actively encourages specialized developers of software solutions to use the Company s technology as a development platform for their applications and provides customers with enhanced functionality related to their use of the Company s software. With over 100 active enhanced solution partnerships, spanning a wide range of technologies, including electronics, mechanical simulation, fluid simulation, acoustics, turbomachinery and CAD, this partner ecosystem extends the depth and breadth of the Company s technology offerings. During 2011, the Company extended its ecosystem of Workbench integrated partner solutions, working with FE-Design, Safe Technology, EVEN AG, RBF Morph, VCollab, and e-XStream.

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

The Company also has a software license agreement with HBM that provides the advanced fatigue capabilities of nCode DesignLife™, a leading durability software from HBM. ANSYS® nCode DesignLife technology leverages the open architecture of the ANSYS platform and enables mechanical engineers to more easily address complex product life and durability issues, all before a prototype is ever built. During 2011, customer events and ask the expert sessions were conducted with focus on the Workbench-integrated nCode DesignLife offering.

**COMPETITION**

The Company believes that the principal factors affecting sales of its software include ease of use, breadth and depth of functionality, flexibility, quality, ease of integration with other software systems, file compatibility across computer platforms, range of supported computer platforms, performance, price and total cost of ownership, customer service and support, company reputation and financial viability, and effectiveness of sales and marketing efforts.

The Company continues to experience competition across all markets for its products and services. Some of the Company s current and possible future competitors have greater financial, technical, marketing and other resources than the Company, and some have well established relationships with current and potential customers of the Company. The Company s current and possible future competitors also include firms that have or may in the future elect to compete by means of open source licensing. These competitive pressures may result in decreased sales volumes, price reductions and/or increased operating costs, and could result in lower revenues, margins and net income.

**PROPRIETARY RIGHTS AND LICENSES**

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

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The Company licenses its software products utilizing a combination of web-based and hard copy license terms and forms. For certain software products, the Company primarily relies on click-wrapped licenses. The enforceability of these types of agreements under the laws of some jurisdictions is uncertain.

The Company also seeks to protect the source code of its software as a trade secret and as unpublished copyrighted work. The Company has obtained federal trademark registration protection for ANSYS and other marks in the U.S. and in foreign countries. Additionally, the Company was awarded numerous patents by the U.S. Patent and Trademark Office, and has a number of patent applications pending. The Company does not always choose to seek patent protection for its intellectual property, as the process of obtaining patent protection is expensive and time consuming. As a result, the Company relies on the protection of its source code as a trade secret.

Employees of the Company have signed agreements under which they have agreed not to disclose trade secrets or confidential information and, where legally permitted, that restrict engagement in or connection with any business that is competitive with the Company anywhere in the world while employed by the Company (and, in some cases, for specified periods thereafter), and that any products or technology created by them during their term of employment are the property of the Company. In addition, the Company requires all channel partners to enter into agreements not to disclose the Company s trade secrets and other proprietary information.

Despite these precautions, there can be no assurance that misappropriation of the Company s technology and proprietary information will not occur. Further, there can be no assurance that copyright, trademark, patent and trade secret protection will be available for the Company s products in certain jurisdictions, or that restrictions on the ability of employees and channel partners to engage in activities competitive with the Company will be enforceable. Costly and time-consuming litigation could be necessary in the future to enforce the Company s rights to its trade secrets and proprietary information or to enforce its patent rights, and it is possible that in the future the Company s competitors may be able to obtain our trade secrets or to independently develop unpatented technology similar to ours.

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

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

**SEASONAL VARIATIONS**

The Company s business has experienced seasonality, including quarterly reductions in software sales resulting from the slowdown during the summer months, particularly in Europe, as well as from the seasonal purchasing and budgeting patterns of the Company s global customers. The Company s revenue is typically highest in the fourth quarter.

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**BACKLOG**

As a result of the timing of the Company s invoicing with respect to its acceptance of an order and execution of a software license agreement, the Company has historically had an insignificant order backlog. Due to the August 1, 2011 acquisition of Apache, which has different billing arrangements with customers than those historically used by the Company, there is a backlog of $56.3 million of orders received but not invoiced as of December 31, 2011.

**EMPLOYEES**

As of December 31, 2011, the Company and its subsidiaries had approximately 2,100 full-time employees. At that date, there were also contract personnel and co-op students providing ongoing development services and technical support. The Company believes that its relationship with its employees is good.

**AVAILABLE INFORMATION**

The Company s website is *www.ansys.com*. The Company makes available on its website, free of charge, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, reports filed pursuant to Section 16 and amendments to those reports as soon as reasonably practicable after such materials are electronically filed or furnished to the Securities and Exchange Commission. In addition, the Company has posted the charters for its Audit Committee, Compensation Committee, Nominating and Corporate Governance Committee, and Strategy Committee, as well as the Company s Code of Business Conduct and Ethics, Standard Business Practices and Corporate Governance Guidelines on its website. Information posted on the Company s website is not incorporated by reference in this Annual Report on Form 10-K.

**ITEM 1A: RISK FACTORS**

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

***Volatility in the Global Economy and Disruption in Financial Markets.*** The financial markets in certain geographies continue to experience disruption, including, among other things, volatility in securities prices, diminished liquidity and credit availability, rating downgrades of certain investments and declining valuations of others. While currently these conditions have not impaired the Company s ability to access credit markets and finance operations, there can be no assurance that there will not be continued instability in, or renewed deterioration of financial markets and confidence in major economies. The Company is impacted by these economic developments, both domestically and globally, in that the current tightening of credit in certain financial markets adversely affects the ability of its customers and suppliers to obtain financing for significant purchases and operations, and could result in a decrease in orders for the Company s products and services. These economic conditions may negatively impact the Company as some of its customers defer purchasing decisions, thereby lengthening the Company s sales cycles. In addition, certain of the Company s customers budgets may be constrained and they may be unable to purchase the Company s products at the same level. The Company s customers ability to pay for the Company s products and services may also be impaired, which may lead to an increase in the Company s allowance for doubtful accounts and write-offs of accounts receivable. The Company is unable to predict the likely duration and severity of the current economic conditions. Should these economic conditions result in the Company not meeting its revenue growth objectives, the Company s operating results, cash flows and financial condition could be adversely affected.

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***Decline in Customers Business.*** The Company s sales are based significantly on end user demand for products in key industrial sectors. Many of these sectors periodically experience economic declines, which may be exacerbated by other economic factors, including the recent global economic disruptions. These factors may adversely affect the Company s business by extending sales cycles and reducing revenue. These economic factors may cause the Company s customers to reduce the size of their workforce or cut back on operations and may lead to a reduction in license renewals or ongoing maintenance contracts with the Company. The Company s customers may also request discounts or extended payment terms on new products or seek to extend payment terms on existing contracts, all of which may cause fluctuations in the Company s future operating results. The Company may not be able to adjust its operating expenses to offset such fluctuations because a substantial portion of the Company s operating expenses is related to personnel, facilities and marketing programs. The level of personnel and related expenses may not be able to be adjusted quickly and is based, in significant part, on the Company s expectation for future revenue.

***Risks Associated with International Activities.*** A majority of the Company s business comes from outside the United States and the Company has customers that supply a wide spectrum of goods and services in virtually all of the world s major economic regions. As the Company continues to expand its sales presence in international regions, the portion of its revenue, expenses, cash, accounts receivable and payment obligations denominated in foreign currencies continues to increase. The Company s revenues and operating results are adversely affected when the U.S. Dollar strengthens relative to other currencies and are positively affected when the U.S. Dollar weakens. As a result, changes in currency exchange rates will affect the Company s financial position, results of operations and cash flows. In the event that there are economic declines in countries in which the Company conducts transactions, the resulting changes in currency exchange rates may affect the Company s financial position, results of operations and cash flows. The Company is most impacted by movements in and among the British Pound, Euro, Japanese Yen, Canadian Dollar, Indian Rupee, Swedish Krona, Chinese Renminbi, Korean Won, Taiwan Dollar and the U.S. Dollar. The Company seeks to reduce these risks primarily through its normal operating and treasury activities, but there can be no assurance that it will be successful in reducing these risks.

Additional risks inherent in the Company s international business activities include imposition of government controls; export license requirements; restrictions on the export of critical technology, products and services; 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, trademark and trade secret protection may not be available in every foreign country in which the Company sells its products and services. The Company s business, financial position, results of operations and cash flows could be materially, adversely affected by any of these risks.

***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. 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 financial markets or the software industry generally or other events and factors, many of which are beyond the Company s control.

***Rapidly Changing Technology; New Products; Risk of Product Defects.*** The Company operates in an industry generally characterized by rapidly changing technology and frequent new product introductions, which 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, products acquired in acquisitions and new products to meet those changes. If the Company is

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unable to introduce new products and to respond quickly to industry changes, its business, financial position, results of operations and cash flows could be materially, adversely affected.

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

***Competition.*** The Company continues to experience competition across all markets for its products and services. Some of the Company s current and possible future competitors have greater financial, technical, marketing and other resources than the Company, and some have well established relationships with current and potential customers of the Company. The Company s current and possible future competitors also include firms that have or may in the future elect to compete by means of open source licensing. These competitive pressures may result in decreased sales volumes, price reductions and/or increased operating costs, and could result in lower revenues, margins and net income.

***Changes in the Company s Pricing Models.*** The intense competition the Company faces in the sales of its products and services, and general economic and business conditions, can put pressure on the Company to adjust its prices. If the Company s competitors offer deep discounts on certain products or services, or develop products that the marketplace considers more valuable, the Company may need to lower prices or offer other favorable terms in order to compete successfully. Any such changes may reduce operating margins and could adversely affect operating results. The Company s software license updates and product support fees are generally priced as a percentage of its net new software license fees. The Company s competitors may offer lower percentage pricing on product updates and support, that could put pressure on the Company to further discount its new license prices.

Any broad-based change to the Company s prices and pricing policies could cause new software license and service revenues to decline or be delayed as its sales force implements and its customers adjust to the new pricing policies. Some of the Company s competitors may bundle software products for promotional purposes or as a long-term pricing strategy or provide guarantees of prices and product implementations. These practices could, over time, significantly constrain the prices that the Company can charge for certain of its products. If the Company does not adapt its pricing models to reflect changes in customer use of its products or changes in customer demand, the Company s new software license revenues could decrease. Additionally, increased distribution of applications through application service providers, including software-as-a-service providers, may reduce the average price for the Company s products or adversely affect other sales of the Company s products, reducing new software license revenues unless the Company can offset price reductions with volume increases. The increase in open source software distribution may also cause the Company to adjust its pricing models.

***Dependence on Senior Management and Key Technical Personnel.*** The Company s success depends upon the continued services of the Company s senior executives, key technical employees and other employees. Each of the Company s executive officers, key technical personnel and other employees could terminate his or her

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relationship with the Company at any time. The loss of any of the Company s senior executives might significantly delay or prevent the achievement of the Company s business objectives and could materially harm the Company s business and customer relationships. In addition, because of the highly technical nature of the Company s products, the loss of any significant number of existing engineering and development personnel could have a material, adverse effect on the Company s business and operating results.

***Dependence on Proprietary Technology.*** The Company s success is highly dependent upon its proprietary technology. The Company generally relies on contracts and the laws of copyright, patents, trademarks and trade secrets to protect its technology. The Company maintains a trade secrets program, enters into confidentiality agreements with its employees and channel partners, 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. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our trade secret rights and related confidentiality and nondisclosure provisions. 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.

***Dependence on Channel Partners.*** The Company continues to distribute a meaningful portion of its products through its global network of independent, regional channel partners. The channel partners sell the Company s software products to new and existing customers, expand installations within the existing customer base, offer consulting services and provide the first line of technical support. Consequently, in certain geographies, the Company is highly dependent upon the efforts of the channel partners. Difficulties in ongoing relationships with channel partners, such as failure to meet performance criteria or to promote the Company s products as aggressively as the Company expects, and differences in the handling of customer relationships, could adversely affect the Company s performance. Additionally, the loss of any major channel partner for any reason, including a channel partner s decision to sell competing products rather than the Company s products, could have a material, adverse effect on the Company. Moreover, the Company s future success will depend substantially on the ability and willingness of its channel partners to continue to dedicate the resources necessary to promote the Company s portfolio of products and to support a larger installed base of the Company s products. If the channel partners are unable or unwilling to do so, the Company may be unable to sustain revenue growth.

During times of significant fluctuations in world currencies, certain channel partners may have solvency issues to the extent that effective hedge transactions are not employed or there is not sufficient working capital. In particular, if the U.S. Dollar strengthens relative to other currencies, certain channel partners who pay the Company in U.S. Dollars may have trouble paying the Company on time or may have trouble distributing the Company s products due to the impact of the currency exchange fluctuation on such channel partner s cash flows. This may impact the Company s ability to distribute its products into certain regions and markets, and may have an adverse effect on the Company s results of operations and cash flows.

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

***Risks Associated with Acquisitions.*** Historically, the Company has consummated acquisitions in order to support the Company s long-term strategic direction, accelerate innovation, provide increased capabilities to its existing products, supply new products and services, expand its customer base and enhance its distribution channels. In the future, the Company may not be able to identify suitable acquisition candidates or, if suitable

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candidates are identified, the Company may not be able to complete the business combination on commercially acceptable terms. The process of exploring and pursuing acquisition opportunities may result in devotion of significant management and financial resources.

Even if the Company is able to consummate acquisitions that it believes will be successful, such transactions present many risks. Significant risks to such acquisitions include, among others: failing to achieve anticipated synergies and revenue increases; difficulty incorporating and integrating the acquired technologies or products with the Company s existing product lines; difficulty in coordinating, establishing or expanding sales, distribution and marketing functions, as necessary; disruption of the Company s ongoing business and diversion of management s attention to transition or integration issues; unanticipated and unknown liabilities; the loss of key employees, customers, partners and channel partners of the Company or of the acquired company; and difficulties implementing and maintaining sufficient controls, policies and procedures over the systems, products and processes of the acquired company. If the Company does not achieve the anticipated benefits of its acquisitions as rapidly or to the extent anticipated by the Company s management and financial or industry analysts, or if others do not perceive the same benefits of the acquisition as the Company, there could be a material, adverse effect on the Company s stock price, business, financial position, results of operations or cash flows.

In addition, for companies acquired, limited experience will exist for several quarters following the acquisition relating to how the acquired company s sales pipelines will convert into sales or revenues and the conversion rate post-acquisition may be quite different than the historical conversion rate. Because a substantial portion of the Company s sales are completed in the latter part of a quarter, and its cost structure is largely fixed in the short term, revenue shortfalls may have a negative impact on the Company s profitability. A delay in a small number of large, new software license transactions could cause the Company s quarterly software license revenues to fall significantly short of its predictions.

***Risks Associated with the Apache Acquisition.*** On August 1, 2011, the Company completed its acquisition of Apache Design, Inc., a leading simulation software provider for advanced, low-power solutions in the electronics industry. Under the terms of the merger agreement, ANSYS acquired 100% of the outstanding shares of Apache for a purchase price of $314.0 million, which included $31.9 million in acquired cash and short-term investments on Apache s balance sheet, $3.2 million in ANSYS replacement stock option awards issued to holders of partially-vested Apache stock options and $9.5 million in contingent consideration that is based on the retention of a key member of Apache s management. While the acquisition of Apache is expected to accelerate development and delivery of new and innovative products to the marketplace while lowering design and engineering costs for customers, the Company will need to meet significant challenges to realize the expected benefits and synergies of the acquisition. These challenges include:

Integrating the management teams, strategies, cultures and operations of the two companies.

Retaining and assimilating the key personnel of each company.

Integrating sales and business development operations.

Retaining existing customers of each company.

Developing new products and services that utilize the technologies and resources of both companies.

Creating uniform standards, controls, procedures, policies and information systems.

Realizing the anticipated cost savings in the combined company.

Combining the businesses of the Company and Apache in a manner that does not materially disrupt Apache s existing customer relationships nor otherwise result in decreased revenues and that allows the Company to capitalize on Apache s growth opportunities.

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The accomplishment of these post-acquisition objectives will involve considerable risks, including:

- The loss of key employees that are critical to the successful integration and future operations of the companies.
- The potential disruption of each company s ongoing business and distraction of their respective management teams.
- The difficulty of incorporating acquired technology and rights into the Company s products and services.
- Unanticipated expenses related to technology integration.
- Potential disruptions in each company s operations, loss of existing customers, loss of key information, expertise or know-how, and unanticipated additional recruitment and training costs.
- Possible inconsistencies in standards, controls, procedures and policies that could adversely affect the Company s ability to maintain relationships with customers and employees or to achieve the anticipated benefits of the acquisition.
- Potential unknown liabilities associated with the acquisition.

The market price of the Company s common stock may decline as a result of the acquisition for a number of reasons, including:

- The integration of Apache by the Company may be unsuccessful.
- The Company may not achieve the perceived benefits of the acquisition as rapidly as, or to the extent, anticipated by financial or industry analysts.
- The effect of the acquisition on the Company s financial results may not be consistent with the expectations of financial or industry analysts.

If the Company does not succeed in addressing these challenges or any other problems encountered in connection with the acquisition, its operating results and financial condition could be adversely affected.

The Company continues to believe that the acquisition of Apache will be accretive to non-GAAP earnings within the first year following the acquisition. The Company s ability to realize this goal will depend on meeting many of the challenges outlined above. In the event that Apache is not accretive within the first year following the acquisition, or to the extent anticipated by the Company s management and financial or industry analysts, it may have an adverse effect on the Company s business, financial position and reputation.

***Disruption of Operations or Infrastructure Failures.*** A significant portion of the Company s software development personnel, source code and computer equipment is located at operating facilities in the United States, Canada, India, Japan and throughout Europe. The occurrence of a natural disaster or other unforeseen catastrophe at any of these facilities could cause interruptions in the Company s operations, services and product development activities. Additionally, if the Company experiences problems that impair its business infrastructure, such as a computer virus, telephone system failure or an intentional disruption of its information technology systems by a third party, these interruptions could have a material, adverse effect on the Company s business, financial position, results of operations, cash flows and the ability to meet financial reporting timelines. Further, because the Company s sales are not generally linear during any quarterly period, the potential adverse effects

resulting from any of the events described above or any other disruption of the Company s business could be accentuated if it occurs close to the end of a fiscal quarter.

***Sales Forecasts.*** The Company makes many operational and strategic decisions based upon short- and long-term sales forecasts. The Company s sales personnel continually monitor the status of all proposals, including the estimated closing date and the value of the sale, in order to forecast quarterly sales. These forecasts are subject to

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significant estimation and are impacted by many external factors, including global economic conditions and the performance of the Company s customers. A variation in actual sales activity from that forecasted could cause the Company to plan or to budget incorrectly and, therefore, could adversely affect the Company s business, financial position, results of operations and cash flows. The Company s management team forecasts macroeconomic trends and developments, and integrates them through long-range planning into budgets, research and development strategies and a wide variety of general management duties. Global economic conditions, and the effect those conditions and other disruptions in global markets have on the Company s customers, may have a significant impact on the accuracy of the Company s sales forecasts. These conditions may increase the likelihood or the magnitude of variations between actual sales activity and the Company s sales forecasts and, as a result, the Company s performance may be hindered because of a failure to properly match corporate strategy with economic conditions. This, in turn, may adversely affect the Company s business, financial position, results of operations and cash flows.

***Risks Associated with Significant Sales to Existing Customers.*** A significant portion of the Company s sales include follow-on sales to existing customers that invest in the Company s broad suite of engineering simulation software and services. If a significant number of current customers were to become dissatisfied with the Company s products and services, or choose to license or utilize competitive offerings, the Company s follow-on sales, and recurring lease and maintenance revenues, could be materially, adversely impacted, resulting in reduced revenue, operating margins, net income and cash flows.

***Renewal Rates for Annual Lease and Maintenance Contracts.*** A substantial portion of the Company s license and maintenance revenue is derived from annual lease and maintenance contracts. These contracts are generally renewed on an annual basis and typically have a high rate of customer renewal. In addition to the recurring revenue base associated with these contracts, a majority of customers purchasing new perpetual licenses also purchase related annual maintenance contracts. If the rate of renewal for these contracts is adversely affected by economic or other factors, the Company s license and maintenance growth will be adversely affected over the term that the revenue for those contracts would have otherwise been recognized. As a result, the Company s business, financial position, results of operations and cash flows may also be adversely impacted during those periods.

***Income Tax Estimates.*** The Company makes significant estimates in determining its worldwide income tax provision. These estimates involve complex tax regulations in a number of jurisdictions across the Company s global operations and are subject to many transactions and calculations in which the ultimate tax outcome is uncertain. The final outcome of tax matters could be different than the estimates reflected in the historical income tax provision and related accruals. Such differences could have a material impact on income tax expense and net income in the periods in which such determinations are made.

The amount of income tax paid by the Company is subject to ongoing audits by federal, state and foreign tax authorities. These audits can often result in additional assessments, including interest and penalties. The Company s estimate for liabilities associated with uncertain tax positions is highly judgmental and actual future outcomes may result in favorable or unfavorable adjustments to the Company s estimated tax liabilities, including estimates for uncertain tax positions, in the period the assessments are made or resolved, audits are closed or when statutes of limitations on potential assessments expire. As a result, the Company s effective tax rate may fluctuate significantly on a quarterly or annual basis.

The Company allocates a portion of its purchase price to goodwill and intangible assets. Impairment charges associated with goodwill are generally not tax deductible and will result in an increased effective income tax rate in the period the impairment is recorded. The Company has recorded significant deferred tax liabilities related to acquired intangible assets that are not deductible for tax purposes. These deferred tax liabilities are based on future statutory tax rates in the locations in which the intangible assets are recorded. Any future changes in statutory tax rates would be recorded as an adjustment to the deferred tax liabilities in the period the change is announced, and could have a material impact on the Company s effective tax rate during that period.

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***Periodic Reorganization of Sales Force.*** The Company relies heavily on its direct sales force. From time to time, the Company reorganizes and makes adjustments to its sales force in response to such factors as management changes, performance issues, market opportunities and other considerations. These changes may result in a temporary lack of sales production and may adversely impact revenue in future quarters. There can be no assurance that the Company will not restructure its sales force in future periods or that the transition issues associated with such a restructuring will not occur.

***Regulatory Compliance.*** Like all other public companies, the Company is subject to the rules and regulations of the Securities and Exchange Commission ( SEC ), including those that require the Company to report on and receive an attestation from its independent registered public accounting firm regarding the Company s internal control over financial reporting. Compliance with these requirements causes the Company to incur additional expenses and causes management to divert time from the day-to-day operations of the Company. While the Company anticipates being able to fully comply with these requirements, if it is not able to comply with the Sarbanes-Oxley reporting or attestation requirements relating to internal control over financial reporting, the Company may be subject to sanctions by the SEC or NASDAQ. Such sanctions could divert the attention of the Company s management from implementing its business plan and could have an adverse effect on the Company s business and results of operations.

As the Company s stock is listed on the NASDAQ Global Select Market, the Company is subject to the ongoing financial and corporate governance requirements of NASDAQ. While the Company anticipates being able to fully comply with these requirements, if it is not able to comply, the Company s name may be published on NASDAQ s daily Non-Compliant Companies list until NASDAQ determines that it has regained compliance or the Company no longer trades on NASDAQ. If the Company were unable to return to compliance with the governance requirements of NASDAQ, the Company may be delisted from the NASDAQ Global Select Market, which could have an adverse effect on the market value of the Company s equity securities and the ability to raise additional capital.

***Governmental Revenue Sources.*** The Company s sales to the United States government must comply with the regulations set forth in the Federal Acquisition Regulations. Failure to comply with these regulations could result in penalties being assessed against the Company or an order preventing the Company from making future sales to the United States government. Further, the Company s international activities must comply with the export control laws of the United States, the Foreign Corrupt Practices Act and a variety of other laws and regulations of the United States and other countries in which the Company operates. Failure to comply with any of these laws and regulations could adversely affect the Company s business, financial position, results of operations and cash flows.

In certain circumstances, the United States government, state and local governments and their respective agencies, and certain foreign governments may have the right to terminate contractual arrangements at any time, without cause. The United States, European Union and certain other government contracts, as well as the Company s state and local level contracts, are subject to the approval of appropriations or funding authorizations. Certain of these contracts permit the imposition of various civil and criminal penalties and administrative sanctions, including, but not limited to, termination of contracts, refund of a portion of fees received, forfeiture of profits, suspension of payments, fines and suspensions or debarment from future government business, any of which could have an adverse effect on the Company s results of operations and cash flows.

***Contingencies.*** The Company is subject to various investigations, claims and legal proceedings that arise in the ordinary course of business, including alleged infringement of intellectual property rights, commercial disputes, labor and employment matters, tax audits and other matters. Each of these matters is subject to various uncertainties, and it is possible that an unfavorable resolution of one or more of these matters could materially affect the Company s results of operations, cash flows or financial position.

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***Changes in Existing Financial Accounting Standards.*** Changes in existing accounting rules or practices, new accounting pronouncements, or varying interpretations of current accounting pronouncements could have a significant, adverse effect on the Company s results of operations or the manner in which the Company conducts its business.

***Changes in Tax Law.*** The Company s operations are subject to income and transaction taxes in the United States and in multiple foreign jurisdictions. A change in the tax law in the jurisdictions in which the Company does business, including an increase in tax rates or an adverse change in the treatment of an item of income or expense, could result in a material increase in tax expense. Currently, a substantial portion of the Company s revenue is generated from customers located outside the United States, and a substantial portion of assets are located outside the United States. United States income taxes and foreign withholding taxes have not been provided on undistributed earnings for non-United States subsidiaries to the extent such earnings are considered to be indefinitely reinvested in the operations of those subsidiaries. Changes in existing taxation rules or practices, new taxation rules, or varying interpretations of current taxation practices could have a material, adverse effect on the Company s results of operations or the manner in which the Company conducts its business.

