ANSYS INC
Form 10-Q
November 03, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 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)	**(I.R.S. Employer Identification No.)**
275 Technology Drive, Canonsburg, PA	**15317**
(Address of principal executive offices)	**(Zip Code)**

724-746-3304

(Registrant s telephone number, including area code)

Indicate by 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 Web site, 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 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 check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No x

The number of shares of the Registrant s Common Stock, par value $.01 per share, outstanding as of October 31, 2011 was 92,380,401 shares.

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PART I UNAUDITED FINANCIAL INFORMATION

Item 1. Financial Statements:

ANSYS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)	September 30, 2011 (Unaudited)	December 31, 2010 (Audited)
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 406,298**	$ 472,479
Short-term investments	**582**	455
Accounts receivable, less allowance for doubtful accounts of $4,400 and $4,503, respectively	**65,084**	76,604
Other receivables and current assets	**134,191**	147,402
Deferred income taxes	**20,272**	17,693
Total current assets	**626,427**	714,633
Property and equipment, net	**40,251**	36,921
Goodwill	**1,229,872**	1,035,083
Other intangible assets, net	**396,645**	278,320
Other long-term assets	**48,858**	56,123
Deferred income taxes	**5,852**	5,796
Total assets	**$ 2,347,905**	$ 2,126,876
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt and capital lease obligations	**$ 58,494**	$ 31,962
Accounts payable	**4,423**	2,241
Accrued bonuses and commissions	**30,194**	29,719
Accrued income taxes	**6,575**	6,179
Deferred income taxes	**14**	216
Other accrued expenses and liabilities	**46,050**	41,247
Deferred revenue	**225,729**	199,805
Total current liabilities	**371,479**	311,369
Long-term liabilities:		
Long-term debt and capital lease obligations, less current portion	**79,723**	127,563
Deferred income taxes	**109,691**	75,026
Other long-term liabilities	**93,995**	82,989
Total long-term liabilities	**283,409**	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, $.01 par value; 300,000,000 shares authorized; 92,349,434 and 91,647,012 shares issued and outstanding, respectively	**923**	916
Additional paid-in capital	**888,066**	856,718
Retained earnings	**788,551**	655,333
Accumulated other comprehensive income	**15,477**	16,962
Total stockholders equity	**1,693,017**	1,529,929
Total liabilities and stockholders equity	**$ 2,347,905**	$ 2,126,876

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

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ANSYS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(in thousands, except per share data)	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Revenue:				
Software licenses	**$ 104,477**	$ 82,643	**$ 297,780**	$ 245,973
Maintenance and service	**68,458**	57,200	**195,460**	167,690
Total revenue	**172,935**	139,843	**493,240**	413,663
Cost of sales:				
Software licenses	**4,220**	2,555	**10,144**	7,474
Amortization	**8,993**	8,180	**23,993**	24,572
Maintenance and service	**17,814**	14,544	**51,535**	42,026
Total cost of sales	**31,027**	25,279	**85,672**	74,072
Gross profit	**141,908**	114,564	**407,568**	339,591
Operating expenses:				
Selling, general and administrative	**43,180**	36,954	**123,786**	108,161
Research and development	**28,899**	21,696	**78,779**	65,673
Amortization	**4,500**	4,037	**12,587**	11,874
Total operating expenses	**76,579**	62,687	**215,152**	185,708
Operating income	**65,329**	51,877	**192,416**	153,883
Interest expense	**(753)**	(902)	**(2,330)**	(3,696)
Interest income	**789**	491	**2,196**	1,281
Other income (expense), net	**78**	(574)	**(544)**	(942)
Income before income tax provision	**65,443**	50,892	**191,738**	150,526
Income tax provision	**19,897**	14,762	**58,520**	46,534
Net income	**$ 45,546**	$ 36,130	**$ 133,218**	$ 103,992
Earnings per share basic:				
Basic earnings per share	**$ 0.49**	$ 0.40	**$ 1.45**	$ 1.15
Weighted average shares basic	**92,277**	90,880	**91,995**	90,486
Earnings per share diluted:				
Diluted earnings per share	**$ 0.48**	$ 0.39	**$ 1.41**	$ 1.12
Weighted average shares diluted	**94,445**	93,212	**94,268**	93,044

