SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended: SEPTEMBER 30, 1996 Commission File Number: 0-18059

PARAMETRIC TECHNOLOGY CORPORATION
(Exact name of registrant as specified in its charter)

MASSACHUSETTS	04-2866152
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

128 TECHNOLOGY DRIVE, WALTHAM, MA 02154
(Address of principal executive offices, including zip code)

(617) 398-5000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:	Securities registered pursuant Section 12(g) of the Act:
None	COMMON STOCK, $.01 PAR VALUE PER SHARE
	(Title of Class)

Indicate by check mark whether the registrant has (i) 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 (ii) has been subject to such filing requirements for the past 90 days.

YES X NO __________

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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. [X]

The aggregate market value of the voting stock held by nonaffiliates of the registrant as of October 31, 1996 was $5,404,022,974.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Class	Outstanding at October 31, 1996
Common Stock, $.01 par value per share	127,462,608

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Annual Report to Stockholders for the fiscal year ended September 30, 1996 are incorporated by reference into Parts I and II.

Portions of the definitive Proxy Statement in connection with the Annual Meeting of Stockholders to be held February 13, 1997 are incorporated by reference into Part III.

Important Factors Regarding Future Results

Information provided by the Company, including information contained in this Annual Report on Form 10-K, or by its spokespersons from time to time may contain forward-looking statements concerning projected financial performance, market and industry segment growth, product development and commercialization, or other aspects of future operations. Such statements, made pursuant to the safe harbor established by recent securities legislation, are based on the assumptions of 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 herein, may cause the Company's future results to differ materially from those projected in any forward-looking statement. Important information about the basis for those assumptions is contained in "Important Factors Regarding Future Results" included in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section in the 1996 Annual Report to Stockholders, which section is incorporated herein by reference.

PART I

ITEM 1: Business

General

Parametric Technology Corporation (the "Company") develops, markets and supports the Pro/ENGINEER(R) family of software products - a suite of more than 70 application modules that automate the design-through-manufacturing process within the mechanical computer-aided design, manufacturing and engineering ("CAD/CAM/CAE") industry. The Company's Pro/ENGINEER product line includes capabilities in industrial design; mechanical design, including large assembly management; functional simulation; manufacturing; information management; and data exchange.

Mechanical CAD/CAM/CAE is a complex, iterative process encompassing a broad spectrum of distinct engineering disciplines which is essential to the development of virtually all manufactured products, ranging from consumer products to jet aircraft. Manufacturers compete on the basis of cost, time to market and product performance criteria, which are significantly affected by the quality and length of the design process. The Company's mechanical CAD/CAM/CAE products offer a high-performance, fully integrated solution which enables end-users to reduce the time to market and manufacturing costs for their products and to improve product quality by easily evaluating multiple design alternatives. The Company believes that its Pro/ENGINEER product line offers better price/performance, greater ease of use, and more complete integration of multiple engineering disciplines than other available mechanical CAD/CAM/CAE products.

The Company's Pro/ENGINEER product line is based on an innovative software architecture that incorporates a unique parametric, feature-based solid modeling technology. The Company's Pro/ENGINEER software uses a single data structure to capture changes made in any stage of the design-through-manufacturing process and to automatically update designs and all engineering deliverables. The single data structure allows all changes to be propagated automatically throughout the design and manufacturing process, thus enabling users to integrate multiple engineering activities in the mechanical design process and conduct them on a concurrent basis. In addition, as a result of the data structure of the Company's products, engineers can create, process, modify and store designs quickly and easily, in a highly efficient manner.

The Pro/ENGINEER product line runs on all major UNIX(R) and Microsoft(R) Windows NT(TM) and Windows(R) 95 Workstation Operating System platforms, and is hardware-independent. The product is written in "C" programming language, which allows for portability from one standard workstation to another. The Pro/ENGINEER product line primarily competes in the high-end of the mechanical CAD/CAM/CAE market.

Acquisitions

On July 10, 1996, the Company acquired project modeling and management software ("Reflex") technology from Greenshire License Co. NV for $32,119,000 which included the issuance of 113,000 shares of the Company's common stock with a fair value of $5,000,000 at the time of acquisition and $5,000,000 payable in the fourth quarter of fiscal

1997. Payments of $22,119,000 in fiscal 1996 were from the Company's existing cash balances. The acquisition has been accounted for as a purchase.

On August 1, 1995, the Company acquired Rasna Corporation ("Rasna"), a developer and marketer of software products for mechanical computer-aided engineering, by merging it into the Company pursuant to an Agreement and Plan of Merger dated as of May 30, 1995. Based on the number of shares of Rasna common stock, the Company issued 7,541,000 shares of common stock and reserved 1,045,000 shares of its common stock for outstanding Rasna stock options assumed. The merger was accounted for as a pooling of interests.

On April 12, 1995, the Company acquired substantially all of the assets and specified liabilities of the Conceptual Design and Rendering System ("CDRS") software business operated by the Design Software Division of Evans & Sutherland Computer Corporation for approximately $33,507,000 in cash, which was paid by the Company from its existing cash balances. The acquisition has been accounted for as a purchase.

Product Development

The mechanical CAD/CAM/CAE industry is characterized by rapid technological advances. Accordingly, the Company's future success will depend upon its ability to enhance its current products and develop and introduce new products and modules which keep pace with technological developments and address increasingly sophisticated needs of its customers. The Company expects to continue to expand the scope of applications of its Pro/ENGINEER product family, to expand the functionality set of each of the acquired technologies, and to fully integrate all of the product families. The Company's ability to develop new products rapidly is facilitated by the modular structure of its software code, which enables functional subroutines used in existing products to be accessed and utilized by new software modules, thereby reducing the amount of new code required to develop additional products. The major benefit of this approach is rapid development of new functionality. The Company intends to focus its ongoing product development efforts on additional products within the Pro/ENGINEER product family, including tools for fully simulating the design, manufacturing, and function of our customers' products, and tools to manage all of the resulting engineering data. The Company intends to further accelerate these efforts to provide a completely integrated suite of tools for our customers. There can be no assurance, however, that the Company will be successful in developing and marketing product enhancements or new products and modules that respond to technological changes by others, or that its new products will adequately address the needs of the marketplace.

The Company's practice has been to issue two major releases of its product line per year, each of which has generally included several new modules. In connection with each release, the Company works closely with its customers to define improvements and enhancements, which are then integrated into the products. Using this approach, customers become involved in the product design process to validate feasibility and to influence functionality early in the product's life-cycle. In addition, the Company's Cooperative Software Program ("CSP") provides the mechanisms and environment to facilitate the integration of complementary products with the Pro/ENGINEER product line. Through the Company's open software toolkit, the CSP members can build tightly integrated solutions that satisfy various requirements of the Company's customers.

As of September 30, 1996, the Company's product development was performed by 453 employees at its Waltham, Massachusetts, headquarters; its San Jose, California and Salt Lake City, Utah offices; and abroad. The development group includes experts in mechanical engineering, advanced mathematical techniques, database structures and operating systems technology.

During the years ended September 30, 1996, 1995 and 1994, the Company incurred expenses of $39,476,000, $25,591,000 and $19,882,000, respectively, on research and development.

Sales

The Company focuses its marketing and sales efforts primarily on the electronics, aerospace, automotive, consumer products, medical equipment, industrial equipment and telecommunications industries. The Company derives more than

90% of its revenue from products distributed directly to its customers and the remainder through third-party distributors. The Company's sales force manages the activities of all distribution channels within a geographic area.

As of September 30, 1996, the Company's sales and marketing organization consisted of 668 people in the United States and 977 people abroad. The Company has sales and/or support offices located in 84 cities across the United States and in 91 cities in 26 foreign countries.

Since inception, the Company has licensed software products for more than 71,500 seats to nearly 11,500 companies. A seat of software generally consists of the Company's core product, Pro/ENGINEER, together with several other software modules, configured to serve the needs of a single end user. End users of the Company's products range from small companies to some of the world's largest manufacturing organizations. No single customer accounted for more than 10% of the Company's revenue in fiscal 1996.

Information with respect to foreign and domestic operations and export sales may be found in Note L to the Consolidated Financial Statements of the Annual Report to Stockholders for the fiscal year ended September 30, 1996 ("1996 Annual Report to Stockholders"), which financial statements are included in Exhibit 13.1 to this Annual Report on Form 10-K and incorporated herein by reference.

Competition

The mechanical CAD/CAM/CAE industry is highly competitive, and is characterized by rapidly advancing technology. In order to maintain or improve its position in this industry, the Company must continue to enhance its current products and develop, in a timely fashion, new products which address the rapidly changing needs of the marketplace.

The Company competes most directly with the CADAM(R) and CATIA(R) products developed by Dassault and marketed by IBM(R), the CADDS(R) product marketed by Computervision Corporation, the UNIGRAPHICS(R) product marketed by EDS, the I/EMS(TM) product marketed by Intergraph Corporation and the I-DEAS Master Series(TM) product marketed by Structural Dynamics Research Corporation. The Company believes that the principal bases for competition in its markets are product functionality, price/performance characteristics, product portability, ease of product use, sales and marketing strength, support services and corporate reputation. The Company is aware of ongoing efforts by competitors, some of whom have greater resources than the Company, to develop equivalent or superior technology and market these products at lower prices. Should a competitor successfully bring such a product to market and be able to sell it at a lower price in the future, the Company's operating results could be adversely affected. The Company's future success will depend in a large part on its ability to license additional products and services to its existing customer base as well as the installed customer bases of traditional mechanical CAD/CAM/CAE suppliers.

Proprietary Rights

The Company regards its software products as proprietary and attempts to protect its intellectual property rights by relying on copyrights, trademarks, patents and common law safeguards, including trade secret protection, as well as restrictions on disclosures and transferability in its agreements with other parties. The Company distributes its products under software license agreements, which grant customers perpetual licenses to, rather than ownership of, the Company's products and which contain various provisions protecting the Company's ownership of and the confidentiality of the underlying technology. The Company also limits access to and distribution of its software, documentation and other proprietary information. The source code of the Company's products is protected as a trade secret and as an unpublished copyright work. Despite these precautions, it may be possible to copy or otherwise obtain and use the Company's products or technology without authorization. In addition, effective copyright and trade secret protection may be unavailable or limited in certain foreign countries.

The Company believes that, due to the rapid pace of innovation within its industry, factors such as the technological and creative skills of its personnel are more important to establishing and maintaining a technology leadership position within the industry than are the various legal protections surrounding its technology. The Company believes that its products and technology do not infringe any existing proprietary rights of others, although there can be no assurance that third parties will not assert infringement claims in the future.

Pro/ENGINEER and Parametric Technology Corporation are registered trademarks and all product names in the PTC product family and the PTC logo are trademarks of Parametric Technology Corporation in the United States and other countries.

Backlog

The Company generally ships its products within 30 days after acceptance of a customer purchase order and execution of a software license agreement. Accordingly, the Company does not believe that its backlog at any particular point in time is indicative of future sales levels.

Employees

The Company's success depends upon its ability to attract and retain highly skilled technical, managerial and sales personnel. Competition for such personnel in the computer industry in general, and the mechanical CAD/CAM/CAE industry in particular, is intense. Although the Company has not experienced any significant difficulty to date in attracting and retaining skilled personnel, there can be no assurance that the Company will be successful in attracting and retaining the personnel it requires to continue to grow and operate profitably, both domestically and internationally.

As of September 30, 1996, the Company had 2,774 employees, including 1,645 in sales, marketing and support activities; 418 in customer support, training and consulting; 258 in management, finance and administration; and 453 in product development. Of these employees, 1,477 were located in the United States and 1,297 were located in foreign countries.

ITEM 2: Properties

The Company's executive offices are located in approximately 262,000 square feet of office space in Waltham, Massachusetts which is leased for an annual rent of approximately $5,384,000. The Company also leases 176 additional sales and/or support offices and development offices in the United States and, through its wholly-owned subsidiaries, abroad. The Company believes that its facilities are adequate for its present needs, but will continue to evaluate the need for additional space as the growth of the business requires.

ITEM 3: Legal Proceedings

Not applicable.

ITEM 4: Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the last quarter of fiscal 1996.

EXECUTIVE OFFICERS OF THE REGISTRANT

The executive officers of the Company as of November 14, 1996 were as follows:

Name	Age	Position
Steven C. Walske	44	Chairman of the Board of Directors and Chief Executive Officer
C. Richard Harrison	41	President and Chief Operating Officer
Edwin J. Gillis	47	Executive Vice President of Finance and Administration, Chief Financial Officer and Treasurer
Michael E. McGuinness	36	Executive Vice President of Sales
Kirk D. Bowman	31	Senior Vice President of Business Development

Robert C. Gremley	31	Senior Vice President, Professional Services
Donald R. Henrich	38	Senior Vice President of Marketing
Thomas W. Jensen, Ph.D.	43	Senior Vice President of Research and Development
Martha L. Durcan	37	Vice President, Corporate Counsel and Clerk
James F. Kelliher	37	Vice President of Finance and Assistant Treasurer
John G. Mokas	37	Controller

Mr. Walske has been Chairman of the Board of Directors since August 1994 and Chief Executive Officer and a director of the Company since he joined the Company in December 1986. Mr. Walske was President of the Company from December 1986 to August 1994 and Clerk of the Company from December 1986 to February 1993.

Mr. Harrison has been President and Chief Operating Officer since August 1994. Prior to that, Mr. Harrison served as Senior Vice President of Sales and Distribution from September 1991 until August 1994 and as Vice President of Sales and Distribution from May 1987 to September 1991.

Mr. Gillis has been Executive Vice President of Finance and Administration since October 1996 and Chief Financial Officer and Treasurer since October 1995. Mr. Gillis served as Senior Vice President of Finance and Administration from October 1995 to September 1996. Prior to joining the Company, Mr. Gillis was Senior Vice President of Finance and Operations and Chief Financial Officer at Lotus Development Corporation from August 1991 until September 1995.

Mr. McGuinness has been Executive Vice President of Sales since October 1996. Prior to that, Mr. McGuinness had served as Senior Vice President of Sales and Distribution from September 1994 to September 1996, and Vice President of North American Sales Operations from October 1991 to September 1994.

Mr. Bowman has been Senior Vice President of Business Development since October 1996. Prior to that, Mr. Bowman served as Vice President, European Operations from October 1994 to September 1996, Vice President, Far East Operations from October 1993 to September 1994, Regional Director from October 1992 to September 1993, and District Sales Manager from October 1991 to September 1992.

Mr. Gremley has been Senior Vice President of Professional Services since November 1996. Prior to that, Mr. Gremley served as Vice President for Implementation Services from September 1995 to October 1996, Vice President of Consulting Services from December 1994 to August 1995, Director of Consulting Services from October 1992 to November 1994, Manager of Application Services from December 1991 to September 1992, and Manager of Corporate Accounts from March 1990 to November 1991.

Mr. Henrich has been Senior Vice President of Marketing since October 1996. Prior to that, Mr. Henrich was Vice President of Asia Pacific Operations from October 1994 to September 1996, Managing Director of Southern Europe from October 1993 to September 1994, Regional Director from July 1993 to October 1993, and District Sales Manager from April 1992 to June 1993. Prior to joining the Company, Mr. Henrich was Regional Sales Manager at Adra Systems, Inc. from April 1990 to March 1992.

Dr. Jensen has been Senior Vice President of Research and Development since he joined the Company in April 1995. Prior to joining the Company, Dr. Jensen was Vice President and General Manager from May 1993 until April 1995, and from July 1986 until May 1993 was Director of Research and Development of the Design Software Division at Evans & Sutherland Computer Corporation.

Ms. Durcan has served as Vice President since October 1993, Corporate Counsel since joining the Company in March 1992 and as Clerk since February 1993. Prior to joining the Company, Ms. Durcan was an associate with the law firm of Goodwin, Procter & Hoar from September 1989 to March 1992.

Mr. Kelliher has been Vice President of Finance since December 1994. Prior to that, Mr. Kelliher had served as Director of Corporate Finance from November 1994 to December 1994, Chief Financial Officer of Europe from May 1993 to November 1994, Manager of Finance and Assistant International Controller from February 1992 to May 1993, and Manager of Budget and Analysis from October 1991 to February 1992.

Mr. Mokas has been Controller since he joined the Company in August 1993. Prior to joining the Company, Mr. Mokas was a manager at Coopers & Lybrand L.L.P. from May 1988 to July 1993.

PART II

ITEM 5: Market for Registrant's Common Equity and Related Stockholder Matters

On July 10, 1996, the Company issued 113,000 shares of its common stock to Greenshire License Co. NV ("Greenshire") as partial consideration for the acquisition of certain software described in more detail in Part I, Item 1 of this Annual Report on Form 10-K. The shares were issued without registration under the Securities Act of 1933 in reliance on the exemption provided by Section 4(2) thereof based, among other matters, on Greenshire's representations as to its investment intent and sophistication in financial matters. Further information with respect to this item may be found in the sections captioned "Quarterly Financial Information" and "Supplemental Financial Information" appearing in the 1996 Annual Report to Stockholders. Such information is incorporated herein by reference.

ITEM 6: Selected Financial Data

Information with respect to this item may be found in the section captioned "Five Year Summary of Selected Financial Data" appearing in the 1996 Annual Report to Stockholders. Such information is incorporated herein by reference.

ITEM 7: Management's Discussion and Analysis of Financial Condition and Results of Operations

Information with respect to this item may be found in the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing in the 1996 Annual Report to Stockholders. Such information is incorporated herein by reference.

ITEM 8: Financial Statements and Supplementary Data

Information with respect to this item may be found on pages 28 through 39 and in the section entitled "Quarterly Financial Information" appearing in the 1996 Annual Report to Stockholders. Such information is incorporated herein by reference.

ITEM 9: Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

On November 17, 1995, the Board of Directors of the Company, upon recommendation of its Audit Committee, approved a change in the Company's independent accountants from Price Waterhouse LLP to Coopers & Lybrand L.L.P. effective for the fiscal year ended September 30, 1996. Price Waterhouse LLP served as the Company's independent accountants for fiscal years 1992 through 1995. During these periods, the Company did not have any disagreements with Price Waterhouse LLP on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, nor did any reports issued by Price Waterhouse LLP contain an adverse opinion or a disclaimer of opinion, nor were such reports qualified or modified as to uncertainty, audit scope or accounting principles.

PART III

ITEM 10: Directors and Executive Officers of the Registrant

Information with respect to directors of the Company may be found in the sections captioned "Election of Directors" appearing in the 1997 Proxy Statement. Such information is incorporated herein by reference. Information with respect to Executive Officers of the Company may be found under the section captioned "Executive Officers of the Registrant" in Part I of this Annual Report on Form 10-K.

ITEM 11: Executive Compensation

Information with respect to this item may be found in the sections captioned "Director Compensation" and "Compensation of Executive Officers" appearing in the 1997 Proxy Statement. Such information is incorporated herein by reference.

ITEM 12: Security Ownership of Certain Beneficial Owners and Management

Information with respect to this item may be found in the section captioned "Principal Stockholders" appearing in the 1997 Proxy Statement. Such information is incorporated herein by reference.

ITEM 13: Certain Relationships and Related Transactions

Not applicable.

PART IV

ITEM 14: Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) Documents Filed as Part of Form 10-K

1. Financial Statements
   - -Consolidated Balance Sheet as of September 30, 1996 and 1995*
   - -Consolidated Statement of Income for the years ended September 30, 1996, 1995 and 1994*
   - -Consolidated Statement of Stockholders' Equity for the years ended September 30, 1996, 1995 and 1994*
   - -Consolidated Statement of Cash Flows for the years ended September 30, 1996, 1995 and 1994*
   - -Notes to Consolidated Financial Statements*
   - -Reports of Independent Accountants for the years ended September 30, 1996*, 1995 and 1994
   - -Independent Auditors' Report for Rasna Corporation as of December 31, 1994 and for the year then ended
2. Financial Statement Schedules
   - -Reports of Independent Accountants for the years ended September 30, 1996, 1995 and 1994
   - -Schedule II - Valuation and Qualifying Accounts
   - -Schedules other than the one listed above have been omitted since they are either not required, not applicable, or the information is otherwise included.
3. Listing of Exhibits

   The Exhibits filed as part of this Annual Report on Form 10-K are listed in the Exhibit Index immediately preceding such Exhibits, and are incorporated herein by reference.

(b) Reports on Form 8-K

None.

(c) Exhibits

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

(d) Financial Statement Schedules

The Company hereby files as part of this Annual Report on Form 10-K the financial statement schedule listed in Item 14(a)2 as set forth above.

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*Referenced information is contained in the 1996 Annual Report to Stockholders, filed as Exhibit 13.1 hereto.

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 on the 23rd day of December, 1996.

PARAMETRIC TECHNOLOGY CORPORATION

By /S/ Steven C. Walske

Steven C. Walske, Chairman
and Chief Executive Officer

POWER OF ATTORNEY

We, the undersigned officers and directors of Parametric Technology Corporation, hereby severally constitute Edwin J. Gillis and Martha L. Durcan, Esq., and each of them singly, our true and lawful attorneys with full power to them, and each of them singly, to sign for us and in our names in the capacities indicated below any and all subsequent amendments to this report, 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 each of said attorneys-in-fact may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated below on the 23rd day of December, 1996.

Signature	Title
/S/ Steven C. Walske Steven C. Walske	Chief Executive Officer and Chairman of the Board (Principal Executive Officer)
/S/ C. Richard Harrison C. Richard Harrison	President, Chief Operating Officer and Director
/S/ Edwin J. Gillis Edwin J. Gillis	Executive Vice President of Finance and Administration, Chief Financial Officer and Treasurer (Principal Financial Officer and Principal Accounting Officer)
/S/ Robert N. Goldman Robert N. Goldman	Director
/S/ Donald K. Grierson Donald K. Grierson	Director
Oscar B. Marx, III	Director
/S/ Michael E. Porter Michael E. Porter	Director
/S/ Noel G. Posternak Noel G. Posternak	Director

EXHIBIT INDEX

EXHIBIT
NUMBER

2.1 - Asset Purchase Agreement dated as of March 1, 1995 among Parametric Technology Corporation, a Massachusetts corporation, PTC Acquisition Corporation, a Massachusetts corporation and wholly owned subsidiary of

Parametric Technology Corporation, and Evans & Sutherland Computer Corporation, a Utah corporation with Amendment No. 1 thereto (filed as Exhibit 2.1 to the Current Report on Form 8-K dated April 12, 1995 and incorporated herein by reference).

2.2 - Agreement and Plan of Merger dated as of May 30, 1995 among Parametric Technology Corporation, Rasna Corporation and certain shareholders of Rasna Corporation (filed as Exhibit 2.1 to the Quarterly Report on Form 10-Q for the fiscal quarter ended July 1, 1995 and incorporated herein by reference).

3.1 - Restated Articles of Organization of the Company (filed as Exhibit 3.1 to the Quarterly Report on Form 10-Q for the fiscal quarter ended March 30, 1996 and incorporated herein by reference).

3.2 - By-Laws, as amended and restated, of the Company; filed herewith.

10.1 - Registration Rights Agreement dated March 26, 1987, as amended, among the Company and certain investors of the Company (filed as Exhibit 10.1 to the Company's Registration Statement on Form S-1 (File No. 33-31620) and incorporated herein by reference).