The Company has significant operations in India. Recently, there have been court rulings concerning certain Indian tax laws that have been inconsistent with tax positions taken by the Company and inconsistent with the advice provided to the Company by its tax advisors. The impact of changes in tax law interpretation has been included in the Company s results of operations during the period of the resolution of the applicable court case. Other court cases are pending in India that could have a material impact on the Company s financial position, results of operations or cash flows if the ultimate outcome of those cases is similarly inconsistent with tax positions taken by the Company.

***Natural Disaster in Japan.*** The Company has significant operations in Japan. During the first quarter of 2011, Japan experienced a catastrophic earthquake and tsunami. While the Company s operating facilities in Japan were unharmed, this natural disaster has had an economic impact on the Company s customers in Japan and on customers in other geographic regions who may rely on production or suppliers in Japan. As a result, the predictability of the timing and amounts of the Company s sales to customers in Japan or that are otherwise affected by the Japan natural disaster has become less reliable than it was prior to the earthquake and tsunami. These circumstances could cause the Company s business, financial position, results of operations and cash flows to be adversely impacted.

**ITEM 1B: UNRESOLVED STAFF COMMENTS**

The Company has received no written comments regarding our periodic or current reports from the staff of the SEC that were issued 180 days or more preceding the end of our fiscal year 2011 and that remain unresolved.

**ITEM 2: PROPERTIES**

The Company s executive offices and those related to certain domestic product development, marketing, production and administration are located in a 107,000 square foot office facility in Canonsburg, Pennsylvania. In May 2004, the Company entered into the first amendment to its existing lease agreement on this facility, effective January 1, 2004. The lease was extended from its original period to a period through 2014, with an option to extend through 2019. Total required minimum payments under the operating lease will be $1.4 million per annum from January 1, 2012 through December 31, 2014.

As part of the acquisition of Apache on August 1, 2011, the Company acquired certain leased office property, including executive offices, which comprise a 52,000 square foot office facility in San Jose, California. In March 2011, Apache entered into the second amendment to its existing lease agreement, effective March 14, 2011. The lease term was extended to October 31, 2015. Total required minimum payments under the operating lease will be $910,000 in 2012, $980,000 in 2013, $1.3 million in 2014 and $1.1 million in 2015.

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The Company also leases certain office property, including executive offices, which comprise a 28,000 square foot office facility in Pittsburgh, Pennsylvania. In August 2009, the Company extended the executive office space lease agreement for a period of approximately three years and ten months, commencing February 15, 2011 and expiring December 31, 2014. Total required minimum payments under the operating lease will be $570,000 per annum from January 1, 2012 through December 31, 2014.

The Company owns certain office property, including executive offices, which comprise a 94,000 square foot office facility in Lebanon, New Hampshire. In addition, the Company owns a 40,000 square foot facility in Pune, India, which supports worldwide product development, marketing and sales activities.

The Company and its subsidiaries also lease office space in various locations throughout the world. The Company owns substantially all equipment used in its facilities. Management believes that, in most geographic locations, its facilities allow for sufficient space to support not only its present needs, but also allow for expansion and growth as the business may require in the foreseeable future. In other geographic locations, the Company expects that it will be required to expand capacity beyond that which it currently owns or leases.

In the opinion of management, the Company s properties and its equipment are in good operating condition and are adequate for the Company s current needs. The Company does not anticipate difficulty in renewing existing leases as they expire or in finding alternative facilities.

**ITEM 3: LEGAL PROCEEDINGS**

The Company is subject to various investigations, claims and legal proceedings that arise in the ordinary course of business, including alleged infringement of intellectual property rights, commercial disputes, labor and employment matters, tax audits and other matters. In the opinion of the Company, the resolution of pending matters is not expected to have a material, adverse effect on the Company s consolidated results of operations, cash flows or financial position. However, each of these matters is subject to various uncertainties and it is possible that an unfavorable resolution of one or more of these proceedings could in the future materially affect the Company s results of operations, cash flows or financial position.

**ITEM 4: MINE SAFETY DISCLOSURES**

Not applicable.

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**PART II**

**ITEM 5: MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

**Market Information**

The Company s common stock trades on the NASDAQ Global Select Market tier of the NASDAQ Stock Market under the symbol: ANSS. The following table sets forth the low and high sale price of the Company s common stock in each of the Company s last eight fiscal quarters.

| | Fiscal Quarter Ended 2011 | | Fiscal Quarter Ended 2010 | |
|---|---|---|---|---|
| | Low Sale Price | High Sale Price | Low Sale Price | High Sale Price |
| December 31 | $ 45.96 | $ 62.30 | $ 40.63 | $ 53.64 |
| September 30 | $ 45.72 | $ 57.15 | $ 38.69 | $ 46.66 |
| June 30 | $ 51.22 | $ 57.50 | $ 40.49 | $ 46.88 |
| March 31 | $ 49.71 | $ 56.86 | $ 40.24 | $ 46.49 |

On February 10, 2012, there were 239 stockholders of record and approximately 56,242 beneficial holders of the Company s common stock.

The Company has not paid cash dividends on its common stock as it has retained earnings for use in its business. The Company reviews 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.

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**Performance Graph**

Set forth below is a line graph comparing the yearly percentage change in the cumulative total stockholder return on the Company s common stock, based on the market price of the Company s common stock, with the total return of companies included within the Russell 1000 Index, the NASDAQ Composite Stock Market Index and a peer group of four companies (Autodesk, Inc., Parametric Technology Corporation, Cadence Design Systems, Inc. and Synopsys, Inc.) selected by the Company, for the period commencing January 1, 2007 and ending December 31, 2011. The calculation of total cumulative returns assumes a $100 investment in the Company s common stock, the Russell 1000 Index, the NASDAQ Composite Stock Market Index and the Peer Group Index on January 1, 2007, and the reinvestment of all dividends, and accounts for all stock splits. The historical information set forth below is not necessarily indicative of future performance.

ASSUMES $100 INVESTED ON JAN. 1, 2007

ASSUMES DIVIDENDS REINVESTED

FIVE FISCAL YEARS ENDING DEC. 31, 2011

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**Equity Compensation Plan Information as of December 31, 2011**

| Plan Category | (a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights | (b) Weighted Average Exercise Price of Outstanding Options, Warrants and Rights | (c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (a)) |
|---|---|---|---|
| Equity Compensation Plans Approved by Security Holders | | | |
| 1996 Stock Option and Grant Plan | 6,861,026 | $ 33.65 | 6,297,059 |
| Ansoft Corporation 2006 Stock Incentive Plan | 756,229 | $ 34.79 | 0 |
| Apache Design Solutions, Inc. 2001 Stock/Option Issuance Plan | 398,799 | $ 19.07 | 0 |
| 1996 Employee Stock Purchase Plan | (1) | (2) | 415,918 |
| Equity Compensation Plans Not Approved by Security Holders | | | |
| None | | | |
| Total | 8,016,054 | | 6,712,977 |

(1) The number of shares issuable with respect to the current offering period is not determinable until the end of the period.
(2) The per share purchase price of shares issuable with respect to the current offering period is not determinable until the end of the offering period.

**Unregistered Sale of Equity Securities and Use of Proceeds**

None.

**Issuer Purchases of Equity Securities**

None.

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**ITEM 6: SELECTED FINANCIAL DATA**

The following table sets forth selected financial data as of and for the last five years. This selected financial data should be read in conjunction with the consolidated financial statements and related notes included in Part IV, Item 15 of this Annual Report on Form 10-K. The results of acquired companies have been included in the consolidated financial statements since their respective dates of acquisition.

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| ***(in thousands, except per share data)*** | **2011** | **2010** | **2009** | **2008** | **2007** |
| Total revenue | **$ 691,449** | $ 580,236 | $ 516,885 | $ 478,339 | $ 385,340 |
| Operating income | **265,559** | 219,268 | 183,477 | 169,731 | 126,769 |
| Net income | **180,675** | 153,132 | 116,391 | 111,671 | 82,392 |
| Earnings per share basic | **$ 1.96** | $ 1.69 | $ 1.32 | $ 1.35 | $ 1.06 |
| Weighted average shares basic | **92,120** | 90,684 | 88,486 | 82,975 | 77,792 |
| Earnings per share diluted | **$ 1.91** | $ 1.64 | $ 1.27 | $ 1.29 | $ 1.02 |
| Weighted average shares diluted | **94,381** | 93,209 | 91,785 | 86,768 | 81,135 |
| Total assets | **$ 2,448,470** | $ 2,126,876 | $ 1,920,182 | $ 1,864,514 | $ 969,292 |
| Working capital | **301,282** | 403,264 | 248,724 | 129,489 | 109,302 |
| Long-term liabilities | **255,246** | 285,578 | 340,785 | 413,951 | 132,215 |
| Stockholders equity | **1,754,473** | 1,529,929 | 1,312,631 | 1,182,899 | 641,210 |
| Cash provided by operating activities | **307,661** | 166,884 | 173,689 | 196,708 | 127,128 |

In the table above, the comparability of information among the years presented is significantly impacted by the August 1, 2011 acquisition of Apache and the July 31, 2008 acquisition of Ansoft Corporation. See further information on Apache within the Acquisitions section of Management s Discussion and Analysis in Item 7 and in Note 3 to the consolidated financial statements included in Part IV, Item 15 of this Annual Report on Form 10-K.

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

**Overview**

ANSYS, Inc. s (hereafter the Company or ANSYS ) results for the year ended December 31, 2011 reflect growth in revenues of 19.2%, operating income of 21.1% and diluted earnings per share of 16.5% as compared to the year ended December 31, 2010. The results of operations include the results of Apache for the period from the date of acquisition (August 1, 2011) through December 31, 2011. The Company experienced higher revenues in 2011 from growth in both license and maintenance revenue, and from the acquisition of Apache. As compared to 2010, the 2011 operating results were also favorably impacted by improved operating margins, favorable foreign currency translation fluctuations and reduced net interest expense. These contributions were partially offset by additional amortization from intangible assets related to the Apache acquisition, a higher effective tax rate and acquisition-related transaction fees.

The Company s non-GAAP results for the year ended December 31, 2011 reflect increases in revenue of 20.8%, operating income of 22.7% and diluted earnings per share of 18.8% as compared to the year ended December 31, 2010. The non-GAAP results exclude the income statement effects of the acquisition accounting adjustment to deferred revenue, stock-based compensation, acquisition-related amortization of intangible assets and transaction costs related to business combinations.

The Company s tax expense in the year ended December 31, 2011 was unfavorably impacted by reductions to the Japanese corporate tax rate, beginning with the 2013 tax year. This legislation, enacted on November 30, 2011, resulted in an additional $4.8 million in deferred tax expense due to the reduction in the value of certain net deferred tax assets of the Company s Japanese subsidiaries. For further disclosure regarding non-GAAP results, see the section titled Non-GAAP Results immediately preceding the section titled Liquidity and Capital Resources .

During the year ended December 31, 2011, the Company had net acquisition-related cash outlays of approximately $269.5 million and repurchased approximately 247,000 shares of treasury stock for $12.7 million at an average price of $51.34 per share. The Company s financial position includes $472.4 million in cash and short-term investments, and working capital of $301.3 million as of December 31, 2011. As of December 31, 2011, remaining outstanding borrowings on the Company s term loan totaled $127.6 million.

ANSYS develops and globally markets engineering simulation software and services widely used by engineers, designers, researchers and students across a broad spectrum of industries and academia, including aerospace, automotive, manufacturing, electronics, biomedical, energy and defense. Headquartered south of Pittsburgh, Pennsylvania, the Company and its subsidiaries employed approximately 2,100 people as of December 31, 2011 and focus on the development of open and flexible solutions that enable users to analyze designs directly on the desktop, providing a common platform for fast, efficient and cost-conscious product development, from design concept to final-stage testing and validation. The Company distributes its ANSYS suite of simulation technologies through a global network of independent channel partners and direct sales offices in strategic, global locations. It is the Company s intention to continue to maintain this hybrid sales and distribution model.

The Company licenses its technology to businesses, educational institutions and governmental agencies. Growth in the Company s revenue is affected by the strength of global economies, general business conditions, currency exchange rate fluctuations, customer budgetary constraints and the competitive position of the Company s products. Please see the sub-sections entitled Volatility in the Global Economy and Disruption in Financial Markets, Decline in Customers Business, Risks Associated with International Activities, Rapidly Changing Technology; New Products; Risk of Product Defects and Competition under Item 1A Risk Factors above for a complete discussion of how these factors might impact the Company s financial condition and operating results. The Company believes that the features, functionality and integrated multiphysics capabilities of its software products are as strong as they have ever been. However, the software business is generally characterized by long sales cycles. These long sales cycles increase the difficulty of

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predicting sales for any particular quarter. The Company makes many operational and strategic decisions based upon short- and long-term sales forecasts that are impacted not only by these long sales cycles but by current global economic conditions. As a result, the Company believes that its overall performance is best measured by fiscal year results rather than by quarterly results. Please see the sub-section entitled Sales Forecasts under Item 1A Risk Factors above for a complete discussion of the potential impact of the Company s sales forecasts on the Company s financial condition, cash flows and operating results.

The Company s management considers the competition and price pressure that it faces in the short- and long-term by focusing on expanding the breadth, depth, ease of use and quality of the technologies, features, functionality and integrated multiphysics capabilities of its software products as compared to its competitors; investing in research and development to develop new and innovative products and increase the capabilities of its existing products; supplying new products and services; focusing on customer needs, training, consulting and support; and enhancing its distribution channels. From time to time, the Company also considers acquisitions to supplement its global engineering talent, product offerings and distribution channels.

The following discussion should be read in conjunction with the audited consolidated financial statements and notes thereto included elsewhere in this Annual Report on Form 10-K. The Company s discussion and analysis of its financial condition and results of operations are based upon the Company s consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, the Company evaluates its estimates, including those related to fair value of stock awards, bad debts, contract revenue, valuation of goodwill, valuation of intangible assets, income taxes, and contingencies and litigation. The Company bases its estimates on historical experience, market experience, estimated future cash flows and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

This Annual Report on Form 10-K 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, but not limited to, the following statements, as well as statements that contain such words as anticipates, intends, believes, plans and other similar expressions:

- The Company s expectation that it will continue to make targeted investments in its global sales and marketing organization and its global business infrastructure to enhance major account sales activities and to support its worldwide sales distribution and marketing strategies, and the business in general.

- The Company s intentions related to investments in research and development, particularly as they relate to expanding the capabilities of its flagship products and other products within its broad portfolio of simulation software, evolution of its ANSYS® Workbench™ platform, High Performance Computing (HPC) capabilities and ongoing integration.

- The Company s intentions related to investments in complementary companies, products, services and technologies.

- Exposure to changes in domestic and foreign tax regulations in future periods.

- The Company s plans related to future capital spending.

- The Company s intentions regarding its hybrid sales and distribution model.

- The sufficiency of existing cash and cash equivalent balances to meet future working capital, capital expenditure and debt service requirements.

Management s assessment of the ultimate liabilities arising from various investigations, claims and legal proceedings.

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The Company s statements regarding the competitive position and strength of its software products.

Management s assessment of its ability to realize deferred tax assets.

The Company s statements regarding the strength of its financial position.

The Company s expectations regarding future claims related to indemnification obligations.

The Company s estimates regarding expected interest expense on its term loan.

The Company s statements regarding the impact of global economic conditions.

The Company s statements regarding increased exposure to volatility of foreign exchange rates and expectations regarding the impact of currency exchange rate fluctuations on revenue and operating income.

The Company s statement regarding stock repurchases in future periods.

The Company s expectations regarding the impact of the merger of its Japan subsidiaries on future income tax expense and cash flows from operations.

The Company s expectations regarding the accelerated development and delivery of new and innovative products to the marketplace while lowering design and engineering costs for customers as a result of the Apache acquisition.

The Company s estimates regarding the expected impact on reported revenue related to the acquisition accounting treatment of deferred revenue.

Forward-looking statements should not be unduly relied upon because they involve known and unknown risks, uncertainties and other factors, some of which are beyond the Company s control. The Company s actual results could differ materially from those set forth in the forward-looking statements. Certain factors that might cause such a difference include risks and uncertainties detailed in Item 1A Risk Factors.

**Acquisitions**

On August 1, 2011, the Company completed its acquisition of Apache Design, Inc., a leading simulation software provider for advanced, low-power solutions in the electronics industry. Under the terms of the merger agreement, ANSYS acquired 100% of the outstanding shares of Apache for a purchase price of $314.0 million, which included $31.9 million in acquired cash and short-term investments on Apache s balance sheet, $3.2 million in ANSYS replacement stock option awards issued to holders of partially-vested Apache stock options and $9.5 million in contingent consideration that is based on the retention of a key member of Apache s management. The agreement also includes $13.0 million of performance equity awards for key members of management and employees, earned annually over a three-fiscal-year period beginning January 1, 2012. These awards will be accounted for outside of the business combination. The Company funded the transaction entirely with existing cash balances.

The operating results of Apache have been included in the Company s consolidated financial statements since the date of acquisition, August 1, 2011. The assets and liabilities of Apache have been recorded based upon management s estimates of their fair values as of the acquisition date. The following tables summarize the fair value of consideration transferred and the preliminary fair values of identifiable assets acquired and

liabilities assumed at the acquisition date:

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**Fair Value of Consideration Transferred:**

| *(in thousands)* | |
|---|---|
| Cash | $ 301,306 |
| Contingent consideration | 9,501 |
| ANSYS replacement stock options | 3,170 |
| **Total consideration transferred at fair value** | **$ 313,977** |

**Recognized Amounts of Identifiable Assets Acquired and Liabilities Assumed:**

| *(in thousands)* | |
|---|---|
| Cash and short-term investments | $ 31,948 |
| Accounts receivable and other tangible assets | 6,011 |
| Developed software (7-year life) | 82,500 |
| Customer relationships (15-year life) | 36,100 |
| Contract backlog (3-year life) | 13,500 |
| Platform trade names (indefinite-lives) | 21,900 |
| Apache trade name (6-year life) | 2,100 |
| Accounts payable and other liabilities | (16,646) |
| Deferred revenue | (10,100) |
| Net deferred tax liabilities | (44,283) |
| **Total identifiable net assets** | **$ 123,030** |
| **Goodwill** | **$ 190,947** |

In valuing deferred revenue on the Apache balance sheet as of the acquisition date, the Company applied the fair value provisions applicable to the accounting for business combinations. Although this acquisition accounting requirement had no impact on the Company s business or cash flow, the Company s reported revenue under accounting principles generally accepted in the United States, primarily for the first 12 months post-acquisition, will be less than what would otherwise have been reported by Apache absent the acquisition. Acquired deferred revenue of $10.1 million was recorded on the opening balance sheet. This amount was approximately $13.6 million lower than the historical carrying value. The impact on reported revenue for the year ended December 31, 2011 was $9.6 million, primarily in lease license revenue. The expected impact on reported revenue for the year ending December 31, 2012 is $3.4 million.

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**Results of Operations**

For purposes of the following discussion and analysis, the table below sets forth certain consolidated financial data for the years 2011, 2010 and 2009. The operating results of Apache have been included in the results of operations since the acquisition date of August 1, 2011.

| | Year Ended December 31, | | |
|---|---|---|---|
| *(in thousands)* | **2011** | **2010** | **2009** |
| Revenue: | | | |
| Software licenses | **$ 425,881** | $ 351,033 | $ 315,633 |
| Maintenance and service | **265,568** | 229,203 | 201,252 |
| Total revenue | **691,449** | 580,236 | 516,885 |
| Cost of sales: | | | |
| Software licenses | **15,884** | 10,770 | 10,210 |
| Amortization | **33,728** | 32,757 | 36,011 |
| Maintenance and service | **69,402** | 57,352 | 50,021 |
| Restructuring charges | **0** | 0 | 994 |
| Total cost of sales | **119,014** | 100,879 | 97,236 |
| Gross profit | **572,435** | 479,357 | 419,649 |
| Operating expenses: | | | |
| Selling, general and administrative | **180,357** | 155,096 | 137,264 |
| Research and development | **108,530** | 88,990 | 79,856 |
| Amortization | **17,989** | 16,003 | 16,326 |
| Restructuring charges | **0** | 0 | 2,726 |
| Total operating expenses | **306,876** | 260,089 | 236,172 |
| Operating income | **265,559** | 219,268 | 183,477 |
| Interest expense | **(3,332)** | (4,488) | (10,401) |
| Interest income | **3,000** | 1,911 | 1,740 |
| Other expense, net | **(369)** | (297) | (1,287) |
| Income before income tax provision | **264,858** | 216,394 | 173,529 |
| Income tax provision | **84,183** | 63,262 | 57,138 |
| Net income | **$ 180,675** | $ 153,132 | $ 116,391 |

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***Year Ended December 31, 2011 Compared to Year Ended December 31, 2010***

***Revenue:***

| *(in thousands, except percentages)* | Year Ended December 31, 2011 | 2010 | Change Amount | % |
|---|---|---|---|---|
| Revenue: | | | | |
| Lease licenses | **$ 218,005** | $ 184,539 | $ 33,466 | 18.1 |
| Perpetual licenses | **207,876** | 166,494 | 41,382 | 24.9 |
| Software licenses | **425,881** | 351,033 | 74,848 | 21.3 |
| Maintenance | **246,546** | 211,465 | 35,081 | 16.6 |
| Service | **19,022** | 17,738 | 1,284 | 7.2 |
| Maintenance and service | **265,568** | 229,203 | 36,365 | 15.9 |
| Total revenue | **$ 691,449** | $ 580,236 | $ 111,213 | 19.2 |

The Company s revenue increased 19.2% in 2011 as compared to 2010, including increases in license and maintenance revenue. This strong growth was partially influenced by a modest improvement in the global economy as compared to the prior year, including the effects of these economic improvements on year-end spending patterns in certain geographies, benefits from the Company s continued investment in its global sales and marketing organization and $14.5 million in revenue related to the acquisition of Apache for the period from the acquisition date (August 1, 2011) through December 31, 2011. Perpetual license revenue, which is derived entirely from new sales during the period, increased 24.9% as compared to the prior year. The annual maintenance contracts that were sold with the new perpetual licenses, along with the renewal of maintenance contracts sold with perpetual licenses in previous years, contributed to maintenance revenue growth of 16.6%. Revenue from lease licenses increased 18.1% as compared to the prior year, due to growth in sales of lease licenses and the addition of Apache-related lease license revenue of $14.0 million. Service revenue increased 7.2% as compared to the prior year.

With respect to revenue, on average for the year ended December 31, 2011, the U.S. Dollar was approximately 5.3% weaker, when measured against the Company s primary foreign currencies, than for the year ended December 31, 2010. The net overall weakening resulted in increased revenue and operating income during 2011, as compared with 2010, of approximately $19.8 million and $12.6 million, respectively.

A substantial portion of the Company s license and maintenance revenue is derived from annual lease and maintenance contracts. These contracts are generally renewed on an annual basis and typically have a high rate of customer renewal. In addition to the recurring revenue base associated with these contracts, a majority of customers purchasing new perpetual licenses also purchase related annual maintenance contracts. As a result of the significant recurring revenue base, the Company s license and maintenance revenue growth rate in any period does not necessarily correlate to the growth rate of new license and maintenance contracts sold during that period. To the extent the rate of customer renewal for lease and maintenance contracts is high, incremental lease contracts, and maintenance contracts sold with new perpetual licenses, will result in license and maintenance revenue growth. Conversely, if the rate of renewal for these contracts is adversely affected by economic or other factors, the Company s license and maintenance growth will be adversely affected over the term that the revenue for those contracts would have otherwise been recognized.

As a result of the timing of the Company s invoicing with respect to its acceptance of an order and execution of a software license agreement, the Company has historically had an insignificant order backlog. Due to the acquisition of Apache, which has different billing arrangements with customers than those historically used by the Company, there is a backlog of $56.3 million of orders received but not invoiced as of December 31, 2011.

International and domestic revenues, as a percentage of total revenue, were 68.8% and 31.2%, respectively, during the year ended December 31, 2011, and 67.5% and 32.5%, respectively, during the year ended

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December 31, 2010. The Company derived 26.4% and 26.7% of its total revenue through the indirect sales channel during the years ended December 31, 2011 and 2010, respectively.

In valuing deferred revenue on the Apache balance sheet as of the acquisition date, the Company applied the fair value provisions applicable to the accounting for business combinations. Acquired deferred revenue of $10.1 million was recorded on the opening balance sheet. This amount was approximately $13.6 million lower than the historical carrying value. The impact on reported revenue for the year ended December 31, 2011 was $9.6 million, primarily in lease license revenue. The expected impact on reported revenue for the year ending December 31, 2012 is $3.4 million.

***Cost of Sales and Gross Profit:***

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | | 2010 | | Change | |
| *(in thousands, except percentages)* | Amount | % of Revenue | Amount | % of Revenue | Amount | % |
| Cost of sales: | | | | | | |
| Software licenses | **$ 15,884** | **2.3** | $ 10,770 | 1.9 | $ 5,114 | 47.5 |
| Amortization | **33,728** | **4.9** | 32,757 | 5.6 | 971 | 3.0 |
| Maintenance and service | **69,402** | **10.0** | 57,352 | 9.9 | 12,050 | 21.0 |
| Total cost of sales | **119,014** | **17.2** | 100,879 | 17.4 | 18,135 | 18.0 |
| Gross profit | **$ 572,435** | **82.8** | $ 479,357 | 82.6 | $ 93,078 | 19.4 |

***Software Licenses:*** The increase in software license costs was primarily due to Apache-related cost of sales of $3.1 million for the period from the acquisition (August 1, 2011) through December 31, 2011, increased third-party royalties of $1.2 million, increased stock-based compensation of $400,000 and increased salaries of $300,000.