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

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ANSYS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended	
(in thousands)	**September 30, 2011**	**September 30, 2010**
Cash flows from operating activities:		
Net income	**$ 133,218**	$ 103,992
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**46,916**	45,417
Deferred income tax benefit	**(3,035)**	(20,651)
Provision for bad debts	**278**	927
Stock-based compensation expense	**16,574**	13,903
Excess tax benefits from stock options	**(7,030)**	(7,801)
Other	**149**	141
Changes in operating assets and liabilities:		
Accounts receivable	**12,072**	11,965
Other receivables and current assets	**19,154**	(30,008)
Other long-term assets	**(1,580)**	(59,757)
Accounts payable, accrued expenses and current liabilities	**17**	7,608
Accrued income taxes	**6,476**	80,865
Deferred revenue	**14,153**	8,716
Other long-term liabilities	**(7,315)**	36,832
Net cash provided by operating activities	**230,047**	192,149
Cash flows from investing activities:		
Apache acquisition, net of cash acquired	**(269,753)**	0
Capital expenditures	**(12,524)**	(9,155)
Purchases of short-term investments	**(282)**	(1,044)
Maturities of short-term investments	**227**	7,990
Net cash used in investing activities	**(282,332)**	(2,209)
Cash flows from financing activities:		
Principal payments on long-term debt	**(21,260)**	(60,315)
Principal payments on capital leases	**(70)**	(229)
Purchase of treasury stock	**(12,704)**	0
Proceeds from issuance of common stock under Employee Stock Purchase Plan	**2,168**	1,592
Proceeds from exercise of stock options	**14,828**	13,060
Excess tax benefits from stock options	**7,030**	7,801
Net cash used in financing activities	**(10,008)**	(38,091)
Effect of exchange rate fluctuations on cash and cash equivalents	**(3,888)**	6,989
Net (decrease) increase in cash and cash equivalents	**(66,181)**	158,838
Cash and cash equivalents, beginning of period	**472,479**	335,878
Cash and cash equivalents, end of period	**$ 406,298**	$ 494,716
Supplemental disclosures of cash flow information:		
Income taxes paid	**$ 50,505**	$ 45,964
Interest paid	**1,457**	2,538

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

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ANSYS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2011

(Unaudited)

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 Solutions, 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. Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared by ANSYS in accordance with accounting principles generally accepted in the United States for interim financial information for commercial and industrial companies and the instructions to the Quarterly Report on Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, the accompanying statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. The accompanying condensed consolidated financial statements should be read in conjunction with the Company s audited consolidated financial statements (and notes thereto) included in the Company s Annual Report on Form 10-K for the year ended December 31, 2010. The condensed consolidated December 31, 2010 balance sheet presented is derived from the audited December 31, 2010 balance sheet included in the most recent Annual Report on Form 10-K. In the opinion of management, all adjustments considered necessary for a fair presentation of the financial statements have been included, and all adjustments are of a normal and recurring nature. Operating results for the three and nine months ended September 30, 2011 are not necessarily indicative of the results that may be expected for any future period.

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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. Cash equivalents are carried at cost, which approximates fair value. The Company s cash and cash equivalents balances comprise the following:

	September 30, 2011		December 31, 2010	
(in thousands, except percentages)	Amount	% of Total	Amount	% of Total
Cash accounts	**$ 242,912**	**59.8**	$ 170,765	36.1
Money market mutual funds	**160,513**	**39.5**	273,926	58.0
Time deposits	**2,873**	**0.7**	27,788	5.9
Total	**$ 406,298**		$ 472,479	

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

3. Accumulated Other Comprehensive Income

Accumulated other comprehensive income is composed entirely of foreign currency translation adjustments.

The components of comprehensive income are as follows:

	Three Months Ended		Nine Months Ended	
(in thousands)	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Net income	**$ 45,546**	$ 36,130	**$ 133,218**	$ 103,992
Foreign currency translation adjustment	**(7,853)**	12,777	**(1,485)**	7,001
Unrealized loss on interest rate swap, net of tax of $0, $0, $0 and $4, respectively	**0**	0	**0**	(7)
Realized loss on interest rate swap reclassed into interest expense, net of tax of $0, $0, $0 and $325, respectively	**0**	0	**0**	539
Comprehensive income	**$ 37,693**	$ 48,907	**$ 131,733**	$ 111,525

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4. Acquisitions

On August 1, 2011, the Company completed its acquisition of Apache Design Solutions, 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 $314.2 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 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. These awards will be accounted for outside of the business combination. The Company funded the transaction entirely with cash on-hand.

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 condensed consolidated financial statements since the date of acquisition, August 1, 2011. The acquired business contributed revenues of $4.4 million and a net loss of $2.1 million to the Company during the period from August 1, 2011 to September 30, 2011.

During the three and nine month periods ended September 30, 2011, the Company incurred $190,000 and $2.0 million in acquisition-related costs, respectively. These costs are included in selling, general and administrative expenses in the Company s condensed consolidated statements of income for the three and nine month periods ended September 30, 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 is estimated to be $9.5 million based on the net present value of the expected payments. Refer to Note 9 for a description of the valuation technique and inputs used to estimate the fair value of the contingent consideration.