10.2* - 1987 Incentive Stock Option Plan of the Company, as amended; filed herewith.

10.3 - Lease dated May 22, 1987 by and between the Company and the Trustees of 128 Technology Trust (filed as Exhibit 10.4 to the Company's Registration Statement on Form S-1 (File No. 33-31620) and incorporated herein by reference).

10.4 - Form of the Company's Distributorship Agreement (filed as Exhibit 10.8 to the Company's Registration Statement on Form S-1 (File No. 33-31620) and incorporated herein by reference).

10.5 - Form of the Company's Agreement for Licensed Products (filed as Exhibit 10.11 to the Company's Registration Statement on Form S-1 (File No. 33-31620) and incorporated herein by reference).

10.6* - Employment Letter with Steven C. Walske dated October 17, 1986 (filed as Exhibit 10.12 to the Company's Registration Statement on Form S-1 (File No. 33-31620) and incorporated herein by reference).

10.7* - Severance Agreement with Steven C. Walske dated June 20, 1990; filed herewith.

10.8 - Lease Amendment dated November 8, 1989 by and between the Company and the Trustees of 128 Technology Trust; filed herewith.

10.9 - Lease Amendment dated January 21, 1991 by and between the Company and the Trustees of 128 Technology Trust (filed as Exhibit 10.20 to the Annual Report on Form 10-K for the fiscal year ended September 30, 1991 and incorporated herein by reference).

10.10* - Parametric Technology Corporation 1992 Director Stock Option Plan, as amended; filed herewith.

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*Identifies a management contract or compensatory plan or arrangement in which an executive officer or director of the Company participates.

10.11 - Lease Amendment dated March 6, 1992 by and between the Company and the Trustees of 128 Technology Trust (filed as Exhibit 10.18 to the Annual Report on Form 10-K for the fiscal year ended September 30, 1992 and incorporated herein by reference).

10.12 - Lease Amendment dated November 18, 1992 by and between the Company and the Trustees of 128 Technology Trust (filed as Exhibit 10.19 to the Annual Report on Form 10-K for the fiscal year ended September 30, 1992 and incorporated herein by reference).

10.13 - Form of the Company's Sales Representative Agreement (filed as Exhibit

10.10 to the Company's Registration Statement on Form S-1 (File No. 33-31620) and incorporated herein by reference).

10.14 - Lease Amendment dated June 8, 1993 by and between the Company and the Trustees of 128 Technology Trust (filed as Exhibit 10.21 to the Annual Report on Form 10-K for the fiscal year ended September 30, 1993 and incorporated herein by reference).

10.15* - First Amendment to Severance Agreement with Steven C. Walske dated June 15, 1993 (filed as Exhibit 10.2 to the Quarterly Report on Form 10-Q for the fiscal quarter ended July 3, 1993 and incorporated herein by reference).

10.16* - Severance Agreement with C. Richard Harrison dated August 19, 1994 (filed as Exhibit 10.19 to the Annual Report on Form 10-K for the fiscal year ended September 30, 1994 and incorporated herein by reference).

10.17 - Lease Amendment dated April 14, 1994 by and between the Company and the Trustees of 128 Technology Trust (filed as Exhibit 10.22 to the Annual Report on form 10-K for the fiscal year ended September 30, 1994 and incorporated herein by reference).

10.18 - Lease Amendment dated January 19, 1995 by and between the Company and the Trustees of 128 Technology Trust (filed as Exhibit 10.23 to the Annual Report on Form 10-K for the fiscal year ended September 30, 1995 and incorporated herein by reference).

10.19* - Severance Agreement with Edwin J. Gillis dated October 2, 1995 (filed as Exhibit 10.24 to the Annual Report on Form 10-K for the fiscal year ended September 30, 1995 and incorporated herein by reference).

10.20* - Parametric Technology Corporation 1996 Directors Stock Option Plan, as amended; filed herewith.

13.1 - Annual Report to Stockholders for the fiscal year ended September 30, 1996 (which is not deemed to be "filed" except to the extent that portions thereof are expressly incorporated by reference in this Annual Report on Form 10-K); filed herewith.

16.1 - Letter from Price Waterhouse LLP (filed as Exhibit 16.1 to the Current Report on Form 8-K dated November 17, 1995 and incorporated herein by reference).

21.1 - Subsidiaries of the Company; filed herewith.

23.1 - Report of Coopers & Lybrand L.L.P.; filed herewith.

23.2 - Consent of Coopers & Lybrand L.L.P.; filed herewith.

23.3 - Report of Price Waterhouse LLP; filed herewith.

23.4 - Report of Price Waterhouse LLP on Financial Statement Schedules; filed herewith.

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*Identifies a management contract or compensatory plan or arrangement in which an executive officer or director of the Company participates.

23.5 - Consent of Price Waterhouse LLP; filed herewith.

23.6 - Report of Deloitte & Touche LLP; filed herewith.

23.7 - Consent of Deloitte & Touche LLP; filed herewith.

27.1 - Financial Data Schedule; filed herewith.

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*Identifies a management contract or compensatory plan or arrangement in which an executive officer or director of the Company participates.

PARAMETRIC TECHNOLOGY CORPORATION
Valuation and Qualifying Accounts

(in thousands)

Column A	Column B	Column C		Column D	Column E
		Additions			
Description	Balance at Beginning of period	Charged to costs and expenses	Charged to other accounts	Deductions(1)	Balance at end of period
YEAR ENDED SEPTEMBER 30, 1996					
Allowance for Doubtful Accounts......	$2,733	1,404	-	(1,227)	$2,910
YEAR ENDED SEPTEMBER 30, 1995					
Allowance for Doubtful Accounts......	$2,694	1,110	-	(1,071)	$2,733
YEAR ENDED SEPTEMBER 30, 1994					
Allowance for Doubtful Accounts......	$1,546	1,388	-	(240)	$2,694

(1) Uncollectible accounts written off, net of recoveries.

EXHIBIT 3.2

BY-LAWS

OF

PARAMETRIC TECHNOLOGY CORPORATION

(As Amended through November 21, 1990)

By-Laws

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B Y - L A W S

OF

PARAMETRIC TECHNOLOGY CORPORATION

ARTICLE 1 - Stockholders

1.1 Place of Meetings. All meetings of stockholders shall be held within the Commonwealth of Massachusetts unless the Articles of Organization permit the holding of stockholders' meetings outside Massachusetts, in which event such meetings may be held either within or without Massachusetts. Meetings of stockholders shall be held at the principal office of the corporation unless a different place is fixed by the Board of Directors or the President and stated in the notice of the meeting.

1.2 Annual Meeting. The annual meeting of stockholders shall be held within six months after the end of each fiscal year of the corporation on a date to be fixed by the Board of Directors or the President (which date shall not be a legal holiday in the place where the meeting is to be held) at the time and place to be fixed by the Board of Directors or the President and stated in the notice of the meeting. The purposes for which the annual meeting is to be held, in addition to those prescribed by law, by the Articles of Organization or by these By-Laws, may be specified by the Board of Directors or the President. If no annual meeting is held in accordance with the foregoing provisions, a special meeting may be held in lieu of the annual meeting, and any action taken at that special meeting shall have the same effect as if it had been taken at the annual meeting, and in such case all references in these By-Laws to the annual meeting of stockholders shall be deemed to refer to such special meeting.

1.3 Special Meetings. Special meetings of stockholders may be called by the President or by the Board of Directors. Upon written application of one or more stockholders who are entitled to vote and who hold at least 10% (or 40% in the event the corporation has a class of voting stock registered under the Securities Exchange Act of 1934, as amended) of the capital stock entitled to vote at the meeting, special meetings shall be called by the Clerk, or in the case of the death, absence, incapacity or refusal of the Clerk, by any other officer.

1.4 Notice of Meetings. A written notice of each meeting of stockholders, stating the place, date and hour thereof, and the purposes for which the meeting is to be held, shall be given by the Clerk, Assistant Clerk or other person calling the meeting at least seven days before the meeting to each stockholder entitled to vote at the meeting and to each stockholder who by law, by the Articles of Organization or by these By-Laws is entitled to such notice, by leaving such notice with him or at his residence or usual place of business, or by mailing it postage prepaid and addressed to him at his address as it appears in the records of the corporation. Whenever any notice is required to be given to a stockholder by law, by the Articles of Organization or by these By-Laws, no such notice need be given if a written

waiver of notice, executed before or after the meeting by the stockholder or his authorized attorney, is filed with the records of the meeting.

1.5 Quorum. Unless the Articles of Organization otherwise provide, the holders of a majority of the number of shares of the stock issued, outstanding and entitled to vote on any matter shall constitute a quorum with respect to that matter, except that if two or more classes of stock are outstanding and entitled to vote as separate classes, then in the case of each such class a quorum shall consist of the holders of a majority of the number of shares of the stock of that class issued, outstanding and entitled to vote. Shares owned directly or indirectly by the corporation shall not be counted in determining the total number of shares outstanding for this purpose.

1.6 Adjournments. Any meeting of stockholders may be adjourned to any other time and to any other place at which a meeting of stockholders may be held under these By-Laws by the stockholders present or represented at the meeting, although less than a quorum, or by any officer entitled to preside or to act as clerk of such meeting, if no stockholder is present. It shall not be necessary to notify any stockholder of any adjournment. Any business which could have been transacted at any meeting of the stockholders as originally called may be transacted at any adjournment of the meeting.

1.7 Voting and Proxies. Each stockholder shall have one vote for each share of stock entitled to vote held of record by such stockholder and a proportionate vote for each fractional share so held, unless otherwise provided by the Articles of Organization. Stockholders may vote either in person or by written proxy dated not more than six months before the meeting named in the proxy. Proxies shall be filed with the clerk of the meeting, or of any adjourned meeting, before being voted. Except as otherwise limited by their terms, a proxy shall entitle the persons named in the proxy to vote at any adjournment of such meeting, but shall not be valid after final adjournment of such meeting. A proxy with respect to stock held in the name of two or more persons shall be valid if executed by any one of them, unless at or prior to exercise of the proxy the corporation receives a specific written notice to the contrary from any one of them. A proxy purported to be executed by or on behalf of a stockholder shall be deemed valid unless challenged at or prior to its exercise.

1.8 Action at Meeting. When a quorum is present at any meeting, the holders of a majority of the stock present or represented and voting on a matter (or if there are two or more classes of stock entitled to vote as separate classes, then in the case of each such class, the holders of a majority of the stock of that class present or represented and voting on a matter), shall decide any matter to be voted on by the stockholders, except when a larger vote is required by law, the Articles of Organization or these By-Laws. Any election by stockholders shall be determined by a plurality of the votes cast by the stockholders entitled to vote at the election. No ballot shall be required for such election unless requested by a stockholder present or represented at the meeting and entitled to vote in the election. The corporation shall not directly or indirectly vote any share of its own stock.

1.9 Action without Meeting. Any action required or permitted to be taken at any meeting of the stockholders may be taken without a meeting if all stockholders entitled to

vote on the matter consent to the action in writing and the written consents are filed with the records of the meetings of stockholders. Each such consent shall be treated for all purposes as a vote at a meeting.

ARTICLE 2 - Directors

2.1 Powers. The business of the corporation shall be managed by a Board of Directors, who may exercise all the powers of the corporation except as otherwise provided by law, by the Articles of Organization or by these By-Laws. In the event of a vacancy in the Board of Directors, the remaining Directors, except as otherwise provided by law, may exercise the powers of the full Board until the vacancy is filled.

2.2 Number, Election and Qualification. The number of Directors which shall constitute the whole Board of Directors shall be determined by vote of the stockholders or the Board of Directors, but shall consist of not less than three Directors (except that whenever there shall be only two stockholders the number of Directors shall be not less than two and whenever there shall be only one stockholder or prior to the issuance of any stock, there shall be at least one Director). The number of Directors may be decreased at any time and from time to time either by the stockholders or by a majority of the Directors then in office, but only to eliminate vacancies existing by reason of the death, resignation, removal or expiration of the term of one or more Directors. Directors need not be stockholders of the corporation.

Notwithstanding the foregoing provisions, if the corporation is a "registered corporation" within the meaning of Section 50A of the Massachusetts Business Corporation Law and has not elected, pursuant to paragraph (b) of such Section 50A, to be exempt from the provisions of paragraph (a) of such Section 50A, then:

(i) In accordance with paragraph (d), clause (iv) of such Section 50A, the number of directors shall be fixed only by vote of the Board of Directors.

(ii) In accordance with paragraph (a) of such Section 50A, the Directors of the corporation shall be classified with respect to the time for which they severally hold office, into three classes, as nearly equal in number as possible; the term of office of those of the first class ("Class I Directors") to continue until the first annual meeting following the date the corporation becomes subject to such paragraph (a) and until their successors are duly elected and qualified; the term of office of those of the second class ("Class II Directors") to continue until the second annual meeting following the date the corporation becomes subject to such paragraph (a) and until their successors are duly elected and qualified; and the term of office of those of the third class ("Class III Directors") to continue until the third annual meeting following the date the corporation becomes subject to such paragraph (a) and until their successors are duly elected and qualified. At each annual meeting of the corporation, the successors to the class of directors whose term expires at that meeting shall be elected to hold officer for a term continuing until the annual meeting held in the third year following the year of their election and until their successors are duly elected and qualified.

2.3 Enlargement of the Board. Subject to the second paragraph of Section 2.2 above, the number of Directors may be increased at any time and from time to time by the stockholders or by a majority of the Directors then in office.

2.4 Tenure. Subject to the second paragraph of Section 2.2 above, each Director shall hold office until the next annual meeting of stockholders and until his successor is elected and qualified or until his earlier death, resignation or removal.

2.5 Vacancies. Unless and until filled by the stockholders, any vacancy in the Board of Directors, however occurring, including a vacancy resulting from an enlargement of the Board, may be filled by vote of a majority of the Directors present at any meeting of Directors at which a quorum is present. Each such successor shall hold office for the unexpired term of his predecessor and until his successor is chosen and qualified or until his earlier death, resignation or removal.

Notwithstanding the foregoing provisions, if the corporation is a "registered corporation" within the meaning of Section 50A of the Massachusetts Business Corporation Law and has not elected, pursuant to paragraph (b) of such Section 50A, to be exempt from the provisions of paragraph (a) of such Section 50A, then (i) vacancies and newly created directorships, whether resulting from an increase in the size of the Board of Directors, from the death, resignation, disqualification or removal of a director or otherwise, shall be filled solely by the affirmative vote of a majority of the remaining Directors then in office, even though less than a quorum of the Board of Directors, and (ii) any Director elected in accordance with clause (i) shall hold office for the remainder of the full term of the class of Directors in which the vacancy occurred or the new directorship was created and until such Director's successor shall have been elected and qualified or until his earlier death, resignation or removal.

2.6 Resignation. Any Director may resign by delivering his written resignation to the corporation at its principal office or to the President or Clerk. Such resignation shall be effective upon receipt unless it is specified to be effective at some other time or upon the happening of some other event.

2.7 Removal. A Director may be removed from office with or without cause by vote of the holders of a majority of the shares entitled to vote in the election of Directors. However, the Directors elected by the holders of a particular class or series of stock may be removed from office with or without cause only by vote of the holders of a majority of the outstanding shares of such class or series. In addition, a Director may be removed from office for cause by vote of a majority of the Directors then in office. A Director may be removed for cause only after reasonable notice and opportunity to be heard before the body proposing to remove him.

Notwithstanding the foregoing provisions, if the corporation is a "registered corporation" within the meaning of Section 50A of the Massachusetts Business Corporation Law and has not elected, pursuant to paragraph (b) of such Section 50A, to be exempt from the provisions of paragraph (a) of such Section 50A, then stockholders may effect, by the affirmative vote of a majority of the shares outstanding and entitled to vote in the election of

Directors, the removal of any Director or Directors or the entire Board of Directors only for cause, as defined in paragraph (e) of such Section 50A.

2.8 Regular Meetings. Regular meetings of the Directors may be held without call or notice at such places, within or without Massachusetts, and at such times as the Directors may from time to time determine, provided that any Director who is absent when such determination is made shall be given notice of the determination. A regular meeting of the Directors may be held without a call or notice immediately after and at the same place as the annual meeting of stockholders.

2.9 Special Meetings. Special meetings of the Directors may be held at any time and place, within or without Massachusetts, designated in a call by the Chairman of the Board, President, Treasurer, two or more Directors or by one Director in the event that there is only a single Director in office.

2.10 Meetings by Telephone Conference Calls. Directors or members of any committee designated by the Directors may participate in a meeting of the Directors or such committee by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other at the same time and participation by such means shall constitute presence in person at a meeting.

2.11 Notice of Special Meetings. Notice of any special meeting of the Directors shall be given to each Director by the Secretary or Clerk or by the officer or one of the Directors calling the meeting. Notice shall be duly given to each Director (i) by notice given to such Director in person or by telephone at least 48 hours in advance of the meeting, (ii) by sending a telegram or telex, or by delivering written notice by hand, to his last known business or home address at least 48 hours in advance of the meeting, or (iii) by mailing written notice to his last known business or home address at least 72 hours in advance of the meeting. Notice need not be given to any Director if a written waiver of notice, executed by him before or after the meeting, is filed with the records of the meeting, or to any Director who attends the meeting without protesting prior to the meeting or at its commencement the lack of notice to him. A notice or waiver of notice of a Directors' meeting need not specify the purposes of the meeting. If notice is given in person or by telephone, an affidavit of the Secretary, Clerk, officer or Director who gives such notice that the notice has been duly given shall, in the absence of fraud, be conclusive evidence that such notice was duly given.

2.12 Quorum. At any meeting of the Board of Directors, a majority of the Directors then in office shall constitute a quorum. Less than a quorum may adjourn any meeting from time to time without further notice.

2.13 Action at Meeting. At any meeting of the Board of Directors at which a quorum is present, the vote of a majority of those present shall be sufficient to take any action, unless a different vote is specified by law, by the Articles of Organization or by these By-Laws.

2.14 Action by Consent. Any action required or permitted to be taken at any meeting of the Board of Directors

may be taken without a meeting if all the Directors consent to the action in writing and the written consents are filed with the records of the Directors' meetings. Each such consent shall be treated for all purposes as a vote at a meeting.

2.15 Committees. The Board of Directors may, by vote of a majority of the Directors then in office, elect from their number an executive committee or other committees and may by like vote delegate to committees so elected some or all of their powers to the extent permitted by law. Except as the Board of Directors may otherwise determine, any such committee may make rules for the conduct of its business, but unless otherwise provided by the Directors or in such rules, its business shall be conducted as nearly as possible in the same manner as is provided by these By-Laws for the Directors. The Board of Directors shall have the power at any time to fill vacancies in any such committee, to change its membership or to discharge the committee.

2.16 Compensation of Directors. Directors may be paid such compensation for their services and such reimbursement for expenses of attendance at meetings as the Board of Directors may from time to time determine. No such payment shall preclude any Director from serving the corporation in any other capacity and receiving compensation therefor.

ARTICLE 3 - Officers

3.1 Enumeration. The officers of the corporation shall consist of a President, a Treasurer, a Clerk and such other officers with such other titles as the Board of Directors may determine, including, but not limited to, a Chairman of the Board, a Vice Chairman of the Board, a Secretary and one or more Vice Presidents, Assistant Treasurers, Assistant Clerks and Assistant Secretaries.

3.2 Election. The President, Treasurer and Clerk shall be elected annually by the Board of Directors at their first meeting following the annual meeting of stockholders. Other officers may be chosen or appointed by the Board of Directors at such meeting or at any other meeting.

3.3 Qualification. No officer need be a director or stockholder. Any two or more offices may be held by the same person. The Clerk shall be a resident of Massachusetts unless the corporation has a resident agent appointed for the purpose of service of process. Any officer may be required by the

Directors to give bond for the faithful performance of his duties to the corporation in such amount and with such sureties as the Directors may determine. The premiums for such bonds may be paid by the corporation.

3.4 Tenure. Except as otherwise provided by law, by the Articles of Organization or by these By-Laws, the President, Treasurer and Clerk shall hold office until the first meeting of the Directors following the next annual meeting of stockholders and until their respective successors are chosen and qualified; and all other officers shall hold office until the first meeting of the Directors following the annual meeting of stockholders, unless a different term is specified in the vote choosing or appointing them, or until his earlier death, resignation or removal.

3.5 Resignation and Removal. Any officer may resign by delivering his written resignation to the corporation at its principal office or to the President, Clerk or Secretary. Such resignation shall be effective upon receipt unless it is specified to be effective at some other time or upon the happening of some other event.

Any officer may be removed at any time, with or without cause, by vote of a majority of the entire number of Directors then in office. An officer may be removed for cause only after reasonable notice and opportunity to be heard by the Board of Directors prior to action thereon.

Except as the Board of Directors may otherwise determine, no officer who resigns or is removed shall have any right to any compensation as an officer for any period following his resignation or removal, or any right to damages on account of such removal, whether his compensation be by the month or the year or otherwise, unless such compensation is expressly provided in a duly authorized written agreement with the corporation.

3.6 Vacancies. The Board of Directors may fill any vacancy occurring in any office for any reason and may, in its discretion, leave unfilled for such period as it may determine any offices other than those of President, Treasurer and Clerk. Each such successor shall hold office for the unexpired term of his predecessor and until his successor is chosen and qualified or until he sooner dies, resigns or is removed.

3.7 Chairman of the Board and Vice-Chairman of the Board. The Board of Directors may appoint a Chairman of the Board and may designate him as Chief Executive Officer. If the Board of Directors appoints a Chairman of the Board, he shall perform such duties and possess such powers as are assigned to him by the Board of Directors. If the Board of Directors appoints a Vice-Chairman of the Board, he shall, in the absence or disability of the Chairman of the Board, perform the duties and exercise the powers of the Chairman of the Board and shall perform such other duties and possess such other powers as may from time to time be vested in him by the Board of Directors.

3.8 President. The President shall, subject to the direction of the Board of Directors, have general charge and supervision of the business of the corporation. Unless otherwise provided by the Board of Directors, he shall preside at all meetings of the stockholders and, if he is a Director, at all meetings of the Board of Directors. Unless the Board of Directors has designated the Chairman of the Board or another officer as Chief Executive Officer, the President shall be the Chief Executive Officer of the corporation. The President shall perform such other duties and shall possess such other powers as the Board of Directors may from time to time prescribe.

3.9 Vice Presidents. Any Vice President shall perform such duties and possess such powers as the Board of Directors or the President may from time to time prescribe. In the event of the absence, inability or refusal to act of the President, the Vice President (or if there shall be more than one, the Vice Presidents in the order determined by the Board of Directors) shall perform the duties of the President and when so performing shall have all the powers of and be subject to all the restrictions upon the President. The Board of Directors may assign to any Vice President the title of Executive Vice President, Senior Vice President or any other title selected by the Board of Directors.