***Amortization:*** The increase in amortization expense was primarily a result of $3.8 million in amortization of acquired Apache software and a $300,000 increase in amortization of a previously-acquired trademark. These increases were partially offset by a $3.1 million decrease in amortization of other acquired software.

***Maintenance and Service:*** The increase in maintenance and service costs was primarily due to the following:

Increased salaries and headcount-related costs, including incentive compensation, of $9.5 million.

Increased business travel expenses of $1.1 million.

Decreased third-party technical support costs of $800,000.

Increased office and equipment lease expenses of $600,000.

Increased depreciation of $500,000.

The improvement in the gross profit was a result of the increase in revenue offset by a smaller increase in related cost of sales.

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***Operating Expenses:***

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | | 2010 | | Change | |
| *(in thousands, except percentages)* | Amount | % of Revenue | Amount | % of Revenue | Amount | % |
| Operating expenses: | | | | | | |
| Selling, general and administrative | **$ 180,357** | **26.1** | $ 155,096 | 26.7 | $ 25,261 | 16.3 |
| Research and development | **108,530** | **15.7** | 88,990 | 15.3 | 19,540 | 22.0 |
| Amortization | **17,989** | **2.6** | 16,003 | 2.8 | 1,986 | 12.4 |
| Total operating expenses | **$ 306,876** | **44.4** | $ 260,089 | 44.8 | $ 46,787 | 18.0 |

***Selling, General and Administrative:*** The increase in selling, general and administrative costs was primarily due to the following:

Increased salaries and headcount-related costs, including incentive compensation, of $9.0 million.

Apache-related selling, general and administrative expenses of $8.4 million.

Transaction costs totaling $2.1 million related to the Apache acquisition.

Increased third-party commissions of $1.8 million.

Decreased franchise tax expenses of $1.8 million.

Increased discretionary marketing costs of $1.5 million.

Decreased bad debt expense of $1.4 million.

Increased depreciation of $900,000.

Increased business travel expenses and maintenance-related costs, each of $800,000.

Increased stock-based compensation expense of $700,000.

The Company anticipates that it will continue to make targeted investments in its global sales and marketing organization and its global business infrastructure to enhance major account sales activities and to support its worldwide sales distribution and marketing strategies, and the business in general.

***Research and Development:*** The increase in research and development expenses was a result of increased salaries and headcount-related costs, including incentive compensation, of $8.0 million, Apache-related research and development expenses of $6.0 million, increased stock-based compensation expense of $2.5 million, increased depreciation of $700,000, increased facilities and information technology maintenance costs of $600,000 and increased consulting expenses of $500,000.

The Company has traditionally invested significant resources in research and development activities and intends to continue to make investments in this area, particularly as it relates to expanding the capabilities of its flagship products and other products within its broad portfolio of simulation software, evolution of its ANSYS® Workbench™ platform, High Performance Computing (HPC) capabilities and ongoing integration.

***Amortization:*** The increase in amortization expense was primarily the result of $1.8 million of acquired Apache intangible assets, including a trademark, customer lists and contract backlog.

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***Interest Expense:*** The Company s interest expense consists of the following:

| | Year Ended December 31, | |
|---|---|---|
| *(in thousands)* | **2011** | **2010** |
| Bank interest on term loans | **$ 1,605** | $ 2,096 |
| Amortization of debt financing costs | **953** | 1,107 |
| Realized loss on interest rate swap agreement | **0** | 864 |
| Other | **774** | 421 |
| Total interest expense | **$ 3,332** | $ 4,488 |

The decreased interest expense shown above for 2011 is primarily a result of the June 30, 2010 expiration of the interest rate swap and a lower average outstanding debt balance.

***Interest Income:*** Interest income for the year ended December 31, 2011 was $3.0 million as compared to $1.9 million for the year ended December 31, 2010. Interest income increased as a result of both an increase in the average cash balances and the rate of return on those balances.

***Other Expense, net:*** The Company recorded other expense of $369,000 during the year ended December 31, 2011 as compared to other expense of $297,000 during the year ended December 31, 2010. The activity for both years was primarily composed of net foreign currency transaction losses. As the Company s presence in foreign locations continues to expand, the Company will have increased exposure to volatility of foreign exchange rates for the foreseeable future.

***Income Tax Provision:*** The Company recorded income tax expense of $84.2 million and had income before income taxes of $264.9 million for the year ended December 31, 2011. This represents an effective tax rate of 31.8%. During the year ended December 31, 2010, the Company recorded income tax expense of $63.3 million and had income before income taxes of $216.4 million, representing an effective tax rate of 29.2%.

When compared to the federal and state combined statutory rate, these rates are favorably impacted by lower statutory tax rates in many of the Company s foreign jurisdictions, domestic manufacturing deductions, research and experimentation credits and tax benefits associated with the merger of the Company s Japan subsidiaries in the third quarter of 2010. These rates are also impacted by charges or benefits associated with the Company s uncertain tax positions.

In addition, the Company s tax expense in the year ended December 31, 2011 was unfavorably impacted by reductions to the Japanese corporate tax rate, beginning with the 2013 tax year. This legislation, enacted on November 30, 2011, resulted in an additional $4.8 million in deferred tax expense due to the reduction in the value of certain net deferred tax assets of the Company s Japanese subsidiaries. The effect of this adjustment increased the 2011 effective tax rate from 30.0% to 31.8%.

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To improve the effectiveness of the Company s operations in Japan, during the third quarter of 2010, the Company completed the merger of its subsidiaries in Japan. Since the date of the merger, this transaction has had a significant impact on the Company s net income, diluted earnings per share and cash flows. The transaction is also expected to have a significant impact on these items in future periods. As a result of the merger, the Company realized a reduction in its 2011 income tax expense of $9.0 million related to tax credits in the U.S. associated with foreign taxes paid in Japan. The Company also expects that its future income tax expense will be reduced by the following amounts:

| | Estimated Reduction in Income Tax Expense |
|---|---|
| FY 2012 | $ 8.9 - $9.1 million |
| FY 2013 | $ 8.9 - $9.1 million |
| FY 2014 | $ 8.9 - $9.1 million |
| FY 2015 | $ 6.7 - $6.9 million |

Refer to the section titled, Liquidity and Capital Resources for the estimated impact on future cash flows.

***Net Income:*** The Company s net income for the year ended December 31, 2011 was $180.7 million as compared to net income of $153.1 million for the year ended December 31, 2010. Diluted earnings per share was $1.91 for the year ended December 31, 2011 and $1.64 for the year ended December 31, 2010. The weighted average shares used in computing diluted earnings per share were 94.4 million and 93.2 million during the years ended December 31, 2011 and 2010, respectively.

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***Year Ended December 31, 2010 Compared to Year Ended December 31, 2009***

***Revenue:***

| *(in thousands, except percentages)* | Year Ended December 31, 2010 | 2009 | Change Amount | % |
|---|---|---|---|---|
| Revenue: | | | | |
| Lease licenses | $ 184,539 | $ 181,105 | $ 3,434 | 1.9 |
| Perpetual licenses | 166,494 | 134,528 | 31,966 | 23.8 |
| Software licenses | 351,033 | 315,633 | 35,400 | 11.2 |
| Maintenance | 211,465 | 182,786 | 28,679 | 15.7 |
| Service | 17,738 | 18,466 | (728) | (3.9) |
| Maintenance and service | 229,203 | 201,252 | 27,951 | 13.9 |
| Total revenue | $ 580,236 | $ 516,885 | $ 63,351 | 12.3 |

The Company s revenue increased 12.3% in 2010 as compared to 2009, including increases in license and maintenance revenue. Perpetual license revenue, which is derived entirely from new sales during the period, increased 23.8%. This strong growth was partially influenced by an improvement in the global economy as compared to the prior year period. The annual maintenance contracts that were sold with the new perpetual licenses, along with the renewal of maintenance contracts sold with new perpetual licenses in previous years, contributed to maintenance revenue growth of 15.7%. Also contributing to this growth was an improvement in the rate of renewals, including the delayed renewal during the year ended December 31, 2010 of maintenance contracts that were due for renewal in previous periods. Lease license revenue increased more modestly at 1.9%. Service revenue decreased 3.9% in 2010 as compared to 2009, primarily the result of reduced revenue from engineering consulting services.

With respect to revenue, on average for the year ended December 31, 2010, the U.S. Dollar was approximately 0.1% stronger, when measured against the Company s primary foreign currencies, than for the year ended December 31, 2009. The net overall strengthening resulted in decreased revenue and operating income during 2010, as compared with 2009, of approximately $200,000 and $600,000, respectively.

International and domestic revenues, as a percentage of total revenue, were 67.5% and 32.5%, respectively, during the year ended December 31, 2010, and 66.7% and 33.3%, respectively, during the year ended December 31, 2009.

In accordance with the accounting requirements applicable to deferred revenue acquired in a business combination, acquired deferred revenue was recorded on the Ansoft opening balance sheet at an amount lower than the historical carrying value. There was no meaningful impact on reported revenue for the year ended December 31, 2010. The impact on reported revenue for the year ended December 31, 2009 was $1.1 million for lease license revenue and $7.0 million for maintenance revenue.

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***Cost of Sales and Gross Profit:***

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2010 | | 2009 | | Change | |
| *(in thousands, except percentages)* | Amount | % of Revenue | Amount | % of Revenue | Amount | % |
| Cost of sales: | | | | | | |
| Software licenses | $ 10,770 | 1.9 | $ 10,210 | 2.0 | $ 560 | 5.5 |
| Amortization | 32,757 | 5.6 | 36,011 | 7.0 | (3,254) | (9.0) |
| Maintenance and service | 57,352 | 9.9 | 50,021 | 9.7 | 7,331 | 14.7 |
| Restructuring charges | 0 | 0.0 | 994 | 0.2 | (994) | (100.0) |
| Total cost of sales | 100,879 | 17.4 | 97,236 | 18.8 | 3,643 | 3.7 |
| Gross profit | $ 479,357 | 82.6 | $ 419,649 | 81.2 | $ 59,708 | 14.2 |

***Software Licenses:*** The increase in software license costs was primarily a result of an increase in salaries and incentive compensation of $400,000.

***Amortization:*** The decrease in amortization expense was a result of a $3.3 million decrease in amortization of acquired software.

***Maintenance and Service:*** The increase in maintenance and service costs is primarily due to the following:

Increased salaries and headcount-related costs, including incentive compensation, of $3.2 million.

Increased third-party technical support fees of $2.0 million.

Increased stock-based compensation expense of $500,000.

One-time charge of approximately $900,000 ($400,000 of which was charged to Cost of Maintenance and Service expenses) related to the withdrawal from an existing employee benefit plan as a result of restructuring the Company s Japan subsidiaries.

Increased business travel expenses of $400,000.

***Restructuring Charges:*** The Company incurred restructuring charges of $994,000 associated with 2009 workforce reduction activities that related to the Company s ongoing effort to manage expenses and cost structure.

The improvement in the gross profit was a result of the increase in revenue offset by a smaller increase in related cost of sales.

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***Operating Expenses:***

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2010 | | 2009 | | Change | |
| *(in thousands, except percentages)* | Amount | % of Revenue | Amount | % of Revenue | Amount | % |
| Operating expenses: | | | | | | |
| Selling, general and administrative | $ 155,096 | 26.7 | $ 137,264 | 26.6 | $ 17,832 | 13.0 |
| Research and development | 88,990 | 15.3 | 79,856 | 15.4 | 9,134 | 11.4 |
| Amortization | 16,003 | 2.8 | 16,326 | 3.2 | (323) | (2.0) |
| Restructuring charges | 0 | 0.0 | 2,726 | 0.5 | (2,726) | (100.0) |
| Total operating expenses | $ 260,089 | 44.8 | $ 236,172 | 45.7 | 23,917 | 10.1 |

***Selling, General and Administrative:*** The increase in selling, general and administrative costs was primarily a result of the following:

Increased incentive compensation of $8.9 million.

Increased stock-based compensation expense of $3.5 million.

Increased discretionary marketing and event costs of $1.7 million.

Increased franchise taxes of $1.3 million.

Increased business travel expenses of $1.1 million

Increased third-party commissions of $900,000.

Increased facility and equipment maintenance costs of $700,000.

Decreased office lease expenses of $800,000.

A one-time charge of approximately $900,000 ($500,000 of which was charged to Selling, General and Administrative expenses) related to the withdrawal from an existing employee benefit plan as a result of restructuring the Company s Japan subsidiaries.

***Research and Development:*** The increase in research and development costs was a result of increased salaries and headcount-related costs, including incentive compensation, of $5.0 million, increased stock-based compensation expense of $1.8 million and increased facility and equipment maintenance costs of $900,000.

***Amortization:*** The decrease in amortization expense was a result of a $400,000 decrease in amortization of an acquired customer list.

***Restructuring Charges:*** The Company incurred operating restructuring charges of $2.7 million during the year ended December 31, 2009 associated with workforce reduction activities that related to the Company s ongoing effort to manage expenses and cost structure.

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***Interest Expense:*** The Company s interest expense consisted of the following:

| *(in thousands)* | Year Ended December 31, 2010 | 2009 |
|---|---|---|
| Bank interest on term loans | $ 2,096 | $ 4,865 |
| Realized loss on interest rate swap agreement | 864 | 3,959 |
| Amortization of debt financing costs | 1,107 | 1,229 |
| Other | 421 | 348 |
| Total interest expense | $ 4,488 | $ 10,401 |

The decreased interest costs shown above for the 2010 period are primarily a result of a lower weighted average effective interest rate of 1.53% as compared to 3.41% in the corresponding 2009 period and a lower average outstanding debt balance.

***Interest Income:*** Interest income for the year ended December 31, 2010 was $1.9 million as compared to $1.7 million for the year ended December 31, 2009. Interest income increased as a result of an increase in invested cash balances, partially offset by a decrease in interest rates in the 2010 period as compared to the 2009 period.

***Other Expense, net:*** The Company recorded other expense of $297,000 during the year ended December 31, 2010 as compared to other expense of $1.3 million during the year ended December 31, 2009. The net change was primarily the result of foreign currency transaction gains and losses.

***Income Tax Provision:*** The Company recorded income tax expense of $63.3 million and had income before income taxes of $216.4 million for the year ended December 31, 2010. This represents an effective tax rate of 29.2%. During the year ended December 31, 2009, the Company recorded income tax expense of $57.1 million and had income before income taxes of $173.5 million, representing an effective tax rate of 32.9%.

As a result of the subsidiary merger in Japan, the Company realized a reduction in its 2010 income tax expense of $2.1 million, related to tax credits in the U.S. associated with foreign taxes paid in Japan.

***Net Income:*** The Company s net income for the year ended December 31, 2010 was $153.1 million as compared to net income of $116.4 million for the year ended December 31, 2009. Diluted earnings per share was $1.64 for the year ended December 31, 2010 and $1.27 for the year ended December 31, 2009. The weighted average shares used in computing diluted earnings per share were 93.2 million and 91.8 million during the years ended December 31, 2010 and 2009, respectively.

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**Non-GAAP Results**

The Company provides non-GAAP revenue, non-GAAP operating income, non-GAAP operating profit margin, non-GAAP net income and non-GAAP diluted earnings per share as supplemental measures to generally accepted accounting principles ( GAAP ) regarding the Company s operational performance. These financial measures exclude the impact of certain items and, therefore, have not been calculated in accordance with GAAP. A detailed explanation and a reconciliation of each non-GAAP financial measure to its most comparable GAAP financial measure are included below.

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | | | 2010 | | |
| *(in thousands, except percentages and per share data)* | As Reported | Non-GAAP Adjustments | Results | As Reported | Non-GAAP Adjustments | Results |
| Total revenue | **$ 691,449** | **$ 9,621(1)** | **$ 701,070** | $ 580,236 | | $ 580,236 |
| Operating income | **265,559** | **86,550(2)** | **352,109** | 219,268 | $ 67,749(4) | 287,017 |
| Operating profit margin | **38.4%** | | **50.2%** | 37.8% | | 49.5% |
| Net income | **$ 180,675** | **$ 58,301(3)** | **$ 238,976** | $ 153,132 | $ 44,977(5) | $ 198,109 |
| Earnings per share diluted: | | | | | | |
| Diluted earnings per share | **$ 1.91** | | **$ 2.53** | $ 1.64 | | $ 2.13 |
| Weighted average shares diluted | **94,381** | | **94,381** | 93,209 | | 93,209 |

(1) Amount represents the revenue not reported during the period as a result of the acquisition accounting adjustment associated with accounting for deferred revenue in business combinations.

(2) Amount represents $51.7 million of amortization expense associated with intangible assets acquired in business acquisitions, $23.1 million of stock-based compensation expense, the $9.6 million adjustment to revenue as reflected in (1) above and $2.1 million of transaction expenses related to the Apache acquisition.

(3) Amount represents the impact of the adjustments to operating income referred to in (2) above, adjusted for the related income tax impact of $28.2 million.

(4) Amount represents $48.7 million of amortization expense associated with intangible assets acquired in business acquisitions and a $19.0 million charge for stock-based compensation.

(5) Amount represents the impact of the adjustments to operating income referred to in (4) above, adjusted for the related income tax impact of $22.8 million.

Note: The 2011 GAAP and non-GAAP net income and earnings per share data reflected above include approximately $4.8 million, or $0.05 per share, related to income tax expense associated with reductions to the Japanese corporate tax rate, beginning with the 2013 tax year. This legislation, enacted on November 30, 2011, resulted in an additional $4.8 million in deferred tax expense due to the reduction in the value of certain net deferred tax assets of the Company s Japanese subsidiaries.

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| *(in thousands, except percentages and per share data)* | Year Ended December 31, 2010 As Reported | 2010 Non-GAAP Adjustments | 2010 Results | 2009 As Reported | 2009 Non-GAAP Adjustments | 2009 Results |
|---|---|---|---|---|---|---|
| Total revenue | $ 580,236 | | $ 580,236 | $ 516,885 | $ 8,049(3) | $ 524,934 |
| Operating income | 219,268 | $ 67,749(1) | 287,017 | 183,477 | 73,254(4) | 256,731 |
| Operating profit margin | 37.8% | | 49.5% | 35.5% | | 48.9% |
| Net income | $ 153,132 | $ 44,977(2) | $ 198,109 | $ 116,391 | $ 47,336(5) | $ 163,727 |
| Earnings per share diluted: | | | | | | |
| Diluted earnings per share | $ 1.64 | | $ 2.13 | $ 1.27 | | $ 1.78 |
| Weighted average shares diluted | 93,209 | | 93,209 | 91,785 | | 91,785 |

(1) Amount represents $48.7 million of amortization expense associated with intangible assets acquired in business acquisitions and a $19.0 million charge for stock-based compensation.

(2) Amount represents the impact of the adjustments to operating income referred to in (1) above, adjusted for the related income tax impact of $22.8 million.

(3) Amount represents the revenue not reported during the period as a result of the acquisition accounting adjustment associated with accounting for deferred revenue in business combinations.

(4) Amount represents $52.0 million of amortization expense associated with intangible assets acquired in business acquisitions, a $13.2 million charge for stock-based compensation, as well as the $8.0 million adjustment to revenue as reflected in (3) above.

(5) Amount represents the impact of the adjustments to operating income referred to in (4) above, adjusted for the related income tax impact of $25.9 million.

Note: The 2010 GAAP and non-GAAP net income and earnings per share data reflected above include approximately $2.1 million, or $0.02 per share, related to tax benefits associated with the previously-announced restructuring of the Company s Japan subsidiaries. The 2009 GAAP and non-GAAP net income and earnings per share data reflected above include approximately $2.0 million in tax charges during the fourth quarter of 2009 related to the repatriation of cash from the Company s international subsidiaries. These amounts are offset by approximately $2.0 million in tax benefits during the second quarter of 2009 related to settlements of tax years previously under audit.

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**Non-GAAP Measures**

Management uses non-GAAP financial measures (a) to evaluate the Company s historical and prospective financial performance as well as its performance relative to its competitors, (b) to set internal sales targets and spending budgets, (c) to allocate resources, (d) to measure operational profitability and the accuracy of forecasting, (e) to assess financial discipline over operational expenditures and (f) as an important factor in determining variable compensation for management and its employees. In addition, many financial analysts that follow the Company focus on and publish both historical results and future projections based on non-GAAP financial measures. The Company believes that it is in the best interest of its investors to provide this information to analysts so that they accurately report the non-GAAP financial information. Moreover, investors have historically requested and the Company has historically reported these non-GAAP financial measures as a means of providing consistent and comparable information with past reports of financial results.

While management believes that these non-GAAP financial measures provide useful supplemental information to investors, there are limitations associated with the use of these non-GAAP financial measures. These non-GAAP financial measures are not prepared in accordance with GAAP, are not reported by all of the Company s competitors and may not be directly comparable to similarly titled measures of the Company s competitors due to potential differences in the exact method of calculation. The Company compensates for these limitations by using these non-GAAP financial measures as supplements to GAAP financial measures and by reviewing the reconciliations of the non-GAAP financial measures to their most comparable GAAP financial measures.

The adjustments to these non-GAAP financial measures, and the basis for such adjustments, are outlined below:

***Acquisition accounting for deferred revenue and its related tax impact.*** Historically, the Company has consummated acquisitions in order to support its strategic and other business objectives. In accordance with the fair value provisions applicable to the accounting for business combinations, acquired deferred revenue is often recorded on the opening balance sheet at an amount that is lower than the historical carrying value. Although this purchase accounting requirement has no impact on the Company s business or cash flow, it adversely impacts the Company s reported GAAP revenue in the reporting periods following an acquisition. In order to provide investors with financial information that facilitates comparison of both historical and future results, the Company provides non-GAAP financial measures which exclude the impact of the acquisition accounting adjustment. The Company believes that this non-GAAP financial adjustment is useful to investors because it allows investors to (a) evaluate the effectiveness of the methodology and information used by management in its financial and operational decision-making and (b) compare past and future reports of financial results of the Company as the revenue reduction related to acquired deferred revenue will not recur when related annual lease licenses and software maintenance contracts are renewed in future periods.

***Amortization of intangibles from acquisitions and its related tax impact.*** The Company incurs amortization of intangibles, included in its GAAP presentation of amortization expense, related to various acquisitions it has made in recent years. Management excludes these expenses and their related tax impact for the purpose of calculating non-GAAP operating income, non-GAAP operating profit margin, non-GAAP net income and non-GAAP diluted earnings per share when it evaluates the continuing operational performance of the Company because these costs are fixed at the time of an acquisition, are then amortized over a period of several years after the acquisition and generally cannot be changed or influenced by management after the acquisition. Accordingly, management does not consider these expenses for purposes of evaluating the performance of the Company during the applicable time period after the acquisition, and it excludes such expenses when making decisions to allocate resources. The Company believes that these non-GAAP financial measures are useful to investors because they allow investors to (a) evaluate the effectiveness of the methodology and information used by management in its financial and operational decision-making and (b) compare past reports of financial results of the Company as the Company has historically reported these non-GAAP financial measures.

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***Stock-based compensation expense and its related tax impact.*** The Company incurs expense related to stock-based compensation included in its GAAP presentation of cost of software licenses; cost of maintenance and service; research and development expense and selling, general and administrative expense. Although stock-based compensation is an expense of the Company and viewed as a form of compensation, management excludes these expenses for the purpose of calculating non-GAAP operating income, non-GAAP operating profit margin, non-GAAP net income and non-GAAP diluted earnings per share when it evaluates the continuing operational performance of the Company. Specifically, the Company excludes stock-based compensation during its annual budgeting process and its quarterly and annual assessments of the Company s and management s performance. The annual budgeting process is the primary mechanism whereby the Company allocates resources to various initiatives and operational requirements. Additionally, the annual review by the board of directors during which it compares the Company s historical business model and profitability to the planned business model and profitability for the forthcoming year excludes the impact of stock-based compensation. In evaluating the performance of senior management and department managers, charges related to stock-based compensation are excluded from expenditure and profitability results. In fact, the Company records stock-based compensation expense into a stand-alone cost center for which no single operational manager is responsible or accountable. In this way, management is able to review, on a period-to-period basis, each manager s performance and assess financial discipline over operational expenditures without the effect of stock-based compensation. The Company believes that these non-GAAP financial measures are useful to investors because they allow investors to (a) evaluate the Company s operating results and the effectiveness of the methodology used by management to review the Company s operating results, and (b) review historical comparability in its financial reporting as well as comparability with competitors operating results.

***Transaction costs related to business combinations.*** The Company incurs expenses for professional services rendered in connection with business combinations, which are included in its GAAP presentation of selling, general and administrative expense. These expenses are generally not tax-deductible. Management excludes these acquisition-related transaction costs for the purpose of calculating non-GAAP operating income, non-GAAP operating profit margin, non-GAAP net income and non-GAAP diluted earnings per share when it evaluates the continuing operational performance of the Company, as it generally would not have otherwise incurred these expenses in the periods presented as a part of its continuing operations. The Company believes that these non-GAAP financial measures are useful to investors because they allow investors to (a) evaluate the Company s operating results and the effectiveness of the methodology used by management to review the Company s operating results, and (b) review historical comparability in its financial reporting as well as comparability with competitors operating results.