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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 the sum of 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 three and nine months ended September 30, 2011 was $4.9 million, primarily in lease license revenue. The expected impact on reported revenue for the quarter ending December 31, 2011 is $4.7 million and 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 fair value of consideration transferred and the fair values of identified assets acquired and liabilities assumed at the acquisition date:

Fair Value of Consideration Transferred:

(in thousands)	
Cash	$ 301,573
Contingent consideration	9,501
ANSYS replacement stock options	3,170
Total consideration transferred at fair value	**$ 314,244**

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)	81,900
Customer relationships (20-year life)	37,500
Contract backlog (3-year life)	12,800
Platform trade names (indefinite-lives)	19,500
Apache trade name (6-year life)	2,100
Accounts payable and other liabilities	(16,563)
Deferred revenue	(10,100)
Net deferred tax liabilities	(46,138)
Total identifiable net assets	**$ 118,958**
Goodwill	**$ 195,286**

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 intangible assets listed above are provisional pending receipt of the final valuation of those assets. In addition, Apache is in the process of preparing its tax returns for the pre-acquisition period from January 1, 2011 to July 31, 2011. As a result, the estimates of fair value of the assets acquired and liabilities assumed are preliminary.

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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 three and nine months ended September 30, 2010 for ANSYS, as reported, combined with the three and nine months ended September 30, 2010 for Apache. The three and nine month 2011 pro forma results are based on ANSYS s stand-alone results for the three and nine months ended September 30, 2011 combined with Apache s results for the three and nine months ended September 30, 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 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.

	Three Months Ended		**Nine Months Ended**	
(in thousands, except per share data)	**September 30, 2011**	**September 30, 2010**	**September 30, 2011**	**September 30, 2010**
Total revenue	**$ 182,276**	$ 150,590	**$ 527,727**	$ 445,550
Net income	**$ 47,279**	$ 33,409	**$ 132,837**	$ 99,070
Earnings per share:				
Basic	**$ 0.51**	$ 0.37	**$ 1.44**	$ 1.09
Diluted	**$ 0.50**	$ 0.36	**$ 1.41**	$ 1.06

5. 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 $68.3 million and $89.9 million as of September 30, 2011 and December 31, 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 $51.0 million and $32.9 million as of September 30, 2011 and December 31, 2010, respectively.

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6. Earnings Per Share

Basic earnings per share (EPS) amounts are computed by dividing earnings by the weighted 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:

	Three Months Ended		Nine Months Ended	
(in thousands, except per share data)	**September 30, 2011**	**September 30, 2010**	**September 30, 2011**	**September 30, 2010**
Net income	**$ 45,546**	$ 36,130	**$ 133,218**	$ 103,992
Weighted average shares outstanding basic	**92,277**	90,880	**91,995**	90,486
Dilutive effect of stock plans	**2,168**	2,332	**2,273**	2,558
Weighted average shares outstanding diluted	**94,445**	93,212	**94,268**	93,044
Basic earnings per share	**$ 0.49**	$ 0.40	**$ 1.45**	$ 1.15
Diluted earnings per share	**$ 0.48**	$ 0.39	**$ 1.41**	$ 1.12
Anti-dilutive options	**1,185**	1,748	**1,172**	1,741

7. Long-Term Debt

Borrowings consist of the following:

(in thousands)	**September 30, 2011**	**December 31, 2010**
Term loan payable in quarterly installments with a final maturity of July 31, 2013	**$ 138,187**	$ 159,446
Capitalized lease obligations	**30**	79
Total	**138,217**	159,525
Less current portion	**(58,494)**	(31,962)
Long-term debt and capital lease obligations, net of current portion	**$ 79,723**	$ 127,563

On July 31, 2008, in association with the acquisition of Ansoft Corporation (Ansoft), 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 level in the debt agreement. During the nine months ended September 30, 2011, the Company made the required quarterly principal payments of $21.3 million in the aggregate.

As of September 30, 2011, required future principal payments total $10.6 million for the remainder of 2011, $74.4 million in 2012 and $53.1 million in 2013.

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 three and nine months ended September 30, 2011, the Company recorded interest expense related to the term loan at weighted average interest rates of 1.00% and 1.04%, respectively. For the three and nine months ended September 30, 2010, the Company recorded interest expense related to the term loan at weighted average interest rates of 1.28% and 1.66%, respectively. If the Company did not enter into the interest rate swap agreement, the weighted average interest rate would have been 1.10% for the nine months ended September 30, 2010. There was no swap-related impact on the weighted average interest rate for the three and nine months ended September 30, 2011, or for the three months ended September 30, 2010, as the interest rate swap agreement terminated on June 30, 2010. The interest expense on the term loan and amortization related to debt financing costs were as follows:

	Three Months Ended			
	September 30, 2011		September 30, 2010	
(in thousands)	Interest Expense	Amortization	Interest Expense	Amortization
July 31, 2008 term loan	**$ 379**	**$ 236**	$ 558	$ 256

	Nine Months Ended			
	September 30, 2011		September 30, 2010	
(in thousands)	Interest Expense	Amortization	Interest Expense	Amortization
July 31, 2008 term loan (interest expense includes $0 loss and $864 loss, respectively, on interest rate swap)	**$ 1,210**	**$ 733**	$ 2,523	$ 873

The interest rate on the outstanding term loan balance of $138.2 million is set for the quarter ending December 31, 2011 at 1.12%, which is based on LIBOR + 0.75%.