3.10 Treasurer and Assistant Treasurers. The Treasurer shall perform such duties and shall have such powers as may from time to time be assigned to him by the Board of Directors or the President. In addition, the Treasurer shall perform such duties and have such powers as are incident to the office of Treasurer, including without limitation the duty and power to keep and be responsible for all funds and securities of the corporation, to deposit funds of the corporation in depositories selected in accordance with these By-Laws, to disburse such funds as ordered by the Board of Directors, to make proper accounts of such funds, and to render as required by the Board of Directors statements of all such transactions and of the financial condition of the corporation.

The Assistant Treasurers shall perform such duties and possess such powers as the Board of Directors, the President or the Treasurer may from time to time prescribe. In the event of the absence, inability or refusal to act of the Treasurer, the Assistant Treasurer (or if there shall be more than one, the Assistant Treasurers in the order determined by the Board of Directors) shall perform the duties and exercise the powers of the Treasurer.

3.11 Clerk and Assistant Clerks. The Clerk shall perform such duties and shall possess such powers as the Board of Directors or the President may from time to time prescribe. In addition, the Clerk shall perform such duties and have such powers as are incident to the office of the Clerk, including without limitation the duty and power to give notices of all meetings of stockholders and special meetings of the Board of Directors, to attend all meetings of stockholders and the Board of Directors and keep a record of the proceedings, to maintain a stock ledger and prepare lists of stockholders and their addresses as required, to be custodian of corporate records and the corporate seal and to affix and attest to the same on documents.

Any Assistant Clerk shall perform such duties and possess such powers as the Board of Directors, the President or the Clerk may from time to time prescribe. In the event of the absence, inability or refusal to act of the Clerk, the Assistant Clerk (or if there shall be more than one, the Assistant Clerks in the order determined by the Board of Directors) shall perform the duties and exercise the powers of the Clerk.

In the absence of the Clerk or any Assistant Clerk at any meeting of stockholders or Directors, the person presiding at meeting shall designate a temporary Clerk to keep a record of the meeting.

3.12 Secretary and Assistant Secretaries. If a Secretary is appointed, he shall attend all meetings of the Board of Directors and shall keep a record of the meetings of the Directors. He shall, when required, notify the Directors of their meetings, and shall possess such other powers and shall perform such other duties as the Board of Directors or the President may from time to time prescribe.

Any Assistant Secretary shall perform such duties and possess such powers as the Board of Directors, the President or the Secretary may from time to time prescribe. In the

event of the absence, inability or refusal to act of the Secretary, the Assistant Secretary (or if there shall be more than one, the Assistant Secretaries in the order determined by the Board of Directors) shall perform the duties and exercise the powers of the Secretary.

3.13 Salaries. Officers of the corporation shall be entitled to such salaries, compensation or reimbursement as shall be fixed or allowed from time to time by the Board of Directors.

ARTICLE 4 - Capital Stock

4.1 Issue of Capital Stock. Unless otherwise voted by the stockholders, the whole or any part of any unissued balance of the authorized capital stock of the corporation or the whole or any part of the capital stock of the corporation held in its treasury may be issued or disposed of by vote of the Board of Directors, in such manner, for such consideration and on such terms as the Directors may determine.

4.2 Certificate of Stock. Each stockholder shall be entitled to a certificate of the capital stock of the corporation in such form as may be prescribed from time to time by the Directors. The certificate shall be signed by the President or a Vice President, and by the Treasurer or an Assistant Treasurer, but when a certificate is countersigned by a transfer agent or a registrar, other than a Director, officer or employee of the corporation, such signature may be a facsimile. In case any officer who has signed or whose facsimile signature has been placed upon such certificate shall have ceased to be such officer before such certificate is issued, it may be issued by the corporation with the same effect as if he were such officer at the time of its issue.

Every certificate for shares of stock which are subject to any restriction on transfer pursuant to the Articles of Organization, the By-Laws, applicable securities laws or any agreement to which the corporation is a party, shall have conspicuously noted on the face or back of the certificate either the full text of the restriction or a statement of the existence of such restrictions and a statement that the corporation will furnish a copy of the restrictions to the holder of such certificate upon written request and without charge. Every certificate issued when the corporation is authorized to issue more than one class or series of stock shall set forth on its face or back either the full text of the preferences, voting powers, qualifications and special and relative rights of the shares of each class and series authorized to be issued or a statement of the existence of such preferences, powers, qualifications and rights and a statement that the corporation will furnish a copy thereof to the holder of such certificate upon written request and without charge.

4.3 Transfers. Subject to the restrictions, if any, stated or noted on the stock certificates, shares of stock may be transferred on the books of the corporation by the surrender to the corporation or its transfer agent of the certificate representing such shares properly endorsed or accompanied by a written assignment or power of attorney properly executed, and with such proof of authority or the authenticity of signature as the corporation or its transfer agent may reasonably require. Except as may be otherwise required by law, by the Articles of Organization or by these By-Laws, the corporation shall be entitled to treat

the record holder of stock as shown on its books as the owner of such stock for all purposes, including the payment of dividends and the right to vote with respect thereto, regardless of any transfer, pledge or other disposition of such stock until the shares have been transferred on the books of the corporation in accordance with the requirements of these By-Laws.

It shall be the duty of each stockholder to notify the corporation of his post office address and of his taxpayer identification number.

4.4 Record Date. The Board of Directors may fix in advance a time not more than 60 days preceding the date of any meeting of stockholders or the date for the payment of any dividend or the making of any distribution to stockholders or the last day on which the consent or dissent of stockholders may be effectively expressed for any purpose, as the record date for determining the stockholders having the right to notice of and to vote at such meeting, and any adjournment, or the right to receive such dividend or distribution or the right to give such consent or dissent. In such case only stockholders of record on such record date shall have such right, notwithstanding any transfer of stock on the books of the corporation after the record date. Without fixing such record date the Directors may for any of such purposes close the transfer books for all or any part of such period.

If no record date is fixed and the transfer books are not closed, the record date for determining the stockholders having the right to notice of or to vote at a meeting of stockholders shall be at the close of business on the day before the day on which notice is given, and the record date for determining the stockholders for any other purpose shall be at the close of business on the day on which the Board of Directors acts with respect to such purpose.

4.5 Replacement of Certificates. In case of the alleged loss or destruction or the mutilation of a certificate of stock, a duplicate certificate may be issued in place of the lost, destroyed or mutilated certificate, upon such terms as the Directors may prescribe, including the presentation of reasonable evidence of such loss, destruction or mutilation and the giving of such indemnity as the Directors may require for the protection of the corporation or any transfer agent or registrar.

ARTICLE 5 - Miscellaneous Provisions

5.1 Fiscal Year. Except as otherwise set forth in the Articles of Organization or as otherwise determined from time to time by the Board of Directors, the fiscal year of the corporation shall in each year end on September 30.

5.2 Seal. The seal of the corporation shall, subject to alteration by the Directors, bear its name, the word "Massachusetts" and the year of its incorporation.

5.3 Voting of Securities. Except as the Board of Directors may otherwise designate, the president or Treasurer may waive notice of, and act as, or appoint any person or persons to act as, proxy or attorney-in-fact for this corporation (with or without power of substitution) at, any meeting of stockholders or shareholders of any other corporation or organization, the securities of which may be held by this corporation.

5.4 Corporate Records. The original, or attested copies, of the Articles of Organization, By-Laws and records of all meetings of the incorporators and stockholders, and the stock records, which shall contain the names of all stockholders and the record address and the amount of stock held by each, shall be kept in Massachusetts at the principal office of the corporation, or at an office of its transfer agent or of the Clerk. These copies and records need not all be kept in the same office. They shall be available at all reasonable times for the inspection of any stockholder for any proper purpose, but not to secure a list of stockholders for the purpose of selling the list or copies of the list or of using the list for a purpose other than in the interest of the applicant, as a stockholder, relative to the affairs of the corporation.

5.5 Evidence of Authority. A certificate by the Clerk or Secretary, or an Assistant Clerk or Assistant Secretary, or a temporary Clerk or temporary Secretary, as to any action taken by the stockholders, Directors, any committee or any officer or representative of the corporation shall as to all persons who rely on the certificate in good faith be conclusive evidence of such action.

5.6 Articles of Organization. All references in these By-Laws to the Articles of Organization shall be deemed to refer to the Articles of Organization of the corporation, as amended and in effect from time to time.

5.7 Severability. Any determination that any provision of these By-Laws is for any reason inapplicable, illegal or ineffective shall not affect or invalidate any other provision of these By-Laws.

5.8 Pronouns. All pronouns used in these By-Laws shall be deemed to

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refer to the masculine, feminine or neuter, singular or plural, as the identity of the person or persons may require.

ARTICLE 6 - Amendments

These By-Laws may be amended by vote of the holders of a majority of the shares of each class of the capital stock at the time outstanding and entitled to vote at any annual or special meeting of stockholders, if notice of the substance of the proposed amendment is stated in the notice of such meeting. If authorized by the Articles of Organization, the Directors, by a majority of their number then in office, may also make, amend or repeal these By-Laws, in whole or in part, except with respect to (a) the provisions of these By- Laws governing (i) the removal of directors and (ii) the amendment of these By-Laws and (b) any provision of these By-Laws which by law, the Articles of Organization or these By-Laws requires action by the stockholders.

No change in the date fixed in these By-Laws for the annual meeting of stockholders may be made within 60 days before the date fixed in these By-Laws. Subject to the preceding sentence, notice of any change in the date fixed in these By-Laws for the annual meeting of stockholders shall be given to each stockholder in person or by letter mailed to

his last known post office address at least 20 days before the new date fixed for such meeting.

Not later than the time of giving notice of the meeting of stockholders next following the making, amending or repealing by the Directors of any By-Law, notice stating the substance of such change shall be given to all stockholders entitled to vote on amending the By-Laws.

Any By-Law adopted by the Directors may be amended or repealed by the stockholders entitled to vote on amending the By-Laws.

EXHIBIT 10.2

PARAMETRIC TECHNOLOGY CORPORATION

1987 Incentive Stock Option Plan

As amended through the October 2, 1996 meeting of the Board of Directors

1. Definitions. As used in this Incentive Stock Option Plan of PARAMETRIC TECHNOLOGY CORPORATION, the following terms shall have the following meanings:

1. Board shall mean the company's Board of Directors.

2. Code shall mean the United States Internal Revenue Code of 1986, as amended from time to time.

3. Company shall mean PARAMETRIC TECHNOLOGY CORPORATION.

4. Fair Market Value shall mean the value of a share of Stock of the Company on any date as determined by the Board.

5. Grant Date shall mean the date on which an Option is granted, as specified in Section 7.

6. Incentive Stock Option shall mean an Option intended to qualify as an incentive stock option within the meaning of Section 422A of the Code.

7. Option shall mean an option, granted under the Plan, to purchase shares of the Stock.

8. Option Agreement shall mean an agreement between the Company and an Optionee, setting forth the terms and conditions of an Option.

9. Option Price shall mean the price per share of the Stock to be paid by an Optionee upon exercising an Option under this Plan.

10. Option Share shall mean any share of the Stock transferred to an Optionee upon exercise of an Option pursuant to this Plan.

11. Optionee shall mean a person eligible to receive an Option, as provided in Section 8, to whom an Option shall have been granted under this Plan.

12. Plan shall mean this Incentive Stock Option Plan of the Company as it may be amended from time to time.

13. Stock shall mean the common stock, $.01 par value, of the Company.

14. Eligible Participants shall mean key employees and

consultants of the Company.

15. Engagement shall mean the employment relationship, in the case of employees, or the services arrangement, in the case of consultants, between the Company and the Eligible Participants, as the case may be.

2. Purpose. This Incentive Stock Option Plan is intended to encourage ownership of the Stock by Eligible Participants of the Company and of its subsidiaries and to provide additional incentive for them to promote the growth, development and financial success of the Company's business. This Plan is intended to be an incentive stock option plan, and the Company may grant pursuant to this Plan either Incentive Stock Options or Options which do not qualify as Incentive Stock Options.

3. Term of the Plan. Options under this Plan may be granted on or after the date this Plan is approved by the stockholders of the Company; but no Option under this Plan may be granted more than ten years from the earlier of (a) the date this Plan is adopted by the Board, and (b) the date this Plan is approved by the stockholders of the Company.

4. Stock Subject to the Plan. Subject to adjustment as provided in Section 14 of this Plan, at no time shall the sum of (i) the number of shares of the Stock then outstanding which are attributable to the exercise of Options granted under this Plan, and (ii) the number of shares of the Stock then issuable upon exercise of outstanding Options granted under this Plan exceed 48,792,000 shares. Shares to be issued upon the exercise of Options granted under this Plan may be either authorized but unissued or shares held by the Company in its treasury. If any Option expires or terminates for any reason without having been exercised in full, the shares not purchased thereunder shall again be available for Options thereafter to be granted under this Plan.

5. Administration. This Plan shall be administered by the Board or by a duly appointed committee of the Board having such powers as shall be specified by the Board; provided, however, that any grants of Options under this Plan to an officer (as defined in Section 16, and the rules promulgated thereunder ("Section 16"), of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) or director of the Company shall be made by the Officers' Stock Option Committee which shall, in accordance with Section 16 of the Exchange Act, consist of "Non-Employee Director" members of the Board. Subsequent references herein to the Board shall also refer to such committees, as appropriate, if they have been appointed. No member of the Board shall act upon any matter exclusively affecting any Option granted or to be granted to himself or herself under this Plan. Subject to the provisions of this Plan, the Board shall have complete authority, in its discretion, to make the following determinations with respect to each Option to be granted by the Company: (a) the Eligible Participant to receive the Option; (b) the time of granting the Option; (c) the number of shares subject thereto; (d) the Option Price; (e) the Option period; and (f) the period of exercisability

following the termination of Optionee's Engagement. In making such determinations, the Board may take into account the nature of the services rendered by the respective Eligible Participants, their present and potential contributions to the success of the Company and its subsidiaries, and such other factors as the Board, in its discretion, shall deem relevant. Subject to the provisions of this Plan, the Board shall also have complete authority to interpret this Plan, to prescribe, amend and rescind rules and regulations for the administration of this Plan, to determine the terms and provisions of the respective Option Agreements (which need not be identical), to decide all questions and settle all controversies and disputes which may arise in connection with this Plan, and to make all other determinations necessary or advisable for the administration of this Plan. The Board's determinations on the matters referred to in this Section 5 shall be conclusive and binding on all persons concerned.

6. Eligibility. An Option may be granted only to an Eligible

Participant of any one or more of the Company and its subsidiaries. A director of any one or more of the Company and its subsidiaries who is not also an Eligible Participant of any one or more of the Company and its subsidiaries shall not be eligible to receive an Option. An Optionee may hold more than one Option, but only on the terms and subject to the conditions and restrictions herein set forth. No Optionee may receive an Option grant which would result in such Optionee having received, during the fiscal year of the Company in which the grant is proposed to be made, Options for more than an aggregate of 2,000,000 shares of Stock.

7. Time of Granting Options. The granting of an Option shall take place at the time specified by the Board. Only if expressly so provided by the Board shall the Grant Date be the date on which an Option Agreement shall have been duly executed and delivered by the Company and the Optionee.

8. Option Price. The Option Price under each Option shall not be less than 100 percent of the Fair Market Value of the Stock on the Grant Date; provided, however, that in the case of an Incentive Stock Option granted to an individual who, on the Grant Date, owns stock possessing more than ten (10%) percent of the total combined voting power of all classes of stock of the Company or of a parent or subsidiary corporation of the Company (a "10% Stockholder"), the Option Price shall not be less than 110 percent of the Fair Market Value of the Stock on such Grant Date. The Fair Market Value of the Stock at the time any Option is granted shall be determined by the Board after considering all relevant information. In making any such determination, the Board shall act in good faith so as to ensure that the Option Price is not less than 100 percent (or 110 percent, if required) of such Fair Market Value.

9. Option Period. Each Option shall be exercisable at such time or times, whether or not in installments (which may be cumulative or non-cumulative), as the Board may determine; and, in the case of an Option made exercisable in installments, the Board may later determine to accelerate the time by which any one or more of such installments may be exercised. Notwithstanding the foregoing, no Option may be exercised after the expiration of (i) ten years from

the date such Option is granted, or (ii) five years from the date such Option is granted, in the case of an Incentive Stock Option granted to an individual who, on the Grant Date, is a 10% Stockholder.

10. Special Limitation on Exercise. Notwithstanding anything to the contrary contained in this Plan the aggregate fair market value of the shares of Stock with respect to which Incentive Stock Options granted under this Plan or under any other incentive stock option plan of the Company or of a parent or subsidiary corporation of the Company are exercisable for the first time by any Eligible Participant during any calendar year shall not exceed $100,000. For purposes of this Section 10, the fair market value of the shares of Stock for which any such Incentive Stock Option is granted shall be determined as of the time of the granting of such Incentive Stock Option.

11. Exercise of Option; Investment Purpose. Each exercise of an Option hereunder may be effected only giving written notice, in the manner provided in Section 19 hereof, of intent to exercise the Option, specifying the number of shares as to which the Option is being exercised, and accompanied by full payment of the Option Price for the number of shares then being acquired. Such payment shall be made in cash, by certified or bank check payable to the order of the Company, credit to the Company's account at a financial or brokerage institution on the date of exercise, or, if the Option so provides, (i) in shares of the Stock having an aggregate Fair Market Value, at the time of such payment, equal to the total Option Price for the number of shares of the Stock for which payment is then being made, or (ii) partly in cash or by certified or bank check payable to the order of the Company and the balance in shares of the Stock having an aggregate Fair Market Value, at the time of such payment, equal to the difference between the total Option Price for the number of shares of the Stock for which payment is then being made and the amount of

the payment in cash or by certified or bank check; provided, however, that no part of the purchase price for any shares of the Stock being purchased pursuant to an exercise of an Option shall be paid in shares of the Stock which were previously acquired by the Optionee (x) pursuant to an earlier exercise of such Option, or (y) pursuant to the exercise of another incentive stock option granted by the Company if the previously acquired shares have been held by the Optionee for less than two years since the date of the granting of such other option to him or for less than one year since the transfer to him of such previously acquired shares. The determination of such aggregate Fair Market Value shall be made by the Board, whose determination in this regard shall be final and binding on all concerned.

Receipt by the Company of such notice and payment shall, for purposes of this Plan, constitute exercise of the Option or a part thereof. Within twenty (20) days thereafter, the Company shall deliver or cause to be delivered to the Optionee a certificate or certificates for the number of shares of the Stock then being purchased by him. Such shares shall be fully paid and nonassessable. If any law or applicable regulation of the Securities and Exchange Commission or other public regulatory authority (including, but not limited to, a stock exchange) shall require the Company or the Optionee (a) to register or qualify, under the Securities Act of 1933, as amended, any similar federal statute then in force or any state law regulating the sale of securities, any Option Shares with respect to which notice of intent to exercise shall have been delivered to the Company or (b) to take any other action in

connection with such shares before issuance thereof may be effected, then the delivery of the certificate or certificates for such shares shall be postponed until completion of the necessary action, which the Company shall take in good faith and without delay. All such action shall be taken by the Company at its own expense.

The Company may require an individual exercising an Option to represent that his purchase of shares of the Stock pursuant to such exercise is for his own account, for investment and without a view to resale or distribution, and that he will not sell or otherwise dispose of any of such shares except pursuant to (i) an effective registration statement covering such transaction filed with the Securities and Exchange Commission and in compliance with all of the applicable provisions of the Securities Act of 1933, as amended, and the rules and regulations thereunder, or (ii) an opinion of Company counsel that such registration is not required.

12. Transferability of Options. Each Option granted hereunder shall not be transferable by the Optionee other than by will or the laws of descent and distribution and may be exercised, during the Optionee's lifetime, only by the Optionee or by his or her legal representative; provided that the Board may in its discretion waive such restriction in any case.. From and after the death of an Optionee, each Option held by such Optionee at his death, to the extent then exercisable, may be exercised prior to its termination by the person(s) to whom the Optionee's option rights pass by will or by the applicable laws of descent and distribution.

13. Termination of Engagement. In the event that an Optionee's Engagement is terminated for any reason (voluntary or involuntary) and the period of exercisability for a particular Option following such termination has not been specified by the Board, each such Option then held by that Optionee shall expire to the extent not previously exercised ten (10) days after such Optionee's Engagement is terminated, except that -

(a) If the Optionee is on military, sick leave or other bona fide leave of absence (such as temporary employment by the federal government), his Engagement with the Company will be treated as continuing intact if the period of such leave does not exceed ninety (90) days, or, if longer, so long as the Optionee's right to reemployment or the survival of his or her service arrangement with the Company is guaranteed either by statute or by contract; otherwise, the Optionee's Engagement will be deemed to have terminated on the 91st day of such leave.

(b) If the Optionee's Engagement is terminated by reason of his retirement from the Company, each Option then held by the Optionee, to the extent exercisable at retirement, may be exercised by the Optionee at any time within three (3) months after retirement unless terminated earlier by its terms.

(c) If the Optionee's Engagement is terminated by reason of his death, each Option then held by the Optionee, to the extent exercisable at the date of death, may be exercised at any time within one year after that date (unless terminated earlier by its terms) by

the person(s) to whom the Optionee's option rights pass by will or by the applicable laws of descent and distribution.

(d) If the Optionee's Engagement is terminated by reason of his becoming permanently and totally disabled, each Option then held by the Optionee, to the extent exercisable upon the occurrence of permanent and total disability, may be exercised by the Optionee at any time within one (1) year after such occurrence unless terminated earlier by its terms. For purposes hereof, an individual shall be deemed to be "permanently and totally disabled" if he is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than twelve (12) months. Any determination of permanent and total disability shall be made in good faith by the Company on the basis of a report signed by a qualified physician.

14. Adjustment of Number of Option Shares. Each Option Agreement shall provide that, in the event of any stock dividend payable in the Stock or any split-up or contraction in the number of shares of the Stock occurring after the date of such Agreement and prior to the exercise in full of the Option covered thereby, the number of shares subject to such Agreement and the price to be paid for each share subject to such Option shall each be proportionately adjusted. Each such Agreement shall also provide that, in case of any reclassification or change of outstanding shares of the Stock occurring after the date of such Agreement and prior to the exercise in full of the Option covered thereby, the number and kind of shares of Stock subject to such Agreement and the price to be paid for each share subject to such Option shall each be appropriately adjusted.

Each Option Agreement shall further provide that, in the event of any reorganization, consolidation or merger to which the Company is a party and in which the Company does not survive, or upon the dissolution or liquidation of the Company, the Option covered thereby shall terminate; provided, however, that (i) in the event of the liquidation or dissolution of the Company, or in the event of any such reorganization, consolidation or merger in which the Company does not survive and with respect to which the resulting or surviving corporation does not assume such Option or issue a substitute Option therefor, such Option shall be exercisable in full, without regard to any installment restrictions on exercise imposed pursuant to this Plan or such Option Agreement (but subject to Section 10 hereof), during such period preceding the effective date of such liquidation, dissolution, reorganization, consolidation or merger (unless such Option is terminated earlier by its terms) as may be specified by the Board; and (ii) in the event of any such reorganization, consolidation or merger, the Board may, in its good faith discretion, arrange to have the resulting or surviving corporation assume such Option or issue a substitute option therefor.