Non-GAAP financial measures are not in accordance with, or an alternative for, generally accepted accounting principles in the United States. The Company s non-GAAP financial measures are not meant to be considered in isolation or as a substitute for comparable GAAP financial measures, and should be read only in conjunction with the Company s consolidated financial statements prepared in accordance with GAAP.

The Company has provided a reconciliation of the non-GAAP financial measures to the most directly comparable GAAP financial measures as listed below:

| GAAP Reporting Measure | Non-GAAP Reporting Measure |
|---|---|
| Revenue | Non-GAAP Revenue |
| Operating Income | Non-GAAP Operating Income |
| Operating Profit Margin | Non-GAAP Operating Profit Margin |
| Net Income | Non-GAAP Net Income |
| Diluted Earnings Per Share | Non-GAAP Diluted Earnings Per Share |

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**Liquidity and Capital Resources**

***Cash, cash equivalents and short-term investments:*** As of December 31, 2011, the Company had cash, cash equivalents and short-term investments totaling $472.4 million and working capital of $301.3 million as compared to cash, cash equivalents and short-term investments of $472.9 million and working capital of $403.3 million at December 31, 2010.

Cash and cash equivalents consist primarily of highly liquid investments such as money market mutual funds and deposits held at major banks. Short-term investments consist primarily of deposits held by certain foreign subsidiaries of the Company with original maturities of three months to one year. Cash, cash equivalents and short-term investments include $171.2 million held by the Company s foreign subsidiaries as of December 31, 2011. If these foreign balances were repatriated to the U.S., they would be subject to domestic tax, resulting in a tax obligation in the period of repatriation. The amount of cash, cash equivalents and short-term investments held by these subsidiaries is subject to translation adjustments caused by changes in foreign currency exchange rates as of the end of each respective reporting period, the offset to which is recorded in accumulated other comprehensive income on the Company s consolidated balance sheet.

***Cash flows from operating activities:*** The Company s operating activities provided cash of $307.7 million in 2011, $166.9 million in 2010 and $173.7 million in 2009. The net $140.8 million increase in operating cash flows for the year ended December 31, 2011, as compared to the year ended December 31, 2010, was primarily related to:

- A $79.9 million increase in cash flows from operating assets and liabilities, whereby these fluctuations produced a net cash inflow of $50.4 million during the year ended December 31, 2011 and a net cash outflow of $29.5 million during the year ended December 31, 2010. Significantly contributing to the $29.5 million net cash outflow in 2010 were increased tax payments of approximately $55.1 million related to the merger of the Company s Japan subsidiaries. These increased tax payments resulted from the net impact of $77.3 million in Japan tax payments and a reduction in U.S. tax payments of $22.2 million associated with related foreign tax credits. Please see below for a complete discussion of the expected future cash flow benefits associated with the merger of the Company s Japan subsidiaries. Also see the sub-section entitled Results of Operations under Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations above for a complete discussion of the expected reduction in future income tax expense as a result of the merger of the Company s Japan subsidiaries.

Included in the $50.4 million net cash inflow in 2011 discussed above was a reduction of approximately $18.0 million in the amount of income tax payments that otherwise would have been made in 2011 as a result of the tax impact associated with the merger of the Company s Japan subsidiaries.

- An increase in other non-cash operating adjustments of $33.3 million from $43.2 million for the year ended December 31, 2010 to $76.6 million for the year ended December 31, 2011.

- An increase in net income of $27.5 million from $153.1 million for the year ended December 31, 2010 to $180.7 million for the year ended December 31, 2011.

The net $6.8 million decrease in the Company s cash flow from operating activities in 2010 as compared to 2009 was primarily the result of a $48.9 million decrease in cash flows from operating assets and liabilities, partially offset by a $36.7 million increase in net income and a $5.3 million increase in other non-cash operating adjustments.

***Cash flows from investing activities:*** The Company s investing activities used net cash of $291.6 million for the year ended December 31, 2011 as compared to $6.6 million for the year ended December 31, 2010. The Company had net acquisition-related cash outlays of approximately $269.5 million during the year ended

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December 31, 2011. Total capital spending was $22.1 million for the year ended December 31, 2011 and $14.3 million for the year ended December 31, 2010. In 2010, maturities of short-term investments exceeded purchases by $7.6 million. The Company currently plans capital spending of approximately $30.0 million to $35.0 million during fiscal year 2012. However, the level of spending will be dependent upon various factors, including growth of the business and the employee base, and general economic conditions.

The Company s investing activities used net cash of $6.6 million for the year ended December 31, 2010 and $10.7 million for the year ended December 31, 2009. Total capital spending was $14.3 million in 2010 and $8.3 million in 2009. In 2010, maturing short-term investments exceeded purchases by $7.6 million. In 2009, purchases of short-term investments exceeded maturities by $2.4 million.

***Cash flows from financing activities:*** Financing activities used cash of $9.7 million and $29.6 million for the fiscal years ended December 31, 2011 and 2010, respectively. This change of $20.0 million was primarily the result of a $33.7 million decrease in principal payments on long-term debt in the 2011 period as compared to the 2010 period, partially offset by $12.7 million spent in 2011 to repurchase 247,443 shares of treasury stock pursuant to the Company s stock repurchase program at an average price of $51.34 per share. There were no repurchases of treasury stock in the 2010 period.

Financing activities used cash of $29.6 million and $64.1 million for the years ended December 31, 2010 and 2009, respectively. This change of $34.5 million was primarily a result of $39.9 million spent in 2009 to repurchase 2.1 million shares of treasury stock at an average price of $19.28 per share. The Company did not repurchase any stock in 2010. Also contributing to the change was an $11.7 million increase in principal payments on long-term debt in 2010 as compared to 2009. These changes were partially offset by additional proceeds of $7.6 million in 2010 from the exercise of stock options.

The Company s term loan includes covenants related to the consolidated leverage ratio and the consolidated fixed charge coverage ratio, as well as certain restrictions on additional investments and indebtedness. As of December 31, 2011, the Company is in compliance with all financial covenants as stated in the credit agreement.

As of December 31, 2011, 1.1 million shares remain authorized for repurchase under the Company s stock repurchase program. Although the Company has repurchased stock during the years ended December 31, 2011 and 2009, it may or may not do so in future periods.

The Company believes that existing cash and cash equivalent balances of $471.8 million, together with cash generated from operations, will be sufficient to meet the Company s working capital, capital expenditure and debt service requirements through the next twelve months. 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.

The Company continues to generate positive cash flows from operating activities and believes that the best use of its excess cash is to repay its long-term debt, to invest in the business and, under certain favorable conditions, to repurchase stock. Additionally, the Company has in the past and expects in the future to acquire or make investments in complementary companies, products, services and technologies. Any future acquisitions may be funded by available cash and investments, cash generated from operations, existing or additional credit facilities, or from the issuance of additional securities.

The Company has a $3.1 million line of credit available on a purchase card.

On August 1, 2011, the Company completed its acquisition of Apache Design, Inc., a leading simulation software provider for advanced, low-power solutions in the electronics industry. Under the terms of the merger agreement, ANSYS acquired 100% of the outstanding shares of Apache for a purchase price of $314.0 million, which included $31.9 million in acquired cash and short-term investments on Apache s balance sheet, $3.2

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million in ANSYS replacement stock option awards issued to holders of partially-vested Apache stock options and $9.5 million in contingent consideration that is based on the retention of a key member of Apache s management. The agreement also included $13.0 million of performance equity awards for key members of management and employees, earned annually over a three-fiscal-year period beginning January 1, 2012. The Company funded the transaction entirely with existing cash balances.

In addition to the favorable impact on 2011 operating cash flows of approximately $18.0 million that is discussed above, the merger of the Company s Japan subsidiaries is expected to favorably impact the Company s cash flow from operations in future periods as follows:

| | Estimated Future Cash Flow Savings |
|---|---|
| Fiscal year 2012 - 2013 | $8 - $9 million per year |
| Fiscal year 2014 - 2015 | $9 - $10 million per year |
| Fiscal year 2016 - 2017 | $10 - $11 million per year |
| Fiscal year 2018 | $4 - $5 million |
| Uncertain timing | $26 million |
| Total future benefits | $84 - $91 million |

With respect to the amounts in the preceding table whereby the timing is listed as uncertain, the Company previously estimated that there would be $26 million of additional U.S. cash flow benefits in 2011. The Company continues to expect that it will realize these cash flow benefits; however, the timing of these cash flows is now reflected as uncertain because the realization of these benefits is affected by the resolution of any administrative reviews by the Internal Revenue Service ( IRS ) of the Company s amended tax return refund claims. In the first quarter of 2011, the Company filed an amended tax return for a different matter seeking a less significant benefit than the one sought related to the restructuring of its Japanese subsidiaries. The IRS initiated an audit of this amended filing that will prevent the Company from realizing the cash flow benefits of the amended filing until the audit is completed. Due to the size of the benefit included on the amended return associated with the restructuring of its Japanese subsidiaries, the Company similarly expects that the IRS will initiate an audit, thus making the timing of the receipt of these refunds not predictable with certainty.

**Off-Balance Sheet Arrangements**

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

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**Contractual Obligations**

The Company s significant contractual obligations as of December 31, 2011 are summarized below:

| | | Payments Due by Period | | | |
|---|---|---|---|---|---|
| *(in thousands)* | **Total** | **Within 1 year** | **2 3 years** | **4 5 years** | **After 5 years** |
| Long-term debt | | | | | |
| Principal payments | **$ 127,557** | $ 74,408 | $ 53,149 | $ 0 | $ 0 |
| Interest payments[1] | **1,717** | 1,449 | 268 | 0 | 0 |
| Capital lease obligations | **15** | 15 | 0 | 0 | 0 |
| Global headquarters operating lease[2] | **4,288** | 1,429 | 2,859 | 0 | 0 |
| Other operating leases[3] | **33,662** | 11,561 | 14,068 | 6,138 | 1,895 |
| Unconditional purchase obligations[4] | **5,808** | 4,049 | 1,759 | 0 | 0 |
| Obligations related to uncertain tax positions, including interest and penalties[5] | **0** | 0 | 0 | 0 | 0 |
| Other long-term obligations[6] | **37,446** | 9,453 | 18,401 | 8,540 | 1,052 |
| Total contractual obligations | **$ 210,493** | $ 102,364 | $ 90,504 | $ 14,678 | $ 2,947 |

(1) See Note 7 to the consolidated financial statements in Part IV, Item 15 of this Annual Report on Form 10-K. The interest rate on the outstanding term loan balance of $127.6 million is set for the quarter ending March 31, 2012 at 1.33%, which is based on LIBOR + 0.75%. The estimated payments assume an interest rate of 1.33% on the remaining loan balance, and are calculated assuming contractual quarterly principal payments are made with no additional prepayments.

(2) In May 2004, the Company entered into the first amendment to its corporate headquarters lease agreement, with an effective date of January 1, 2004. Under the new amendment, the corporate office facility lease agreement includes a commitment through 2014, with an option for five additional years.

(3) Other operating leases primarily include noncancellable lease commitments for the Company s other domestic and international offices as well as certain operating equipment.

(4) Unconditional purchase obligations primarily include software licenses and long-term purchase contracts for network, communication and office maintenance services, which are unrecorded as of December 31, 2011.

(5) The Company has approximately $35.5 million of unrecognized tax benefits, including estimated interest and penalties, that have been recorded as liabilities in accordance with income tax accounting guidance for which the Company is uncertain as to if or when such amounts may be settled. As a result, such amounts are excluded from the table above.

(6) Includes long-term retention bonus and Apache-related deferred compensation of $25.5 million (including estimated imputed interest of $499,000 within 1 year, $773,000 within 2-3 years and $402,000 within 4-5 years), contingent consideration of $9.9 million (including estimated imputed interest of $47,000 within 1 year and $316,000 within 2-3 years) and pension obligations of $1.5 million for certain foreign locations of the Company.

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**Critical Accounting Policies and Estimates**

The Company believes that the following critical accounting policies affect the more significant judgments and estimates used in the preparation of its consolidated financial statements.

Revenue is derived principally from the licensing of computer software products and from related maintenance contracts. Revenue from perpetual licenses is classified as license revenue and is recognized upon delivery of the licensed product and the utility that enables the customer to access authorization keys, provided that acceptance has occurred and a signed contractual obligation has been received, the price is fixed and determinable, and collectibility of the receivable is probable. The Company determines the fair value of post-contract customer support ( PCS ) sold together with perpetual licenses based on the rate charged for PCS when sold separately. Revenue from PCS contracts is classified as maintenance and service revenue and is recognized ratably over the term of the contract.

Revenue for software lease licenses is classified as license revenue and is recognized over the period of the lease contract. Typically, the Company s software leases include PCS which, due to the short term (principally one year or less) of the Company s software lease licenses, cannot be separated from lease revenue for accounting purposes. As a result, both the lease license and PCS are recognized ratably over the lease period. Due to the short-term nature of the software lease licenses and the frequency with which the Company provides major product upgrades (typically every 12 18 months), the Company does not believe that a significant portion of the fee paid under the arrangement is attributable to the PCS component of the arrangement and, as a result, includes the revenue for the entire arrangement within software license revenue in the consolidated statements of income.

Revenue from training, support and other services is recognized as the services are performed. The Company applies the specific performance method to contracts in which the service consists of a single act, such as providing a training class to a customer, and the proportional performance method to other service contracts that are longer in duration and often include multiple acts (for example, both training and consulting). In applying the proportional performance method, the Company typically utilizes output-based estimates for services with contractual billing arrangements that are not based on time and materials, and estimates output based on the total tasks completed as compared to the total tasks required for each work contract. Input-based estimates are utilized for services that involve general consultations with contractual billing arrangements based on time and materials, utilizing direct labor as the input measure.

The Company also executes arrangements through independent channel partners in which the channel partners are authorized to market and distribute the Company s software products to end users of the Company s products and services in specified territories. In sales facilitated by channel partners, the channel partner bears the risk of collection from the end user customer. The Company recognizes revenue from transactions with channel partners when the channel partner submits a written purchase commitment, collectibility from the channel partner is probable, a signed license agreement is received from the end user customer and delivery has occurred, provided that all other revenue recognition criteria are satisfied. Revenue from channel partner transactions is the amount remitted to the Company by the channel partners. This amount includes a fee for PCS that is compensation for providing technical enhancements and the second level of technical support to the end user, which is based on the rate charged for PCS when sold separately, and is recognized over the period that PCS is to be provided. The Company does not offer right of return, product rotation or price protection to any of its channel partners.

Non-income related taxes collected from customers and remitted to governmental authorities are recorded on the balance sheet as accounts receivable and accrued expenses. The collection and payment of these amounts are reported on a net basis in the consolidated statements of income and do not impact reported revenues or expenses.

The Company warrants to its customers that its software will substantially perform as specified in the Company s most current user manuals. The Company has not experienced significant claims related to software

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warranties beyond the scope of maintenance support, which the Company is already obligated to provide, and consequently, the Company has not established reserves for warranty obligations.

The Company s agreements with its customers generally require it to indemnify the customer against claims that the Company s software infringes third-party patent, copyright, trademark or other proprietary rights. Such indemnification obligations are generally limited in a variety of industry-standard respects, including the Company s right to replace an infringing product. As of December 31, 2011, the Company had not experienced any losses related to these indemnification obligations and no claims with respect thereto were outstanding. The Company does not expect significant claims related to these indemnification obligations, and consequently, the Company has not established any related reserves.

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

The Company accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period of the enactment date.

The Company records net deferred tax assets to the extent it believes these assets will more likely than not be realized. In making such determination, the Company considers all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial operations. In the event the Company determines that it will be able to realize deferred income tax assets in the future in excess of their net recorded amount, an adjustment to the valuation allowance would be recorded that would reduce the provision for income taxes.

Tax benefits related to uncertain tax positions taken or expected to be taken on a tax return are recorded when such benefits meet a more likely than not threshold. Otherwise, these tax benefits are recorded when a tax position has been effectively settled, which means that the statute of limitations has expired or the appropriate taxing authority has completed their examination even though the statute of limitations remains open. The Company recognizes interest and penalties related to unrecognized tax benefits within the income tax expense line in the accompanying consolidated statements of income. Accrued interest and penalties are included within the related tax liability line in the consolidated balance sheets.

The Company tests goodwill and intangible assets with indefinite lives for impairment at least annually by comparing the fair value of each asset (or, in the case of goodwill, the Company s reporting units) to its carrying value. Fair value is estimated using discounted cash flow and other valuation methodologies. In preparing the estimate of fair value, the Company relies on a number of factors, including historical operating results, business plans, anticipated future cash flows, economic projections and other market data. Because there are inherent uncertainties involved in these factors, the Company s estimates of fair value are imprecise and the resulting carrying value of goodwill and intangible assets may be misstated. When the Company assigns a fair value to a trademark, it also estimates whether it has a finite or indefinite life, thus impacting whether the value is amortized or not. Events such as product and naming strategy changes can occur whereby the Company may

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reconsider the life (whether finite or indefinite), resulting in changes to amortization expense. Amortization periods may also be reconsidered for identifiable intangible assets with finite lives.

On January 1, 2011, the Company completed the annual impairment test for goodwill and intangible assets with indefinite lives and determined that these assets had not been impaired. As of this date, the fair value of the Company s reporting unit substantially exceeded its carrying value. Prior to the August 1, 2011 acquisition of Apache, the Company had only one reporting unit. The key assumptions utilized in determining the fair value of the Company s reporting units are revenue growth rates, growth rates of cash expenditures and related operating margin percentages, income tax rates, and factors that influence the Company s weighted average cost of capital, including interest rates, the ratio of the Company s debt capital to its total capital and the Company s systematic risk or beta.

Of the preceding factors, the fair values of the Company s reporting units are most sensitive to changes in revenue growth rate estimates. Factors that could adversely affect the Company s revenue growth rates include adverse economic conditions in certain geographies or industries, especially key industrial and electronics industries; enhanced competition and related pricing pressures; integration issues associated with acquisitions; strengthening of the U.S. Dollar or other adverse foreign currency fluctuations; reduced renewal rates for the Company s annual lease and maintenance contracts; and the Company s ability to attract and retain key personnel. Any of these factors individually or in combination could cause the Company s growth rates to decline over a defined period of time. The Company has demonstrated an ability in the past to adjust its cost structure through reductions in discretionary spending, delayed hiring or workforce reductions when faced with periods of reduced revenue growth. If adverse conditions would persist over a longer period of time and would cause a revision to the Company s long-term revenue growth rate projections without a similar cost reduction response, or if other factors would occur that would result in a similar growth rate revision or a material revision to the other inputs to reporting unit fair value, it could cause the fair value of the Company s reporting unit to fall below its carrying value, potentially resulting in an impairment of goodwill.

The Company is involved in various investigations, claims and legal proceedings that arise in the ordinary course of business including alleged infringement of intellectual property rights, commercial disputes, labor and employment matters, tax audits and other matters. The Company reviews the status of these matters, assesses its financial exposure and records a related accrual if the potential loss from an investigation, claim or legal proceeding is probable and the amount is reasonably estimable. Significant judgment is involved in the determination of probability and in the determination of whether an exposure is reasonably estimable. As a result of the uncertainties involved in making these estimates, the Company may have to revise its estimates as facts and circumstances change. The revision of these estimates could have a material impact on the Company s financial position and results of operations.

The Company grants options to purchase its common stock to employees and directors under the Company s stock option plan. Eligible employees can also purchase shares of the Company s common stock at a discount under the Company s employee stock purchase plan. The benefits provided under these plans are share-based payments subject to the provisions of share-based payment accounting guidance. The Company uses the fair value method to apply the provisions of share-based payment accounting guidance. Share-based compensation expense for 2011, 2010 and 2009 was $23.1 million, $19.0 million and $13.2 million, respectively. As of December 31, 2011, total unrecognized estimated compensation expense related to unvested stock options granted prior to that date was $58.8 million, which is expected to be recognized over a weighted average period of 2.0 years. Net stock options, after forfeitures and cancellations, granted during 2011, 2010 and 2009 represented 1.08%, 1.26% and 1.34%, respectively, of outstanding shares as of the beginning of each fiscal year. Net stock options, after forfeitures and cancellations, granted during 2011, 2010 and 2009 represented 1.06%, 1.24% and 1.33%, respectively, of outstanding shares as of the end of each fiscal year. In addition, during 2011, the Company issued 418,371 options pursuant to assumed stock options associated with the acquisition of Apache, representing 0.46% and 0.45% of outstanding shares as of the beginning and end of the 2011 fiscal year, respectively. No options issued associated with the acquisition were fully vested as of the acquisition date.

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The value of each share-based award was estimated on the date of grant or date of acquisition for options issued in a business combination using the Black-Scholes option pricing model ( Black-Scholes model ). The determination of the fair value of share-based payment awards using an option pricing model is affected by the Company s stock price as well as assumptions regarding a number of complex and subjective variables. These variables include the Company s expected stock price volatility over the term of the awards, actual and projected employee stock option exercise behaviors, risk-free interest rates and expected dividends. The table below presents the weighted average input assumptions used and resulting fair values for options granted or issued in business combinations during each respective year. The stock-based compensation expense for options is recorded ratably over their requisite service period. The interest rates used were determined by using the five-year U.S. Treasury Note yield on the date of grant or date of acquisition.

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2011** | **2010** | **2009** |
| Risk-free interest rate | **0.91% to 2.11%** | 1.27% to 2.34% | 1.86% to 2.69% |
| Expected dividend yield | **0%** | 0% | 0% |
| Expected volatility | **39%** | 39% | 41% |
| Expected term | **5.8 years** | 6.1 years | 6.1 years |
| Weighted average fair value per share | **$25.84** | $19.41 | $15.81 |

The Company issues both nonqualified and incentive stock options; however, incentive stock options comprise a significant portion of outstanding stock options. The tax benefits associated with incentive stock options are unpredictable, as they are predicated upon an award recipient triggering an event that disqualifies the award and that then results in a tax deduction to the Company. Share-based payment accounting guidance requires that these tax benefits be recorded at the time of the triggering event. The triggering events for each option holder are not easily projected. In order to estimate the tax benefits related to incentive stock options, the Company makes many assumptions and estimates, including the number of incentive stock options that will be exercised during the period by U.S. employees, the number of incentive stock options that will be disqualified during the period and the fair market value of the Company s stock price on the exercise dates. Each of these items is subject to significant uncertainty. Additionally, a significant portion of the tax benefits related to disqualified incentive stock options is accounted for as an increase to equity (additional paid-in capital) rather than as a reduction in income tax expense. Although all such benefits continue to be realized through the Company s tax filings, this accounting treatment has the effect of increasing tax expense and reducing net income. For example, the Company realized a tax benefit of $6.7 million during the year ended December 31, 2011 related to disqualified dispositions of incentive stock options; however, only $1.2 million of such amount was recorded as a reduction in income tax expense.

Under the terms of the ANSYS, Inc. Long-Term Incentive Plan, in the first quarter of 2011 and 2010, the Company granted 92,500 and 80,500 performance-based restricted stock units, respectively. Vesting of the full award or a portion thereof is based on the Company s performance as measured by total shareholder return relative to the median percentage appreciation of the NASDAQ Composite Index over a specified measurement period, subject to each participant s continued employment with the Company through the conclusion of the measurement period. The measurement period for the restricted stock units granted pursuant to the Long-Term Incentive Plan is a three-year period beginning January 1 of the year of the grant. Each restricted stock unit relates to one share of the Company s common stock. The value of each restricted stock unit granted in 2011 was estimated on the grant date to be $32.05 and the value of each restricted stock unit granted in 2010 was estimated on the grant date to be $25.00. The estimate of the grant date value of the restricted stock units was made using a Monte Carlo lattice pricing model. The determination of the fair value of the awards was affected by the grant date and a number of variables, each of which has been identified in the chart below. Share-based compensation expense based on the fair value of the award is being recorded from the grant date through the conclusion of the three-year measurement period.

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| | Restricted Stock Unit Valuation Assumptions December 31, 2011 and 2010 |
|---|---|
| Risk-free interest rate | **1.35%** |
| Expected dividend yield | **0%** |
| Expected volatility ANSYS Stock Price | **40%** |
| Expected volatility NASDAQ Composite Index | **25%** |
| Expected term | **2.9 years** |
| Correlation factor | **0.7** |

In addition, the Company grants deferred stock units to non-affiliate Independent Directors, which are rights to receive shares of common stock upon termination of service as a Director. The deferred stock units are issued in arrears and vest immediately, with the exception of the Chairman s units which are issued in the period earned. As of December 31, 2011, 66,704 deferred stock units have been earned with the underlying shares remaining unissued until the service termination of the respective Director owners. Of this amount, 21,684 units were earned during the year ended December 31, 2011. In addition, in the second quarter of 2011, 13,631 deferred stock units were issued as a result of the termination of service of a Director, for which 2,031 units were earned during the 2011 calendar year.