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 September 30, 2011, the Company is in compliance with all financial covenants as stated in the credit agreement.

8. Goodwill and Intangible Assets

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 flow methodologies and market comparable information. No events occurred or circumstances changed during the nine months ended September 30, 2011 that would indicate that the fair values of the Company s reporting units are below their carrying amounts.

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The Company s intangible assets and estimated useful lives are classified as follows:

(in thousands)	September 30, 2011 Gross Carrying Amount	September 30, 2011 Accumulated Amortization	December 31, 2010 Gross Carrying Amount	December 31, 2010 Accumulated Amortization
Amortized intangible assets:				
Developed software and core technologies (3 10 years)	**$ 286,739**	**$ (137,366)**	$ 205,137	$ (120,633)
Trademarks (3 10 years)	**103,093**	**(28,502)**	100,994	(21,499)
Non-compete agreements (5 years)	**432**	**(425)**	575	(489)
Customer lists and contract backlog (3 20 years)	**224,641**	**(71,824)**	172,845	(58,967)
Total	**$ 614,905**	**$ (238,117)**	$ 479,551	$ (201,588)
Unamortized intangible assets:				
Trademarks	**$ 19,857**		$ 357	

The significant increase in the intangible assets reflected above was due to the August 1, 2011 acquisition of Apache. Amortization expense for the intangible assets reflected above was $13.5 million and $12.2 million for the three months ended September 30, 2011 and 2010, respectively. Amortization expense for the intangible assets reflected above was $36.6 million and $36.4 million for the nine months ended September 30, 2011 and 2010, respectively.

As of September 30, 2011, estimated future amortization expense for the intangible assets reflected above is as follows:

(in thousands)	
Remainder of fiscal 2011	$ 14,839
Fiscal 2012	65,510
Fiscal 2013	57,883
Fiscal 2014	51,394
Fiscal 2015	47,365
Fiscal 2016	39,754
Thereafter	100,043
Total intangible assets subject to amortization	376,788
Indefinite-lived trademarks	19,857
Other intangible assets, net	**$ 396,645**

The changes in goodwill during the nine months ended September 30, 2011 are as follows:

(in thousands)	
Beginning balance January 1, 2011	$ 1,035,083
Acquisition of Apache	195,286
Currency translation and other	(497)
Ending balance September 30, 2011	**$ 1,229,872**

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9. 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 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)	**September 30, 2011**	**Quoted Prices in Active Markets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets				
Cash equivalents	**$ 163,386**	**$ 160,513**	**$ 2,873**	**$ 0**
Short-term investments	**$ 582**	**$ 0**	**$ 582**	**$ 0**
Liabilities				
Foreign currency future	**$ (561)**	**$ 0**	**$ (561)**	**$ 0**
Deferred compensation	**$ (2,063)**	**$ 0**	**$ 0**	**$ (2,063)**
Contingent consideration	**$ (9,529)**	**$ 0**	**$ 0**	**$ (9,529)**

		Fair Value Measurements at Reporting Date Using:		
(in thousands)	**December 31, 2010**	**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.

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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. For the three and nine months ended September 30, 2011, there were no unrealized gains or losses associated with these deposits.

During 2011, the Company entered into three foreign currency futures contracts with a third-party U.S. financial institution. Two of the contracts were settled in June and September 2011, respectively, while the remaining contract will be settled in December 2011. The purpose of these contracts is to mitigate the Company s exposure to foreign exchange risk arising from intercompany receivables from its Japanese subsidiary. As of September 30, 2011, the Company s foreign exchange future is in a liability position of $561,000. The foreign exchange futures are measured at fair value each reporting period, with gains or losses recognized currently in earnings.

On August 1, 2011, the Company completed its acquisition of Apache Design Solutions, Inc., a leading simulation software provider for advanced, low power solutions in the electronics industry. The merger agreement included 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 September 30, 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 is estimated to be $9.5 million based on the net present value of the expected payments. 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 nine months ended September 30, 2011 in our Level 3 liabilities for contingent consideration and deferred compensation that are measured at fair value on a recurring basis:

	Fair Value Measurement Using Significant Unobservable Inputs	
(in thousands)	**Contingent Consideration**	**Deferred Compensation**
Beginning balance January 1, 2011	$ 0	$ 0
Issuances	9,501	2,057
Interest expense included in earnings	28	6
Ending balance September 30, 2011	**$ 9,529**	**$ 2,063**

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The Company had no transfers of amounts between Level 1 or Level 2 fair value measurements during the three or nine months ended September 30, 2011.

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.