No fraction of a share shall be purchasable or deliverable upon exercise of an Option, but, in the event any adjustment hereunder of the number of shares covered by the Option shall cause such number to include a fraction of a share, such fraction shall be adjusted to the nearest smaller whole number of shares.

In the event of changes in the outstanding Stock by reason of any stock dividend, split-up, contraction, reclassification, or change of outstanding shares of the Stock of the nature contemplated by this Section 14, the number of shares of the Stock available for the purpose of the plan, as stated in Section 4, shall be correspondingly adjusted.

15. Reservation of Stock. The Company shall at all times during the term of this Plan and of the Options granted hereunder reserve and keep available such number of shares of the Stock as will be sufficient to satisfy the requirements of this Plan and shall pay all fees and expenses necessarily incurred by the Company in connection therewith.

16. Limitation of Rights in the Option Shares. An Optionee shall not be deemed for any purpose to be a stockholder of the Company with respect to any of his Option Shares except to the extent that the Option covering such Shares shall have been exercised with respect thereto and, in addition, a certificate shall have been issued therefor and delivered to the Optionee. No adjustment shall be made for dividends (ordinary or extraordinary, and whether in cash, securities or other property) or distributions or other rights for which the record date is prior to the date such certificate is issued, except as provided in Section 14.

17. Engagement Rights. Neither the adoption, maintenance nor operation of this Plan shall confer upon any Eligible Participant of the Company or of a parent or subsidiary corporation of the Company any right with respect to the continuance of his Engagement by any of such corporations, nor shall they interfere in any way with the right of any of such corporations to terminate the Engagement of any Eligible Participant.

18. Termination and Amendment of the Plan. The Board may at any time terminate this Plan or make such modifications to the Plan as it shall deem advisable, except that no amendment of this Plan shall (a) increase the aggregate number of shares of Stock which may be issued under this Plan (except pursuant to Section 14), materially increase the benefits accruing to participants in the Plan or make any change in the designation of the Eligible Participants or class of Eligible Participants eligible to receive Options under this Plan without the approval of the stockholders of the Company; (b) impair the rights or increase the obligations of any Optionee under any Option theretofore granted under this Plan without the written consent of such Optionee; or (c) cause any Option at any time granted under this Plan to fail to qualify as an incentive stock option under Section 422A of the Code.

19. Notices. Any communication or notice required or permitted to be given under this Plan shall be in writing and mailed by registered or certified mail or delivered in hand, if to the Company, to its Treasurer at Parametric Technology Corporation, 128 Technology Drive, Waltham, Massachusetts 02154 and, if to an Optionee, to such address as the Optionee shall last have furnished to the communicating party.

EXHIBIT 10.7

AGREEMENT

This Agreement is entered into as of this 20th day of June, 1990 between Parametric Technology Corporation, a Massachusetts corporation (the "Company"), and Steven C. Walske (the "Executive").

WHEREAS, the Executive is the President and Chief Executive Officer of the Company; and

WHEREAS, to provide incentive for the Executive to remain with the Company, the Company desires to make the following arrangements with the Executive concerning his termination of employment;

NOW, THEREFORE, the Company and the Executive hereby agree as follows:

1. Termination Notice. The Company agrees that it may not terminate the employment of the Executive unless (i) it does so for Cause (as defined below) or (ii) the Company has delivered to the Executive a written notice of such termination of employment (the "Termination Notice") at least six months in advance of the effective date thereof. The duties of the Executive during the period from the date of delivery of a Termination Notice until the termination of his employment shall be as determined by the Board of Directors.

2. Salary.

(a) During the period from the date of delivery of a Termination Notice (the "Notice Date") until the earlier of (i) the date six months after the Notice Date, or (ii) the date the Executive commences employment with another company or organization, the Company shall pay to the Executive a salary (the "Severance Period Salary") that is equal, on an annualized basis, to two times the highest annual salary (excluding any bonuses) in effect with respect to the Executive during the six-month period immediately preceding the Termination Notice.

(b) In the event that a Change in Status of the Executive occurs prior to a Notice Date, the Company shall pay the Severance Period Salary to the Executive during the period from the effective date of the Change in Status until the earlier of (i) the date six months after such date or (ii) the date the Executive commences employment with another company or organization; and the Company shall have no obligation to make any payments to the Executive under Section 2(a) above.

(c) In the event that the Executive remains employed with the Company for a period of six months following the earlier of (i) a Notice Date or (ii) the effective date of a Change in Status, the Company shall pay to the Executive on such six-month anniversary date an amount equal to the most recent fiscal year end bonus paid to the Executive. For purposes of this Agreement, "fiscal year end bonus" shall include all amounts paid to the Executive under any bonus plans or programs of the Company with respect to his services to the Company in the preceding fiscal year.

3. Stock Options.

(a) Effective upon (i) a Change in Control (as defined below) of the Company or (ii) the death or Disability (as defined below) of the Executive, all outstanding stock options under the Company's 1987 Incentive Stock Option Plan that are held by the Executive shall become exercisable in full, notwithstanding any vesting schedule or other provisions to the contrary in the agreements evidencing such options; and the Company and the Executive hereby agree that such option agreements are hereby amended to give effect to this provision.

(b) Effective upon (i) a termination by the Company of the Executive's employment without Cause or (ii) a Change in Status of the Executive, all outstanding stock options under the Company's 1987 Incentive Stock Option Plan that are held by the Executive shall become exercisable for such number of shares of common stock for which such options would have been exercisable had the Executive's employment with the Company continued for one year following the date of the employment termination or the Change in Status, as the case may be, notwithstanding any vesting schedule or other provisions to the contrary in the agreements evidencing such options; and the Company and the Executive hereby agree that such option agreements are hereby amended to give effect to this provision.

4. Definitions.

(a) The Company shall be deemed to have terminated the Executive's employment for "Cause" if it does so (i) for the Executive's willful and continued failure to substantially perform his duties to the Company (other than any such failure resulting from the Employee's incapacity due to physical or mental illness or any such actual or anticipated failure after a Change in Status of the Executive), provided that the Company has delivered a written demand for substantial performance to the Executive specifically identifying the manner in which the Company believes that the Executive has not substantially performed his duties and that the Executive has not cured such failure within 30 days after such demand, (ii) for willful conduct by the Executive which is demonstrably and materially injurious to the Company, or (iii) for the Executive's willful violation of any material provision of any confidentiality, nondisclosure, assignment of invention, noncompetition or similar agreement entered into by the Executive in connection with his employment by the Company. For purposes of this paragraph, no act or failure to act on the Executive's part shall be deemed "willful" unless done or omitted to be done by the Executive not in good faith and without reasonable belief that his action or omission was in the best interests of the Company.

(b) A "Change in Control" of the Company shall mean the occurrence of any of the following events: (i) any "person", as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") (other than the Company, any trustee or other fiduciary holding securities under an employee benefit plan of the Company, or any corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportion as their ownership of stock of the Company) is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 50% or more of the combined voting power of the Company's then outstanding securities (other than as a result of acquisitions of such securities from the Company); (ii) individuals who, as of the date hereof, constitute the Board

of Directors of the Company (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board, provided that any person becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board (other than an election or nomination of an individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the directors of the Company) shall be, for purposes of this Agreement, considered to be a member of the Incumbent Board; (iii) the stockholders of the Company approve a merger or consolidation of the Company with any other corporation, other than (A) a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 50% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation or (B) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no "person" (as defined above) acquires more than 20% of the combined voting power of the Company's then outstanding securities; or (iv) the stockholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets.

(c) A "Change in Status" of the Executive shall mean the occurrence, without the Executive's written consent, of any of the following circumstances (unless such circumstances constitute an isolated, insubstantial and inadvertent action not taken in bad faith and are fully remedied by the Company within 30 days after receipt of notice thereof given by the Executive): (i) any diminution or change in a manner adverse to the Executive of (A) his title, office or position with the Company, (B) his salary or other benefits, or (C) his duties, responsibilities or employment condition, or (ii) the failure by the Company to pay to the Executive any portion of his compensation within ninety (90) days after such compensation is due.

(d) "Disability" shall mean the inability of the Executive, for a period of at least 60 consecutive days, to perform his employment duties as a result of a physical or mental illness or incapacity.

5. Term. This Agreement shall continue in effect for a period of three years from the date hereof, unless extended by the mutual written consent of the Company and the Executive.

6. Successors.

(a) This Agreement is personal to the Executive and without the prior written consent of the Company shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution.

(b) This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns.

(c) The Company will require any successor (whether direct or indirect, by

purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Agreement, "Company" shall mean the Company as defined above and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement.

7. Miscellaneous.

(a) This Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Massachusetts, without reference to principles of conflict of laws.

(b) This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

(c) All notices and other communications hereunder shall be in writing and shall be delivered by hand delivery, by a reputable overnight courier service, or by registered or certified mail, return receipt requested, postage prepaid, in each case addressed as follows:

If to the Company:

Parametric Technology Corporation
128 Technology Drive
Waltham, MA 02154
Attention: Secretary

If to the Executive:

Steven C. Walske
147 Thorndike Street
Brookline, MA 02146

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Any Notice or communication shall be deemed to be delivered upon the date of hand delivery, one day following delivery to such overnight courier service, or three days following mailing by registered or certified mail.

EXECUTED as of the date first written above.

PARAMETRIC TECHNOLOGY CORPORATION

By: /s/ Samuel P. Geisberg

Samuel P. Geisberg

/s/ Steven C. Walske

STEVEN C. WALSKE

EXHIBIT 10.8

November 8, 1989

128 TECHNOLOGY CENTER

OFFICE LEASE

PARAMETRIC TECHNOLOGY CORPORATION

AMENDMENT NO. 3

Reference is made to the Lease (the "Lease") by and between DOMINIC J. SARACENO, KURT W. SARACENO, and EDWARD R. WERNER, trustees of the 128 Technology Trust under a Declaration of Trust dated October 12, 1983, recorded in Middlesex County Registry of Deeds Southern District Book 15268 Page 65 (hereinafter "Lessor", which expression shall include its heirs, executors, successors and assigns where the context so admits), and Parametric Technology Corporation, a Massachusetts corporation having principal place of business at 128 Technology Drive, Waltham, Massachusetts 02154 (hereinafter "Lessee", which expression shall include its successors and assigns or executors and administrators where the context so admits). Terms defined in or by reference in the Lease not otherwise defined herein shall have the same meaning herein as therein.

For a good and valuable consideration, the receipt and legal sufficiency of which is hereby acknowledged, Lessor and Lessee hereby agree to amend the Lease as follows:

1. ARTICLE 1, REFERENCE DATA, is hereby amended as follows:

* NEW AREA III: 12,409 Additional Square Feet, as shown on Exhibit A attached.

* Operating Expense Base: $4.80 Lessor's contribution to Lessee's operating expenses. Lessee agrees to pay its annual prorata share of operating expenses in excess of $4.80 per square foot.

* BASE RENT: $18.00 per square foot for 12,409 rentable square feet).

* RENT SCHEDULE:

  Initial 4,500 square feet.
  Rent Commencement: December 1, 1989.
  Annual Rent: $81,000.00
  Monthly Rent: $6,750.00

  Additional 1,704 square feet.
  Rent Commencement: Upon substantial completion.
  Annual Rent: $30,672.00
  Monthly Rent: $2,556.00

  Additional 2,898 square feet.
  Rent Commencement: March 1,1990
  Annual Rent: $52,164.00
  Monthly Rent: $4,347.00

  Additional 3,307 square feet.
  Rent Commencement: June 1,1990
  Annual Rent: $59,526.00
  Monthly Rent: $4,960.50

* TERMINATION: June 30, 1993

* PREPAID RENT: Lessee agrees to prepay $44,000.00 of rent upon signing

this agreement to be applied to Lessee's total monthly rental charges until fully utilized.

* TENANT IMPROVEMENTS: Landlord shall provide Tenant with a turnkey buildout according to plan dated November 10, 1989 which is to be mutually agreed upon.

* ADDITIONAL SPACE: Lessor grants Lessee the option to lease the Aussimont space prior to May 1, 1990 with thirty (30) days prior written notice to Lessor. The term of said lease will be for a minimum of four (4) years.

In all other respects, by amending Article I with the corresponding changes to Articles III and IV, the terms and provisions of the Lease are hereby ratified and confirmed and remain in full force and effect and unamended.

Lessee acknowledges and agrees that this Amendment shall not be binding upon Lessor until an original of this Amendment, executed by Lessor, is delivered to Lessee. Lessee shall not be entitled to rely on any rights set forth herein until such a fully executed Amendment is delivered to Lessee.

Executed as a sealed instrument this 8th day of November, 1989.

LESSOR 128 TECHNOLOGY TRUST

/s/ Dominic J. Saraceno

Dominic J. Saraceno, as Trustee aforesaid

/s/ Kurt W. Saraceno

Kurt W. Saraceno, as Trustee aforesaid

/s/ Edward R. Werner

Edward R. Werner, as Trustee aforesaid

LESSEE PARAMETRIC TECHNOLOGY CORPORATION

BY /s/ Steven C. Walske

EXHIBIT 10.10

PARAMETRIC TECHNOLOGY CORPORATION
1992 DIRECTOR STOCK OPTION PLAN

1. PURPOSE.

This 1992 Director Stock Option Plan (the "Plan") governs options to purchase Common Stock, $.01 par value per share (the "Common Stock"), of Parametric Technology Corporation (the "Company") granted by the Company to members of the Board of Directors of the Company who are not also officers or employees of the Company. The purpose of the Plan is to attract and retain qualified persons to serve as Directors of the Company and to encourage ownership of the Common Stock of the Company by such Directors.

2. ADMINISTRATION.

Grants of stock options under the Plan shall be automatic as provided in Section 8. All questions of interpretation of the Plan or of any options granted hereunder shall be determined by the Board of Directors of the Company (the "Board"), provided that the Board shall have no discretion with respect to the eligibility or selection of Directors to receive options, the timing of grants or the number of shares of Common Stock subject to the Plan or any option granted thereunder. Any and all powers of the Board under the Plan may be exercised by a committee consisting of three or more Directors or other persons appointed by the Board.

3. ELIGIBILITY.

Members of the Board who are not also officers or employees of the Company shall be eligible to participate in the Plan.

4. SHARES SUBJECT TO THE PLAN.

Options may be granted under the Plan in respect of a maximum of 640,000 shares of Common Stock, subject to adjustment as provided in Section 5 below. Shares to be issued upon the exercise of options granted under the Plan may be either authorized but unissued shares or shares held by the Company in its treasury. Whenever options under the Plan lapse or terminate or otherwise become unexercisable, the shares of Common Stock which were available for such options shall again be available for the grant of options under the Plan. The Company shall at all times while the Plan is in force reserve such number of shares of Common Stock as will be sufficient to satisfy the requirements of the Plan.

5. ADJUSTMENT OF NUMBER OF OPTION SHARES.

In the event of any stock dividend payable in Common Stock or any split-up, combination or reclassification of shares, recapitalization or other similar capital change relating to the Common Stock occurring after the date of grant of an option hereunder and prior to the exercise in full of an option granted hereunder, the number and kind of shares subject to such option and the price to be paid for each share subject to such option shall each be proportionately adjusted by the Board.

In the event of any reorganization, consolidation or merger to which the Company is a party and in which the Company does not survive, or upon the dissolution or liquidation of the Company, all outstanding options shall terminate; <u>provided</u>, <u>however</u>, that (i) in the event of the liquidation or dissolution of the Company, or in the event of any such reorganization, consolidation or merger in which the Company does not survive and with respect to which the resulting or surviving corporation does not assume such outstanding option or issue a substitute option therefor, such option shall be exercisable in full, without regard to any installment restrictions on exercise imposed pursuant to this Plan or any Option Agreement, during such period preceding the effective date of such liquidation, dissolution, reorganization, consolidation or merger (unless such option is terminated earlier by its terms) as may be specified by the Board; and (ii) in the event of any such reorganization, consolidation or merger, the Board may, in its good faith discretion, arrange to have the resulting or surviving corporation assume such outstanding option or issue a substitute option therefor.

No fraction of a share shall be purchasable or deliverable upon exercise of an option, but, in the event any adjustment hereunder of the number of shares covered by the option shall cause such number to include a fraction of a share, such fraction shall be adjusted to the nearest smaller whole number of shares.

In the event of changes in the outstanding Common Stock by reason of any stock dividend, split-up, dividend, combination, reclassification, recapitalization or change of outstanding shares of Common Stock of the nature contemplated by this Section 5, the number of shares of Common Stock available for the purpose of the Plan, as stated in Section 4, shall be correspondingly adjusted.

6. NON-STATUTORY STOCK OPTIONS.

All options granted under the Plan shall be non-statutory options not entitled to special tax treatment under Section 422 of the Internal Revenue Code of 1986, as amended (the "Code").

7. FORM OF OPTION AGREEMENTS.

Options shall be granted hereunder pursuant to the terms of Option Agreements which shall be substantially in the form of the attached Exhibit A or in such other form as the Board may from time to time determine.

8. GRANT OF OPTIONS AND OPTION TERMS.

Initial Grant of Options. Options to purchase Common Stock shall automatically be granted to the following individuals, in the amounts set forth opposite their respective names, immediately following approval of the Plan at the 1992 Annual Meeting of Stockholders:

Name of Director	Number of Shares
Donald W. Feddersen................	80,000
Donald K. Grierson.................	80,000
Robert N. Goldman..................	80,000
Noel G. Posternak..................	80,000

Automatic Grant of Subsequent Options. Thereafter, through the date of the 1996 Annual Meeting of Stockholders, any new Director elected to the Board who is eligible to receive options to purchase Common Stock under the Plan shall automatically be granted, on the effective date of such election, options to purchase an aggregate of 80,000 shares of Common Stock. The "Date of Grant" for options granted under the Plan shall be the date the Plan is approved by the stockholders for the initial options and the effective date of a new Director's election to the Board for all subsequent options. No options shall be granted hereunder after ten years from the date on which the Plan was initially approved by the stockholders of the Company.

Option Price. The option price for each option granted under the Plan shall be the last sale price of the Common Stock as reported by the NASDAQ National Market System on the Date of Grant.

Term of Option. The term of each option granted under the Plan shall be ten years from the Date of Grant.

Period of Exercise. Options granted under the Plan shall become exercisable in equal quarterly installments over four years on each of the first, second, third and fourth anniversaries of the Date of Grant if and only if the option holder is a member of the Board at the opening of business on that anniversary date. Directors holding exercisable options under the Plan who cease to serve as members of the Board of the Company for any reason other than death may, for a period of 10 days following the date of cessation of service, exercise the rights they had under such options at the time they ceased being a Director for the full unexpired term of such option. Upon the death of a Director, those entitled to do so under the Director's will or the laws of descent and distribution shall have the right, at any time within twelve months after the date of death, to exercise in whole or in part any rights which were available to the Director at the time of his death. Options granted under the Plan shall terminate, and no rights thereunder may be exercised, after the expiration of the applicable exercise period.

Method of Exercise and Payment. Each exercise of an option hereunder may be effected only by giving written notice, in the manner provided in Section 12 hereof, of intent to exercise the option, specifying the number of shares as to which the option is being exercised, and accompanied by full payment of the option price for the number of shares then being acquired. Such payment shall be made in cash, by certified or bank check payable to the order of the Company, credit to the Company's account at a financial or brokerage institution on the date of exercise, or if the option so provides, (i) in shares of Common Stock having an aggregate Fair Market Value, at the time of such payment, equal to the total option price for the number of shares of Common Stock for which payment is then being made, or (ii) partly in cash or by certified or bank check payable to the order of the Company and the balance in shares of Common Stock having an aggregate Fair Market Value, at the time of such payment, equal to the difference between the total option price for the number of shares of Common Stock for which payment is then being made and the amount of the payment in cash or by certified or bank check. For purposes hereof, the "Fair Market Value" of the Common Stock shall be the last sale of price the Common Stock as reported by the NASDAQ National Market System for the business day immediately preceding the option exercise date.

Receipt by the Company of such notice and payment shall, for purposes of this Plan, constitute exercise of the option or a part thereof. Within twenty (20) days thereafter, the Company shall deliver or cause to be delivered to the optionee a certificate or certificates for the number of shares of Common Stock then being purchased by him. Such shares shall be fully paid and non-assessable. If any law or applicable regulation of the Securities and Exchange Commission or other public regulatory authority (including, but not limited to, a stock exchange) shall require the Company or the optionee (a) to register or qualify, under the Securities Act of 1933, as amended (the "Securities Act"), any similar federal statute then in force or any state law regulating the sale of securities, any shares of Common Stock covered by an option with respect to which notice of intent to exercise shall have been delivered to the Company or (b) to take any other action in connection with such shares before issuance thereof may be effected, then the delivery of the certificate or certificates for such shares shall be postponed until completion of the necessary action, which the Company shall take in good faith and without delay. All such action shall be taken by the Company at its own expense.

The Company may require an individual exercising an option to represent that his purchase of shares of Common Stock pursuant to such exercise is for his own account, for investment and without a view to resale or distribution, and that he will not sell or otherwise dispose of any such shares except pursuant to (i) an effective registration statement covering such transaction filed with the Securities and Exchange Commission and in compliance with all of the applicable provisions of the Securities Act, and the rules and regulations thereunder, or (ii) an opinion of Company counsel that such registration is not required.

Non-transferability. Options granted under the Plan shall not be transferable by the holder thereof otherwise than by will or the laws of descent and distribution and shall be

exercisable, during the holder's lifetime, only by the option holder or his or her legal representative; provided that the Board may in its discretion waive such restriction in any case.

9. LIMITATION OF RIGHTS.

No Right to Continue as a Director. Neither the Plan, nor the granting of an option or any other action taken pursuant to the Plan, shall constitute an agreement or understanding, express or implied, that the Company will retain an optionee as a Director for any period of time or at any particular rate of compensation.

No Stockholders' Rights for Options. Directors shall have no rights as stockholders with respect to the shares covered by their options until the date they exercise such options and pay the option price to the Company, and no adjustment will be made for dividends or other rights for which the record date is prior to the date such option is exercised and paid for.

10. EFFECTIVE DATE.

The Plan shall become effective immediately upon approval by the affirmative vote of a majority of the shares of Common Stock present or represented and entitled to vote at a meeting of the Company's stockholders.

11. AMENDMENT OR TERMINATION.

The Board may amend or terminate this Plan at any time, provided that, to the extent required to qualify the Plan for the exemption under Rule 16b-3 under the Exchange Act, no amendment may be made to change the eligibility or selection of Directors to receive options, the timing of grants, or the number of shares of Common Stock subject to the Plan or any option granted thereunder, other than as permitted by such Rule, and this Plan shall not be amended more than once every six months, other than to comport with changes in the Code or the Employee Retirement Income Security Act of 1974, as amended ("ERISA") or the rules and regulations promulgated thereunder.

12. NOTICES.

Any communication or notice required or permitted to be given under this Plan shall be in writing and mailed by registered or certified mail or delivered in hand, if to the Company, to its Treasurer at Parametric Technology Corporation, 128 Technology Drive, Waltham, Massachusetts 02154 and, if to an optionee, to such address as the optionee shall last have furnished to the Company.

13. GOVERNING LAW.

The Plan shall be governed by and construed in accordance with the laws of the Commonwealth of Massachusetts.