If factors change and the Company employs different assumptions in the application of share-based payment accounting guidance in future periods, the compensation expense that the Company will record may differ significantly from what the Company has recorded in the current period. Therefore, it is important for investors to be aware of the high degree of subjectivity involved when using option pricing models to estimate share-based compensation. Option pricing models were developed for use in estimating the value of traded options that have no vesting or hedging restrictions, are fully transferable and do not cause dilution. Because the Company s share-based payments have characteristics significantly different from those of freely-traded options and because changes in the input assumptions can materially affect the Company s estimates of fair values, in the Company s opinion, existing valuation models may not provide reliable measures of the fair values of the Company s share-based compensation. Consequently, there is a risk that the Company s estimates of the fair values of the Company s share-based compensation awards on the grant dates may bear little resemblance to the actual values realized upon the exercise, expiration, early termination or forfeiture of those share-based payments in the future. Certain share-based payments, such as employee stock options, may expire worthless or otherwise result in zero intrinsic value as compared to the fair values originally estimated on the grant date and reported in the Company s financial statements. Alternatively, value may be realized from these instruments that is significantly in excess of the fair values originally estimated on the grant date and reported in the Company s financial statements. There is currently no market-based mechanism or other practical application to verify the reliability and accuracy of the estimates stemming from these valuation models, nor is there a means to compare and adjust the estimates to actual values. Although the fair value of employee share-based awards is determined in accordance with share-based payment accounting guidance using an option pricing model, that value may not be indicative of the fair value observed in a willing buyer/seller market transaction.

Estimates of share-based compensation expenses are significant to the Company s financial statements, but these expenses are based on the aforementioned option valuation models and will never result in the payment of cash by the Company. For this reason, and because the Company does not view share-based compensation as related to its operational performance, the Board of Directors and management exclude estimated share-based compensation expense when evaluating the Company s underlying business performance.

**Recent Accounting Guidance**

For information with respect to recent accounting guidance and the impact of this guidance on the Company s consolidated financial statements, see Note 2 to the consolidated financial statements in Part IV, Item 15 of this Annual Report on Form 10-K.

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**ITEM 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

***Interest Income Rate Risk*.** Changes in the overall level of interest rates affect the interest income that is generated from the Company s cash and short-term investments. For the year ended December 31, 2011, total interest income was $3.0 million. Cash and cash equivalents consist primarily of highly liquid investments such as money market mutual funds and deposits held at major banks.

***Interest Expense Rate Risk***. In connection with the Ansoft acquisition, the Company entered into a $355.0 million term loan with variable interest rates as of July 31, 2008. The term loan is scheduled to mature on July 31, 2013 and provides for tiered pricing with the initial rate at the prime rate + 0.50%, or the LIBOR rate + 1.50%, with step downs permitted after the initial six months under the credit agreement down to a flat prime rate or the LIBOR rate + 0.75%. Such tiered pricing is determined by the Company s consolidated leverage ratio. The credit agreement includes quarterly financial covenants, requiring the Company to maintain certain financial ratios and, as is customary for facilities of this type, certain events of default that permit the acceleration of the loan. Borrowings outstanding under this facility totaled $127.6 million as of December 31, 2011.

The Company entered into an interest rate swap agreement in order to hedge a portion of each of the first eight forecasted quarterly variable rate interest payments on the Company s term loan. Under the swap agreement, the Company received the variable, three-month LIBOR rate required under its term loan and paid a fixed LIBOR interest rate of 3.32% on the notional amount. The initial notional amount of $300.0 million was amortized equally at an amount of $37.5 million per quarter over eight quarters through June 30, 2010. The interest rate swap agreement terminated on June 30, 2010.

For the year ended December 31, 2011, the Company recorded interest expense related to the term loan at a weighted average interest rate of 1.05%. For the year ended December 31, 2010, the Company recorded interest expense related to the term loan at a weighted average interest rate of 1.53%. If the Company did not enter into the interest rate swap agreement, the weighted average interest rate would have been 1.08%. For the year ended December 31, 2009, the Company recorded interest expense related to the term loan at a weighted average interest rate of 3.41%. If the Company did not enter into the interest rate swap agreement, the weighted average interest rate would have been 1.88%. The interest expense on the term loan and amortization related to debt financing costs were as follows:

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | | 2010 | | 2009 | |
| *(in thousands)* | Interest Expense | Amortization | Interest Expense | Amortization | Interest Expense | Amortization |
| July 31, 2008 term loan (interest expense includes $0 loss, $864 loss and $3,959 loss, respectively, on interest rate swap) | **$ 1,605** | **$ 953** | $ 2,960 | $ 1,107 | $ 8,824 | $ 1,229 |

The interest rate on the outstanding term loan balance of $127.6 million is set for the quarter ending March 31, 2012 at 1.33%, which is based on the LIBOR rate + 0.75%. As of December 31, 2011, the fair value of the debt approximated the recorded value.

Based on the effective interest rates and remaining outstanding borrowings at December 31, 2011, a 0.50% increase in interest rates would not impact the Company s interest expense for the quarter ending March 31, 2012. Based on the effective interest rates and remaining outstanding borrowings at December 31, 2011, assuming contractual quarterly principal payments are made, a 0.50% increase in interest rates would increase the Company s interest expense by approximately $500,000 for the year ending December 31, 2012.

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***Foreign Currency Transaction Risk***. As the Company continues to expand its business presence in international regions, the portion of its revenue, expenses, cash, accounts receivable and payment obligations denominated in foreign currencies continues to increase. As a result, changes in currency exchange rates will affect the Company s financial position, results of operations and cash flows. The Company is most impacted by movements in and among the British Pound, Euro, Japanese Yen, Canadian Dollar, Indian Rupee, Swedish Krona, Chinese Renminbi, Korean Won, Taiwan Dollar and the U.S. Dollar.

With respect to revenue, on average for the year ended December 31, 2011, the U.S. Dollar was approximately 5.3% weaker, when measured against the Company s primary foreign currencies, than for the year ended December 31, 2010. The net overall weakening resulted in increased revenue and operating income during 2011, as compared with 2010, of approximately $19.8 million and $12.6 million, respectively.

The Company s operating results are favorably impacted when the U.S. Dollar weakens against the Company s primary foreign currencies and are adversely impacted when the U.S. Dollar strengthens against the Company s primary foreign currencies. Had the activity for the year ended December 31, 2011 been recorded at the December 31, 2011 spot rates for each subsidiary s functional currency, the revenue and operating income for the year would have decreased by $11.0 million and $4.9 million, respectively.

The most significant currency impacts on revenue and operating income were primarily attributable to U.S. Dollar exchange rate changes against the Euro, British Pound and Japanese Yen, as reflected in the charts below:

| | Period End Exchange Rates | | |
|---|---|---|---|
| **As of** | **EUR/USD** | **GBP/USD** | **USD/JPY** |
| December 31, 2008 | 1.397 | 1.459 | 90.728 |
| December 31, 2009 | 1.432 | 1.616 | 93.084 |
| December 31, 2010 | 1.337 | 1.560 | 81.215 |
| **December 31, 2011** | **1.296** | **1.554** | **76.917** |

| | Average Exchange Rates | | |
|---|---|---|---|
| **Twelve Months Ended** | **EUR/USD** | **GBP/USD** | **USD/JPY** |
| December 31, 2009 | 1.394 | 1.566 | 93.444 |
| December 31, 2010 | 1.327 | 1.546 | 87.563 |
| **December 31, 2011** | **1.392** | **1.604** | **79.659** |

The Company has foreign currency denominated intercompany payables/receivables with certain foreign subsidiaries. In order to provide a natural hedge, the Company will purchase foreign currencies and hold these currencies in cash until the intercompany payables/receivables are settled. These natural hedges mitigate a portion of the foreign currency exchange risk on the intercompany payables/receivables.

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**ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The following table sets forth selected unaudited quarterly information. The Company believes that the amounts stated below present fairly the results of such periods when read in conjunction with the consolidated financial statements and related notes included in Part IV, Item 15 of this Annual Report on Form 10-K.

Other information required by this Item is included in Part IV, Item 15 of this Annual Report on Form 10-K.

| | Fiscal Quarter Ended | | | |
|---|---|---|---|---|
| *(in thousands, except per share data)* | **December 31, 2011** | **September 30, 2011** | **June 30, 2011** | **March 31, 2011** |
| Revenue | $ 198,209 | $ 172,935 | $ 162,258 | $ 158,047 |
| Gross profit | 164,867 | 141,908 | 134,195 | 131,465 |
| Operating income | 73,143 | 65,329 | 64,813 | 62,274 |
| Net income | 47,457 | 45,546 | 45,431 | 42,241 |
| Earnings per share basic | 0.51 | 0.49 | 0.49 | 0.46 |
| Earnings per share diluted | 0.50 | 0.48 | 0.48 | 0.45 |

| | Fiscal Quarter Ended | | | |
|---|---|---|---|---|
| *(in thousands, except per share data)* | **December 31, 2010** | **September 30, 2010** | **June 30, 2010** | **March 31, 2010** |
| Revenue | $ 166,573 | $ 139,843 | $ 137,767 | $ 136,053 |
| Gross profit | 139,766 | 114,564 | 113,627 | 111,400 |
| Operating income | 65,385 | 51,877 | 52,383 | 49,623 |
| Net income | 49,140 | 36,130 | 35,493 | 32,369 |
| Earnings per share basic | 0.54 | 0.40 | 0.39 | 0.36 |
| Earnings per share diluted | 0.52 | 0.39 | 0.38 | 0.35 |

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**ITEM 9: CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**
None.

**ITEM 9A: CONTROLS AND PROCEDURES**
***Evaluation of Disclosure Controls and Procedures***. As required by Rules 13a-15 and 15d-15 of the Securities Exchange Act of 1934, as amended, or the Exchange Act, the Company has evaluated, with the participation of management, including the Chief Executive Officer and the Chief Financial Officer, the effectiveness of the design and operation of its disclosure controls and procedures as of the end of the period covered by this report. Based on such evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that such disclosure controls and procedures are effective, as defined in Rule 13a-15(e) of the Exchange Act.

The Company has a Disclosure Review Committee to assist in the quarterly evaluation of the Company s internal disclosure controls and procedures and in the review of the Company s periodic filings under the Exchange Act. The membership of the Disclosure Review Committee consists of the Company s Chief Executive Officer, Chief Financial Officer, Apache President, Global Controller, General Counsel, Investor Relations and Global Insurance Officer, Vice President of Worldwide Sales and Support, Vice President of Human Resources, Vice President of Marketing and Business Unit General Managers. This committee is advised by external counsel, particularly on SEC-related matters. Additionally, other members of the Company s global management team advise the committee with respect to disclosure via a sub-certification process.

The Company believes, based on its knowledge, that the financial statements and other financial information included in this report fairly present, in all material respects, the financial condition, results of operations and cash flows of the Company as of and for the periods presented in this report. The Company is committed to both a sound internal control environment and to good corporate governance.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

From time to time, the Company reviews the disclosure controls and procedures, and may from time to time make changes to enhance their effectiveness and to ensure that the Company s systems evolve with its business.

***Report on Internal Control over Financial Reporting***. The Company s management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Under the supervision and with the participation of the Company s management, including the Company s Chief Executive Officer and Chief Financial Officer, the Company has conducted an evaluation of the effectiveness of its internal control over financial reporting based upon the *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. This assessment excluded the acquisition on August 1, 2011 of Apache as described in Note 3 of the Notes to the Consolidated Financial Statements. Based on this evaluation, the Company s Chief Executive Officer and Chief Financial Officer have concluded that the Company s internal control over financial reporting was effective at December 31, 2011.

Additionally, Deloitte & Touche LLP, an independent registered public accounting firm, has issued an attestation report on the Company s internal control over financial reporting. This report is included in Item 15 of this Annual Report on Form 10-K.

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***Changes in Internal Controls***. The Company is in the process of extending its internal controls to its acquisition of Apache. There were no changes in the Company s internal controls over financial reporting that occurred during the three months ended December 31, 2011 that materially affected, or were reasonably likely to materially affect, the Company s internal control over financial reporting.

**ITEM 9B: OTHER INFORMATION**

None.

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## PART III

### ITEM 10: DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item is incorporated by reference to the Company s 2012 Proxy Statement and is set forth under Our Board of Directors, Our Executive Officers and Ownership of Our Common Stock therein.

### ITEM 11: EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference to the Company s 2012 Proxy Statement and is set forth under Our Board of Directors and Our Executive Officers therein.

### ITEM 12: SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item is incorporated by reference to the Company s 2012 Proxy Statement and is set forth under Ownership of Our Common Stock therein.

### ITEM 13: CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by this Item is incorporated by reference to the Company s 2012 Proxy Statement and is set forth under Our Board of Directors therein.

### ITEM 14: PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is incorporated by reference to the Company s 2012 Proxy Statement and is set forth under Independent Registered Public Accounting Firm therein.

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**PART IV**

**ITEM 15: EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

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

1. *Financial Statements:* The following consolidated financial statements and reports of independent registered public accounting firm are filed as part of this report:


- Management s Report on Internal Control over Financial Reporting 58
- Reports of Independent Registered Public Accounting Firm 59-60
- Consolidated Balance Sheets as of December 31, 2011 and 2010 61
- Consolidated Statements of Income for the years ended December 31, 2011, 2010 and 2009 62
- Consolidated Statements of Cash Flows for the years ended December 31, 2011, 2010 and 2009 63
- Consolidated Statements of Stockholders Equity for the years ended December 31, 2011, 2010 and 2009 64
- Notes to Consolidated Financial Statements 65


2. *Financial Statement Schedule:* The following financial statement schedule is filed as part of this report and should be read in conjunction with the consolidated financial statements.

Schedule II Valuation and Qualifying Accounts 90

Schedules not listed above have been omitted because they are not applicable, or are not required, or the information required to be set forth therein is included in the consolidated financial statements or notes thereto.

3. *Exhibits:*

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

*(b) Exhibits*:

The Company hereby files as part of this Annual Report on Form 10-K the Exhibits listed in the attached Exhibit Index on pages 91 through 94 of this Annual Report on Form 10-K.

*a. Financial Statement Schedule*

The Company hereby files as part of this Annual Report on Form 10-K the financial statement schedule listed in Item 15(a)(2) as set forth above.

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**MANAGEMENT S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Management is responsible for establishing and maintaining an adequate system of internal control over financial reporting for the Company. In order to evaluate the effectiveness of internal control over financial reporting, management has conducted an assessment, including testing, using the financial reporting criteria in the *Internal Control Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. This assessment excluded the acquisition on August 1, 2011 of Apache Design, Inc. ( Apache ) as described in Note 3 of the Notes to Consolidated Financial Statements. The Apache financial statements constitute 16% of total assets, 2% of revenues, and 2% of net income of the consolidated financial statement amounts as of and for the year ended December 31, 2011. Management s election to exclude Apache was a result of the Company needing additional time to properly evaluate and transition Apache s existing internal controls over financial reporting and disclosures.

The Company s system of internal control over financial reporting is designed to provide reasonable assurance to the Company s management and board of directors regarding the reliability of financial records used in preparation of the Company s published financial statements. As all internal control systems have inherent limitations, even systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Based on its assessment, management has concluded that the Company maintained an effective system of internal control over financial reporting as of December 31, 2011. Deloitte & Touche LLP, an independent registered public accounting firm, has audited the Company s internal control over financial reporting as of December 31, 2011, as stated in their report which appears on page 60.

/s/ JAMES E. CASHMAN III
**James E. Cashman III**
**President and Chief Executive Officer**
**February 23, 2012**

/s/ MARIA T. SHIELDS
**Maria T. Shields**
**Chief Financial Officer**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

Canonsburg, Pennsylvania

We have audited the accompanying consolidated balance sheets of ANSYS, Inc. and subsidiaries (the Company ) as of December 31, 2011 and 2010, and the related consolidated statements of income, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2011. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of ANSYS, Inc. and subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of December 31, 2011, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 23, 2012 expressed an unqualified opinion on the Company s internal control over financial reporting.

/s/ Deloitte & Touche LLP
Pittsburgh, Pennsylvania
February 23, 2012

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

Canonsburg, Pennsylvania

We have audited the internal control over financial reporting of ANSYS, Inc. and subsidiaries (the Company ) as of December 31, 2011, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in Management s Report on Internal Control over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Apache Design, Inc. which was acquired on August 1, 2011, and whose financial statements constitute 16% of total assets, 2% of revenues, and 2% of net income of the consolidated financial statement amounts as of and for the year ended December 31, 2011. Accordingly, our audit did not include the internal control over financial reporting at Apache Design, Inc. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed by, or under the supervision of, the company s principal executive and principal financial officers, or persons performing similar functions, and effected by the company s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2011 of the Company and our report dated February 23, 2012 expressed an unqualified opinion on those financial statements and financial statement schedule.

/s/ Deloitte & Touche LLP
Pittsburgh, Pennsylvania
February 23, 2012

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## ANSYS, Inc.

## Consolidated Balance Sheets

| *(in thousands, except share data)* | December 31, 2011 | 2010 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | **$ 471,828** | $ 472,479 |
| Short-term investments | **576** | 455 |
| Accounts receivable, less allowance for doubtful accounts of $4,101 and $4,503, respectively | **84,602** | 76,604 |
| Other receivables and current assets | **163,296** | 147,402 |
| Deferred income taxes | **19,731** | 17,693 |
| Total current assets | **740,033** | 714,633 |
| Property and equipment, net | **45,638** | 36,921 |
| Goodwill | **1,225,375** | 1,035,083 |
| Other intangible assets, net | **383,420** | 278,320 |
| Other long-term assets | **46,942** | 56,123 |
| Deferred income taxes | **7,062** | 5,796 |
| Total assets | **$ 2,448,470** | $ 2,126,876 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| Current liabilities: | | |
| Current portion of long-term debt and capital lease obligations | **$ 74,423** | $ 31,962 |
| Accounts payable | **6,987** | 2,241 |
| Accrued bonuses and commissions | **36,164** | 29,719 |
| Accrued income taxes | **6,213** | 6,179 |
| Deferred income taxes | **0** | 216 |
| Other accrued expenses and liabilities | **55,809** | 41,247 |
| Deferred revenue | **259,155** | 199,805 |
| Total current liabilities | **438,751** | 311,369 |
| Long-term liabilities: | | |
| Long-term debt and capital lease obligations, less current portion | **53,149** | 127,563 |
| Deferred income taxes | **101,618** | 75,026 |
| Other long-term liabilities | **100,479** | 82,989 |
| Total long-term liabilities | **255,246** | 285,578 |
| Commitments and contingencies | **0** | 0 |
| Stockholders equity: | | |
| Preferred stock, $.01 par value; 2,000,000 shares authorized; zero shares issued or outstanding | **0** | 0 |
| Common stock, $.01 par value; 300,000,000 shares authorized; 92,651,739 and 91,647,012 shares issued and outstanding, respectively | **927** | 916 |
| Additional paid-in capital | **905,662** | 856,718 |
| Retained earnings | **836,008** | 655,333 |
| Accumulated other comprehensive income | **11,876** | 16,962 |
| Total stockholders equity | **1,754,473** | 1,529,929 |
| Total liabilities and stockholders equity | **$ 2,448,470** | $ 2,126,876 |

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

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## ANSYS, Inc.

## Consolidated Statements of Income

| *(in thousands, except per share data)* | Year Ended December 31, 2011 | 2010 | 2009 |
|---|---|---|---|
| Revenue: | | | |
| Software licenses | **$ 425,881** | $ 351,033 | $ 315,633 |
| Maintenance and service | **265,568** | 229,203 | 201,252 |
| Total revenue | **691,449** | 580,236 | 516,885 |
| Cost of sales: | | | |
| Software licenses | **15,884** | 10,770 | 10,210 |
| Amortization | **33,728** | 32,757 | 36,011 |
| Maintenance and service | **69,402** | 57,352 | 50,021 |
| Restructuring charges | **0** | 0 | 994 |
| Total cost of sales | **119,014** | 100,879 | 97,236 |
| Gross profit | **572,435** | 479,357 | 419,649 |
| Operating expenses: | | | |
| Selling, general and administrative | **180,357** | 155,096 | 137,264 |
| Research and development | **108,530** | 88,990 | 79,856 |
| Amortization | **17,989** | 16,003 | 16,326 |
| Restructuring charges | **0** | 0 | 2,726 |
| Total operating expenses | **306,876** | 260,089 | 236,172 |
| Operating income | **265,559** | 219,268 | 183,477 |
| Interest expense | **(3,332)** | (4,488) | (10,401) |
| Interest income | **3,000** | 1,911 | 1,740 |
| Other expense, net | **(369)** | (297) | (1,287) |
| Income before income tax provision | **264,858** | 216,394 | 173,529 |
| Income tax provision | **84,183** | 63,262 | 57,138 |
| Net income | **$ 180,675** | $ 153,132 | $ 116,391 |
| Earnings per share basic: | | | |
| Basic earnings per share | **$ 1.96** | $ 1.69 | $ 1.32 |
| Weighted average shares basic | **92,120** | 90,684 | 88,486 |
| Earnings per share diluted: | | | |
| Diluted earnings per share | **$ 1.91** | $ 1.64 | $ 1.27 |
| Weighted average shares diluted | **94,381** | 93,209 | 91,785 |

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

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## ANSYS, Inc.

## Consolidated Statements of Cash Flows

| *(in thousands)* | Year Ended December 31, 2011 | 2010 | 2009 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Net income | **$ 180,675** | $ 153,132 | $ 116,391 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | **65,955** | 60,826 | 64,186 |
| Deferred income tax benefit | **(3,021)** | (26,641) | (28,038) |
| Provision for bad debts | **404** | 1,757 | 1,610 |
| Stock-based compensation expense | **23,088** | 19,019 | 13,212 |
| Excess tax benefits from stock options | **(10,046)** | (11,753) | (13,168) |
| Other | **180** | 19 | 108 |
| Changes in operating assets and liabilities, net of acquisitions: | | | |
| Accounts receivable | **(8,086)** | (11,149) | (6,434) |
| Other receivables and current assets | **(16,926)** | (61,467) | 10,166 |
| Other long-term assets | **(1,390)** | (60,365) | 1,340 |
| Accounts payable, accrued expenses and current liabilities | **18,222** | 16,542 | (7,016) |
| Accrued income taxes | **9,668** | 10,608 | 19,929 |
| Deferred revenue | **49,973** | 28,817 | (606) |
| Other long-term liabilities | **(1,035)** | 47,539 | 2,009 |
| Net cash provided by operating activities | **307,661** | 166,884 | 173,689 |
| Cash flows from investing activities: | | | |
| Apache acquisition, net of cash acquired | **(269,486)** | 0 | 0 |
| Capital expenditures | **(22,063)** | (14,260) | (8,323) |
| Purchases of short-term investments | **(351)** | (1,075) | (9,899) |
| Maturities of short-term investments | **257** | 8,687 | 7,491 |
| Net cash used in investing activities | **(291,643)** | (6,648) | (10,731) |
| Cash flows from financing activities: | | | |
| Principal payments on long-term debt | **(31,889)** | (65,630) | (53,924) |
| Principal payments on capital leases | **(87)** | (283) | (306) |
| Purchase of treasury stock | **(12,704)** | 0 | (39,904) |
| Proceeds from issuance of common stock under Employee Stock Purchase Plan | **2,167** | 1,592 | 1,515 |
| Proceeds from exercise of stock options | **22,791** | 22,929 | 15,361 |
| Excess tax benefits from stock options | **10,046** | 11,753 | 13,168 |
| Net cash used in financing activities | **(9,676)** | (29,639) | (64,090) |
| Effect of exchange rate fluctuations | **(6,993)** | 6,004 | 8,834 |
| Net (decrease) increase in cash and cash equivalents | **(651)** | 136,601 | 107,702 |
| Cash and cash equivalents, beginning of year | **472,479** | 335,878 | 228,176 |
| Cash and cash equivalents, end of year | **$ 471,828** | $ 472,479 | $ 335,878 |
| Supplemental disclosures of cash flow information: | | | |
| Income taxes paid | **$ 64,731** | $ 131,861 | $ 58,859 |
| Interest paid | **1,858** | 2,980 | 8,642 |
| Capital lease obligations incurred | **0** | 0 | 96 |

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

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## ANSYS, Inc.

## Consolidated Statements of Stockholders Equity

| | Common Stock | | | | Treasury Stock | | Accumulated Other Comprehensive | Total | Total |
|---|---|---|---|---|---|---|---|---|---|
| *(in thousands)* | Shares | Amount | Additional Paid-in Capital | Retained Earnings | Shares | Amount | Income (Loss) | Stockholders Equity | Comprehensive Income |
| Balance, January 1, 2009 | 89,716 | $ 897 | $ 806,755 | $ 385,810 | 337 | $ (9,079) | $ (1,484) | $ 1,182,899 | |
| Treasury shares acquired | | | | | 2,070 | (39,904) | | (39,904) | |
| Stock-based compensation activity, including tax benefit of $12,679 | 0 | 0 | (5,118) | | (2,298) | 46,552 | | 41,434 | |
| Issuance of common stock under Employee Stock Purchase Plan | 0 | 0 | (63) | | (68) | 1,578 | | 1,515 | |
| Net gains on interest rate swap, net of tax of $1,217 | | | | | | | 1,959 | 1,959 | $ 1,959 |
| Other comprehensive gain | | | | | | | 8,337 | 8,337 | 8,337 |
| Net income for the year | | | | 116,391 | | | | 116,391 | 116,391 |
| Balance, December 31, 2009 | 89,716 | 897 | 801,574 | 502,201 | 41 | (853) | 8,812 | 1,312,631 | 126,687 |
| Stock-based compensation activity, including tax benefit of $12,022 | 1,883 | 19 | 53,552 | | (41) | 853 | | 54,424 | |
| Issuance of common stock under Employee Stock Purchase Plan | 48 | 0 | 1,592 | | 0 | 0 | | 1,592 | |
| Net gains on interest rate swap, net of tax of $321 | | | | | | | 532 | 532 | 532 |
| Other comprehensive gain | | | | | | | 7,618 | 7,618 | 7,618 |
| Net income for the year | | | | 153,132 | | | | 153,132 | 153,132 |
| **Balance, December 31, 2010** | **91,647** | **916** | **856,718** | **655,333** | **0** | **0** | **16,962** | **1,529,929** | 161,282 |
| **Treasury shares acquired** | | | | | **247** | **(12,704)** | | **(12,704)** | |
| **Stock-based compensation awards issued in Apache acquisition** | | | **3,170** | | | | | **3,170** | |
| **Stock-based compensation activity, including tax benefit of $9,984** | **955** | **10** | **43,608** | | **(247)** | **12,704** | | **56,322** | |
| **Issuance of common stock under Employee Stock Purchase Plan** | **50** | **1** | **2,166** | | **0** | **0** | | **2,167** | |
| **Other comprehensive loss** | | | | | | | **(5,086)** | **(5,086)** | **(5,086)** |
| **Net income for the year** | | | | **180,675** | | | | **180,675** | **180,675** |
| **Balance, December 31, 2011** | **92,652** | **$ 927** | **$ 905,662** | **$ 836,008** | **0** | **$ 0** | **$ 11,876** | **$ 1,754,473** | **$ 175,589** |

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

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Organization**

ANSYS, Inc. (hereafter the Company or ANSYS ) develops and globally markets engineering simulation software and technologies widely used by engineers, designers, researchers and students across a broad spectrum of industries and academia, including aerospace, automotive, manufacturing, electronics, biomedical, energy and defense.