10. 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:

	Three Months Ended		Nine Months Ended	
(in thousands)	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
United States	**$ 53,597**	$ 44,594	**$ 151,107**	$ 134,368
Japan	**29,804**	23,058	**82,232**	68,409
Germany	**18,521**	14,817	**52,486**	44,482
Canada	**3,327**	2,047	**8,816**	6,944
Other European	**39,657**	32,522	**119,719**	97,704
Other international	**28,029**	22,805	**78,880**	61,756
Total revenue	**$ 172,935**	$ 139,843	**$ 493,240**	$ 413,663

Property and equipment by geographic area is as follows:

(in thousands)	September 30, 2011	December 31, 2010
United States	**$ 27,158**	$ 25,156
India	**3,073**	2,846
United Kingdom	**2,680**	2,316
Germany	**1,777**	1,709
Japan	**1,483**	1,493
Canada	**947**	1,014
Other European	**2,165**	1,959
Other international	**968**	428
Total property and equipment, net	**$ 40,251**	$ 36,921

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11. Stock Repurchase Program

Under the Company s stock repurchase program, during the nine months ended September 30, 2011, ANSYS repurchased 247,443 shares at an average price per share of $51.34. During the three months ended September 30, 2011, the Company repurchased no shares. As of September 30, 2011, approximately 1.1 million shares remained authorized for repurchase under the program.

12. Stock-based Compensation

Total stock-based compensation expense, and its net impact on basic and diluted earnings per share, is as follows:

	Three Months Ended		Nine Months Ended	
(in thousands)	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Cost of sales:				
Software licenses	**$ 197**	$ 34	**$ 270**	$ 99
Maintenance and service	**486**	379	**1,407**	1,111
Operating expenses:				
Selling, general and administrative	**3,211**	2,970	**9,162**	8,667
Research and development	**2,214**	1,360	**5,735**	4,026
Stock-based compensation expense before taxes	**6,108**	4,743	**16,574**	13,903
Related income tax benefits	**(1,293)**	(1,023)	**(3,797)**	(2,983)
Stock-based compensation expense, net of taxes	**$ 4,815**	$ 3,720	**$ 12,777**	$ 10,920
Net impact on earnings per share				
Basic earnings per share	**$ (0.05)**	$ (0.04)	**$ (0.14)**	$ (0.12)
Diluted earnings per share	**$ (0.05)**	$ (0.04)	**$ (0.14)**	$ (0.12)

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13. 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 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.

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 September 30, 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.

14. 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 condensed consolidated balance sheets as of September 30, 2011 and December 31, 2010.

For U.S. tax purposes, this taxable gain in Japan gives rise to a foreign tax credit that reduces 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 the U.S. in 2011 or future periods. Recognition of this foreign tax credit resulted in a deferred tax credit that 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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15. New Accounting Guidance

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.

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.

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.

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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 reviewed the accompanying condensed consolidated balance sheet of ANSYS, Inc. and subsidiaries (the Company) as of September 30, 2011, and the related condensed consolidated statements of income for the three-month and nine-month periods ended September 30, 2011 and 2010 and of cash flows for the nine-month periods ended September 30, 2011 and 2010. These interim financial statements are the responsibility of the Company s management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of ANSYS, Inc. and subsidiaries as of December 31, 2010, and the related consolidated statements of income, stockholders equity, and cash flows for the year then ended (not presented herein); and in our report dated February 25, 2011, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2010 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Deloitte & Touche LLP
Pittsburgh, Pennsylvania

November 3, 2011

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Overview:

ANSYS, Inc. s results for the three months ended September 30, 2011 reflect growth in revenues of 23.7%, operating income of 25.9% and diluted earnings per share of 23.1% as compared to the three months ended September 30, 2010. The Company s results for the nine months ended September 30, 2011 reflect growth in revenues of 19.2%, operating income of 25.0%, diluted earnings per share of 25.9%, and a 19.7% increase in cash flow from operations as compared to the nine months ended September 30, 2010. These results were impacted by the August 2011 acquisition of Apache. The results of operations include the results of Apache for the period from the date of acquisition (August 1, 2011) through September 30, 2011. The Company experienced higher revenues in 2011 from growth in both license and maintenance revenue and the acquisition of Apache. In addition, the operating results were favorably impacted by improved operating margins, reduced interest expense, foreign currency translation fluctuations and a lower effective tax rate. These contributions were partially offset by transaction fees and additional amortization of acquired intangible assets related to the Apache acquisition.

The Company s non-GAAP results for the three months ended September 30, 2011 reflect increases in revenue of 27.2%, operating income of 30.7% and diluted earnings per share growth of 29.4% as compared to the three months ended September 30, 2010. The Company s non-GAAP results for the nine months ended September 30, 2011 reflect increases in revenue of 20.4%, operating income of 23.6% and diluted earnings per share growth of 25.0% as compared to the nine months ended September 30, 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. For further disclosure regarding non-GAAP results, see the section titled Non-GAAP Results immediately preceding the section titled Liquidity and Capital Resources .