Adopted by the Board of Directors on November 21, 1991
Adopted by the Stockholders on February 4, 1992
As amended through the October 2, 1996 meeting of the Board of Directors.

EXHIBIT A

1992 DSO - ___________ _________ Shares

PARAMETRIC TECHNOLOGY CORPORATION
1992 Director Stock Option Plan
Non-statutory Stock Option Agreement
______________, 199__

Parametric Technology Corporation (the "Company"), a Massachusetts corporation, hereby grants to the person named below an option to purchase shares of Common Stock, $.01 par value per share of the Company (the "Option") under and subject to the Company's 1992 Director Stock Option Plan (the "Plan") exercisable only on the following terms and conditions and those set forth on the reverse side of this Agreement:

Name of Optionee:
Address:

Social Security No.
Option Price:
Date of Grant:

Exercisability Schedule:

at any time on or after the first anniversary of the date hereof, as to ______ shares,
at any time on or after the second anniversary of the date hereof, as to ______ additional shares,
at any time on or after the third anniversary of the date hereof, as to ______ additional shares,
at any time on or after the fourth anniversary of the date hereof, as to ______ additional shares,

provided that this Optionee is a member of the Board of Directors of the Company (the "Board") at the opening of business on the date described above and provided that this Option may not be exercised as to any shares after the expiration of ten years from the date hereof.

By signing this Stock Option Agreement and returning one signed copy to the Company, the Optionee accepts the Option described herein on the terms and conditions set forth herein or in the plan.

PARAMETRIC TECHNOLOGY CORPORATION	Accepted and agreed to:
By: ---------------------------	---------------------------
Title:	Optionee

TERMS AND CONDITIONS

PARAMETRIC TECHNOLOGY CORPORATION
1992 DIRECTOR STOCK OPTION PLAN

1. This Option may be exercised from time to time in accordance with the Exercisability Schedule for up to the aggregate number of shares specified therein, but in no event for the purchase of other than full shares; provided, however, that this Option may not be exercised as to any shares after the expiration of ten years from the date hereof. Written notice of exercise shall be delivered to the Company specifying the number of shares with respect to which the Option is being exercised, which notice shall be accompanied by full payment of the option price for the number of shares then being acquired. Such payment shall be made in cash or by certified or bank check payable to the order of the Company, credit to the Company's account at a financial or brokerage institution on the date of exercise or a payment commitment of such an institution acceptable to the Company or in shares of the Company's Common Stock, valued at their fair market value as of the date of exercise as determined as provided in the Plan, equal to the total option price for the number of shares for which payment is then being made, or in any combination of cash, certified or bank check and shares of Common Stock. Shares of Common Stock surrendered in payment of the option price shall have been held by the person exercising the option for at least six months unless otherwise permitted by the Board of Directors of the Company (the "Board"). Not later than twenty days after the date of the delivery of such notice the Company will deliver or cause to be delivered to the Optionee a certificate for the number of shares with respect to which the Option is being exercised.

2. The Optionee shall not be deemed, for any purpose, to have any rights whatever in respect of shares to which the Option shall not have been exercised and payment made as aforesaid. The Optionee shall not be deemed to have any rights to continued service as a director by virtue of the grant of this Option.

3. In the event of a stock dividend, split-up, combination or

reclassification of shares, recapitalization or other similar capital change relating to the Common Stock, the maximum aggregate number and kind of shares or securities of the Company subject to this Option and the exercise price of this Option shall be appropriately adjusted by the Board (whose determination shall be conclusive) so that the proportionate number of shares or other securities subject to this Option and the proportionate interest of the Optionholder shall be maintained as before the occurrence of such event.

4. In the event of any reorganization, consolidation or merger to which the Company is a party and in which the Company does not survive, or upon the dissolution or liquidation of the Company, this Option, to the extent outstanding and unexercised, shall terminate; provided, however, that (i) in the event of the liquidation or dissolution of the Company, or in the event of any such reorganization, consolidation or merger in which the Company does not survive and with respect to which the resulting or surviving corporation does not assume this Option, to the extent outstanding and unexercised, or issue a substitute option therefor, this Option shall be exercisable in full, without regard to any installment restrictions on exercise imposed pursuant to the Plan or this Option Agreement, during such period preceding the effective date of such liquidation, dissolution, reorganization, consolidation or merger (unless this Option is terminated earlier by its terms) as may be specified by the Board; and (ii) in the event of any such reorganization, consolidation or merger, the Board may, in its good faith discretion, arrange to have the resulting or surviving corporation assume this Option, to the extent outstanding and unexercised, or issue a substitute option therefor.

5. This Option is not transferable by the Optionee otherwise than by will or the laws of descent and distribution; provided that the Board may waive this restriction in its discretion. This Option is exercisable during the Optionee's lifetime only by the Optionee, provided that this Option may be exercised by the Optionholder's guardian or legal representative in the case of disability and, in the case of death, by the beneficiary designated by the Optionholder in writing delivered to the Company, or, if none has been designated, by the Optionholder's estate or his or her transferee on death in accordance with this Option Agreement.

6. If the Optionee ceases to serve as a member of the Board for any reason other than death, the Optionee may, for a period of seven months following such cessation of service, exercise the rights which the Optionee had hereunder at the time the Optionee ceased serving as a director. Upon the death of the Optionee, those entitled to do so, as set forth in Section 5 of this

Option Agreement, shall have the right, at any time within twelve months after the date of death (subject to the prior expiration of the Option exercise period), to exercise in whole or in part any rights which were available to the Optionee at the time of the Optionee's death. Any rights that have not yet become exercisable shall terminate upon cessation of membership on the Board. This Option shall terminate after the expiration of the applicable exercise period. Notwithstanding the foregoing provisions of this Section 6, no rights under this Option may be exercised after the expiration of ten years from the date hereof.

7. It shall be a condition to the Optionee's right to purchase shares of Common Stock hereunder that the Company may, in its discretion, require (a) that the shares of Common Stock reserved for issue upon the exercise of this Option shall have been duly listed, upon official notice of issuance, upon any national securities exchange on which the Company's Common Stock may then be listed, (b) that either (i) a Registration Statement under the Securities Act of 1933, as amended, with respect to said shares shall be in effect, or (ii) in the opinion of counsel for the Company the proposed purchase shall be exempt from registration under said Act and the Optionee shall have made such undertakings and agreements with the Company as the Company may reasonably require, and (c) that such other steps, if any, as counsel for the Company shall deem necessary to comply with any law, rule or regulation applicable to the issue of such shares by the Company shall have been taken by the Company or the Optionee, or both. The certificates representing the shares purchased under this Option may contain such legends as counsel for the Company shall deem necessary to comply with any applicable law, rule or regulation.

8. Any exercise of this Option is conditioned upon the payment, if the Company so requests, by the Optionee or such other person who may be entitled to exercise this Option in accordance with the terms hereof, of all state and federal taxes imposed upon the exercise of this Option and the issue to the Optionee of the shares covered hereby.

9. This Option shall not be treated as an incentive stock option under Section 422 of the Internal Revenue Code of 1986, as amended.

10. This Option is issued pursuant to the terms of the Plan. This Certificate does not set forth all of the terms and conditions of the Plan, which are incorporated herein by reference. In the event of any conflict or inconsistency between the provisions of this Option Agreement and the Plan, the provisions of the Plan will prevail. Capitalized terms used and not otherwise defined herein have the meanings given to them in the Plan. Copies of the Plan may be obtained upon written request without charge from the Company.

EXHIBIT 10.20

PARAMETRIC TECHNOLOGY CORPORATION

1996 DIRECTOR STOCK OPTION PLAN

1. PURPOSE.

This 1996 Director Stock Option Plan (the "Plan") governs options to purchase Common Stock, $.01 par value per share (the "Common Stock"), of Parametric Technology Corporation (the "Company") granted by the Company to members of the Board of Directors of the Company who are not also officers or employees of the Company. The purpose of the Plan is to attract and retain qualified persons to serve as Directors of the Company and to encourage ownership of the Common Stock of the Company by such Directors.

2. ADMINISTRATION.

Grants of stock options under the Plan shall be automatic as provided in Section 8. However, all questions of interpretation of the Plan or of any options granted hereunder shall be determined by the Board of Directors of the Company (the "Board"). Any and all powers of the Board under the Plan may be exercised by a committee consisting of one or more Directors appointed by the Board.

3. ELIGIBILITY.

Members of the Board who are not also officers or employees of the Company shall be eligible to participate in the Plan.

4. SHARES SUBJECT TO THE PLAN.

Options may be granted under the Plan in respect of a maximum of 180,000 shares of Common Stock, subject to adjustment as provided in Section 5 below. Shares to be issued upon the exercise of options granted under the Plan may be either authorized but unissued shares or shares held by the Company in its treasury. Whenever options under the Plan lapse or terminate or otherwise become unexercisable, the shares of Common Stock which were available for such options shall again be available for the grant of options under the Plan. The Company shall at all times while the Plan is in force reserve such number of shares of Common Stock as will be sufficient to satisfy the requirements of the Plan.

5. ADJUSTMENT OF NUMBER OF OPTION SHARES.

In the event of a stock dividend, split-up, combination or reclassification of shares, recapitalization or other similar capital change relating to the Company's Common Stock, the maximum aggregate number and kind of shares or securities of the Company as to which options may be granted under this Plan and as to which options then outstanding shall be exercisable, and the option price of such options shall be appropriately adjusted so that the proportionate number of shares or other securities as to which options may be granted and the proportionate interest of holders of outstanding options shall be maintained as before the occurrence of such event.

In the event of any reorganization, consolidation or merger to which the Company is a party and in which the Company does not survive, or upon the dissolution or liquidation of the Company, all outstanding options shall terminate; *provided, however*, that (i) in the event of the liquidation or dissolution of the Company, or in the event of any such reorganization, consolidation or merger in which the Company does not survive and with respect to which the resulting or surviving corporation does not assume such outstanding option or issue a substitute option therefor, such option shall be exercisable in full, without regard to any installment restrictions on exercise imposed pursuant to this Plan or any Option Agreement, during such period preceding the effective date of such liquidation, dissolution, reorganization, consolidation or merger (unless such option is terminated earlier by its terms) as may be specified by the Board; and (ii) in the event of any such reorganization, consolidation or merger, the Board may, in its good faith discretion, arrange to have the resulting or surviving corporation assume such outstanding option or issue a substitute option therefor.

No fraction of a share shall be purchasable or deliverable upon exercise of an option, but, in the event any adjustment hereunder of the number of shares covered by the option shall cause such number to include a fraction of a share, such fraction shall be adjusted to the nearest smaller whole number of shares.

6. NON-STATUTORY STOCK OPTIONS.

All options granted under the Plan shall be non-statutory options not entitled to special tax treatment under Section 422 of the Internal Revenue Code of 1986, as amended (the "Code").

7. FORM OF OPTION AGREEMENTS.

Options shall be granted hereunder pursuant to the terms of Option Agreements which shall be substantially in the form of the attached Exhibit A or in such other form as the Board may from time to time determine.

8. GRANT OF OPTIONS AND OPTION TERMS.

Automatic Grant of Options. Options to purchase Common Stock shall automatically be granted as follows:

(i) Immediately following his or her election, each non-employee director of the Company newly elected to the Board of Directors shall automatically be granted options to purchase 20,000 shares of Common Stock; and

(ii) Immediately following the annual meeting of stockholders each year, each non-employee director of the Company continuing in office after such meeting shall automatically be granted options to purchase 5,000 shares of Common Stock.

No options shall be granted hereunder after ten years from the date on which this Plan was initially approved and adopted by the Board.

Date of Grant. The "Date of Grant" for options granted under this Plan shall be (i) the date of the respective director's election, for each grant pursuant to clause (i) of the preceding paragraph and (ii) the date of the respective annual meeting of stockholders, for each grant pursuant to clause (ii) of the preceding paragraph.

Option Price. The option price for each option granted under this Plan shall be the current fair market value of a share of Common Stock of the Company, which, for this purpose, shall be the last sale price for the Company's Common Stock as reported on the Nasdaq Stock Market's National Market, or the principal exchange on which the Common Stock is then traded, as the case may be, for the Date of Grant.

Term of Option. The term of each option granted under the Plan shall be ten years from the Date of Grant.

Period of Exercise. Options granted under the Plan shall become exercisable in four equal installments on each of the first, second, third and fourth anniversaries of the Date of Grant if and only if the option holder is a member of the Board at the opening of business on that anniversary date. Directors holding exercisable options under the Plan who cease to serve as members of the Board of the Company for any reason other than death may, for a period of seven months following the date of cessation of service, exercise the rights they had under such options at the time they ceased being a Director. Any rights that have not yet become exercisable shall terminate upon cessation of membership on the Board. Upon the death of a Director, those entitled to do so under the Director's will or the laws of descent and distribution shall have the right, at any time within twelve months after the date of death, to exercise in whole or in part any rights which were available to the Director at the time of his death. The rights of the option holder may be exercised by the holder's guardian or legal representative in the case of disability and by the beneficiary designated by the holder in writing delivered to the Company or, if none has been designated, by the holder's estate or his or her transferee on death in accordance with this Plan, in the case of death. Options granted under the Plan shall terminate, and no rights thereunder may be exercised, after the expiration of the applicable exercise period. Notwithstanding the foregoing provisions, no rights under any options may be exercised after the expiration of ten years from their Date of Grant.

Method of Exercise and Payment. Each exercise of an option hereunder may be effected only by giving written notice, in the manner provided in Section 12 hereof, of intent to exercise the option, specifying the number of shares as to which the option is being exercised, and accompanied by full payment of the option price for the number of shares then being acquired. Such payment shall be made in cash, by certified or bank check payable to the order of the Company, credit to the Company's account at a financial or brokerage institution

on the date of exercise or a payment commitment of such an institution acceptable to the Company, or if the option so provides, (i) in shares of Common Stock having an aggregate Fair Market Value, at the time of such payment, equal to the total option price for the number of shares of Common Stock for which payment is then being made, or (ii) partly in cash or by certified or bank check payable to the order of the Company and the balance in shares of Common Stock having an aggregate Fair Market Value, at the time of such payment, equal to the difference between the total option price for the number of shares of Common Stock for which payment is then being made and the amount of the payment in cash or by certified or bank check. For purposes hereof, the "Fair Market Value" of the Common Stock shall be the last sale price of the Common Stock as reported on the Nasdaq Stock Market's National Market for the business day immediately preceding the option exercise date.

Receipt by the Company of such notice and payment shall, for purposes of this Plan, constitute exercise of the option or a part thereof. Within twenty (20) days thereafter, the Company shall deliver or cause to be delivered to the optionee a certificate or certificates for the number of shares of Common Stock then being purchased by the optionee. Such shares shall be fully paid and non-assessable. If any law or applicable regulation of the Securities and Exchange Commission or other public regulatory authority (including, but not limited to, a stock exchange) shall require the Company or the optionee (i) to register or qualify, under the Securities Act of 1933, as amended (the "Securities Act"), any similar federal statute then in force or any state law regulating the sale of securities, any shares of Common Stock covered by an option with respect to which notice of intent to exercise shall have been delivered to the Company or (ii) to take any other action in connection with such shares before issuance thereof may be effected, then the delivery of the certificate or certificates for such shares shall be postponed until completion of the necessary action, which the Company shall take in good faith and without delay. All such action shall be taken by the Company at its own expense.

To the extent determined necessary by counsel to the Company to comply with any applicable law, the Company may require an individual exercising an option to represent that his purchase of shares of Common Stock pursuant to such exercise is for his own account, for investment and without a view to resale or distribution, and that he will not sell or otherwise dispose of any such shares except pursuant to (i) an effective registration statement covering such transaction filed with the Securities and Exchange Commission and in compliance with all of the applicable provisions of the Securities Act, and the rules and regulations thereunder, or (ii) an opinion of Company counsel that such registration is not required.

Non-transferability. Options granted under the Plan shall not be transferable by the holder thereof otherwise than by will or the laws of descent and shall be exercisable. during the holder's lifetime, only by the option holder or his or her legal representative; provided that the Board may in its discretion waive such restriction in any case.

9. LIMITATION OF RIGHTS.

No Right to Continue as a Director. Neither the Plan, nor the granting of an option or any other action taken pursuant to the Plan, shall constitute an agreement or understanding, express or implied, that the Company will retain an optionee as a Director for any period of time or at any particular rate of compensation.

No Stockholders' Rights for Options. Directors shall have no rights as stockholders with respect to the shares covered by their options until the date they exercise such options and pay the option price to the Company, and no adjustment will be made for dividends or other rights for which the record date is prior to the date such option is exercised and paid for.

10. STOCKHOLDER APPROVAL.

The Plan is subject to approval by the stockholders of the Company by the affirmative vote of a majority of the shares of Common Stock present or represented and entitled to vote at a meeting of the Company's stockholders. In the event such approval is not obtained, all options granted under this Plan shall be void and without effect.

11. AMENDMENT OR TERMINATION.

The Board may amend or terminate this Plan at any time, subject to any stockholder approval that the Board determines to be necessary or advisable.

12. NOTICES.

Any communication or notice required or permitted to be given under this Plan shall be in writing and mailed by registered or certified mail or delivered in hand, if to the Company, to its Corporate Counsel at Parametric Technology Corporation, 128 Technology Drive, Waltham, Massachusetts 02154 and, if to an optionee, to such address as the optionee shall last have furnished to the Company.

13. GOVERNING LAW.

The Plan shall be governed by and construed in accordance with the laws of the Commonwealth of Massachusetts.

Adopted by the Board of Directors on November 17, 1995.
Approved by the Stockholders on February 8, 1996.
As amended through the October 2, 1996 meeting of the Board of Directors.

EXHIBIT A

1996 DSO - _______ ________ Shares

PARAMETRIC TECHNOLOGY CORPORATION
1996 Director Stock Option Plan
Non-statutory Stock Option Agreement
_______________ __, 199_

Parametric Technology Corporation (the "Company"), a Massachusetts corporation, hereby grants to the person named below an option to purchase shares of Common Stock, $.01 par value per share of the Company (the "Option") under and subject to the Company's 1996 Director Stock Option Plan (the "Plan") exercisable only on the following terms and conditions and those set forth on the reverse side of this Agreement:

Name of Optionee:
Address:

Social Security No.
Option Price:
Date of Grant:

Exercisability Schedule:

at any time on or after the first anniversary of the date hereof, as to _________ shares,

at any time on or after the second anniversary of the date hereof, as to _________ additional shares,
at any time on or after the third anniversary of the date hereof, as to _________ additional shares,
at any time on or after the fourth anniversary of the date hereof, as to _________ additional shares,

provided that this Optionee is a member of the Board of Directors of the Company (the "Board") at the opening of business on the date described above and provided that this Option may not be exercised as to any shares after the expiration of ten years from the date hereof.

By signing this Stock Option Agreement and returning one signed copy to the Company, the Optionee accepts the Option described herein on the terms and conditions set forth herein or in the plan.

PARAMETRIC TECHNOLOGY CORPORATION	Accepted and agreed to:
By: ________________________	__________________________
Title:	Optionee

TERMS AND CONDITIONS

PARAMETRIC TECHNOLOGY CORPORATION
1996 DIRECTOR STOCK OPTION PLAN

1. This Option may be exercised from time to time in accordance with the Exercisability Schedule for up to the aggregate number of shares specified therein, but in no event for the purchase of other than full shares; provided, however, that this Option may not be exercised as to any shares after the expiration of ten years from the date hereof. Written notice of exercise shall be delivered to the Company specifying the number of shares with respect to which the Option is being exercised, which notice shall be accompanied by full payment of the option price for the number of shares then being acquired. Such payment shall be made in cash or by certified or bank check payable to the order of the Company, credit to the Company's account at a financial or brokerage institution on the date of exercise or a payment commitment of such an institution acceptable to the Company or in shares of the Company's Common Stock, valued at their fair market value as of the date of exercise as determined as provided in the Plan, equal to the total option price for the number of shares for which payment is then being made, or in any combination of cash, certified or bank check and shares of Common Stock. Shares of Common Stock surrendered in payment of the option price shall have been held by the person exercising the option for at least six months unless otherwise permitted by the Board of Directors of the Company (the "Board"). Not later than twenty days after the date of the delivery of such notice the Company will deliver or cause to be delivered to the Optionee a certificate for the number of shares with respect to which the Option is being exercised.

2. The Optionee shall not be deemed, for any purpose, to have any rights whatever in respect of shares to which the Option shall not have been exercised and payment made as aforesaid. The Optionee shall not be deemed to have any rights to continued service as a director by virtue of the grant of this Option.

3. In the event of a stock dividend, split-up, combination or reclassification of shares, recapitalization or other similar capital change relating to the Common Stock, the maximum aggregate number and kind of shares or securities of the Company subject to this Option and the exercise price of this Option shall be appropriately adjusted by the Board (whose determination shall be conclusive) so that the proportionate number of shares or other securities subject to this Option and the proportionate interest of the Optionholder shall be maintained as before the occurrence of such event.

4. In the event of any reorganization, consolidation or merger to which the Company is a party and in which the Company does not survive, or upon the dissolution or liquidation of the Company, this Option, to the extent outstanding and unexercised, shall terminate; provided, however, that (i) in the event of the liquidation or dissolution of the Company, or in the event of any such reorganization, consolidation or merger in which the Company does not survive and with respect to which the resulting or surviving corporation does

not assume this Option, to the extent outstanding and unexercised, or issue a substitute option therefor, this Option shall be exercisable in full, without regard to any installment restrictions on exercise imposed pursuant to the Plan or this Option Agreement, during such period preceding the effective date of such liquidation, dissolution, reorganization, consolidation or merger (unless this Option is terminated earlier by its terms) as may be specified by the Board; and (ii) in the event of any such reorganization, consolidation or merger, the Board may, in its good faith discretion, arrange to have the resulting or surviving corporation assume this Option, to the extent outstanding and unexercised, or issue a substitute option therefor.

5. This Option is not transferable by the Optionee otherwise than by will or the laws of descent and distribution; provided that the Board may waive this restriction in its discretion.. This Option is exercisable during the Optionee's lifetime only by the Optionee, provided that this Option may be exercised by the Optionholder's guardian or legal representative in the case of disability and, in the case of death, by the beneficiary designated by the Optionholder in writing delivered to the Company, or, if none has been designated, by the Optionholder's estate or his or her transferee on death in accordance with this Option Agreement.

6. If the Optionee ceases to serve as a member of the Board for any reason other than death, the Optionee may, for a period of seven months following such cessation of service, exercise the rights which the Optionee had hereunder at the time the Optionee ceased serving as a director. Upon the death of the Optionee, those entitled to do so, as set forth in Section 5 of this Option Agreement, shall have the right, at any time within twelve months after the date of death (subject to the prior expiration of the Option exercise period), to exercise in whole or in part any rights which were available to the Optionee at the time of the Optionee's death. Any rights that have not yet become exercisable shall terminate upon cessation of membership on the Board. This Option shall terminate after the expiration of the applicable exercise period. Notwithstanding the foregoing provisions of this Section 6, no rights under this Option may be exercised after the expiration of ten years from the date hereof.