In connection with its August 1, 2011 acquisition of Apache Design, Inc. ( Apache ), the Company has reviewed the accounting guidance issued for disclosures about segments of an enterprise. As defined by the accounting guidance, the Company operates as two segments. However, the Company determined that its two operating segments are sufficiently similar and should be aggregated under the criteria provided in the related accounting guidance.

Given the integrated approach to the multi-discipline problem-solving needs of the Company s customers, a single sale of software may contain components from multiple product areas and include combined technologies. As a result, it is impracticable for the Company to provide accurate historical or current reporting among its various product lines.

**2. Summary of Significant Accounting Policies**

***ACCOUNTING PRINCIPLES:*** The financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States.

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

***USE OF ESTIMATES:*** The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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. Significant estimates included in these consolidated financial statements include allowances for doubtful accounts receivable, income tax accruals, uncertain tax positions and tax valuation reserves, fair value of stock-based compensation, contract revenue, useful lives for depreciation and amortization, loss contingencies, valuation of goodwill and indefinite lived intangible assets, contingent consideration and deferred compensation. Actual results could differ from these estimates. Changes in estimates are recorded in the results of operations in the period that the changes occur.

***REVENUE RECOGNITION:*** Revenue is derived principally from the licensing of computer software products and from related maintenance contracts. Revenue from perpetual licenses is classified as license revenue and is recognized upon delivery of the licensed product and the utility that enables the customer to access authorization keys, provided that acceptance has occurred and a signed contractual obligation has been received, the price is fixed and determinable, and collectibility of the receivable is probable. The Company determines the fair value of post-contract customer support ( PCS ) sold together with perpetual licenses based on the rate charged for PCS when sold separately. Revenue from PCS contracts is classified as maintenance and service revenue and is recognized ratably over the term of the contract.

Revenue for software lease licenses is classified as license revenue and is recognized over the period of the lease contract. Typically, the Company s software leases include PCS which, due to the short term (principally one year or less) of the Company s software lease licenses, cannot be separated from lease revenue for

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accounting purposes. As a result, both the lease license and PCS are recognized ratably over the lease period. Due to the short-term nature of the software lease licenses and the frequency with which the Company provides major product upgrades (typically every 12 18 months), the Company does not believe that a significant portion of the fee paid under the arrangement is attributable to the PCS component of the arrangement and, as a result, includes the revenue for the entire arrangement within software license revenue in the consolidated statements of income.

Revenue from training, support and other services is recognized as the services are performed. The Company applies the specific performance method to contracts in which the service consists of a single act, such as providing a training class to a customer, and the proportional performance method to other service contracts that are longer in duration and often include multiple acts (for example, both training and consulting). In applying the proportional performance method, the Company typically utilizes output-based estimates for services with contractual billing arrangements that are not based on time and materials, and estimates output based on the total tasks completed as compared to the total tasks required for each work contract. Input-based estimates are utilized for services that involve general consultations with contractual billing arrangements based on time and materials, utilizing direct labor as the input measure.

The Company also executes arrangements through independent channel partners in which the channel partners are authorized to market and distribute the Company s software products to end users of the Company s products and services in specified territories. In sales facilitated by channel partners, the channel partner bears the risk of collection from the end user customer. The Company recognizes revenue from transactions with channel partners when the channel partner submits a written purchase commitment, collectibility from the channel partner is probable, a signed license agreement is received from the end user customer and delivery has occurred, provided that all other revenue recognition criteria are satisfied. Revenue from channel partner transactions is the amount remitted to the Company by the channel partners. This amount includes a fee for PCS that is compensation for providing technical enhancements and the second level of technical support to the end user, which is based on the rate charged for PCS when sold separately, and is recognized over the period that PCS is to be provided. The Company does not offer right of return, product rotation or price protection to any of its channel partners.

Non-income related taxes collected from customers and remitted to governmental authorities are recorded on the consolidated balance sheet as accounts receivable and accrued expenses. The collection and payment of these amounts are reported on a net basis in the consolidated statements of income and do not impact reported revenues or expenses.

The Company warrants to its customers that its software will substantially perform as specified in the Company s most current user manuals. The Company has not experienced significant claims related to software warranties beyond the scope of maintenance support, which the Company is already obligated to provide, and consequently the Company has not established reserves for warranty obligations.

***CASH AND CASH EQUIVALENTS:*** Cash and cash equivalents consist primarily of highly liquid investments such as deposits held at major banks and money market mutual funds with original maturities of three months or less. Cash equivalents are carried at cost, which approximates fair value. The Company s cash and cash equivalents balances comprise the following:

| | December 31, | | | |
|---|---|---|---|---|
| | 2011 | | 2010 | |
| *(in thousands, except percentages)* | **Amount** | **% of Total** | **Amount** | **% of Total** |
| Cash accounts | **$ 289,298** | **61.3** | $ 170,765 | 36.1 |
| Money market mutual funds | **181,198** | **38.4** | 273,926 | 58.0 |
| Time deposits | **1,332** | **0.3** | 27,788 | 5.9 |
| Total | **$ 471,828** | | $ 472,479 | |

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The money market mutual fund balances reflected above are held in various funds of a single issuer. The time deposits balance at December 31, 2010 was primarily invested in pooled funds which held a mix of bank time deposits with varying durations of up to three months.

***SHORT-TERM INVESTMENTS:*** Short-term investments consist primarily of deposits held by certain foreign subsidiaries of the Company with original maturities of three months to one year. The Company considers investments backed by government agencies or financial institutions with maturities of less than one year to be highly liquid and classifies such investments as short-term investments. Short-term investments are recorded at fair value. The Company uses the specific identification method to determine the realized gain or loss upon the sale of such securities.

The Company is averse to principal loss and seeks to preserve invested funds by limiting default risk, market risk and reinvestment risk by placing its investments with high-quality credit issuers.

***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 40 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 operating income.

***RESEARCH AND DEVELOPMENT COSTS:*** Research and development costs, other than certain capitalized software development costs, are expensed as incurred.

***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 commercial release. Judgment is required in determining when technological feasibility of a product is established. The Company has determined that technological feasibility is reached after all high-risk development issues have been resolved through coding and testing. Generally, the time between the establishment of technological feasibility and commercial release of software is minimal, resulting in insignificant capitalization of internally developed software costs. 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. Amortization expense related to capitalized and acquired software costs, including the related trademarks, was $33.7 million, $32.8 million and $36.0 million for the years ended December 31, 2011, 2010 and 2009, respectively.

The Company periodically reviews the carrying value of capitalized software. Impairments are recognized in the results of operations when the expected future undiscounted operating cash flow derived from the capitalized costs of internally developed software is less than the carrying value. No impairment charges have been required to date.

***GOODWILL AND OTHER INTANGIBLE ASSETS:*** Goodwill represents the excess of the consideration transferred over the fair value of net identifiable assets acquired. Intangible assets consist of trademarks, customer lists, contract backlog, and acquired software and technology.

The Company evaluates, at least annually, the realizability of the carrying value of goodwill and indefinite lived intangible assets by comparing the carrying value of the asset (or, in the case of goodwill, the Company s reporting units) to its estimated fair value. The Company performs its annual goodwill and indefinite lived intangible assets impairment test on January 1 of each year unless there is an indicator that would require a test during the year. No impairment charges have been required to date.

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The Company periodically reviews the carrying value of other intangible assets and will recognize impairments when events or circumstances indicate that such assets may be impaired. No impairment charges have been required to date.

***CONCENTRATIONS OF CREDIT RISK:*** The Company has a concentration of credit risk with respect to revenue and trade receivables due to the use of certain significant channel partners to market and sell the Company s products. The Company performs periodic credit evaluations of its customers financial condition and generally does not require collateral. The following table outlines concentrations of risk with respect to the Company s revenue:

| | Year Ended December 31, | | |
|---|---|---|---|
| ***(as a % of revenue, except customer data)*** | **2011** | **2010** | **2009** |
| Revenue from channel partners | **26%** | 27% | 26% |
| 1st largest channel partner | **4%** | 4% | 5% |
| 2nd largest channel partner | **3%** | 3% | 3% |
| Direct sale customers exceeding 5% of revenue | **0** | 0 | 0 |

In addition to the concentration of credit risk with respect to trade receivables, the Company s cash and cash equivalents are also exposed to concentration of credit risk. The Company maintains certain cash and cash equivalent accounts that are currently insured by the Federal Deposit Insurance Corporation ( FDIC ) up to $250,000 per depositor or the Securities Investor Protection Corporation ( SIPC ) up to $500,000 per customer. As of December 31, 2011, the Company had cash and cash equivalent balances of $297.7 million held in the U.S. which were uninsured by the FDIC or SIPC, and $153.4 million of uninsured cash and cash equivalent balances held outside of the U.S. The Company held cash and cash equivalent balances with one U.S. financial institution as of December 31, 2011 in the amount of $227.5 million.

***ALLOWANCE FOR DOUBTFUL ACCOUNTS:*** The Company makes judgments as to its ability to collect outstanding receivables and provides allowances for a portion of receivables when collection becomes doubtful. Provisions are made based upon a specific review of all significant outstanding invoices from both value and delinquency perspectives. For those invoices not specifically reviewed, provisions are provided at differing rates based upon the age of the receivable and the geographic area of origin. In determining these percentages, the Company considers its historical collection experience and current economic trends in the customer s industry and geographic region. The Company recorded provisions for doubtful accounts of $400,000, $1.8 million and $1.6 million for the years ended December 31, 2011, 2010 and 2009, respectively.

***INCOME TAXES:*** The Company accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period of the enactment date.

The Company records net deferred tax assets to the extent it believes these assets will more likely than not be realized. In making such determination, the Company considers all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial operations. In the event the Company determines that it will be able to realize deferred income tax assets in the future in excess of their net recorded amount, an adjustment to the valuation allowance would be recorded that would reduce the provision for income taxes.

Tax benefits related to uncertain tax positions taken or expected to be taken on a tax return are recorded when such benefits meet a more likely than not threshold. Otherwise, these tax benefits are recorded when a tax position has been effectively settled, which means that the statute of limitation has expired or the appropriate

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taxing authority has completed their examination even though the statute of limitations remains open. The Company recognizes interest and penalties related to unrecognized tax benefits within the income tax expense line in the accompanying consolidated statements of income. Accrued interest and penalties are included within the related tax liability line in the consolidated balance sheets.

***FOREIGN CURRENCIES:*** Certain of the Company s sales and intercompany transactions are denominated in foreign currencies. These transactions are translated to the functional currency at the exchange rate on the transaction date. Accounts receivable and intercompany balances in foreign currencies at year end are translated at the effective exchange rate on the balance sheet date. Gains and losses resulting from foreign exchange transactions are included in other income. The Company recorded net foreign exchange losses of $430,000, $400,000 and $1.4 million for the years ended December 31, 2011, 2010 and 2009, respectively.

The financial statements of the Company s foreign subsidiaries are translated from the functional (local) currency to U.S. Dollars. Assets and liabilities are translated at the exchange rates on the balance sheet date. Results of operations are translated at average exchange rates, which approximate rates in effect when the underlying transactions occur.

***ACCUMULATED OTHER COMPREHENSIVE INCOME***: Accumulated other comprehensive income is composed entirely of foreign currency translation adjustments.

***EARNINGS PER SHARE:*** Basic earnings per share ( EPS ) amounts are computed by dividing earnings by the average number of common shares outstanding during the period. Diluted EPS amounts assume the issuance of common stock for all potentially dilutive equivalents outstanding. To the extent stock options are anti-dilutive, they are excluded from the calculation of diluted EPS. The details of basic and diluted EPS are as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| ***(in thousands, except per share data)*** | **2011** | **2010** | **2009** |
| Net income | **$ 180,675** | $ 153,132 | $ 116,391 |
| Weighted average shares outstanding basic | **92,120** | 90,684 | 88,486 |
| Dilutive effect of stock plans | **2,261** | 2,525 | 3,299 |
| Weighted average shares outstanding diluted | **94,381** | 93,209 | 91,785 |
| Basic earnings per share | **$ 1.96** | $ 1.69 | $ 1.32 |
| Diluted earnings per share | **$ 1.91** | $ 1.64 | $ 1.27 |
| Anti-dilutive options | **1,421** | 1,867 | 2,612 |

***STOCK-BASED COMPENSATION:*** The Company accounts for stock-based compensation in accordance with share-based payment accounting guidance. The guidance requires an entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The cost is recognized over the period during which an employee is required to provide service in exchange for the award, typically the vesting period.

***FAIR VALUE OF FINANCIAL INSTRUMENTS:*** The Company accounts for certain assets and liabilities at fair value in accordance with the accounting guidance applicable to fair value measurements and disclosures. The carrying values of cash, cash equivalents, accounts receivable, accounts payable, accrued expenses, other accrued liabilities and short-term obligations are deemed to be reasonable estimates of their fair values because of their short-term nature. The fair values of investments are based on quoted market prices for those or similar investments. The carrying value of long-term debt is considered a reasonable estimate of fair value due to the variable interest rate underlying the Company s credit facility.

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***DERIVATIVE FINANCIAL INSTRUMENTS:*** As of December 31, 2009 and 2008 and through its maturity on June 30, 2010, the Company held a derivative financial instrument to manage interest rate risk. The Company accounted for this instrument as a cash flow hedge in accordance with derivative instruments and hedging activities accounting guidance, which requires that every derivative instrument be recorded on the balance sheet as either an asset or liability measured at its fair value as of the reporting date. This guidance also requires that changes in the Company s derivative fair value be recognized in earnings unless specific hedge accounting and documentation criteria are met. The Company recorded the effective portion of its derivative financial instrument in accumulated other comprehensive income on the consolidated balance sheets. Any ineffective portion or excluded portion of the designated cash flow hedge was recognized in earnings. The Company s cash flow hedge did not have an ineffective or excluded portion. The Company utilized the hypothetical derivative method to ensure the hedge was effective in offsetting variability in interest expense associated with its credit facility. The Company used the dollar offset method for calculating ineffectiveness by comparing the cumulative fair value of the swap to the cumulative fair value of the hypothetical derivative.

***NEW ACCOUNTING GUIDANCE:***

***Fair Value Measurements:*** In May 2011, new accounting guidance was issued to provide a consistent definition of fair value and to ensure that the fair value measurement and disclosure requirements are similar between generally accepted accounting principles in the United States and International Financial Reporting Standards. The guidance changes certain fair value measurement principles and enhances the disclosure requirements, particularly for Level 3 fair value measurements. This guidance is effective for the Company beginning January 1, 2012. Management is in the process of evaluating the impact of adopting this guidance on the Company s consolidated financial statements.

***Presentation of Comprehensive Income:*** In June 2011, new accounting guidance was issued regarding the presentation of comprehensive income in consolidated financial statements. This guidance requires that all non-owner changes in stockholders equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The updated guidance eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders equity. This guidance is effective for the Company beginning January 1, 2012. Management is in the process of evaluating the impact of adopting this guidance on the Company s consolidated financial statements.

***Testing Goodwill for Impairment:*** In September 2011, new accounting guidance was issued regarding the requirement to test goodwill for impairment on at least an annual basis. Existing guidance requires that this test be performed by comparing the fair value of a reporting unit with its carrying amount, including goodwill (step one). If the fair value of a reporting unit is less than its carrying amount, then the second step of the test must be performed to measure the amount of the impairment loss, if any. Under the new guidance, an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. However, if an entity concludes otherwise, then it is required to perform the first step of the two-step impairment test. This guidance is effective for the Company beginning January 1, 2012. Management is in the process of evaluating the impact of adopting this guidance on the Company s consolidated financial statements.

**3. Acquisitions**

On August 1, 2011, the Company completed its acquisition of Apache Design, Inc., a leading simulation software provider for advanced, low-power solutions in the electronics industry. Under the terms of the merger agreement, ANSYS acquired 100% of the outstanding shares of Apache for a purchase price of $314.0 million, which included $31.9 million in acquired cash and short-term investments on Apache s balance sheet, $3.2 million in ANSYS replacement stock option awards issued to holders of partially-vested Apache stock options

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and $9.5 million in contingent consideration that is based on the retention of a key member of Apache s management. The agreement also includes $13.0 million of performance equity awards for key members of management and employees, earned annually over a three-fiscal-year period beginning January 1, 2012. These awards will be accounted for outside of the business combination. The Company funded the transaction entirely with existing cash balances.

Apache s software enables engineers to design power-efficient devices while satisfying ever-increasing performance requirements. Engineers use Apache s products to design and simulate efficient, low-power integrated circuits for high-performance electronic products found in devices such as tablets, smartphones, LCD televisions, laptops and high end computer servers. The complementary combination is expected to accelerate development and delivery of new and innovative products to the marketplace while lowering design and engineering costs for customers.

The operating results of Apache have been included in the Company s consolidated financial statements since the date of acquisition, August 1, 2011. The acquired business contributed revenues of $14.5 million and a net loss of $4.2 million to the Company during the period from August 1, 2011 to December 31, 2011. During the year ended December 31, 2011, the Company incurred $2.1 million in acquisition-related costs. These costs are included in selling, general and administrative expenses in the Company s consolidated statement of income for the year ended December 31, 2011.

The merger agreement includes a contingent consideration arrangement that requires additional payments totaling $12.0 million to be paid by the Company in equal installments to the Apache stockholders and holders of vested Apache options on each of the first three anniversaries of the closing of the acquisition. To receive these payments, a key member of Apache s management must remain an employee of ANSYS on each of the first three anniversaries of the acquisition closing date. Management estimated that it was probable that all three payments would be made, and recorded the fair value of the contingent payments as a liability on the date of acquisition. The portion of contingent payments attributable to the key member of Apache management was determined to be compensation, and is accounted for outside of the business combination. The portion of the contingent payments attributable to other shareholders was determined to be contingent purchase price consideration and was estimated to be $9.5 million based on the net present value of the expected payments. Refer to Note 8 for a description of the valuation technique and inputs used to estimate the fair value of the contingent consideration.

Under the merger agreement, holders of partially-vested Apache options at the date of acquisition received options to purchase ANSYS shares of common stock based on an agreed-upon conversion ratio ( the Replacement Awards ). The value of the Replacement Awards attributable to pre-combination service was estimated to be $3.2 million at the acquisition date, and was included in the consideration transferred. The value of the Replacement Awards attributable to post-combination service will be recognized as stock-based compensation in earnings during the post-acquisition period.

In valuing deferred revenue on the Apache balance sheet as of the acquisition date, the Company applied the fair value provisions applicable to the accounting for business combinations. Although this acquisition accounting requirement had no impact on the Company s business or cash flow, the Company s reported revenue under accounting principles generally accepted in the United States, primarily for the first 12 months post-acquisition, will be less than what would otherwise have been reported by Apache absent the acquisition. Acquired deferred revenue of $10.1 million was recorded on the opening balance sheet. This amount was approximately $13.6 million lower than the historical carrying value. The impact on reported revenue for the year ended December 31, 2011 was $9.6 million, primarily in lease license revenue. The expected impact on reported revenue for the year ending December 31, 2012 is $3.4 million.

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The assets and liabilities of Apache have been recorded based upon management s estimates of their fair market values as of the acquisition date. The following tables summarize the preliminary fair value of consideration transferred and the fair values of identifiable assets acquired and liabilities assumed at the acquisition date:

**Fair Value of Consideration Transferred:**

| *(in thousands)* | |
|---|---|
| Cash | $ 301,306 |
| Contingent consideration | 9,501 |
| ANSYS replacement stock options | 3,170 |
| **Total consideration transferred at fair value** | **$ 313,977** |

**Recognized Amounts of Identifiable Assets Acquired and Liabilities Assumed:**

| *(in thousands)* | |
|---|---|
| Cash and short-term investments | $ 31,948 |
| Accounts receivable and other tangible assets | 6,011 |
| Developed software (7-year life) | 82,500 |
| Customer relationships (15-year life) | 36,100 |
| Contract backlog (3-year life) | 13,500 |
| Platform trade names (indefinite-lives) | 21,900 |
| Apache trade name (6-year life) | 2,100 |
| Accounts payable and other liabilities | (16,646) |
| Deferred revenue | (10,100) |
| Net deferred tax liabilities | (44,283) |
| **Total identifiable net assets** | **$ 123,030** |
| **Goodwill** | **$ 190,947** |

The goodwill, which is not tax-deductible, is attributed to intangible assets that do not qualify for separate recognition, including the assembled workforce of the acquired business and the synergies expected to arise as a result of the acquisition of Apache. The fair values of the assets acquired and liabilities assumed that are listed above are based on preliminary calculations and the estimates and assumptions for these items are subject to change as additional information is obtained during the measurement period (up to one year from the acquisition date). During the measurement period since the Apache acquisition date, the Company retrospectively increased the values of identifiable intangible assets by $2.3 million, and reduced the values of net deferred tax liabilities and goodwill by $1.9 million and $4.3 million, respectively. These adjustments were based on refinements to assumptions used in the preliminary valuation of intangible assets and new information obtained in the calculation of the net deferred tax liabilities.

The following unaudited pro forma information presents the 2010 and 2011 results of operations of the Company as if the acquisition had occurred on January 1, 2010. The unaudited pro forma results are not necessarily indicative of results that would have occurred had the acquisition been in effect for the periods presented, nor are they necessarily indicative of future results. The 2010 pro forma results are based on the year ended December 31, 2010 for ANSYS, as reported, combined with the year ended December 31, 2010 results of Apache. The 2011 pro forma results are based on ANSYS s stand-alone results for the year ended December 31, 2011 combined with Apache s results for the year ended December 31, 2011. The unaudited pro forma financial information for all periods presented includes the business combination accounting effects on amortization expense from acquired intangible assets, lost interest income on the cash paid for the acquisition and the related tax effects. The unaudited pro forma financial information excludes contingent payments, transaction costs, IPO-related costs incurred by Apache prior to the acquisition, expenses related to performance awards issued as

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part of the acquisition and the income statement effects of the acquisition accounting adjustment to deferred revenue. No pro forma adjustments were made to stock-based compensation expense previously recorded by Apache.

| *(in thousands, except per share data)* | Year Ended December 31, 2011 (Unaudited) | 2010 (Unaudited) |
|---|---|---|
| Total revenue | **$ 730,632** | $ 624,283 |
| Net income | **$ 181,718** | $ 144,605 |
| Earnings per share: | | |
| Basic | **$ 1.97** | $ 1.59 |
| Diluted | **$ 1.93** | $ 1.55 |

**4. Other Current Assets**

The Company reports accounts receivable, related to the portion of annual lease licenses and software maintenance that has not yet been recognized as revenue, as a component of other receivables and current assets. These amounts totaled $112.8 million and $89.9 million as of December 31, 2011 and 2010, respectively.

The Company reports income taxes receivable, including amounts related to overpayments and refunds, as a component of other receivables and current assets. These amounts totaled $36.0 million and $32.9 million as of December 31, 2011 and 2010, respectively.

**5. Property and Equipment**

Property and equipment consists of the following:

| *(dollars in thousands)* | Estimated Useful Lives | December 31, 2011 | 2010 |
|---|---|---|---|
| Equipment | 1-10 years | **$ 55,221** | $ 41,998 |
| Computer software | 1-5 years | **26,709** | 25,896 |
| Buildings | 10-40 years | **10,469** | 9,921 |
| Leasehold improvements | 1-10 years | **7,394** | 6,566 |
| Furniture | 1-13 years | **5,007** | 4,577 |
| Land | | **1,749** | 1,368 |
| | | **106,549** | 90,326 |
| Less: Accumulated depreciation and amortization | | **(60,911)** | (53,405) |
| | | **$ 45,638** | $ 36,921 |

Depreciation and amortization expense related to property and equipment, including the amounts acquired through capital lease commitments, was $13.3 million, $10.9 million and $10.6 million for the years ended December 31, 2011, 2010 and 2009, respectively.

**6. Goodwill and Other Intangible Assets**

Goodwill represents the excess of the fair value of the consideration transferred over the value of net tangible and identifiable intangible assets of acquired businesses. Identifiable intangible assets acquired in business combinations are recorded based upon their fair values on the date of acquisition.

During the first quarter of 2011, the Company completed the annual impairment test for goodwill and intangible assets with indefinite lives and determined that these assets had not been impaired as of the test date, January 1, 2011. The Company tested the goodwill and identifiable

intangible assets utilizing estimated cash

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flow methodologies and market-based information. No events occurred or circumstances changed during the year ended December 31, 2011 that would indicate that the fair values of the Company s reporting units are below their carrying amounts.