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 the sum of what would otherwise have been reported by Apache and ANSYS 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 three and nine months ended September 30, 2011 was $4.9 million, primarily in lease license revenue. The expected impact on reported revenue for the quarter ending December 31, 2011 is $4.7 million and for the year ending December 31, 2012 is $3.4 million.

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During the nine months ended September 30, 2011, the Company had net acquisition-related cash outlays of approximately $269.8 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 $406.9 million in cash and short-term investments, and working capital of $254.9 million as of September 30, 2011. The Company has outstanding borrowings under its term loan of $138.2 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 September 30, 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. 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 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.

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 accompanying unaudited condensed consolidated financial statements and notes thereto for the three and nine months ended September 30, 2011, and with the Company s audited consolidated financial statements and notes thereto for the year ended December 31, 2010 filed on the Annual Report on Form 10-K with the Securities and Exchange Commission.

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The Company s discussion and analysis of its financial condition and results of operations are based upon the Company s condensed 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, contingent consideration, deferred compensation, 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 available from other sources. Actual results may differ from these estimates.

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including, 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 anticipation 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 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.

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.

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

The Company s statements regarding increased exposure to volatility of foreign exchange rates.

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

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 adverse 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 forward-looking statements. Certain factors, among others, that might cause such a difference include risks and uncertainties disclosed in the Company s most recent Annual Report on Form 10-K, Part I, Item 1A. Information regarding new risk factors or material changes to these risk factors has been included within Part II, Item 1A of this Quarterly Report on Form 10-Q.

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Results of Operations

Three Months Ended September 30, 2011 Compared to Three Months Ended September 30, 2010

Revenue:

(in thousands, except percentages)	**Three Months Ended September 30, 2011**	**2010**	**Change Amount**	**%**
Revenue:				
Lease licenses	**$ 55,671**	$ 46,189	$ 9,482	20.5
Perpetual licenses	**48,806**	36,454	12,352	33.9
Software licenses	**104,477**	82,643	21,834	26.4
Maintenance	**63,282**	53,170	10,112	19.0
Service	**5,176**	4,030	1,146	28.4
Maintenance and service	**68,458**	57,200	11,258	19.7
Total revenue	**$ 172,935**	$ 139,843	$ 33,092	23.7

The Company s revenue in the quarter ended September 30, 2011 increased 23.7% as compared to the quarter ended September 30, 2010, including increases in all major revenue categories. Perpetual license revenue, which is derived entirely from new sales during the quarter, increased 33.9%. This strong growth was partially influenced by an improvement in economic conditions in certain geographies as compared to the prior year quarter and benefits from the Company s continued investment in its global sales and marketing organization. Revenue from lease licenses increased 20.5% as compared to the quarter ended September 30, 2010, due to growth in sales of lease licenses and the addition of Apache-related revenue of $4.2 million for the period from the acquisition (August 1, 2011) through September 30, 2011. The annual maintenance contracts that were sold with the new perpetual licenses, along with maintenance contracts sold with new perpetual licenses in the previous twelve months, contributed to maintenance revenue growth of 19.0%. Service revenue increased 28.4%, primarily due to increased consulting project revenues.

With respect to revenue, on average for the quarter ended September 30, 2011, the U.S. Dollar was approximately 7.5% weaker, when measured against the Company s primary foreign currencies, than for the same quarter of 2010. The overall weakening resulted in increased revenue and operating income during the quarter ended September 30, 2011, as compared with the same quarter of 2010, of approximately $6.6 million and $4.1 million, respectively.

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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.

Due to the acquisition of Apache, the Company has a backlog of $60.2 million of orders received but not invoiced as of September 30, 2011.

International and domestic revenues, as a percentage of total revenue, were 69.0% and 31.0%, respectively, during the quarter ended September 30, 2011, and 68.1% and 31.9%, respectively, during the quarter ended September 30, 2010. The Company derived 26.8% and 27.1% of its total revenue through the indirect sales channel in the third quarters of 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. 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 the sum of what would otherwise have been reported by Apache and ANSYS 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 three and nine months ended September 30, 2011 was $4.9 million, primarily in lease license revenue. The expected impact on reported revenue for the quarter ending December 31, 2011 is $4.7 million and for the year ending December 31, 2012 is $3.4 million.

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Cost of Sales and Gross Profit:

	Three Months Ended September 30,					
	2011		2010		Change	
(in thousands, except percentages)	Amount	% of Revenue	Amount	% of Revenue	Amount	%
Cost of sales:						
Software licenses	**$ 4,220**	**2.4**	$ 2,555	1.8	$ 1,665	65.2
Amortization	**8,993**	**5.2**	8,180	5.8	813	9.9
Maintenance and service	**17,814**	**10.3**	14,544	10.4	3,270	22.5
Total cost of sales	**31,027**	**17.9**	25,279	18.1	5,748	22.7
Gross profit	**$ 141,908**	**82.1**	$ 114,564	81.9	$ 27,344	23.9

Software Licenses: The increase in software license costs was primarily due to Apache-related cost of sales of $1.3 million for the period from the acquisition (August 1, 2011) through September 30, 2011, and increases in third-party royalties and stock-based compensation each of $200,000.