7. It shall be a condition to the Optionee's right to purchase shares of Common Stock hereunder that the Company may, in its discretion, require (a) that the shares of Common Stock reserved for issue upon the exercise of this Option shall have been duly listed, upon official notice of issuance, upon any national securities exchange on which the Company's Common Stock may then be listed, (b) that either (i) a Registration Statement under the Securities Act of 1933, as amended, with respect to said shares shall be in effect, or (ii) in the opinion of counsel for the Company the proposed purchase shall be exempt from registration under said Act and the Optionee shall have made such undertakings and agreements with the Company as the Company may reasonably require, and (c) that such other steps, if any, as counsel for the Company shall deem necessary to comply with any law, rule or regulation applicable to the issue of such shares by the Company shall have been taken by the Company or the Optionee, or both. The certificates representing the shares purchased under this Option may contain such legends as counsel for the Company shall deem necessary to comply with any applicable law, rule or regulation.

8. Any exercise of this Option is conditioned upon the payment, if the Company so requests, by the Optionee or such other person who may be entitled to exercise this Option in accordance with the terms hereof, of all state and federal taxes imposed upon the exercise of this Option and the issue to the Optionee of the shares covered hereby.

9. This Option shall not be treated as an incentive stock option under Section 422 of the Internal Revenue Code of 1986, as amended.

10. This Option is issued pursuant to the terms of the Plan. This Certificate does not set forth all of the terms and conditions of the Plan, which are incorporated herein by reference. In the event of any conflict or inconsistency between the provisions of this Option Agreement and the Plan, the provisions of the Plan will prevail. Capitalized terms used and not otherwise defined herein have the meanings given to them in the Plan. Copies of the Plan may be obtained upon written request without charge from the Company.

EXHIBIT 13.1

Management's Discussion and Analysis
of Financial Condition and Results of Operations

Parametric Technology Corporation

Parametric Technology Corporation is the leading supplier of software tools used to automate the mechanical development of a product from its conceptual design through its release into manufacturing.

Any forward-looking statements, including projections about growth and the Company's markets or business, are based on certain assumptions made by management. Important information about the basis for those assumptions is contained in "Important Factors Regarding Future Results" beginning on page 25.

RESULTS OF OPERATIONS

For the fiscal year ended September 30, 1996, the Company's revenue and net income excluding nonrecurring charges increased 52% and 61%, respectively, over the previous fiscal year. Net income excludes nonrecurring charges in fiscal 1996 of $32,119,000 related to the acquisition of Reflex technology from Greenshire License Co. NV ("Reflex") and the nonrecurring charges in fiscal 1995 of $10,438,000 related to the merger of Rasna Corporation ("Rasna") into the Company and $19,000,000 related to its acquisition of the Conceptual Design and Rendering System ("CDRS") software business from Evans & Sutherland Computer Corporation. Net income excluding the nonrecurring charges as a percentage of revenue was 26% in fiscal 1996 compared to 25% in fiscal 1995. Including the nonrecurring charges, the Company's net income as a percentage of revenue was 23%, 20% and 26% in fiscal 1996, 1995 and 1994, respectively.

The following table sets forth certain consolidated financial data as a percentage of revenue for the fiscal years ended September 30, 1996, 1995 and 1994.

	Year ended September 30,		
	1996	1995	1994
Revenue:			
License	74.8%	73.1%	77.3%
Service	25.2	26.9	22.7
Total revenue	100.0	100.0	100.0
Cost of revenue:			
License	0.8	0.8	0.8
Service	8.6	8.4	7.1
Total cost of revenue	9.4	9.2	7.9
Gross profit	90.6	90.8	92.1
Operating expenses:			
Sales and marketing	39.8	41.6	40.4
Research and development	6.6	6.5	7.5
General and administrative	4.8	5.2	5.5
Acquisition and related costs	5.3	7.4	--
Total operating expenses	56.5	60.7	53.4
Operating income	34.1	30.1	38.7
Other income, net	1.9	2.3	2.0
Income before income taxes	36.0	32.4	40.7
Provision for income taxes	13.0	12.8	15.2
Net income	23.0%	19.6%	25.5%
Excluding acquisition and related costs:			
Operating income	39.5%	37.6%	38.7%

Net income	26.4%	25.0%	25.5%

Revenue

The Company derives its revenue from the sale and support of software used in the mechanical segment of the CAD/CAM/CAE (computer-aided design, manufacturing and engineering) industry. Revenue growth in fiscal 1996 and 1995 reflects the continued worldwide acceptance of the Company's products and services and the Company's ongoing investment in expanding its worldwide direct sales force. Consistent with fiscal 1995, the Company licensed 91% of its products directly to end-user customers and 9% via third-party distributors in fiscal 1996.

License and service revenue for fiscal years 1996, 1995 and 1994 were:

(Dollars in thousands)	1996	Change	1995	Change	1994
License	$448,699	56%	$288,349	40%	$206,243
Percentage of total revenue	75%		73%		77%
Service	$151,423	43%	$105,961	74%	$ 60,731
Percentage of total revenue	25%		27%		23%
Total revenue	$600,122	52%	$394,310	48%	$266,974

The increase in license revenue results from an increase in the number of seats of software licensed and from a higher price realized per seat. A seat of software generally consists of the Company's core product, Pro/ENGINEER(R), together with several other software modules, configured to serve the needs of a single end user. The Company licensed approximately 23,000 seats of software in fiscal 1996, an increase of 45% from fiscal 1995's 15,900 seats, which was 35% higher than fiscal 1994's 11,800 seats. The increase in the number of seats licensed was achieved as a result of continued market penetration of the Company's products. The average price per seat during fiscal 1996 was approximately $19,500, compared with an average price of approximately $18,100 in 1995 and $17,500 in 1994. The average price per seat has increased as a result of customers purchasing configurations of Pro/ENGINEER seats containing more modules and an increase in the percentage of the Company's revenue derived from international markets, where the prices are typically higher than in North America.

Service revenue is derived from the sale of software maintenance contracts and the performance of training and consulting services. This revenue increased during both fiscal 1996 and 1995 as a result of the growth in the Company's installed customer base and, to a lesser extent, increased training and consulting services performed for these customers. The smaller increase in training and consulting revenue is a result of the Company outsourcing a portion of these services to third parties to allow the Company to focus its resources on increasing its installed base.

Sales by geographic region for fiscal years 1996, 1995 and 1994 were:

(Dollars in thousands)	1996	Change	1995	Change	1994
North America	$264,880	34%	$197,839	31%	$151,491
Percentage of total revenue	44%		50%		57%
Europe	$207,811	55%	$133,873	61%	$ 83,172
Percentage of total revenue	35%		34%		31%
Asia/Pacific	$127,431	104%	$ 62,598	94%	$ 32,311

Percentage of total revenue	21%	16%	12%

The Company derived 56%, 50% and 43% of its revenue from sales to international customers in fiscal 1996, 1995 and 1994, respectively. The increase in international revenue is primarily attributable to continued international acceptance of the Company's products and services, the establishment of new subsidiaries and sales offices, and the growth in the sales force in Europe and Asia/Pacific. Export sales were $84,537,000, $45,147,000 and $37,244,000 in fiscal 1996, 1995 and 1994, respectively.

The Company expects that total revenue will increase in fiscal 1997 from continued penetration in the mechanical CAD/CAM/CAE industry, and that international revenue will continue to account for a significant portion of that total growth. Although the Company expects revenues to grow in fiscal 1997, there can be no assurance that quarterly revenue growth rates or geographical growth rates will be comparable with those achieved in fiscal 1996.

Cost of Revenue

(Dollars in thousands)	1996	Change	1995	Change	1994
Cost of license	$ 4,642	39%	$ 3,348	65%	$ 2,028
Percentage of license revenue	1%		1%		1%
Cost of service	$51,812	57%	$32,970	73%	$19,004
Percentage of service revenue	34%		31%		31%

Cost of license revenue consists of the amortization of capitalized computer software costs and costs associated with reproducing software on compact disks, printing user manuals, royalties, packaging and shipping. The absolute increase in cost of license revenue is a result of the increase in the number of seats licensed during each of the last three fiscal years. Cost of service revenue includes costs associated with training and consulting personnel, such as salaries and related costs and

travel, and costs related to software maintenance, including costs incurred for customer support personnel and the release of maintenance updates. Increases in cost of service revenue resulted primarily from growth in the staffing necessary to generate and support increased worldwide service revenue and provide ongoing quality customer support to its increasing installed base.

Operating Expenses

(Dollars in thousands)	1996	Change	1995	Change	1994
Sales and marketing	$238,860	46%	$163,918	52%	$107,940
Percentage of total revenue	40%		42%		40%
Research and development	$ 39,476	54%	$ 25,591	29%	$ 19,882
Percentage of total revenue	7%		6%		7%
General and administrative	$ 28,557	40%	$ 20,414	38%	$ 14,758
Percentage of total revenue	5%		5%		6%
Acquisition and related costs	$ 32,119		$ 29,438		--

Sales and Marketing

Sales and marketing expenses primarily include salaries, sales commissions, travel and facility costs. While sales and marketing expenses as a percentage of revenue have remained relatively constant during the three most recent fiscal years, the absolute increases in these expenses were due principally to worldwide expansion of the sales force and sales commissions associated with higher revenue. Total sales and marketing headcount increased to 1,645 in fiscal 1996 from 1,098 in fiscal 1995 and 790 in fiscal 1994. International sales and marketing expenses represented 58% of total sales and marketing expenses in fiscal 1996, compared with 52% in 1995 and 45% in 1994. These increases are consistent with the growth in international revenue. The Company expects to continue the growth of its worldwide sales and marketing organization during fiscal 1997, reflecting the Company's commitment to focus its resources on increasing its installed base and to continue to expand its global market penetration.

Research and Development

The Company continued to make significant investments in research and development, consisting principally of salaries and benefits, expenses associated with product translations, costs of computer equipment used in software development, and facility expenses. The Company believes that research and development expenditures are essential to maintaining its competitive position in the CAD/CAM/CAE market and expects the expenditure levels to increase in absolute dollars in fiscal 1997.

General and Administrative

General and administrative expenses include the costs of corporate, finance, information technology, human resources and administrative functions of the Company. The absolute increases in these expenses were principally due to the hiring of additional employees, primarily in the international offices, necessary to support the Company's worldwide growth and in the information technology area as the Company expanded its efforts to upgrade its internal management information systems. In fiscal 1997, the Company currently expects that general and administrative expenses will continue to remain relatively constant as a percentage of revenue.

Acquisition and Related Costs

In conjunction with the Reflex acquisition in the fourth quarter of fiscal 1996, the Company recorded a nonrecurring charge of $32,119,000 related to the write-off of purchased research and development in process. In the fourth quarter of fiscal 1995, the Company recorded a nonrecurring charge of $10,438,000, which included approximately $6,028,000 for transaction fees, $1,722,000 for severance-related expenses and $2,688,000 related to integration costs and lease and distributor termination costs in conjunction with the Rasna merger. In conjunction with the CDRS acquisition in the third quarter of fiscal 1995, the Company recorded a nonrecurring charge of $19,000,000 related to the write-off of purchased research and development in process.

Other Income

(Dollars in thousands)	1996	Change	1995	Change	1994
Other income, net	$11,501	27%	$9,029	69%	$5,342

Other income, net, primarily includes interest income and expense and foreign currency gains and losses. Interest income increased to $13,914,000 in fiscal 1996 from $10,159,000 in fiscal 1995 and $4,642,000 in fiscal 1994 due primarily to higher interest-bearing cash and investment balances. As the international portion of its business continues to increase, a growing percentage of the Company's revenue and expenses

is transacted in foreign currencies. To minimize, where possible, foreign exchange gains or losses from fluctuations in foreign exchange rates related to specific foreign currency denominated receivables, the Company has a hedging program, which involves the use of forward foreign exchange contracts in the primary European and Asian currencies. Gains (losses) resulting from foreign currency transactions, including the results of the hedging program, were ($1,389,000), ($781,000) and $222,000 in fiscal 1996, 1995 and 1994, respectively.

Income Taxes and Net Income

(Dollars in thousands)	1996	Change	1995	Change	1994
Provision for income taxes	$ 78,247	56%	$50,298	24%	$40,615
Effective income tax rate	36%		39%		37%
Net income	$137,910	78%	$77,362	14%	$68,089

The difference between the effective and statutory federal tax rate was due primarily to the benefits of tax-exempt interest income and the foreign sales corporation, offset by the impact of state income taxes and, in fiscal 1995, the nondeductible acquisition costs associated with the Rasna merger.

LIQUIDITY AND CAPITAL RESOURCES

(Dollars in thousands)	1996	Change	1995	Change	1994
Cash, cash equivalents and investments	$456,112	48%	$308,248	46%	$211,049
Working capital	$416,058	31%	$317,702	38%	$229,878
Net cash provided by operating activities	$229,724	93%	$119,017	41%	$ 84,452
Net cash used by investing activities	$(144,511)	2%	$(141,270)	491%	$(23,897)
Net cash provided (used) by financing activities	$(25,926)	(202)%	$ 25,354	138%	$ 10,669

Net cash generated by operating activities and proceeds from issuance of the Company's stock under stock plans provided sufficient resources to fund the Company's headcount growth, capital assets needs, stock repurchases and acquisitions in all periods presented.

The increase in fiscal 1996 and 1995 in cash and cash equivalents provided by operations was due to the higher income before depreciation and amortization, the increases in accounts payable and accrued expenses, accrued compensation, income taxes and deferred revenue, offset by the increase in accounts receivable. Even though accounts receivable increased in absolute dollars by $39,040,000 in fiscal 1996, days sales outstanding was 60 days compared to 61 days in fiscal 1995.

Excluding the investment of excess cash, investing activities used cash to primarily purchase property and equipment in all three fiscal years and to acquire technology and businesses in fiscal 1996 and 1995. In fiscal 1996, 1995 and 1994, the Company acquired $29,650,000, $12,868,000 and $8,705,000, respectively, of capital equipment consisting principally of computer equipment, software and office equipment. The increase was a result of the growth in employee headcount, continued expansion of its worldwide sales and support operations and increased investment in information technologies and in computer workstations to keep field and development employees current with changes in the hardware and software marketplace. In fiscal 1997, the Company expects to spend at least as much as was spent in fiscal 1996; however, the level of spending will be dependent on various factors, including the growth of the business and general economic conditions.

Net cash was used by financing activities to primarily repurchase $66,563,000 of the Company's stock in fiscal 1996, offset by proceeds of $40,763,000 from the issuance of the Company's common stock under stock plans. In fiscal 1995 and 1994, net cash was provided by financing activities primarily from the proceeds from issuance of the Company's common stock under stock plans.

On May 12, 1994, the Company announced that its Board of Directors had authorized a plan that allows the Company to repurchase up to 6,000,000 shares of its common stock. The Company intends to repurchase these shares to partially offset the dilution caused by the exercise of stock options under the Company's option plans and the purchase of shares under the employee stock purchase plan. During fiscal 1996, the Company repurchased 1,779,000 shares, of which 23,000 remained in treasury at September 30, 1996. Since the inception of the plan, the Company has repurchased 2,093,000 shares. Ongoing repurchases will be funded through the use of available cash, cash generated from operations, and cash received for stock option exercises and employee stock purchase plan purchases.

On July 10, 1996, the Company acquired project modeling and management software (Reflex) technology from Greenshire License Co. NV for $32,119,000, which included the issuance of 113,000 shares of the Company's common stock with a fair value of $5,000,000 at the time of the acquisition and $5,000,000 payable in the fourth quarter of fiscal 1997. Payments of $22,119,000 in fiscal 1996 were from the Company's existing cash balances. The acquisition has been accounted for as a purchase. The purchase price was allocated to purchased research and development in process, as no other tangible or intangible assets were identified. The purchased research and development in process had not reached technological feasibility, had no alternative future use and was valued using expected future cash flows, discounted for risks and uncertainties related to the target markets and the completion of the products that will ultimately be marketed by the Company. As a result, at the date of acquisition, the $32,119,000 allocated to purchased research and development in process was recorded as a nonrecurring charge.

On August 1, 1995, the Company acquired Rasna by merging it into the Company pursuant to an Agreement and Plan of Merger dated as of May 30, 1995. Based on the number of shares of Rasna common stock outstanding, the Company issued 7,541,000 shares of common stock and reserved 1,045,000 shares of its common stock for outstanding Rasna stock options assumed. The merger was accounted for as a pooling of interests.

On April 12, 1995, the Company acquired substantially all of the assets and specified liabilities of the CDRS software business operated by the Design Software Division of Evans & Sutherland Computer Corporation for approximately $33,507,000 in cash, which was paid by the Company from its existing cash balances. The acquisition has been accounted for as a purchase. The purchase price has been allocated to the assets acquired, including certain intangible assets, such as purchased computer software and research and development in process, based on their respective fair values. The excess of the purchase price over the estimated fair value of the net assets acquired has been recorded as goodwill ($7,703,000), which is being amortized on a straight-line basis over seven years.

The Company believes that existing cash and short-term investment balances, together with cash generated from operations and issuance of the Company's common stock under stock plans, will be sufficient to meet the Company's working capital, financing and capital expenditure requirements through at least fiscal 1997.

During 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("FAS 123"). FAS 123 defines a fair-value method of accounting for employee stock options or similar equity instruments and encourages companies to adopt that method of accounting beginning in fiscal 1997 for the Company. However, FAS 123 also allows companies to continue to use the intrinsic value method of accounting prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). The Company expects to continue to account for stock options and purchases in accordance with APB 25, but beginning in fiscal 1997 will also make pro-forma disclosures of net income and earnings per share as if the fair-value-based method of accounting defined in FAS 123 had been applied.

IMPORTANT FACTORS REGARDING FUTURE RESULTS

Information provided by the Company, including information contained in this Annual Report, or by its spokespersons from time to time may contain forward-looking statements concerning projected financial performance, market and industry segment growth, product development and commercialization or other aspects of future operations. Such statements, made pursuant to the safe harbor established by recent securities legislation, 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 the following, may cause the Company's future results to differ materially from those projected in any forward-looking statement.

Fluctuations in Operating Results

While the Company's sales cycle varies substantially from customer to customer, a high percentage of the Company's revenue is expected to be realized in the third month of each fiscal quarter and tends to be concentrated in the latter half of that month. The Company's orders early in a quarter will not generally be large enough to assure that it will meet its revenue targets for any particular quarter. In addition, the Company's operating expenses are based on expected future revenue and are relatively fixed for the short term. Accordingly, the

Company's quarterly results may be difficult to predict until the end of the quarter, and a shortfall in shipments or contract orders at the end of any particular quarter may cause the results for that quarter to fall short of anticipated levels. In turn, this could adversely impact the market price of the Company's stock and the ability of the Company to meet its working capital, financing and capital expenditure requirements.

Stock Market Volatility

Market prices for securities of software companies have generally been volatile. In particular, the market price of the Company's common stock has been and may continue to be subject to significant fluctuations as a result of factors affecting the computer industry or the securities markets in general. These factors include, but are not limited to, quarterly variations, announcements of technological innovations by the Company or competitors, changes in prices by the Company or competitors, change in product mix, and change in revenue or revenue growth rates for geographic areas or products.

In addition, a large percentage of the Company's common stock traditionally has been held by institutional investors. Consequently, actions with respect to the Company's common stock by certain of these institutional investors could have a significant impact on the market price for the stock. For more information, please see the Company's proxy statement with respect to its most recent annual meeting of stockholders and Schedules 13D and 13G filed with the U.S. Securities and Exchange Commission with respect to the Company's common stock.

Market Growth

Any Company projections of revenue growth are based on the assumptions that the Company will be able to continue to penetrate the relevant market and add to its industry leadership position and that the mechanical CAD/CAM/CAE market will continue to grow at a predicted annual rate. Failure of these assumptions to materialize could adversely impact the Company's operating results.

Rapid Technological and Market Changes

The mechanical CAD/CAM/CAE industry is highly competitive, and is characterized by rapid technological advances. Accordingly, the Company's ability to realize its expectations will depend on its success at enhancing its current offerings, licensing technology from third parties, developing new products and services that keep pace with developments in technology and meet evolving customer requirements, and delivering those products through appropriate distribution channels. This will require, among other things, correctly anticipating customer needs, hiring and retaining personnel with the necessary skills and creativity, providing adequate funding for the development efforts, and managing distribution channels effectively.

Failure by the Company to anticipate or respond adequately to technological developments, particularly those by competitors which could make the Company's technology obsolete or noncompetitive, and customer requirements, significant delays in the development, production, testing, marketing, or availability of new or enhanced products or services, or the failure of customers to accept such products or services, could adversely affect the Company's competitive position and operating results.

Possibility of New Product Delays

As is common in the computer software industry, the Company may from time to time experience delays in its product development and "debugging" efforts. Significant delays in developing, completing or shipping new or enhanced products could adversely affect the Company's financial performance. Among other things, such delays could cause the Company to incorrectly predict the fiscal quarter in which revenue from the shipment of the new or enhanced product will be realized and give the Company's competitors a greater opportunity to market competing products.

Management of Growth Through Acquisitions

The Company's product range and customer base have increased in the recent past due in part to acquisitions. The Company may acquire additional businesses or product lines in the future. The probability of success of any acquisition may be dependent upon the Company's ability to integrate the acquired business or products successfully and to retain key personnel associated with the acquisition. Failure to do so, or a material increase in the cost of integration, could cause actual results to differ from those projected in management's forward-looking statements.

Competition

The Company believes that the principal bases for competition in its markets are product functionality, price/performance characteristics, product portability, ease of product use, sales and marketing strength, support services and corporate reputation. In particular, the Company believes that the current success of its Pro/ENGINEER product line is due in part to the mechanical

and functional superiority of such products over competitive offerings. The Company is aware of ongoing efforts by competitors, some of whom have greater resources than the Company, to develop equivalent or superior technology and market these products at lower prices. Should a competitor successfully bring such a product to market and be able to sell it at a lower price in the future, the Company's operating results could be adversely affected. The Company's future success will depend in a large part on its ability to license additional products and services to its existing customer base as well as the installed customer bases of traditional mechanical CAD/CAM/CAE suppliers.

Dependence on Key Personnel

The Company's success depends upon its ability to attract and retain highly skilled technical, managerial and sales personnel. While the Company has not to date experienced any significant difficulty in hiring or retaining qualified personnel, competition for such personnel in the computer industry in general, and the mechanical CAD/CAM/CAE industry in particular, is intense. Management's projections necessarily assume that the Company will continue to attract and retain such personnel, and the failure to do so could have a material adverse effect on the Company's ability to develop and market competitive products and its ability to achieve projected operating results.

Risks Associated with International Business

A significant and growing portion of the Company's business comes from outside the United States. A consequence of the increased international business is that a growing percentage of the Company's revenue and expenses is denominated in foreign currencies, which subjects the Company's results of operations to foreign exchange fluctuations. Although the Company enters into forward exchange contracts to offset a portion of the foreign exchange fluctuations, unanticipated foreign events may materially and adversely affect its results. Additional risks associated with international business include, but are not limited to, unexpected changes in regulatory practices and tariffs, staffing and managing foreign operations, longer collection cycles in certain areas, potential changes in tax laws, greater difficulty in protecting intellectual property rights, and general economic and political conditions.