Identifiable intangible assets with finite lives are amortized on either a straight-line basis over their estimated useful lives or under the proportional cash flow method and are reviewed for impairment whenever events or circumstances indicate that the carrying amounts may not be recoverable.

As of December 31, 2011 and 2010, the Company s intangible assets have estimated useful lives and are classified as follows:

| | December 31, 2011 | | December 31, 2010 | |
|---|---|---|---|---|
| *(in thousands)* | **Gross Carrying Amount** | **Accumulated Amortization** | **Gross Carrying Amount** | **Accumulated Amortization** |
| Amortized intangible assets: | | | | |
| Developed software and core technologies (7 10 years) | **$ 287,392** | **$ (144,836)** | $ 205,137 | $ (120,633) |
| Customer lists and contract backlog (3 15 years) | **223,037** | **(76,630)** | 172,845 | (58,967) |
| Trademarks (6 10 years) | **102,580** | **(30,380)** | 100,994 | (21,499) |
| Non-compete agreements | **0** | **0** | 575 | (489) |
| Total | **$ 613,009** | **$ (251,846)** | $ 479,551 | $ (201,588) |
| Unamortized intangible assets: | | | | |
| Trademarks | **$ 22,257** | | $ 357 | |

The significant increase in the intangible assets reflected above was due to the August 1, 2011 acquisition of Apache. Amortization expense for intangible assets reflected above was $51.7 million, $48.7 million and $52.0 million for the years ended December 31, 2011, 2010 and 2009, respectively.

As of December 31, 2011, estimated future amortization expense for the intangible assets reflected above is as follows:

| *(in thousands)* | |
|---|---|
| Fiscal 2012 | $ 66,884 |
| Fiscal 2013 | 58,481 |
| Fiscal 2014 | 51,889 |
| Fiscal 2015 | 47,866 |
| Fiscal 2016 | 40,280 |
| Thereafter | 95,763 |
| Total intangible assets subject to amortization | 361,163 |
| Indefinite-lived trademarks | 22,257 |
| **Other intangible assets, net** | **$ 383,420** |

The changes in goodwill during the years ended December 31, 2011 and 2010 are as follows:

| | Year Ended December 31, | |
|---|---|---|
| *(in thousands)* | **2011** | **2010** |
| Beginning balance | **$ 1,035,083** | $ 1,038,824 |
| Acquisition of Apache | **190,947** | 0 |
| Currency translation and other | **(655)** | (3,741) |

| | | |
|---|---|---|
| Ending balance | **$ 1,225,375** | $ 1,035,083 |

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**7. Long-Term Debt**

Borrowings consist of the following:

| *(in thousands)* | December 31, 2011 | 2010 |
|---|---|---|
| Term loan payable in quarterly installments with a final maturity of July 31, 2013 | **$ 127,557** | $ 159,446 |
| Capitalized lease obligations | **15** | 79 |
| Total | **127,572** | 159,525 |
| Less current portion | **(74,423)** | (31,962) |
| Long-term debt and capital lease obligations, net of current portion | **$ 53,149** | $ 127,563 |

On July 31, 2008, ANSYS borrowed $355.0 million from a syndicate of banks. The interest rate on the indebtedness provides for tiered pricing with the initial rate at the prime rate + 0.50%, or the LIBOR rate + 1.50%, with step downs permitted after the initial six months under the credit agreement down to a flat prime rate or the LIBOR rate + 0.75%. Such tiered pricing is determined by the Company s consolidated leverage ratio. The Company s consolidated leverage ratio has been reduced to the lowest pricing tier in the debt agreement. During the year ended December 31, 2011, the Company made the required quarterly principal payments of $31.9 million in the aggregate.

The Company entered into an interest rate swap agreement in order to hedge a portion of each of the first eight forecasted quarterly variable rate interest payments on the Company s term loan. The interest rate swap agreement terminated on June 30, 2010.

For the year ended December 31, 2011, the Company recorded interest expense related to the term loan at a weighted average interest rate of 1.05%. For the year ended December 31, 2010, the Company recorded interest expense related to the term loan at a weighted average interest rate of 1.53%. If the Company did not enter into the interest rate swap agreement, the weighted average interest rate would have been 1.08%. For the year ended December 31, 2009, the Company recorded interest expense related to the term loan at a weighted average interest rate of 3.41%. If the Company did not enter into the interest rate swap agreement, the weighted average interest rate would have been 1.88%. The interest expense on the term loan and amortization related to debt financing costs were as follows:

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | | 2010 | | 2009 | |
| *(in thousands)* | Interest Expense | Amortization | Interest Expense | Amortization | Interest Expense | Amortization |
| July 31, 2008 term loan (interest expense includes $0 loss, $864 loss and $3,959 loss, respectively, on interest rate swap) | **$ 1,605** | **$ 953** | $ 2,960 | $ 1,107 | $ 8,824 | $ 1,229 |

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The interest rate on the outstanding term loan balance of $127.6 million is set for the quarter ending March 31, 2012 at 1.33%, which is based on LIBOR + 0.75%. The required future principal payments on the Company s term loan as of December 31, 2011 are scheduled as follows:

| *(in thousands)* | |
|---|---|
| March 31, 2012 | $ 10,630 |
| June 30, 2012 | 10,630 |
| September 30, 2012 | 26,574 |
| December 31, 2012 | 26,574 |
| March 31, 2013 | 26,574 |
| July 31, 2013 (maturity) | 26,575 |
| Term loan balance payable as of December 31, 2011 | **$ 127,557** |

The credit agreement includes covenants related to the consolidated leverage ratio and the consolidated fixed charge coverage ratio, as well as certain restrictions on additional investments and indebtedness. As of December 31, 2011, the Company is in compliance with all financial covenants as stated in the credit agreement.

**8. Fair Value Measurement**

The valuation hierarchy for disclosure of assets and liabilities reported at fair value prioritizes the inputs for such valuations into three broad levels:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument; or

Level 3: unobservable inputs based on the Company s own assumptions used to measure assets and liabilities at fair value.

A financial asset s or liability s classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

The following tables provide the assets and liabilities carried at fair value and measured on a recurring basis:

| | | **Fair Value Measurements at Reporting Date Using:** | | |
|---|---|---|---|---|
| *(in thousands)* | **December 31, 2011** | **Quoted Prices in Active Markets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** |
| **Assets** | | | | |
| Cash equivalents | **$ 182,530** | **$ 181,198** | **$ 1,332** | **$ 0** |
| Short-term investments | **$ 576** | **$ 0** | **$ 576** | **$ 0** |
| **Liabilities** | | | | |
| Deferred compensation | **$ (2,073)** | **$ 0** | **$ 0** | **$ (2,073)** |

| | | | | |
|---|---|---|---|---|
| Contingent consideration | **$ (9,571)** | **$ 0** | **$ 0** | **$ (9,571)** |

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| *(in thousands)* | December 31, 2010 | Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash equivalents | $ 301,714 | $ 273,926 | $ 27,788 | $ 0 |
| Short-term investments | $ 455 | $ 0 | $ 455 | $ 0 |

The cash equivalents in the preceding tables represent money market mutual funds and time deposits.

The short-term investments in the preceding tables represent deposits held by certain foreign subsidiaries of the Company. The deposits have fixed interest rates with maturity dates ranging from three months to one year. There were no unrealized gains or losses associated with these deposits for the years ended December 31, 2011 and 2010.

During 2011, the Company entered into three foreign currency futures contracts with a third-party U.S. financial institution, all of which were settled as of December 31, 2011. The purpose of these contracts was to mitigate the Company s exposure to foreign exchange risk arising from intercompany receivables from a Japanese subsidiary. The foreign exchange futures were measured at fair value each reporting period, with gains or losses recognized in earnings.

On August 1, 2011, the Company completed its acquisition of Apache, a leading simulation software provider for advanced, low-power solutions in the electronics industry. The merger agreement includes a contingent consideration arrangement that requires additional payments totaling $12.0 million to be paid by the Company in equal installments to the Apache stockholders and holders of vested Apache options on each of the first three anniversaries of the closing of the acquisition. To receive these payments, a key member of Apache s management must remain an employee of ANSYS on each of the first three anniversaries of the acquisition closing date. Management estimated that it was probable that all three payments would be made, and recorded the fair value of the contingent payments as a liability on the date of acquisition. The portion of contingent payments attributable to the key member of Apache management was determined to be deferred compensation, and is accounted for outside of the business combination. A liability of $2.1 million for deferred compensation was recorded as of December 31, 2011 based on the net present value of the expected payments. The portion of the contingent payments attributable to other shareholders was determined to be contingent purchase price consideration and was estimated to be $9.6 million based on the net present value of the expected payments as of December 31, 2011. The net present value calculations for the deferred compensation and contingent consideration included a significant unobservable input in the assumption that all three payments will be made, and therefore the liabilities were classified as Level 3 in the fair value hierarchy.

The following table presents the changes during the year ended December 31, 2011 in the Company s Level 3 liabilities for contingent consideration and deferred compensation that are measured at fair value on a recurring basis:

| *(in thousands)* | Fair Value Measurement Using Significant Unobservable Inputs: Contingent Consideration | Deferred Compensation |
|---|---|---|
| Beginning balance January 1, 2011 | $ 0 | $ 0 |
| Issuances | 9,501 | 2,057 |
| Interest expense included in earnings | 70 | 16 |
| Ending balance December 31, 2011 | **$ 9,571** | **$ 2,073** |

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The Company had no transfers of amounts in or out of Level 1 or Level 2 fair value measurements during the year ended December 31, 2011.

The pre-tax (loss) gain on the Company s interest rate swap agreement is categorized in the table below:

| *(in thousands)* | Loss Recognized in Accumulated Other Comprehensive Income (Effective Portion) | Year Ended Loss Reclassified from Accumulated Other Comprehensive Income into Income Statement (Effective Portion) | Gain /(Loss) Recognized in Income Statement (Ineffective Portion) |
|---|---|---|---|
| **Cash Flow Hedge** | | | |
| Interest rate swap agreement | | | |
| December 31, 2011 | **$ 0** | **$ 0** | **$ 0** |
| December 31, 2010 | $ (11) | $ (864) | $ 0 |
| December 31, 2009 | $ (783) | $ (3,959) | $ 0 |

The carrying values of cash, accounts receivable, accounts payable, accrued expenses, other accrued liabilities and short-term obligations approximate their fair values because of their short-term nature. The carrying value of long-term debt approximates its fair value due to the variable interest rate underlying the Company s credit facility.

**9. Income Taxes**

Income before income taxes includes the following components:

| | Year Ended December 31, | | |
|---|---|---|---|
| *(in thousands)* | **2011** | **2010** | **2009** |
| Domestic | **$ 205,966** | $ 162,921 | $ 128,173 |
| Foreign | **58,892** | 53,473 | 45,356 |
| Total | **$ 264,858** | $ 216,394 | $ 173,529 |

The provision for income taxes is composed of the following:

| | Year Ended December 31, | | |
|---|---|---|---|
| *(in thousands)* | **2011** | **2010** | **2009** |
| Current: | | | |
| Federal | **$ 57,423** | $ 62,350 | $ 57,077 |
| State | **5,770** | 5,589 | 6,379 |
| Foreign | **24,011** | 21,964 | 21,720 |
| Deferred: | | | |
| Federal | **(11,768)** | (15,173) | (18,287) |
| State | **(1,314)** | (2,102) | (2,277) |
| Foreign | **10,061** | (9,366) | (7,474) |

| | | | |
|---|---|---|---|
| Total | **$ 84,183** | $ 63,262 | $ 57,138 |

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2011** | **2010** | **2009** |
| Federal statutory tax rate | **35.0%** | 35.0% | 35.0% |
| Changes in tax rates | **2.2** | 0 | 0 |
| State income taxes, net of federal benefit | **1.1** | 0.7 | 1.3 |
| Stock-based compensation | **1.0** | 1.4 | 1.3 |
| Uncertain tax positions | **0.2** | (0.8) | (1.0) |
| Benefit from restructuring activities | **(3.5)** | (1.3) | 0 |
| Domestic production activity benefit | **(2.9)** | (2.8) | (2.4) |
| Foreign rate differential | **(1.1)** | (0.7) | (0.9) |
| Research and experimentation credits | **(0.9)** | (0.7) | (1.2) |
| Adjustments of prior year taxes | **(0.3)** | (1.1) | 0 |
| Other | **1.0** | (0.5) | 0.8 |
| | **31.8%** | 29.2% | 32.9% |

In general, it is the practice and intention of the Company to repatriate previously taxed earnings and to reinvest all other earnings of its non-U.S. subsidiaries. The Company has not made a provision for U.S. taxes on approximately $137.7 million, representing the excess of the amount for financial reporting over the tax bases of investments in foreign subsidiaries that are essentially permanent in duration. Generally, such amounts become subject to U.S. taxation upon the remittance of dividends and under certain other circumstances. It is not practicable to estimate the amount of deferred tax liability related to investments in these subsidiaries.

The Company s tax expense in the year ended December 31, 2011 was unfavorably impacted by reductions to the Japanese corporate tax rate, beginning with the 2013 tax year. This legislation, enacted on November 30, 2011, resulted in an additional $4.8 million in deferred tax expense due to the reduction in the value of certain net deferred tax assets of the Company s Japanese subsidiaries. The effect of this adjustment increased the 2011 effective tax rate from 30.0% to 31.8%.

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

| | December 31, | |
|---|---|---|
| ***(in thousands)*** | **2011** | **2010** |
| Deferred tax assets: | | |
| Net operating loss carryforwards | **$ 18,624** | $ 12,402 |
| Employee benefits | **16,697** | 14,788 |
| Stock-based compensation | **11,888** | 8,916 |
| Foreign tax credits | **7,219** | 4,398 |
| Other accruals not currently deductible | **6,090** | 8,386 |
| Research and development credits | **4,542** | 1,429 |
| Uncertain tax positions | **3,145** | 3,084 |
| Deferred revenue | **3,096** | 5,089 |
| Allowance for doubtful accounts | **1,259** | 1,587 |
| Investments | **0** | 229 |
| Other | **1,241** | 588 |
| Valuation allowance | **(8)** | (977) |
| | **73,793** | 59,919 |
| Deferred tax liabilities: | | |
| Other intangible assets | **(141,949)** | (108,071) |
| Property and equipment | **(6,529)** | (3,430) |
| Unremitted foreign earnings | **(140)** | (171) |

| | | |
|---|---|---|
| | **(148,618)** | (111,672) |
| Net deferred tax liabilities | **$ (74,825)** | $ (51,753) |

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As of December 31, 2011, the Company had federal net operating loss carryforwards of $3.2 million. These losses expire in 2028, and are subject to limitations on their utilization. The Company had state net operating loss carryforwards of $9.5 million, which expire between 2016 and 2030, of which $7.4 million are subject to limitations on their utilization. The Company had total foreign net operating loss carryforwards of $48.3 million, which are subject to limitations on their utilization. Approximately $6.6 million of these foreign net operating losses are not currently subject to expiration dates. The remainder, approximately $41.7 million, expires between 2019 and 2026. The Company had tax credit carryforwards of $12.8 million, of which $8.0 million are subject to limitations on their utilization. Approximately $1.3 million of these tax credit carryforwards are not currently subject to expiration dates. The remainder, approximately $11.5 million, expires in various years between 2012 and 2031.

The following is a reconciliation of the total amounts of unrecognized tax benefits:

| | Year Ended December 31, | | |
|---|---|---|---|
| *(in thousands)* | **2011** | **2010** | **2009** |
| Unrecognized tax benefit as of January 1 | **$ 19,993** | $ 10,041 | $ 12,416 |
| Apache unrecognized tax benefit acquired August 1, 2011 | **5,813** | 0 | 0 |
| Gross increases tax positions in prior period | **6,814** | 177 | 427 |
| Gross decreases tax positions in prior period | **(2,697)** | (2,415) | (3,259) |
| Gross increases tax positions in current period | **2,297** | 13,001 | 1,562 |
| Reductions due to a lapse of the applicable statute of limitations | **(190)** | (674) | (887) |
| Changes due to currency fluctuation | **(448)** | (84) | 65 |
| Settlements | **0** | (53) | (283) |
| Unrecognized tax benefit as of December 31 | **$ 31,582** | $ 19,993 | $ 10,041 |

The Company does not expect any uncertain tax positions to be resolved within the next twelve months. Of the total unrecognized tax benefit as of December 31, 2011, $5.8 million would not affect the effective tax rate, if recognized.

The Company recognizes interest and penalties related to unrecognized tax benefits as income tax expense. As of December 31, 2011, the Company accrued a liability for penalties of $2.2 million and interest of $2.6 million. As of December 31, 2010, the Company accrued a liability for penalties of $455,000 and interest of $2.0 million. The increase was primarily the result of accrued penalties and interest on the Apache opening balance sheet of $2.1 million and $546,000, respectively.

The Company is subject to taxation in the U.S. and various states and foreign jurisdictions. The Company s 2007 through 2010 tax years are open to examination by the Internal Revenue Service. The 2007 federal return of a former U.S. subsidiary is currently under examination. The Company also has various foreign and state tax filings subject to examination for various years.

**10. Pension and Profit-Sharing Plans**

The Company has a 401(k)/profit-sharing plan for all qualifying full-time domestic employees that permit participants to make contributions by salary reduction pursuant to Section 401(k) of the Internal Revenue Code. The Company makes matching contributions on behalf of each eligible participant in an amount equal to 100% of the first 3% and an additional 25% of the next 5%, for a maximum total of 4.25% of the employee s compensation. The Company may make a discretionary contribution based on the participant s eligible compensation, provided the employee is employed at the end of the year and has worked at least 1,000 hours. The qualifying domestic employees of the Company s Apache subsidiary, which was acquired on August 1, 2011, also participate in a 401(k) plan. There is no matching employer contribution associated with this plan. The Company also maintains various defined contribution pension arrangements for its international employees.

Expenses related to the Company s retirement programs were $5.3 million in 2011, $3.9 million in 2010 and $3.4 million in 2009.

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**11. Non-Compete and Employment Agreements**

Employees of the Company have signed agreements under which they have agreed not to disclose trade secrets or confidential information and, where legally permitted, that restrict engagement in or connection with any business that is competitive with the Company anywhere in the world while employed by the Company (and, in some cases, for specified periods thereafter), and that any products or technology created by them during their term of employment are the property of the Company. In addition, the Company requires all channel partners to enter into agreements not to disclose the Company s trade secrets and other proprietary information.

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

The Company has an employment agreement with the Chief Executive Officer. This agreement provides for, among other things, minimum severance payments equal to his base salary, target bonus and then-existing benefits through the earlier of the second anniversary of the termination date if the Chief Executive Officer is terminated without cause or when he accepts other employment. The Chief Executive Officer is subject to a two-year restriction on competition following termination of employment under the circumstances described in the contract.

The Company also has employment agreements with several other employees, primarily in foreign jurisdictions. The terms of these employment agreements generally include annual compensation, severance payment provisions and non-compete clauses.

**12. Stock Option and Grant Plan**

The Company has one stock option and grant plan the Fourth Amended and Restated 1996 Stock Option and Grant Plan ( Stock Plan ). The Stock Plan, as amended, authorizes the grant of up to 30,400,000 shares 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 Stock Plan permits (a) the grant of common stock upon the attainment of specified performance goals, (b) 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, (c) the grant of deferred stock awards, (d) the grant of stock appreciation rights and (e) the grant of cash-based awards.

The Stock Plan provides 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 Compensation Committee of 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. The majority of options granted have a four year vesting period. Shares associated with unexercised options or reacquired shares of common stock become available for options or issuances under the 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 Stock Plan may vest or be exercised.

In the event of a sale event as defined in the Stock Plan, all outstanding awards will be assumed or continued by the successor entity, with appropriate adjustment in the awards to reflect the transaction. In such event, except as the Compensation Committee may otherwise specify with respect to particular awards in the award agreements, if the service relationship of the holder of an award is terminated without cause within 18

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months after the sale event, then all awards held by such holder will become fully vested and exercisable at that time. If there is a sale event in which the successor entity refuses to assume or continue outstanding awards, then subject to the consummation of the sale event, all awards with time-based vesting conditions will become fully vested and exercisable at the effective time of the sale event and all awards with performance-based vesting conditions may become vested and exercisable in accordance with the award agreements at the discretion of the Compensation Committee. If awards are not assumed or continued after a sale event, then all such awards will terminate at the time of the sale event. In the event of the termination of stock options or stock appreciation rights in connection with a sale event, the Compensation Committee may either make or provide for a cash payment to the holders of such awards equal to the difference between the per share transaction consideration and the exercise price of such awards or permit each holder to have at least a 15 day period to exercise such awards prior to their termination. In addition, options granted to Independent Directors and certain key executives prior to February 17, 2011 vest automatically upon a sale event.

The Company grants deferred stock units to non-affiliate Independent Directors, which are rights to receive shares of common stock upon termination of service as a Director. The deferred stock units are issued in arrears and vest immediately, with the exception of the Chairman s units which are issued in the period earned. As of December 31, 2011, 66,704 deferred stock units have been earned with the underlying shares remaining unissued until the service termination of the respective Director owners. Of this amount, 21,684 units were earned during the year ended December 31, 2011. In addition, in the second quarter of 2011, 13,631 deferred stock units were issued as a result of the termination of service of a Director, for which 2,031 units were earned during the 2011 calendar year.

The Company currently issues shares related to exercised stock options from its existing pool of treasury shares and has no specific policy to repurchase treasury shares as stock options are exercised. If the treasury pool is depleted, as it was at December 31, 2011, the Company will issue new shares.

Information regarding stock option transactions is summarized below:

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | | 2010 | | 2009 | |
| *(options in thousands)* | Options | Weighted Average Exercise Price | Options | Weighted Average Exercise Price | Options | Weighted Average Exercise Price |
| Outstanding, beginning of year | **7,319** | **$ 29.92** | 8,110 | $ 22.94 | 9,216 | $ 16.91 |
| Granted | **1,104** | **$ 58.50** | 1,204 | $ 48.35 | 1,317 | $ 37.13 |
| Issued pursuant to Apache acquisition | **418** | **$ 18.66** | 0 | $ 0.00 | 0 | $ 0.00 |
| Exercised | **(1,179)** | **$ 19.33** | (1,924) | $ 11.92 | (2,299) | $ 6.68 |
| Forfeited | **(117)** | **$ 33.27** | (71) | $ 32.40 | (124) | $ 27.08 |
| Outstanding, end of year | **7,545** | **$ 35.10** | 7,319 | $ 29.92 | 8,110 | $ 22.94 |
| Vested and Exercisable, end of year | **4,251** | **$ 27.98** | 4,214 | $ 23.11 | 4,914 | $ 16.74 |

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Weighted Average Remaining Contractual Term *(in years)* | | | |
| Outstanding | **6.66** | 6.54 | 6.16 |
| Vested and Exercisable | **5.20** | 5.16 | 4.72 |
| Aggregate Intrinsic Value *(in thousands)* | | | |
| Outstanding | **$ 168,837** | $ 162,099 | $ 166,531 |
| Vested and Exercisable | **$ 124,550** | $ 122,022 | $ 131,334 |

Historical and future expected forfeitures have not been significant and, as a result, the outstanding option amounts reflected in the tables above approximate the options expected to vest.

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Total stock-based compensation expense recognized for the years ended December 31, 2011, 2010 and 2009 is as follows:

| *(in thousands, except per share amounts)* | Year Ended December 31, 2011 | 2010 | 2009 |
|---|---|---|---|
| Cost of sales: | | | |
| Software licenses | **$ 556** | $ 135 | $ 83 |
| Maintenance and service | **1,897** | 1,541 | 1,069 |
| Operating expenses: | | | |
| Selling, general and administrative | **12,501** | 11,755 | 8,296 |
| Research and development | **8,134** | 5,588 | 3,764 |
| Stock-based compensation expense before taxes | **23,088** | 19,019 | 13,212 |
| Related income tax benefits | **(5,552)** | (4,254) | (2,687) |
| Stock-based compensation expense, net of taxes | **$ 17,536** | $ 14,765 | $ 10,525 |
| Net impact on earnings per share: | | | |
| Basic earnings per share | **$ (0.19)** | $ (0.16) | $ (0.12) |
| Diluted earnings per share | **$ (0.19)** | $ (0.16) | $ (0.11) |

The fair value of each option grant is estimated on the date of grant or date of acquisition for options issued in a business combination using the Black-Scholes option pricing model, which was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. The Company s options have characteristics significantly different from those of traded options, and changes in input assumptions can materially affect the fair value estimates. The interest rates used were determined by using the five-year Treasury Note yield at the date of grant or date of acquisition for options issued in a business combination. The volatility was determined based on the historic volatility of the Company s stock during the preceding six years for 2011, 2010 and 2009.

The table below presents the weighted average input assumptions used and resulting fair values for options granted or issued in business combinations during each respective year:

| | Year Ended December 31, 2011 | 2010 | 2009 |
|---|---|---|---|
| Risk-free interest rate | **0.91% to 2.11%** | 1.27% to 2.34% | 1.86% to 2.69% |
| Expected dividend yield | **0%** | 0% | 0% |
| Expected volatility | **39%** | 39% | 41% |
| Expected term | **5.8 years** | 6.1 years | 6.1 years |
| Weighted average fair value per share | **$25.84** | $19.41 | $15.81 |

As stock-based compensation expense recognized in the consolidated statements of income is based on awards ultimately expected to vest, it must be reduced for estimated forfeitures. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The effect of pre-vesting forfeitures on the Company s recorded expense has historically been negligible due to the relatively low turnover of stock option holders.