Amortization: The increase in amortization expense was primarily a result of $1.5 million in amortization that began during the third quarter of 2011 on acquired Apache software and a $90,000 increase in amortization of an acquired trademark, partially offset by an $800,000 decrease in amortization of other acquired software.

Maintenance and Service: The increase in maintenance and service costs is primarily due to an increase in salaries and incentive compensation of $2.7 million.

The improvement in 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:

	Three Months Ended September 30,					
	2011		2010		Change	
(in thousands, except percentages)	Amount	% of Revenue	Amount	% of Revenue	Amount	%
Operating expenses:						
Selling, general and administrative	**$ 43,180**	**25.0**	$ 36,954	26.4	$ 6,226	16.8
Research and development	**28,899**	**16.7**	21,696	15.5	7,203	33.2
Amortization	**4,500**	**2.6**	4,037	2.9	463	11.5
Total operating expenses	**$ 76,579**	**44.3**	$ 62,687	44.8	$ 13,892	22.2

Selling, General and Administrative: The increase in selling, general and administrative costs was primarily a result of Apache-related selling, general and administrative expenses of $2.8 million for the period from the acquisition (August 1, 2011) through September 30, 2011, increases in salaries of $1.4 million, third-party commissions of $500,000, business travel expenses of $400,000, discretionary marketing costs of $300,000 and stock-based compensation of $200,000.

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 costs was primarily a result of Apache-related research and development expenses of $2.3 million for the period from the acquisition (August 1, 2011) through September 30, 2011, increased salary and headcount-related costs, including incentive compensation, of $3.5 million, increased stock-based compensation expense of $900,000 and increased depreciation of $200,000.

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 $400,000 in amortization that began during the third quarter of 2011 on acquired Apache customer lists and contract backlog, and an $80,000 increase in amortization of other acquired customer lists.

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

(in thousands)	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010
Bank interest on term loan	**$ 379**	$ 558
Amortization of debt financing costs	**236**	256
Other	**138**	88
Total interest expense	**$ 753**	$ 902

The decreased interest expense shown above for the 2011 quarter is primarily a result of a lower average outstanding debt balance.

Interest Income: Interest income for the quarter ended September 30, 2011 was $789,000 as compared to $491,000 during the quarter ended September 30, 2010. Interest income primarily increased as a result of a higher average rate of return on invested foreign cash balances.

Other Income (Expense), net: The Company recorded other income of $78,000 during the quarter ended September 30, 2011 as compared to other expense of $574,000 during the quarter ended September 30, 2010. The activity for both quarters was primarily composed of foreign currency transaction gains and 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 $19.9 million and had income before income taxes of $65.4 million for the quarter ended September 30, 2011. This represents an effective tax rate of 30.4% in the third quarter of 2011. During the quarter ended September 30, 2010, the Company recorded income tax expense of $14.8 million and had income before income taxes of $50.9 million. The Company s effective tax rate was 29.0% in the third quarter of 2010.

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.

The Company s tax expense in the third quarter of 2011 was also favorably impacted by approximately $2.0 million related to the additional tax benefits associated with the filing of the Company s 2010 tax return. The benefits primarily related to a higher domestic manufacturing deduction than the Company had previously recorded.

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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 third quarter 2011 income tax expense of $2.8 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
Q4 2011	$2.2 - $2.3 million
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 in the third quarter of 2011 was $45.5 million as compared to net income of $36.1 million in the third quarter of 2010. Diluted earnings per share was $0.48 in the third quarter of 2011 and $0.39 in the third quarter of 2010. The weighted average shares used in computing diluted earnings per share were 94.4 million in the third quarter of 2011 and 93.2 million in the third quarter of 2010.

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Results of Operations

Nine Months Ended September 30, 2011 Compared to Nine Months Ended September 30, 2010

Revenue:

(in thousands, except percentages)	Nine Months Ended September 30, 2011	2010	Change Amount	%
Revenue:				
Lease licenses	**$ 155,945**	$ 135,692	$ 20,253	14.9
Perpetual licenses	**141,835**	110,281	31,554	28.6
Software licenses	**297,780**	245,973	51,807	21.1
Maintenance	**181,603**	154,670	26,933	17.4
Service	**13,857**	13,020	837	6.4
Maintenance and service	**195,460**	167,690	27,770	16.6
Total revenue	**$ 493,240**	$ 413,663	$ 79,577	19.2

The Company s revenue in the nine months ended September 30, 2011 increased 19.2% as compared to the nine months ended September 30, 2010, including increases in all major revenue categories. Perpetual license revenue, which is derived entirely from new sales during the period, increased 28.6%. This strong growth was partially influenced by an improvement in the global economy as compared to the prior year nine-month period, including the effects of these economic improvements on year-end spending patterns in certain geographies, and benefits from the Company s continued investment in its global sales and marketing organization. The annual maintenance contracts that were sold with the new perpetual licenses, along with maintenance contracts sold with new perpetual licenses in previous quarters, contributed to maintenance revenue growth of 17.4%. Revenue from lease licenses increased 14.9% as compared to the nine months ended September 30, 2010, due to growth in sales of lease licenses and the addition of Apache-related revenue of $4.2 million for the period from the acquisition (August 1, 2011) through September 30, 2011. Service revenue increased more modestly at 6.4%.