Protection of Intellectual Property and Other Proprietary Rights

The Company regards its software products as proprietary and attempts to protect its intellectual property rights by relying on copyrights, trademarks, patents, and common law safeguards, including trade secret protection, as well as restrictions on disclosures and transferability in its agreements with other parties. Although the Company intends to protect its intellectual property rights, there can be no assurance that the laws of all jurisdictions in which the Company's products are or may be developed, manufactured or sold will afford the same protections to its products and intellectual property, or will be enforced or enforceable by the Company, to the same extent as under the laws of the United States. The software industry is characterized by frequent litigation regarding copyright, patent and other intellectual property rights. While the Company has not, to date, had any significant claims of such nature asserted against it, there can be no assurance that third parties will not assert such claims against the Company with respect to existing or future products or that, if asserted, such claims would be resolved in a satisfactory manner. In the event of litigation to determine the validity of any third-party claims, such litigation could result in significant expense to the Company and divert the efforts of the Company's technical and management personnel, whether or not such litigation is determined in favor of the Company.

Consolidated Balance Sheet

Parametric Technology Corporation

(amounts in thousands)	September 30, 1996	1995
ASSETS		
Current assets:		
Cash and cash equivalents	$201,614	$145,638
Short-term investments	232,602	162,610
Accounts receivable, net of allowance for doubtful accounts of $2,910 and $2,733	117,273	80,405
Other current assets	10,561	11,079
Total current assets	562,050	399,732
Marketable investments	21,896	--
Property and equipment, net	36,517	19,811
Other assets	38,754	34,184
Total assets	$659,217	$453,727
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 39,416	$ 19,578
Accrued compensation	32,186	19,821
Deferred revenue	56,420	37,953
Income taxes	17,970	4,678
Total current liabilities	145,992	82,030
Other liabilities	793	768
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $.01 par value; 5,000 shares authorized; none issued	--	--
Common stock, $.01 par value; 215,000 shares authorized; 127,452 and 125,129 shares issued	1,275	1,251
Additional paid-in capital	207,039	155,497
Foreign currency translation adjustment	(1,316)	1,710
Retained earnings	306,638	212,471
Treasury stock, at cost, 23 and 0 shares	(1,164)	--
Unrealized loss on investments	(40)	--
Total stockholders' equity	512,432	370,929
Total liabilities and stockholders' equity	$659,217	$453,727

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

Consolidated Statement of Income

(amounts in thousands, except per share data)	Year ended September 30, 1996	1995	1994
Revenue:			
License	$448,699	$288,349	$206,243
Service	151,423	105,961	60,731
Total revenue	600,122	394,310	266,974
Cost of revenue:			
License	4,642	3,348	2,028
Service	51,812	32,970	19,004
Total cost of revenue	56,454	36,318	21,032
Gross profit	543,668	357,992	245,942
Operating expenses:			
Sales and marketing	238,860	163,918	107,940
Research and development	39,476	25,591	19,882
General and administrative	28,557	20,414	14,758
Acquisition and related costs	32,119	29,438	--
Total operating expenses	339,012	239,361	142,580
Operating income	204,656	118,631	103,362
Interest income	13,914	10,159	4,642
Other income (expense), net	(2,413)	(1,130)	700
Income before income taxes	216,157	127,660	108,704
Provision for income taxes	78,247	50,298	40,615
Net income	$137,910	$ 77,362	$ 68,089
Net income per share	$ 1.04	$ 0.60	$ 0.54
Weighted average number of common and dilutive common equivalent shares outstanding	133,211	129,046	125,051

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

Consolidated Statement of Stockholders' Equity

Parametric Technology Corporation

(amounts in thousands)	Common stock Shares	Common stock Amount	Additional paid-in capital	Foreign currency translation adjustment	Retained earnings	Treasury stock Shares	Treasury stock Cost	Unrealized loss on investments	Total stockholders' equity
Balance, September 30, 1993	115,649	$1,156	$ 83,023	$ 156	$ 70,320				$154,655
Issuance of common stock for services and exercise of warrants	92	1	154						155
Issuance of common stock under stock plans	4,924	49	13,966						14,015
Income-tax benefit related to incentive stock option plan			16,326						16,326
Purchase of common stock for treasury or retirement	(16)	--	(96)			(314)	$(4,356)		(4,452)
Issuance of treasury stock under stock plans					(2,896)	314	4,356		1,460
Foreign currency translation adjustment				930					930
Net income					68,089				68,089

Balance, September 30, 1994	120,649	1,206	113,373	1,086	135,513	0	0		251,178
Issuance of common stock for services	35	--	46						46
Issuance of common stock under stock plans	4,517	46	26,127						26,173
Income-tax benefit related to incentive stock option plan			16,040						16,040
Foreign currency translation adjustment				578					578
Net income					77,362				77,362
Elimination of Rasna's net activity for the three months ended December 31, 1994	(72)	(1)	(89)	46	(404)				(448)
Balance, September 30, 1995	125,129	1,251	155,497	1,710	212,471	0	0	$ 0	370,929
Issuance of common stock under stock plans	2,210	23	19,084						19,107
Issuance of common stock for acquisition	113	1	4,999						5,000
Income-tax benefit related to incentive stock option plan			27,459						27,459
Purchase of common stock for treasury						(1,779)	(66,563)		(66,563)
Issuance of treasury stock under stock plans					(43,743)	1,756	65,399		21,656
Foreign currency translation adjustment				(3,026)					(3,026)
Unrealized loss on investments								(40)	(40)
Net income					137,910				137,910
Balance, September 30, 1996	127,452	$1,275	$207,039	$(1,316)	$306,638	(23)	$(1,164)	$(40)	$512,432

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

Consolidated Statement of Cash Flows

	Year ended September 30,		
(amounts in thousands)	1996	1995	1994
Cash flows from operating activities:			
Net income	$137,910	$ 77,362	$ 68,089
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	16,800	9,466	4,814
Deferred income taxes	(6,420)	(10,599)	(1,304)
Charge for purchased research and development in process	32,119	19,000	--
Changes in assets and liabilities net of effects from acquisitions:			
Increase in accounts receivable	(39,040)	(13,129)	(23,753)
(Increase) decrease in other current assets	88	(2,334)	2,045
(Increase) decrease in other assets	205	(4,378)	1,032
Increase in accounts payable and accrued expenses	15,377	5,660	3,621
Increase in accrued compensation	12,687	3,131	5,061
Increase in deferred revenue	19,420	16,436	7,028
Increase in income taxes	40,578	18,402	17,819
Net cash provided by operating activities	229,724	119,017	84,452
Cash flows from investing activities:			
Additions to property and equipment, net	(29,650)	(12,868)	(8,705)
Payments for acquisitions	(22,119)	(33,507)	--
Additions to capitalized computer software costs	(815)	(1,132)	(912)
Proceeds from sale of investments	244,645	171,163	68,828
Purchases of investments	(336,572)	(264,926)	(83,108)
Net cash used by investing activities	(144,511)	(141,270)	(23,897)
Cash flows from financing activities:			
Repayment of long-term obligations	(126)	(175)	(209)
Short-term borrowings, net	--	(600)	(300)
Proceeds from issuance of common stock	40,763	26,129	15,534
Purchases of treasury stock	(66,563)	--	(4,356)
Net cash provided (used) by financing activities	(25,926)	25,354	10,669
Elimination of Rasna's net cash activity for the three months ended December 31, 1994	--	(112)	--
Effects of exchange rate changes on cash	(3,311)	447	937
Net increase in cash and cash equivalents	55,976	3,436	72,161
Cash and cash equivalents at beginning of year	145,638	142,202	70,041

Cash and cash equivalents at end of year	$201,614	$145,638	$142,202

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

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in the financial statements. Certain amounts in the fiscal 1995 and 1994 financial statements have been reclassified to conform to the fiscal 1996 presentation.

On August 1, 1995, the Company completed its merger with Rasna Corporation ("Rasna"), a developer and marketer of software products for mechanical computer-aided engineering. The merger was accounted for as a pooling of interests. Accordingly, the accompanying consolidated financial statements have been retroactively combined to reflect this transaction.

Due to the differing year ends of the Company and Rasna, financial information for dissimilar fiscal years has been combined. Rasna's results of operations for its fiscal years ended December 31, 1994 and 1993, were combined with the Company's results of operations for the fiscal years ended September 30, 1994 and 1993, respectively. Balance sheet information as of September 30, 1994 includes the financial position of Rasna as of December 31, 1994 and the Company as of September 30, 1994. Accordingly, Rasna's results of operations for the three months ended December 31, 1994 (including revenue, operating income and net income of $6,832,000, $548,000, and $404,000, respectively) were duplicated in the combined statements of income for fiscal 1995 and 1994. Therefore, Rasna's net income for one of the three-month periods ended December 31, 1994 was eliminated from stockholders' equity.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Foreign Currency Translation

Foreign currency financial statements of international subsidiaries, where the local currency is the functional currency, are translated using exchange rates in effect at period end for assets and liabilities and at average rates during the period for results of operations. The resulting foreign currency translation adjustments are reflected as a separate component of stockholders' equity. For international subsidiaries where the U.S. dollar is the functional currency, monetary assets and liabilities are translated using exchange rates in effect at period end, nonmonetary assets and liabilities are translated at historical rates, and results of operations are translated at average rates for the period. The resulting foreign currency translation adjustments are included in income. Any gains or losses from foreign exchange transactions are included in income. Currency losses of $1,389,000 and $781,000 and currency gains of $222,000 were recognized in fiscal 1996, 1995 and 1994, respectively.

Revenue Recognition

Revenue is derived from the licensing of computer software products and from service revenue consisting of training, consulting and maintenance. License revenue is recognized upon shipment, unless collection is not reasonably assured. Revenue from software maintenance contracts is recognized ratably over the contract period, and other service revenue is recognized upon performance.

Cash Equivalents and Investments

The Company considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. Short-term investments are those with maturities in excess of three months but less than one year. Marketable investments are those with maturities in excess of one year but less than two years. All cash equivalents and short-term and marketable investments have been classified as available for sale and are reported at fair value with unrealized gains and losses included in stockholders' equity.

The Company invests its nonoperating cash in debt instruments of financial institutions, government entities and corporations, and mutual funds. The Company has established guidelines relative to credit ratings, diversification and maturities that maintain safety and liquidity. The Company has not experienced any losses on its investments.

Concentration of Credit Risk

The Company places its cash, cash equivalents and investments with financial institutions with high credit standing. The Company's customer base consists of large numbers of geographically diverse customers dispersed across many industries. As a result, concentration of credit risk with respect to trade receivables is not significant.

Forward Foreign Exchange Contracts

The Company enters into transactions denominated in foreign currencies and includes the exchange gain or loss arising from such transactions in other income (expense). The Company enters into forward exchange contracts to hedge specific foreign currency denominated receivables, which require the Company to exchange foreign currencies for U.S. dollars at maturity at rates agreed to at inception of the contracts. As of September 30, 1996 and 1995, the Company had approximately $11,766,000 and $1,389,000, respectively, of foreign exchange contracts outstanding. All contracts mature within one year. At September 30, 1996 and for all fiscal years presented, gains

and losses associated with exchange rate fluctuations on forward foreign exchange contracts are immaterial. Cash flows from the forward exchange contracts are classified with the related receivables.

Property and Equipment

Property and equipment are stated at cost and depreciated using the straight-line method over the estimated useful lives, typically three years. Leasehold improvements are amortized over the shorter of the useful lives or the remaining terms of the related leases. Property and equipment under capital leases are amortized over the lesser of the lease terms or the estimated useful lives. Maintenance and repairs are charged to expense when incurred; additions and improvements are capitalized.

Upon retirement or sale, the cost of the disposed asset and the related accumulated depreciation are removed from the accounts, and any resulting gain or loss is credited or charged to income.

Capitalized Computer Software Costs and Intangible Assets

The Company incurs costs to develop computer software to be licensed or otherwise marketed to customers. Development costs incurred in the research and development of new software products and enhancements to existing products are expensed in the period incurred unless these costs qualify for capitalization. Capitalized computer software costs are amortized over the economic lives of the related products, typically three years, beginning at their initial shipment date. Capitalized computer software costs of $3,174,000 and $4,380,000, included in other assets, are net of accumulated amortization of $5,672,000 and $3,651,000 at September 30, 1996 and 1995, respectively. Amortization charged to expense was $2,021,000, $1,334,000 and $665,000 for the fiscal years ended September 30, 1996, 1995 and 1994, respectively.

Purchased software of $3,400,000 and intangible assets of $11,083,000 (including goodwill of $7,703,000) capitalized in fiscal 1995 were attributable to the acquisition of the Conceptual Design and Rendering System ("CDRS") software business operated by the Design Software Division of Evans & Sutherland Computer Corporation. These assets, included in other assets, are amortized on a straight-line basis, over three and seven years, respectively. Amortization charges related to intangible assets, the majority of which were reflected in general and administrative expenses, totaled $1,580,000 and $725,000 for the fiscal years ended September 30, 1996 and 1995, respectively.

The Company evaluates the net realizable value of capitalized computer software costs and intangible assets on an ongoing basis relying on a number of factors including operating results, business plans, budgets and economic projections.

Income per Common Share

Income per common share is computed based upon the weighted average number of common and dilutive common equivalent shares outstanding during the year. Fully diluted and primary earnings per common share are the same amounts for each of the years presented. Dilutive common equivalent shares consist of stock options and are calculated using the treasury stock method.

B. ACQUISITIONS

On July 10, 1996, the Company acquired project modeling and management software ("Reflex") technology from Greenshire License Co. NV for $32,119,000, which included the issuance of 113,000 shares of the Company's common stock with a fair value of $5,000,000 at the time of the acquisition and $5,000,000 payable in the fourth quarter of fiscal 1997. Payments of $22,119,000 in fiscal 1996 were from the Company's existing cash balances. The acquisition has been accounted for as a purchase. The purchase price was allocated to purchased research and development in process, as no other tangible or intangible assets were identified. The purchased research and development in process had not reached technological feasibility, had no alternative future use, and was valued using expected future cash flows, discounted for risks and uncertainties related to the target markets and the completion of the products that will ultimately be marketed by the Company. As a result, at the date of acquisition, the $32,119,000 allocated to purchased research and development in process was recorded as a nonrecurring charge. The operating results of Reflex have not been material in relation to those of the Company, and are included in the Company's consolidated results of operations from the date of acquisition.

On August 1, 1995, the Company acquired Rasna by merging it into the Company pursuant to an Agreement and Plan of Merger dated as of May 30, 1995. Based on the number of shares of Rasna common stock outstanding, the Company issued 7,541,000 shares of common stock and reserved 1,045,000 shares of its common stock for outstanding Rasna stock options assumed. The merger was accounted for as a pooling of interests. In conjunction with the Rasna merger, the Company recorded a nonrecurring charge of $10,438,000, which included approximately $6,028,000 for transaction fees, $1,722,000 for severance-related expenses, and $2,688,000 related to integration costs and lease and distributor termination costs. At September 30, 1996, accrued expenses include $500,000 for future cash outlays associated with this nonrecurring charge.

The following information shows revenue and net income of the separate companies during the periods preceding the combination. Adjustments recorded to conform with the accounting policies of the companies were not material to the consolidated financial statements.

(in thousands)	Nine months ended July 1, 1995	Year ended September 30, 1994
Revenue:		
Parametric	$252,566	$244,256
Rasna	22,500	22,718

Total	$275,066	$266,974
Net income:		
Parametric	$ 54,809	$ 66,915
Rasna	2,267	1,174
Total	$ 57,076	$ 68,089

On April 12, 1995, the Company acquired substantially all of the assets and specified liabilities of CDRS for $33,507,000 in cash, which was paid by the Company from its existing cash balances. The acquisition was accounted for as a purchase. The purchase price has been allocated to the assets acquired, including certain intangible assets, such as purchased computer software and research and development in process, based on their respective fair values. The excess of the purchase price over the estimated fair value of the net assets acquired has been recorded as goodwill ($7,703,000), which is being amortized on a straight-line basis over seven years. In conjunction with the acquisition in the third quarter, the Company recorded a nonrecurring charge of $19,000,000 related to the write-off of purchased research and development in process. CDRS's results of operations have been included in the consolidated results of operations since the date of acquisition.

C. Investments

The following is a summary of investments held as available-for-sale:

(in thousands)	September 30, 1996 Cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Municipal debt securities	$269,728	$240	$(270)	$269,698
Mutual funds	20,422	-	-	20,422
Auction rate preferred stock	40,287	10	(10)	40,287
U.S. government debt securities	13,233	10	(20)	13,223
Total investments	$343,670	$260	$(300)	$343,630
Amounts included in cash and cash equivalents	$ 89,132	$ 10	$ (10)	$ 89,132
Amounts included in short-term investments	232,522	250	(170)	232,602
Amounts included in marketable investments	22,016	-	(120)	21,896
Total investments	$343,670	$260	$(300)	$343,630

(in thousands)	September 30, 1995 Cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Municipal debt securities	$191,310	$170	$(170)	$191,310
Mutual funds	26,417	-	-	26,417
Auction rate preferred stock	30,328	-	-	30,328
U.S. government				

debt securities	11,074	-	-	11,074
Corporate debt securities	1,022	-	-	1,022
Total investments	$260,151	$170	$(170)	$260,151
Amounts included in cash and cash equivalents	$ 97,541	-	-	$ 97,541
Amounts included in short-term investments	162,610	$170	$(170)	162,610
Total investments	$260,151	$170	$(170)	$260,151

Fair values have been determined through information obtained from market sources and management estimates. Realized gains and losses on the sale of each type of security for the years ended September 30, 1996, 1995 and 1994, were immaterial. For the purpose of determining gross realized gains and losses, the cost of securities sold is based upon specific identification.

D. PROPERTY AND EQUIPMENT

Property and equipment consists of:

	September 30,	
(in thousands)	1996	1995
Computer hardware and software	$ 55,825	$ 31,583
Furniture and fixtures	6,530	3,633
Leasehold improvements	4,501	2,672
	66,856	37,888
Less: accumulated depreciation and amortization	(30,339)	(18,077)
Total	$ 36,517	$ 19,811

Depreciation expense totaled $13,171,000, $7,663,000 and $5,007,000 for the fiscal years ended September 30, 1996, 1995 and 1994, respectively. At September 30, 1996 and 1995, property and equipment (principally computer hardware) includes assets under capital leases of $312,000 and $211,000, less accumulated amortization of $167,000 and $75,000, respectively.

E. INCOME TAXES

In fiscal 1994, the Company adopted the provisions of the Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("FAS 109"), on a prospective basis. Adoption of FAS 109 by the Company did not have a material impact on the Company's consolidated financial statements. Under FAS 109, deferred tax assets and liabilities are recognized for the expected future tax consequences, utilizing current tax rates, of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred tax assets are recognized, net of any valuation allowance, for the estimated future tax effects of deductible temporary differences and tax operating loss and credit carryforwards. Deferred tax expense represents the change in the deferred tax asset or liability balances.

The provision for income taxes consists of the following:

(in thousands)	Year ended September 30, 1996	1995	1994
Federal income taxes:			
Current	$57,880	$30,257	$32,213
Deferred	(7,730)	7,068	232
	50,150	37,325	32,445
State income taxes:			
Current	10,719	6,113	5,800
Deferred	529	1,997	(94)
	11,248	8,110	5,706
Foreign income taxes:			
Current	16,068	3,329	2,464
Deferred	781	1,534	--
	16,849	4,863	2,464
Total	$78,247	$50,298	$40,615

The differences between statutory federal income taxes and the provision for income taxes are as follows:

(in thousands)	Year ended September 30, 1996	1995	1994
Statutory federal income taxes	$75,655	$44,681	$38,046
State income taxes, net of federal tax benefit	7,311	5,386	3,709
Tax-exempt interest income	(3,600)	(2,744)	(1,324)
Tax benefit of foreign sales corporation	(6,308)	(3,357)	(1,856)
Other, net	5,189	4,006	2,040
Subtotal	78,247	47,972	40,615
Nondeductible acquisition costs	--	2,326	--
Total	$78,247	$50,298	$40,615

The components of the net deferred tax asset are as follows:

(in thousands)	September 30, 1996	1995
Deferred tax assets:		
Reserves not currently deductible	$ 2,901	$ 1,904
Net operating loss carryforwards	1,882	5,308
Amortization of intangible assets	18,565	8,301
Research and development credit carryforwards	409	1,138
Other	1,018	1,344
Total deferred tax assets	24,775	17,995
Deferred tax liabilities:		
Capitalized software	(563)	(641)
Other	(643)	(205)

Total deferred tax liabilities	(1,206)	(846)
Valuation allowance	(662)	(662)
Net deferred tax asset	$22,907	$16,487

The net operating loss carryforwards of $5,381,000 at September 30, 1996 expire between fiscal 1998 and 2000. Ownership changes, as defined in the Internal Revenue Code of 1986, as amended, limit the amount of the net operating loss carryforwards that can be utilized annually. The research and development credit carryforwards expire between fiscal 2006 and 2010. The Company has recorded a valuation allowance for the tax benefit of certain foreign net operating loss carryforwards since realization of these future benefits is not sufficiently assured at September 30, 1996.

F. COMMON STOCK

On February 8, 1996, the stockholders approved an amendment to the Company's Articles of Organization to increase the number of authorized shares of the Company's common stock from 75,000,000 to 215,000,000. On November 14, 1996, the Company's Board of Directors approved, subject to stockholder approval, an amendment to the Company's Articles of Organization to increase the number of authorized shares of the Company's common stock from 215,000,000 to 350,000,000.

On February 8, 1996, the Company's Board of Directors declared a one-for-one stock dividend on all shares of common stock, which was payable on February 29, 1996 to all stockholders of record on February 22, 1996. These financial statements and related notes have been retroactively adjusted, as appropriate, to reflect this one-for-one stock dividend.

On May 12, 1994, the Company announced that its Board of Directors had authorized a plan that allows the Company to repurchase up to 6,000,000 shares of its common stock. The Company intends to repurchase these shares to partially offset the dilution caused by the exercise of stock options under the Company's option plans and the purchase of shares under the

employee stock purchase plan. During fiscal 1996, the Company repurchased 1,779,000 shares at a cost of $66,563,000, of which 23,000 remained in treasury at September 30, 1996. Since the inception of the plan, the Company has repurchased 2,093,000 shares.

G. STOCK OPTIONS

Under the 1987 Incentive Stock Option Plan (the "1987 Stock Option Plan"), the Board of Directors may grant options to key employees to purchase shares at an option exercise price equal to the fair market value on the date of grant. The options are exercisable at such times, in installments or otherwise, as the Board of Directors may determine. Generally, these options vest ratably over a period of four years and expire ten years from the date of grant. The 1987 Stock Option Plan limits the number of shares that may be granted to any eligible employee in any fiscal year to 1,000,000. In fiscal 1996, the stockholders approved an increase in the number of shares issuable under this plan from 42,792,000 to 48,792,000 and to change the designation of persons eligible to receive options under the 1987 Stock Option Plan to include consultants.