The Company s determination of fair value of share-based payment awards on the date of grant using an option pricing model is affected by the Company s stock price as well as assumptions regarding a number of variables. The total estimated grant date fair values of stock options that vested during the years ended December 31, 2011, 2010 and 2009 were $20.2 million, $16.7 million and $12.4 million, respectively. At December 31, 2011, total unrecognized estimated compensation cost related to unvested stock options granted prior to that date was $58.8 million, which is expected to be recognized over a weighted average period of 2.0 years. The total intrinsic values of stock options exercised during the years ended December 31, 2011, 2010 and

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2009 were $42.6 million, $88.0 million and $82.9 million, respectively. At December 31, 2011, 3.3 million unvested options with an aggregate intrinsic value of $44.3 million are expected to vest and have a weighted average exercise price of $44.28 and a weighted average remaining contractual term of 8.5 years. The Company recorded cash received from the exercise of stock options of $22.8 million and related tax benefits of $12.4 million (including an excess tax benefit of $10.0 million) for the year ended December 31, 2011.

Information regarding stock options outstanding as of December 31, 2011 is summarized below:

| *(options in thousands)* | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| **Range of Exercise Prices** | **Options** | **Weighted Average Remaining Contractual Life (years)** | **Weighted Average Exercise Price** | **Options** | **Weighted Average Exercise Price** |
| $ 2.98 - $20.09 | 1,521 | 3.47 | $ 13.18 | 1,230 | $ 12.64 |
| $ 22.95 - $28.40 | 1,810 | 6.23 | $ 25.93 | 1,321 | $ 26.07 |
| $ 20.97 - $40.89 | 1,896 | 6.64 | $ 39.38 | 1,377 | $ 38.86 |
| $ 41.33 - $48.97 | 1,208 | 8.52 | $ 48.22 | 321 | $ 47.84 |
| $ 51.52 - $61.97 | 1,110 | 9.73 | $ 58.46 | 2 | $ 52.07 |

Under the terms of the ANSYS, Inc. Long-Term Incentive Plan, in the first quarter of 2011 and 2010, the Company granted 92,500 and 80,500 performance-based restricted stock units, respectively. Vesting of the full award or a portion thereof is based on the Company s performance as measured by total shareholder return relative to the median percentage appreciation of the NASDAQ Composite Index over a specified measurement period, subject to each participant s continued employment with the Company through the conclusion of the measurement period. The measurement period for the restricted stock units granted pursuant to the Long-Term Incentive Plan is a three-year period beginning January 1 of the year of the grant. Each restricted stock unit relates to one share of the Company s common stock. The value of each restricted stock unit granted in 2011 was estimated on the grant date to be $32.05 and the value of each restricted stock unit granted in 2010 was estimated on the grant date to be $25.00. The estimate of the grant date value of the restricted stock units was made using a Monte Carlo lattice pricing model. Share-based compensation expense based on the fair value of the award will be recorded from the grant date through the conclusion of the three-year measurement period. Total compensation expense associated with the awards is $5.0 million, of which $1.6 million and $590,000 was recorded in the years ended December 31, 2011 and 2010, respectively, and $1.8 million and $1.0 million will be recorded in the years ending December 31, 2012 and 2013, respectively.

| **Assumption used in Monte Carlo lattice pricing model** | **Restricted Stock Unit Valuation Assumptions December 31, 2011 and 2010** |
|---|---|
| Risk-free interest rate | **1.35%** |
| Expected dividend yield | **0%** |
| Expected volatility ANSYS Stock Price | **40%** |
| Expected volatility NASDAQ Composite Index | **25%** |
| Expected term | **2.9 years** |
| Correlation factor | **0.7** |

**13. Stock Repurchase Program**

In October 2001, the Company announced that its Board of Directors had amended its common stock repurchase program to acquire up to an additional four million shares, or 16 million shares in total, under a program that was initially announced in February 2000. Under this program, the Company repurchased 247,443 shares at an average price per share of $51.34 during the year ended December 31, 2011. The Company repurchased 0 and 2,069,763 shares under this program during 2010 and 2009, respectively. As of December 31, 2011, 1.1 million shares remained authorized for repurchase under the program.

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**14. 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. The stockholders approved an amendment to the Purchase Plan on May 6, 2004 to increase the number of shares available for offerings to 1.6 million shares. The Purchase Plan was amended and restated in 2007. The Purchase Plan is administered by the Compensation Committee. Offerings under the Purchase Plan commence on each February 1 and August 1, and have a duration of six months. An employee who owns or is deemed to own shares of stock representing in excess of 5% of the combined voting power of all classes of stock of the Company may not participate in the Purchase Plan.

During each offering, an eligible employee may purchase shares under the Purchase Plan by authorizing payroll deductions of up to 10% of his or her cash compensation during the offering period. The maximum number of shares that may be purchased by any participating employee during any offering period is limited to 3,840 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 90% 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, 2011, 1,184,082 shares of common stock had been issued under the Purchase Plan, of which 1,134,377 were issued as of December 31, 2010. The total compensation expense recorded under the Purchase Plan during the years ended December 31, 2011, 2010 and 2009 was $650,000, $500,000 and $410,000, respectively.

**15. Leases**

In January 1996, the Company entered into a lease agreement with an unrelated third party for a new corporate office facility, in Canonsburg, Pennsylvania, which the Company occupied in February 1997. In May 2004, the Company entered into the first amendment to this lease agreement, effective January 1, 2004. The lease was extended from an original period of ten years, with an option for five additional years, to a period of 18 years from the inception date, with an option for five additional years. The Company incurred lease rental expense related to this facility of $1.3 million in each of the years ended December 31, 2011, 2010 and 2009. The future minimum lease payments are $1.4 million per annum from January 1, 2012 through December 31, 2014. The future minimum lease payments from January 1, 2015 through December 31, 2019 will be determined based on prevailing market rental rates at the time of the extension, if elected. The amended lease also provided for the lessor to reimburse the Company for up to $550,000 in building refurbishments completed through March 31, 2006. These amounts have been recorded as a reduction of lease expense over the remaining term of the lease.

As part of the acquisition of Apache on August 1, 2011, the Company acquired certain leased office property, including executive offices, which comprise a 52,000 square foot office facility in San Jose, California. In March 2011, Apache entered into the second amendment to its existing lease agreement, effective March 14, 2011. The lease term was extended to October 31, 2015. Total required minimum payments under the operating lease will be $910,000 in 2012, $980,000 in 2013, $1.3 million in 2014 and $1.1 million in 2015.

In August 2009, the Company extended the executive office space lease agreement in Pittsburgh, Pennsylvania for a period of approximately three years and ten months, commencing February 15, 2011 and expiring December 31, 2014. Total required minimum payments under the operating lease will be $570,000 per annum from January 1, 2012 through December 31, 2014.

The Company has also entered into various noncancellable operating leases for equipment and office space, including the locations referenced above. Office space lease expense totaled $12.8 million, $11.5 million and $12.4 million for the years ended December 31, 2011, 2010 and 2009, respectively. Future minimum lease payments under noncancellable operating leases for office space in effect at December 31, 2011 are $12.0 million in 2012, $8.4 million in 2013, $7.5 million in 2014, $4.2 million in 2015 and $1.6 million in 2016.

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**16. Royalty Agreements**

The Company has entered into various renewable, nonexclusive license agreements under which the Company has been granted access to the licensor s technology and the right to sell the technology in the Company s product line. Royalties are payable to developers of the software at various rates and amounts, which generally are based upon unit sales or revenue. Royalty fees are reported in cost of goods sold and were $8.4 million, $6.8 million and $6.9 million for the years ended December 31, 2011, 2010 and 2009, respectively.

**17. Geographic Information**

Revenue to external customers is attributed to individual countries based upon the location of the customer. Revenue by geographic area is as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| *(in thousands)* | **2011** | **2010** | **2009** |
| United States | **$ 215,924** | $ 188,649 | $ 172,275 |
| Japan | **112,171** | 95,498 | 75,207 |
| Germany | **72,301** | 60,399 | 55,652 |
| Canada | **12,069** | 9,875 | 8,068 |
| Other European | **166,551** | 138,157 | 134,869 |
| Other international | **112,433** | 87,658 | 70,814 |
| Total revenue | **$ 691,449** | $ 580,236 | $ 516,885 |

Property and equipment by geographic area is as follows:

| | December 31, | |
|---|---|---|
| *(in thousands)* | **2011** | **2010** |
| United States | **$ 30,917** | $ 25,156 |
| India | **3,092** | 2,846 |
| United Kingdom | **3,077** | 2,316 |
| France | **2,388** | 1,139 |
| Germany | **1,843** | 1,709 |
| Japan | **1,447** | 1,493 |
| Canada | **938** | 1,014 |
| Other European | **957** | 820 |
| Other international | **979** | 428 |
| Total property and equipment | **$ 45,638** | $ 36,921 |

**18. Unconditional Purchase Obligations**

The Company has entered into various unconditional purchase obligations which primarily include software licenses and long term purchase contracts for network, communication and office maintenance services. The Company expended $5.0 million, $2.9 million, and $3.4 million related to unconditional purchase obligations that existed as of the beginning of each year for the years ended December 31, 2011, 2010 and 2009, respectively. Future expenditures under these obligations in effect at December 31, 2011 are $4.0 million in 2012, $1.6 million in 2013 and $176,000 in 2014.

**19. Contingencies and Commitments**

The Company is subject to various investigations, claims and legal proceedings that arise in the ordinary course of business, including alleged infringement of intellectual property rights, commercial disputes, labor and

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employment matters, tax audits and other matters. In the opinion of the Company, the resolution of pending matters is not expected to have a material, adverse effect on the Company s consolidated results of operations, cash flows or financial position. However, each of these matters is subject to various uncertainties and it is possible that an unfavorable resolution of one or more of these proceedings could materially affect the Company s results of operations, cash flows or financial position.

The Company sells software licenses and services to its customers under proprietary software license agreements. Each license agreement contains the relevant terms of the contractual arrangement with the customer, and generally includes certain provisions for indemnifying the customer against losses, expenses and liabilities from damages that are incurred by or awarded against the customer in the event the Company s software or services are found to infringe upon a patent, copyright, or other proprietary right of a third party. To date, the Company has not had to reimburse any of its customers for any losses related to these indemnification provisions and no material claims asserted under these indemnification provisions are outstanding as of December 31, 2011. For several reasons, including the lack of prior material indemnification claims, the Company cannot determine the maximum amount of potential future payments, if any, related to such indemnification provisions.

**20. Restructuring Charges: Workforce Reduction Activities**

On May 7, 2009, the Company announced actions it had taken or would be taking as part of an ongoing effort to manage expenses and cost structure. These actions included a reduction of approximately 6% of the Company s global workforce. During the year ended December 31, 2009, the planned restructuring activities were completed and the Company recorded related restructuring charges of approximately $3.7 million.

**21. Subsidiary Merger Activities**

To improve the effectiveness of the Company s operations in Japan, the Company completed the merger of its Japan subsidiaries during the third quarter of 2010. For tax purposes in Japan, this transaction resulted in a step-up in the tax basis of certain assets and liabilities of the merged subsidiary to fair value as of the date of the merger and gave rise to a taxable gain in Japan, resulting in a liability of approximately $77.3 million which was paid during the fourth quarter of 2010. The unamortized portion of the corresponding prepaid tax, which is deductible over the succeeding five-year period in Japan for the stepped-up tax basis of the assets and liabilities, is included on the consolidated balance sheets as of December 31, 2011 and 2010.

For U.S. tax purposes, this taxable gain in Japan gave rise to a foreign tax credit that reduced the current U.S. tax on foreign income. The Company s U.S. tax payments were reduced by approximately $22.2 million in 2010 as a result of this credit. The Company recently filed an amended tax return in order to request a refund of approximately $26.3 million for a portion of this foreign tax credit which can be carried back to reduce the tax obligation of previous years. The remaining portion of this foreign tax credit (approximately $0.2 million) will be used to reduce the amount of taxes to be paid in future periods. Recognition of this foreign tax credit will be recognized as a reduction to the Company s U.S. taxes over the same five-year period that the prepaid tax in Japan is recognized.

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**SIGNATURES**

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

**ANSYS, Inc.**

Date: February 23, 2012 By: /s/ JAMES E. CASHMAN III

**James E. Cashman III**
**President and Chief Executive Officer**

Date: February 23, 2012 By: /s/ MARIA T. SHIELDS

**Maria T. Shields**
**Chief Financial Officer,**

**Vice President, Finance and Administration**

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**POWER OF ATTORNEY**

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

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

| Signature | Title | Date |
|---|---|---|
| /s/ James E. Cashman III<br>**James E. Cashman III** | President and Chief Executive Officer<br>(Principal Executive Officer) | February 23, 2012 |
| /s/ Maria T. Shields<br>**Maria T. Shields** | Chief Financial Officer, Vice President, Finance and Administration;<br>(Principal Financial Officer and Accounting Officer) | February 23, 2012 |
| /s/ Peter J. Smith<br>**Peter J. Smith** | Chairman of the Board of Directors | February 23, 2012 |
| /s/ Dr. Ajei Gopal<br>**Dr. Ajei Gopal** | Director | February 23, 2012 |
| /s/ William R. McDermott<br>**William R. McDermott** | Director | February 23, 2012 |
| /s/ Jacqueline C. Morby<br>**Jacqueline C. Morby** | Director | February 23, 2012 |
| /s/ Bradford C. Morley<br>**Bradford C. Morley** | Director | February 23, 2012 |
| /s/ Michael C. Thurk<br>**Michael C. Thurk** | Director | February 23, 2012 |
| /s/ Patrick J. Zilvitis<br>**Patrick J. Zilvitis** | Director | February 23, 2012 |

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**SCHEDULE II**

**ANSYS, INC.**

**Valuation and Qualifying Accounts**

| *(in thousands)*<br>**Description** | **Balance at Beginning of Year** | **Additions Charges to Costs and Expenses** | **Deductions Returns and Write-Offs** | **Balance at End of Year** |
|---|---|---|---|---|
| Year ended December 31, 2011 | | | | |
| Allowance for doubtful accounts | $ 4,503 | $ 404 | $ 806 | $ 4,101 |
| Year ended December 31, 2010 | | | | |
| Allowance for doubtful accounts | $ 4,418 | $ 1,757 | $ 1,672 | $ 4,503 |
| Year ended December 31, 2009 | | | | |
| Allowance for doubtful accounts | $ 4,422 | $ 1,610 | $ 1,614 | $ 4,418 |

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## EXHIBIT INDEX

| Exhibit No. | Exhibit |
|---|---|
| 3.1 | Restated Certificate of Incorporation of the Company (filed as Exhibit 3.1 to the Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 1996 and incorporated herein by reference). |
| 3.2 | Certificate of Amendment to the Company s Restated Certificate of Incorporation as filed with the Secretary of State of the State of Delaware (filed as Exhibit 3.1 to the Company s Current Report on Form 8-K, filed June 21, 2006, and incorporated herein by reference). |
| 3.3 | Certificate of Amendment to the Company s Restated Certificate of Incorporation as filed with the Secretary of State of the State of Delaware (filed as Exhibit 3.1 to the Company s Current Report on Form 8-K, filed May 17, 2011, and incorporated herein by reference). |
| 3.4 | Second Amended and Restated By-laws of the Company (filed as Exhibit 3.1 to the Company s Current Report on Form 8-K, filed February 19, 2008 and incorporated herein by reference). |
| 3.5 | Amendment No. 1 to the Second Amended and Restated By-laws of the Company (filed as Exhibit 3.1 to the Company s Current Report on Form 8-K, filed July 23, 2008, and incorporated herein by reference). |
| 3.6 | Amendment No. 2 to the Second Amended and Restated By-laws of the Company (filed as Exhibit 3.1 to the Company s Current Report on Form 8-K, filed December 20, 2011, and incorporated herein by reference). |
| 10.1 | ANSYS, Inc. Second Amended and Restated Employee Stock Purchase Plan (filed as Exhibit 10.1 to the Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2007 and incorporated herein by reference). * |
| 10.2 | Employment Agreement between a subsidiary of the Registrant and Peter J. Smith dated as of March 28, 1994 (filed as Exhibit 10.10 to the Company s Registration Statement on Form S-1 (File No. 333-4278) and incorporated herein by reference). * |
| 10.3 | Lease between National Build to Suit Washington County, L.L.C. and the Registrant for the Southpointe property (filed as Exhibit 10.19 to the Company s Registration Statement on Form S-1 (File No. 333-4278) and incorporated herein by reference). |
| 10.4 | First Amended Lease Agreement between Southpointe Park Corp. and ANSYS, Inc. (filed as Exhibit 10.2 to the Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2004 and incorporated herein by reference). |
| 10.5 | Registrant s Pension Plan and Trust, as amended (filed as Exhibit 10.20 to the Company s Registration Statement on Form S-1 (File No. 333-4278) and incorporated herein by reference). * |
| 10.6 | Form of Director Indemnification Agreement (filed as Exhibit 10.21 to the Company s Registration Statement on Form S-1 (File No. 333-4278) and incorporated herein by reference). |
| 10.7 | Employment Agreement between the Registrant and James E. Cashman III dated as of April 21, 2003 (filed as Exhibit 10.1 to the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2003 and incorporated herein by reference). * |
| 10.8 | Description of Executive Bonus Plan, Director Stock Option Program and Officer Stock Option Program, Including Forms of Option Agreements for Option Grants to Directors and Officers (filed as Exhibits 99.1 99.5 to the Company s Current Report on Form 8-K, filed February 8, 2005, and incorporated herein by reference).* |
| 10.9 | Options Granted to Independent Directors Related to the 2005 Annual Meeting of Stockholders on May 10, 2005 (filed as disclosure in the Company s Current Report on Form 8-K, filed May 13, 2005, and incorporated herein by reference). * |

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| Exhibit No. | Exhibit |
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| 10.10 | Indemnification Agreement, dated February 9, 2006, between ANSYS, Inc. and Sheila S. DiNardo (filed as Exhibit 10.1 to the Company s Current Report on Form 8-K, filed February 15, 2006, and incorporated herein by reference). |
| 10.11 | Amendment to Non-Affiliate Independent Director Compensation on February 9, 2006 (filed as disclosure in the Company s Current Report on Form 8-K, filed February 15, 2006, and incorporated herein by reference). * |
| 10.12 | Amended and Restated ANSYS, Inc. Cash Bonus Plan, adopted on March 2, 2006 (filed as Exhibit 10.1 to the Company s Current Report on Form 8-K, filed March 8, 2006, and incorporated herein by reference). * |
| 10.13 | Form of Deferred Stock Unit Agreement under the Third Amended and Restated ANSYS, Inc. 1996 Stock Option and Grant Plan (filed as Exhibit 10.2 to the Company s Current Report on Form 8-K, filed July 6, 2006, and incorporated herein by reference).* |
| 10.14 | Indemnification Agreement, dated July 12, 2007, between ANSYS, Inc. and William R. McDermott, a director of the Company (filed as Exhibit 10.1 to the Company s Current Report on Form 8-K, filed July 13, 2007, and incorporated herein by reference). |
| 10.15 | Indemnification Agreement, dated May 21, 2007, between ANSYS, Inc. and Michael C. Thurk, a director of the Company (filed as Exhibit 10.1 to the Company s Current Report on Form 8-K, filed May 24, 2007, and incorporated herein by reference). |
| 10.16 | Agreement and Plan of Merger, dated June 29, 2011, by and among ANSYS, Inc., Power Play Merger Sub, Inc., Apache Design Solutions, Inc. and Papachey, Inc. (filed as Exhibit 2.1 to the Company s Current Report on Form 8-K, filed June 30, 2011, and incorporated herein by reference). |
| 10.17 | Voting Agreement, dated as of March 31, 2008, made by and between ANSYS, Inc., and the undersigned holder of shares of common stock, par value $0.01 per share, of Ansoft Corporation (filed as Exhibit 10.1 to the Company s Current Report on Form 8-K, filed March 31, 2008, and incorporated herein by reference). |
| 10.18 | Credit Agreement, dated July 31, 2008, by and among ANSYS, Inc., each lender from time to time party thereto, Bank of America, N.A., as Administrative Agent, Banc of America Securities LLC, as Sole Lead Arranger and Sole Book Manager, National City Bank, as Syndication Agent, and Citizens Bank of Pennsylvania, Sumitomo Mitsui Banking Corporation and TD Bank, N.A., as Co-Documentation Agents (filed as Exhibit 10.1 to the Company s Current Report on Form 8-K, filed July 31, 2008, and incorporated herein by reference). |
| 10.19 | Subsidiary Guarantee Agreement by and among the domestic subsidiaries of ANSYS, Inc., in favor of Bank of America, N.A., as Administrative Agent, and each lender from time to time party to the Credit Agreement (filed as Exhibit 10.1 to the Company s Current Report on Form 8-K, filed July 31, 2008, and incorporated herein by reference). |
| 10.20 | Deferred Stock Unit Agreement under the Third Amended and Restated ANSYS, Inc. 1996 Stock Option and Grant Plan (filed as Exhibit 10.4 to the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2008 and incorporated herein by reference).* |
| 10.21 | Amended and Restated ANSYS, Inc. Cash Bonus Plan (filed as Exhibit 10.5 to the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2008 and incorporated herein by reference).* |
| 10.22 | First Amendment of the Employment Agreement Between the Registrant and James E. Cashman III as of November 6, 2008 (filed as Exhibit 10.6 to the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2008 and incorporated herein by reference).* |

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| Exhibit No. | Exhibit |
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| 10.23 | First Amendment of the Employment Agreement Between the Registrant and Peter J. Smith as of November 6, 2008 (filed as Exhibit 10.7 to the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2008 and incorporated herein by reference).* |
| 10.24 | Amendment to the Compensatory Arrangement for Peter J. Smith (filed as Item 5.02 to the Company s Current Report on Form 8-K, filed May 15, 2009, and incorporated herein by reference).* |
| 10.25 | ANSYS, Inc. Long-Term Incentive Plan, dated February 17, 2010 (filed as Exhibit 10.1 to the Company s Current Report on Form 8-K, filed February 23, 2010, and incorporated herein by reference).* |
| 10.26 | ANSYS, Inc. Executive Severance Plan, dated February 17, 2010 (filed as Exhibit 10.2 to the Company s Current Report on Form 8-K, filed February 23, 2010, and incorporated herein by reference).* |
| 10.27 | Form of Award Notice under the ANSYS, Inc. Long-Term Incentive Plan (filed as Exhibit 10.3 to the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 and incorporated herein by reference).* |
| 10.28 | First amendment to ANSYS, Inc. Long-Term Incentive Plan, dated August 2, 2010 (filed as Exhibit 10.1 to the Company s Current Report on Form 8-K, filed August 6, 2010, and incorporated herein by reference).* |
| 10.29 | Indemnification Agreement, dated February 17, 2011, between ANSYS, Inc. and Ajei S. Gopal, a director of the Company (filed as Exhibit 10.1 to the Company s Current Report on Form 8-K, filed February 23, 2011, and incorporated herein by reference). |
| 10.30 | Second Amendment of the Employment Agreement Between ANSYS, Inc. and James E. Cashman III dated March 14, 2011 (filed as Exhibit 10.1 to the Company s Current Report on Form 8-K, filed March 18, 2011, and incorporated herein by reference).* |
| 10.31 | Form of Non-Employee Director Stock Option Agreement under the Fourth Amended and Restated ANSYS, Inc. 1996 Stock Option and Grant Plan (filed as Exhibit 10.4 to the Company s Current Report on Form 8-K, filed March 18, 2011, and incorporated herein by reference).* |
| 10.32 | Form of Employee Incentive Stock Option Agreement under the Fourth Amended and Restated ANSYS, Inc. Stock Option and Grant Plan (filed as Exhibit 10.5 to the Company s Current Report on Form 8-K, filed March 18, 2011, and incorporated herein by reference).* |
| 10.33 | Form of Employee Non-Qualified Stock Option Agreement under the Fourth Amended and Restated ANSYS, Inc. Stock Option and Grant Plan (filed as Exhibit 10.6 to the Company s Current Report on Form 8-K, filed March 18, 2011, and incorporated herein by reference).* |
| 10.34 | First Amendment to Letter Agreement between ANSYS, Inc. and Maria T. Shields, dated March 14, 2011 (filed as Exhibit 10.2 to the Company s Current Report on Form 8-K, filed March 18, 2011, and incorporated herein by reference).* |
| 10.35 | Consent of the Compensation Committee of the ANSYS, Inc. Board of Directors dated March 14, 2011 (filed as Exhibit 10.3 to the Company s Current Report on Form 8-K, filed March 18, 2011, and incorporated herein by reference).* |
| 10.36 | Fourth Amended and Restated ANSYS, Inc. 1996 Stock Option and Grant Plan (filed as Exhibit 10.1 to the Company s Current Report on Form 8-K, filed May 17, 2011, and incorporated herein by reference).* |
| 14.1 | Code of Business Conduct and Ethics (filed as Exhibit 14.1 to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2003 and incorporated herein by reference). |

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| Exhibit No. | Exhibit |
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| 21.1 | Subsidiaries of the Registrant; filed herewith. |
| 23.1 | Consent of Deloitte & Touche LLP, independent registered public accounting firm. |
| 24.1 | Powers of Attorney. Contained on page 89 of the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2011 and incorporated herein by reference. |
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | XBRL Instance Document** |
| 101.SCH | XBRL Taxonomy Extension Schema** |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase** |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase** |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase** |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase** |

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

** *Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability.*