With respect to revenue, on average for the nine months ended September 30, 2011, the U.S. Dollar was approximately 6.8% weaker, when measured against the Company s primary foreign currencies, than for the same nine-month period of 2010. The overall weakening resulted in increased revenue and operating income during the nine months ended September 30, 2011, as compared with the nine months ended September 30, 2010, of approximately $18.4 million and $11.0 million, respectively.

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International and domestic revenues, as a percentage of total revenue, were 69.4% and 30.6%, respectively, during the nine months ended September 30, 2011, and 67.5% and 32.5%, respectively, during the nine months ended September 30, 2010. The Company derived 26.8% and 26.6% of its total revenue through the indirect sales channel in the nine month periods ended September 30, 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. 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 the sum of what would otherwise have been reported by Apache and ANSYS 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 three and nine months ended September 30, 2011 was $4.9 million, primarily in lease license revenue. The expected impact on reported revenue for the quarter ending December 31, 2011 is $4.7 million and for the year ending December 31, 2012 is $3.4 million.

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Cost of Sales and Gross Profit:

	Nine Months Ended September 30,				Change	
	2011		2010			
(in thousands, except percentages)	Amount	% of Revenue	Amount	% of Revenue	Amount	%
Cost of sales:						
Software licenses	**$ 10,144**	**2.1**	$ 7,474	1.8	$ 2,670	35.7
Amortization	**23,993**	**4.9**	24,572	5.9	(579)	(2.4)
Maintenance and service	**51,535**	**10.4**	42,026	10.2	9,509	22.6
Total cost of sales	**85,672**	**17.4**	74,072	17.9	11,600	15.7
Gross profit	**$ 407,568**	**82.6**	$ 339,591	82.1	$ 67,977	20.0

Software Licenses: The increase in software license costs was primarily due to Apache-related cost of sales of $1.3 million for the period from the acquisition (August 1, 2011) through September 30, 2011, and increases in third-party royalties of $1.0 million and salaries of $300,000.

Amortization: The decrease in amortization expense was primarily a result of a $2.3 million decrease in amortization of acquired software, partially offset by $1.5 million in amortization that began during the third quarter of 2011 on acquired Apache software and a $300,000 increase in amortization of an acquired trademark.

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

- Increase in salaries and headcount-related costs, including incentive compensation, of $7.7 million.
- Increase in business travel expenses of $900,000.
- Decrease in third-party technical support costs of $800,000.
- Increase in office and equipment lease expense of $500,000.
- Increases in depreciation and stock-based compensation, each of $300,000.
- Increase in maintenance-related costs of $200,000.

The improvement in 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:

	Nine Months Ended September 30,				Change	
	2011		2010			
(in thousands, except percentages)	Amount	% of Revenue	Amount	% of Revenue	Amount	%
Operating expenses:						
Selling, general and administrative	**$ 123,786**	**25.1**	$ 108,161	26.1	$ 15,625	14.4
Research and development	**78,779**	**16.0**	65,673	15.9	13,106	20.0
Amortization	**12,587**	**2.6**	11,874	2.9	713	6.0
Total operating expenses	**$ 215,152**	**43.6**	$ 185,708	44.9	$ 29,444	15.9

Selling, General and Administrative: The increase in selling, general and administrative costs was primarily a result of increased salary and headcount-related costs, including incentive compensation, of $5.7 million, Apache-related selling, general and administrative expenses of $2.8 million for the period from the acquisition (August 1, 2011) through September 30, 2011, transaction costs totaling $2.0 million related to the Apache acquisition, increased discretionary marketing costs of $1.6 million, increased third-party commissions of $900,000 and increased business travel expenses of $700,000.

Research and Development: The increase in research and development costs was primarily a result of increased salary and headcount-related costs, including incentive compensation, of $6.8 million, Apache-related research and development expenses of $2.3 million for the period from the acquisition (August 1, 2011) through September 30, 2011, increased stock-based compensation expense of $1.7 million, increased depreciation expense of $500,000 and increased facilities and information technology maintenance costs of $300,000.

Amortization: The increase in amortization expense was primarily the result of $400,000 in amortization that began during the third quarter of 2011 on acquired Apache customer lists and contract backlog, and a $400,000 increase in amortization of other acquired customer lists.

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

(in thousands)	Nine Months Ended September 30, 2011	 September 30, 2010
Bank interest on term loan	**$ 1,210**	$ 1,659
Amortization of debt financing costs	**733**	873