On November 14, 1996, the Board of Directors approved, subject to stockholder approval, the 1997 Incentive Stock Option Plan (the "1997 Stock Option Plan") for which 6,000,000 shares of common stock have been reserved. The 1997 Stock Option Plan will replace and have terms and conditions similar to those contained in the 1987 Stock Option Plan. No additional options will be granted under the 1987 Stock Option Plan, but the rights and privileges of holders of outstanding options under the 1987 Stock Option Plan will continue under the terms of that plan.

Under the 1992 Director Stock Option Plan (the "1992 Director Plan"), 640,000 shares of common stock have been reserved. The purpose of the 1992 Director Plan is to attract and retain qualified persons who are not also officers or employees of the Company (the "Eligible Directors") to serve as Directors of the Company and to encourage stock ownership in the Company by such Directors. Options granted under the 1992 Director Plan, at an option price equal to the fair market value on the date of grant, shall become exercisable in four equal annual installments following the date of grant if, and only if, the optionee is a Director of the Company on such anniversary date. The options expire ten years from the date of grant. Options to purchase 80,000 shares of common stock were granted in fiscal 1995 to Eligible Directors of the Company.

In fiscal 1996, the stockholders approved the 1996 Director Stock Option Plan (the "1996 Director Plan") for which 180,000 shares of common stock have been reserved. The 1996 Director Plan replaces the 1992 Director Plan. The terms of the 1996 Director Plan are essentially the same as the 1992 Director Plan, except that each Eligible Director is automatically granted options to purchase 20,000 shares of common stock at the time of initial election to the Board of Directors; and immediately following the meeting of stockholders every year, each Eligible Director continuing in office after such meeting will automatically be granted options to purchase 5,000 shares of common stock. No additional options will be granted under the 1992 Director Plan, but the rights and privileges of holders of outstanding options under the 1992 Director Plan are not adversely affected by the 1996 Director Plan.

In conjunction with the Rasna merger, the Company assumed 1,045,000 outstanding options on August 1, 1995. These assumed options were granted at prices equal to the fair market value at the date of grant, become exercisable in installments (generally ratably over four years), and expire ten years from the date of grant. The Company does not intend to issue any additional options under the Rasna stock option plan.

The following table summarizes stock option transactions under all plans:

	Shares	Stock option prices
Outstanding at September 30, 1993	16,190,024	$ .01 -$18.75
Granted and assumed	4,517,354	3.06 - 17.38
Canceled	(790,558)	.04 - 18.75
Exercised	(5,065,562)	.01 - 15.50
Outstanding at September 30, 1994	14,851,258	.01 - 18.75
Granted and assumed	6,418,626	3.06 - 30.13
Canceled	(883,518)	.82 - 30.13
Exercised	(4,324,704)	.01 - 18.75
Outstanding at September 30, 1995	16,061,662	.01 - 30.13
Granted	5,139,750	33.50 - 48.75
Canceled	(1,381,180)	.81 - 42.75
Exercised	(3,842,020)	.01 - 30.13
Outstanding at September 30, 1996	15,978,212	$ .01 -$48.75
Options exercisable at September 30, 1996	4,554,130	
Options available for grant at September 30, 1996	4,784,949	

Stock options are accounted for in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). Accordingly, no compensation cost has been recorded in connection with stock option grants under the Company's stock option and employee stock purchase plans. During 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("FAS 123"). FAS 123 defines a fair-value method of accounting for employee stock options or similar equity instruments and encourages companies to adopt that method of accounting beginning in

fiscal 1997 for the Company. However, FAS 123 also allows companies to continue to use the intrinsic value method of accounting prescribed by APB 25. The

Company expects to continue to account for stock options and purchases in accordance with APB 25, but beginning in fiscal 1997 will also make pro-forma disclosures of net income and earnings per share as if the fair-value-based method of accounting defined in FAS 123 had been applied.

H. STOCK PURCHASE PLAN

The 1991 Employee Stock Purchase Plan (the "1991 Purchase Plan") enables eligible employees to purchase the Company's common stock at 85% of the fair market value of the stock on the date an offering commences or on the date an offering terminates, whichever is lower. The 1991 Purchase Plan covers substantially all employees, subject to certain limitations. Each employee may elect to have up to 10% of his or her base pay withheld and applied toward the purchase of shares in such offering (provided that the aggregate amount of his or her base pay withheld may not exceed $10,000 in any fiscal year). The 1991 Purchase Plan covers an aggregate of up to 2,000,000 shares of common stock to be issued and sold to participating employees of the Company through a series of six-month offerings, beginning April 1, 1991. Purchases under the 1991 Purchase Plan for fiscal 1996, 1995 and 1994 were 169,425, 154,722 and 172,568 shares, generating proceeds to the Company of $4,906,000, $2,459,000 and $2,031,000, respectively. At September 30, 1996, approximately 1,110,000 shares of common stock were reserved for purchases under the 1991 Purchase Plan.

I. EMPLOYEE BENEFIT PLAN

The Board of Directors in 1989 adopted the Parametric Technology Corporation 401(k) Savings Plan (the "Plan"), which is intended to qualify under Section 401(k) of the Internal Revenue Code of 1986, as amended. The Plan covers substantially all employees. Each employee may elect to contribute to the Plan, through payroll deductions, up to 15% of his or her salary, subject to certain limitations. The Company makes matching contributions on behalf of each participating employee in an amount equal to 50% of the amount contributed by the employee up to a maximum 10% employee contribution. The employee's entitlement to such Company contributions vests at a rate of 25% per year of service. For the fiscal years ended September 30, 1996, 1995 and 1994 the Company made matching contributions to the Plan which totaled $1,867,000, $1,034,000 and $738,000, respectively.

J. SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid for interest during the fiscal years ended September 30, 1996, 1995 and 1994 was $169,000, $37,000 and $125,000, respectively. Cash paid for income taxes in fiscal 1996, 1995 and 1994 was $38,853,000, $40,281,000 and $22,279,000, respectively. During fiscal 1996, 1995 and 1994, the Company acquired $114,000, $108,000 and $76,000 of fixed assets under capital leases, respectively.

K. COMMITMENTS AND CONTINGENCIES

Leasing Arrangements

The Company leases its office facilities and certain equipment under operating leases expiring at various dates through fiscal 2003. The Company also leases computer equipment under capital leases which expire through fiscal 1999.

At September 30, 1996, future minimum lease payments under capital and operating leases with initial or remaining terms of one or more years are as follows:

(in thousands)	Capital leases	Operating leases
1997	$ 92	$23,174
1998	68	13,024
1999	2	7,453
2000	--	4,672
2001	--	3,287
Subsequent to 2001	--	2,182
Total minimum lease payments	162	$53,792

Less amounts representing interest	(13)
Present value of net minimum lease payments	$149

Rental expense under operating leases was $21,520,000, $15,186,000 and $11,122,000 for the fiscal years ended September 30, 1996, 1995 and 1994, respectively.

Legal Proceedings

The Company is subject to various legal proceedings and claims that arise in the ordinary course of business. Management currently believes that resolving these matters will not have a material adverse impact on the Company's financial position or its results of operations.

L. SEGMENT AND GEOGRAPHIC INFORMATION

The Company is engaged in one industry segment: the development, marketing and support of software products for the mechanical segment of the CAD/CAM/CAE (computer-aided design, manufacturing and engineering) industry.

The Company licenses products to customers on a worldwide basis. Sales and marketing operations outside the United States are conducted principally through the Company's foreign sales subsidiaries throughout Europe and Asia/Pacific.

Intercompany sales and transfers between geographic areas are accounted for at prices which are designed to be representative of unaffiliated party transactions.

(amounts in thousands)
Year ended September 30,

1996	North America	Europe	Asia/Pacific	Corporate	Eliminations	Total
Revenue from unaffiliated customers						
License	$182,494	$115,424	$ 75,970			$373,888
Service	82,386	43,804	15,507			141,697
Revenue from unaffiliated export						
Europe	48,583					48,583
Asia/Pacific	35,954					35,954
Intercompany revenue	167,800	29,006	18,835		$(215,641)	0
Total revenue	517,217	188,234	110,312		(215,641)	600,122
Operating income	182,656	12,048	9,952			204,656
Other income (expense)	1,177	(418)	(17)	$ 10,759		11,501
Income before income taxes	183,833	11,630	9,935	10,759		216,157
Identifiable assets	564,107	65,612	37,282	328,037	(335,821)	659,217

1995	North America	Europe	Asia/Pacific	Corporate	Eliminations	Total
Revenue from unaffiliated customers						
License	$134,412	$ 76,871	$ 36,739			$248,022
Service	63,427	28,484	9,230			101,141
Revenue from unaffiliated export						
Europe	28,518					28,518
Asia/Pacific	16,629					16,629
Intercompany revenue	92,339	19,422	7,306		$(119,067)	0
Total revenue	335,325	124,777	53,275		(119,067)	394,310
Operating income	112,620	2,547	3,464			118,631
Other income (expense)	1,794	(790)	(226)	$ 8,251		9,029
Income before income taxes	114,414	1,757	3,238	8,251		127,660
Identifiable assets	403,247	46,224	19,263	242,568	(257,575)	453,727

1994	North America	Europe	Asia/Pacific	Corporate	Eliminations	Total
Revenue from unaffiliated customers						
License	$112,744	$ 47,312	$ 14,418			$174,474
Service	38,747	13,139	3,370			55,256
Revenue from unaffiliated export						
Europe	22,721					22,721
Asia/Pacific	14,523					14,523
Intercompany revenue	47,353	11,982	4,400		$ (63,735)	0
Total revenue	236,088	72,433	22,188		(63,735)	266,974
Operating income	100,093	777	2,492			103,362
Other income (expense)	2,276	(638)	(120)	$ 3,824		5,342
Income before income taxes	102,369	139	2,372	3,824		108,704
Identifiable assets	281,444	24,678	9,934	173,317	(184,248)	305,125

Report of Independent Accountants

Parametric Technology Corporation

To the Stockholders and Board of Directors of Parametric Technology Corporation:

We have audited the accompanying consolidated balance sheet of Parametric Technology Corporation as of September 30, 1996, and the related consolidated statements of income, stockholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Parametric Technology Corporation as of September 30, 1995 and for each of the two years in the period ended September 30, 1995 were audited by other auditors whose report dated October 19, 1995, except as to Notes F and G which are as of November 17, 1995, expressed an unqualified opinion on those statements, which was based in part on the report of other auditors.

We conducted our audit in accordance with generally accepted auditing standards. 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 audit provides a reasonable basis for our opinion.

In our opinion, the 1996 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Parametric Technology Corporation as of September 30, 1996, and the consolidated results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

/s/ Coopers & Lybrand L.L.P.

Coopers & Lybrand L.L.P.

Boston, Massachusetts
October 16, 1996

Selected Financial Data /(1)/

Parametric Technology Corporation

FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

(in thousands, except per share data)	Year ended September 30, 1996	1995	1994	1993	1992
Revenue	$600,122	$394,310	$266,974	$179,311	$ 98,377
Operating income	204,656	118,631	103,362	66,502	30,818
Net income	137,910	77,362	68,089	43,470	21,036
Net income per share /(2)/	1.04	0.60	0.54	0.36	0.18
Weighted average number of common and dilutive common equivalent shares outstanding /(2)/	133,211	129,046	125,051	122,424	119,055
Total assets	659,217	453,727	305,125	190,975	119,259
Working capital	416,058	317,702	229,878	137,581	73,464
Stockholders' equity	512,432	370,929	251,178	154,655	85,895
Excluding acquisition and related costs /(3)/:					
Net income	158,402	98,500	68,089	43,470	21,036
Net income per share /(2)/	1.19	0.76	0.54	0.36	0.18

QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

(in thousands, except per share and stock price data)	Fiscal quarter ended September 30, 1996	June 29, 1996	March 30, 1996	December 30, 1995
Revenue	$177,128	$157,104	$140,493	$125,397
Gross profit	160,607	143,014	127,104	112,943
Operating income	38,664	62,173	55,086	48,733
Net income	26,433	41,620	36,837	33,020
Net income per share /(2)/	0.20	0.31	0.28	0.25
Excluding acquisition and related costs /(3)/:				
Net income	46,925	41,620	36,837	33,020
Net income per share /(2)/	0.35	0.31	0.28	0.25
Common stock prices /(4)/:				
High	51.63	48.75	39.13	35.63
Low	37.38	34.38	27.13	27.38

(in thousands, except per share and stock price data)	Fiscal quarter ended September 30, 1995	July 1, 1995	April 1, 1995	December 31, 1994
Revenue	$119,244	$105,195	$91,023	$78,848
Gross profit	108,092	95,725	82,291	71,884
Operating income	34,931	19,492	34,349	29,859
Net income	21,035	13,816	22,736	19,775
Net income per share /(2)/	0.16	0.11	0.18	0.16
Excluding acquisition and related costs /(3)/:				
Net income	30,241	25,748	22,736	19,775
Net income per share /(2)/	0.23	0.20	0.18	0.16
Common stock prices /(4)/:				
High	31.63	25.13	21.88	18.50
Low	24.50	18.22	16.25	15.75

/(1)/ All financial information presented here has been retroactively restated to reflect the fiscal 1995 Rasna merger which has been accounted for as a pooling of interests. See Note A of Notes to Consolidated Financial Statements for additional information.
/(2)/ Per-share data and weighted average number of common and dilutive common equivalent shares outstanding have been retroactively adjusted to reflect the one-for-one stock dividends on all shares of capital stock declared by the Company's Board of Directors on February 4, 1992, February 4, 1993 and February 8, 1996, effective February 25, 1992, February 25, 1993 and February 29, 1996, respectively.
/(3)/ The acquisition and related costs consist of $32,119,000 in the fourth quarter of fiscal 1996 related to the acquisition of Reflex technology from Greenshire License Co. NV, $10,438,000 related to the merger of Rasna Corporation into the Company in the fourth quarter of fiscal 1995 and $19,000,000 in the third quarter of fiscal 1995 related to its acquisition of the Conceptual Design and Rendering System software business from Evans & Sutherland Computer Corporation. See Note B of Notes to Consolidated Financial Statements for additional information.
/(4)/ The common stock of the Company is traded on the Nasdaq National Market under the symbol "PMTC". The common stock prices shown are based on the Nasdaq daily closing stock price.

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

future.
On September 30, 1996, the number of stockholders of record of the Company's common stock was 2,619.

Investor Information

Requests for information about the Company should be directed to: John W. Hudson, Vice President of Investor Relations, Parametric Technology Corporation, 128 Technology Drive, Waltham, MA 02154. Telephone: (617) 398-5000.

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

Annual Meeting
The Annual Meeting of Stockholders will be held on February 13, 1997 at 9:00 a.m. at: Parametric Technology Corporation, 128 Technology Drive, Waltham, MA 02154.

Stock Listing
Nasdaq National Market Symbol: PMTC

General Counsel
Palmer & Dodge LLP, Boston, MA

Independent Accountants
Coopers & Lybrand L.L.P., Boston, MA

Transfer Agent and Registrar
American Stock Transfer & Trust Company, New York, NY

For updated financial information, visit our website at www.ptc.com

Directors

Steven C. Walske
Chairman and Chief Executive Officer,
Parametric Technology Corporation
C. Richard Harrison
President and Chief Operating Officer,
Parametric Technology Corporation
Robert N. Goldman
Chief Executive Officer and President,
Object Design Inc., a software developer
Donald K. Grierson
Chief Executive Officer and President,
ABB Vetco Gray, Inc., an oil services business
Oscar B. Marx, III
Chief Executive Officer and President,
TMW Enterprises, a start-up venture in the autoparts industry
Michael E. Porter
Professor, Harvard Business School, an educational institution
Noel G. Posternak
Senior Partner, Posternak, Blankstein & Lund L.L.P., a law firm

Corporate Officers

Steven C. Walske
Chairman of the Board of Directors and Chief Executive Officer
C. Richard Harrison
President and Chief Operating Officer
Edwin J. Gillis
Executive Vice President of Finance and Administration,
Chief Financial Officer and Treasurer
Michael E. McGuinness
Executive Vice President of Sales
Kirk D. Bowman
Senior Vice President of Business Development

Robert C. Gremley
Senior Vice President, Professional Services
Donald R. Henrich
Senior Vice President of Marketing
Thomas W. Jensen, Ph.D.
Senior Vice President of Research and Development
Martha L. Durcan
Vice President, Corporate Counsel and Clerk
James F. Kelliher
Vice President of Finance and Assistant Treasurer
John G. Mokas
Controller

Design: Beagan Design   Photography: Rubenstein Photography   Printing: Daniels Printing

EXHIBIT 21.1

Subsidiaries of the Company

Name	Place of Incorporation
Parametric Holdings Inc.	Delaware
Parametric International, Inc.	Delaware
Parametric Securities Corporation	Massachusetts
PTC International, Inc.	Massachusetts
PTC Acquisition Corporation	Massachusetts
Parametric Technology Australia Pty Limited	Australia
Parametric Technology Gesellschaft m.b.H.	Austria
Parametric Foreign Sales Corporation	Barbados
Parametric Technology (Belgium) b.v.b.a.	Belgium
Parametric Technology Brasil Ltda.	Brazil
Parametric Technology (Canada) Ltd.	Canada
Parametric Technology (C.R.) s.r.o.	Czech Republic
Parametric Technology (Denmark) A/S	Denmark
Parametric Technology (Finland) Oy	Finland
Parametric Technology S.A.	France
Parametric Technology GmbH	Germany
Parametric Technology (Hong Kong) Limited	Hong Kong
Parametric Technology (Hong Kong) Limited- Beijing Representative Office	Hong Kong
Parametric Technology (Hong Kong) Limited- Bombay Liaison Office	Hong Kong
Parametric Technology (Hong Kong) Limited- Shanghai Representative Office	Hong Kong
Parametric Technology (India) Private Limited	India
Parametric Technology (Republic of Ireland) Limited	Ireland
Parametric Technology Israel Ltd.	Israel
Parametric Technology Italia S.r.l.	Italy
Nihon Parametric Technology K.K.	Japan
Parametric Korea Co., Ltd.	Korea
Parametric Technology Europe B.V.	The Netherlands
Parametric Technology Nederland B.V.	The Netherlands
Parametric Technology (Norway) AS	Norway
Parametric Technology Singapore Pte Ltd	Singapore
Parametric Technology Singapore Pte Ltd - Malaysian Rep. Office	Singapore
Parametric Technology Espana, S.A.	Spain
PTC Sweden AB	Sweden
Parametric Technology (Schweiz) AG	Switzerland
Parametric Technology Taiwan Ltd.	Taiwan
Parametric Technology (UK) Limited	United Kingdom

EXHIBIT 23.1

Report of Independent Accountants

To the Stockholders and Board of Directors of Parametric Technology Corporation:

Our report on the consolidated financial statements of Parametric Technology Corporation has been incorporated by reference in this Form 10-K from page 39 of the 1996 Annual Report to Stockholders of Parametric Technology Corporation. In connection with our audit of such financial statements, we have also audited the related financial statement schedule listed in item 14(a)(2) on page 8 of this Form 10-K.

In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information required to be included therein.

/S/COOPERS & LYBRAND L.L.P.
COOPERS & LYBRAND L.L.P.

Boston, Massachusetts
October 16, 1996

EXHIBIT 23.2

Consent of Independent Accountants

We consent to the incorporation by reference in the registration statements of Parametric Technology Corporation on Form S-8 (File Nos. 333-01297, 333-01299, 33-52044, 33-89528, and 33-61485) of our reports dated October 16, 1996, on our audit of the consolidated financial statements and financial statement schedule of Parametric Technology Corporation as of September 30, 1996 and for the year then ended, which reports are included or incorporated by reference in this Annual Report on Form 10-K.

/S/COOPERS & LYBRAND L.L.P.
COOPERS & LYBRAND L.L.P.

Boston, Massachusetts
December 19, 1996

EXHIBIT 23.3

Report of Independent Accountants

To the Stockholders and Board of Directors of Parametric Technology Corporation:

In our opinion, based upon our audits and the report of other auditors, the consolidated balance sheet and the related consolidated statements of income, of changes in stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Parametric Technology Corporation and its subsidiaries at September 30, 1995, and the results of their operations and their cash flows for each of the two years in the period ended September 30, 1995 in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the consolidated financial statements of Rasna Corporation, which statements reflect total revenue of $22,718,000 for the year ended December 31, 1994. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for Rasna Corporation, is based solely on the report of the other auditors. We conducted our audits of these statements in accordance with the generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

/S/ PRICE WATERHOUSE LLP
PRICE WATERHOUSE LLP

Boston, Massachusetts
October 19, 1995,
except as to Notes F and G
which are as of November 17, 1995

EXHIBIT 23.4

Report of Independent Accountants on Financial Statement Schedule

To the Stockholders and Board of Directors of Parametric Technology Corporation:

Our audits of the consolidated financial statements referred to in our report dated October 19, 1995, except as to Notes F and G which are as of November 17, 1995, appearing in this Form 10-K also included an audit of the Financial Statement Schedule listed in Item 14(a) of this Form 10-K for each of the two years in the period ended September 30, 1995. In our opinion, this Financial Statement Schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. We have not audited the consolidated financial statements of Parametric Technology Corporation for any period subsequent to September 30, 1995.

/S/ PRICE WATERHOUSE LLP
PRICE WATERHOUSE LLP

Boston, Massachusetts
October 19, 1995,
except as to Notes F and G
which are as of November 17, 1995

EXHIBIT 23.5

Consent of Independent Accountants

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (File Nos. 333-01297, 333-01299, 33-52044, 33-89528, and 33-61485) of Parametric Technology Corporation and its subsidiaries of our report dated October 19, 1995, except as to Notes F and G which are dated November 17, 1995, appearing in this Form 10-K. We also consent to the incorporation by reference of our report on the Financial Statement Schedule, which appears in this Form 10-K.

/S/ PRICE WATERHOUSE LLP
PRICE WATERHOUSE LLP

Boston, Massachusetts
December 19, 1996

EXHIBIT 23.6

Independent Auditors' Report

To the Board of Directors and Shareholders of Rasna Corporation:

We have audited the consolidated balance sheet of Rasna Corporation and its subsidiaries as of December 31, 1994, and the related consolidated statements of income, shareholders' equity and cash flows for the year then ended (not presented separately herein). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. 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 audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Rasna Corporation and its subsidiaries at December 31, 1994, and the results of their operations and their cash flows for the year then ended in conformity with generally accepted accounting principles.

/S/ DELOITTE & TOUCHE LLP
DELOITTE & TOUCHE LLP

San Jose, California
April 4, 1995

EXHIBIT 23.7

Independent Auditors' Consent

We consent to the incorporation by reference in Registration Statements Nos. 333-01297, 333-01299, 33-52044, 33-89528, and 33-61485 of Parametric Technology Corporation on Form S-8 of our report dated April 4, 1995 (relating to the consolidated financial statements of Rasna Corporation, not presented separately herein) appearing in this Annual Report on Form 10-K of Parametric Technology Corporation for the year ended September 30, 1996.

/S/ DELOITTE & TOUCHE LLP
DELOITTE & TOUCHE LLP

San Jose, California
December 19, 1996

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS INCLUDED IN THE FORM 10-K FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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