SIMULATIONS PLUS INC
Form 10-Q
April 14, 2015

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Security Exchange Act of 1934 for the quarterly period ended **February 28, 2015**

OR

[_] Transmission Report Pursuant to Section 13 or 15(d) of the Security Exchange Act of 1937 for the transition period from ______ to ______

Commission file number: **001-32046**

Simulations Plus, Inc.

(Name of registrant as specified in its charter)

California	**95-4595609**
(State or other jurisdiction of Incorporation or Organization)	(I.R.S. Employer identification No.)

42505 10th Street West

Lancaster, CA 93534-7059

(Address of principal executive offices including zip code)

(661) 723-7723

(Registrant's telephone number, including area code)

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

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

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

[_] Large accelerated filer	[_] Accelerated filer
[_] Non-accelerated filer (Do not check if a smaller reporting company)	[X] Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [_] No [X]

The number of shares outstanding of the registrant's common stock, par value $0.001 per share, as of April 14, 2015 was 16,852,117; no shares of preferred stock were outstanding.

Simulations Plus, Inc.

FORM 10-Q

For the Quarterly Period Ended February 28, 2015

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Financial Statements

SIMULATIONS PLUS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

As of

	(Unaudited) February 28, 2015	(Audited) August 31, 2014
ASSETS		
Current assets		
Cash and cash equivalents	$6,103,042	$8,614,929
Accounts receivable, net of allowance for doubtful accounts of $0	3,179,288	1,708,158
Revenues in excess of billings	648,933	158,914
Prepaid income taxes	326,234	748,359
Prepaid expenses and other current assets	268,787	188,160
Deferred income taxes	205,593	114,846
Total current assets	$10,731,877	$11,533,366
Long-term assets		
Capitalized computer software development costs, net of accumulated amortization of $7,099,333 and $6,609,283	$3,893,345	$3,452,541
Property and equipment, net (note 3)	460,313	95,242
Intellectual property, net of accumulated amortization of $497,500 and $193,750	5,577,500	5,881,250
Other intangible assets net of accumulated amortization of $73,750	1,576,250	–
Goodwill	4,789,248	–
Other assets	34,082	18,445
Total assets	$27,062,615	$20,980,844
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$120,657	$130,547
Accrued payroll and other expenses	388,057	340,709
Accrued bonuses to officer	48,000	120,000
Other current liabilities	19,859	19,859
Current portion - Contracts payable (note 4)	750,000	750,000
Billings in excess of revenues	96,803	–
Deferred revenue	44,948	30,370
Total current liabilities	$1,468,324	$1,391,485

Long-term liabilities		
Deferred income taxes	$3,289,089	$2,375,874
Payments due under Contracts payable (note 4)	3,604,404	1,750,000
Other long-term liabilities	18,204	28,134
Total liabilities	$8,380,021	$5,545,493
Commitments and contingencies (note 5)		
Shareholders' equity (note 6)		
Preferred stock, $0.001 par value 10,000,000 shares authorized no shares issued and outstanding	$–	$–
Common stock, $0.001 par value 50,000,000 shares authorized 16,852,117 and 16,349,955 shares issued and outstanding	$5,323	$4,821
Additional paid-in capital	9,517,692	6,085,427
Retained earnings	9,159,579	9,345,103
Total shareholders' equity	$18,682,594	$15,435,351
Total liabilities and shareholders' equity	$27,062,615	$20,980,844

The accompanying notes are an integral part of these financial statements.

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SIMULATIONS PLUS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

For the three and six months ended February 28,

(Unaudited)

	Three months ended		Six months ended	
	2015	2014	2015	2014
Net sales	$4,574,191	$3,081,492	$8,660,382	$5,722,492
Cost of sales	1,125,660	492,199	2,123,394	940,619
Gross profit	3,448,531	2,589,293	6,536,988	4,781,873
Operating expenses				
Selling, general, and administrative	1,612,742	1,103,547	3,679,182	2,174,638
Research and development	360,708	354,007	633,348	516,123
Total operating expenses	1,973,450	1,457,554	4,312,530	2,690,761
Income from operations	1,475,081	1,131,739	2,224,458	2,091,112
Other income (expense)				
Interest income	4,412	7,957	9,004	16,983
Gain (loss) on currency exchange	(34,684)	4,428	(42,475)	28,137
Total other income (expense)	(30,272)	12,385	(33,471)	45,120
Income from operations before provision for income taxes	1,444,809	1,144,124	2,190,987	2,136,232
Provision for income taxes	(474,576)	(334,260)	(691,851)	(641,213)
Net Income	$970,233	$809,864	$1,499,136	$1,495,019
Earnings per share				
Basic	$0.06	$0.05	$0.09	$0.09
Diluted	$0.06	$0.05	$0.09	$0.09
Weighted-average common shares outstanding				
Basic	16,848,983	16,107,327	16,839,599	16,078,173
Diluted	17,105,412	16,356,544	17,096,357	16,319,902

The accompanying notes are an integral part of these financial statements.

SIMULATIONS PLUS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the six months ended February 28,

(Unaudited)

	2015	2014
Cash flows from operating activities		
Net income	$1,499,136	$1,495,019
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization of property and equipment	112,441	23,873
Amortization of capitalized computer software development costs	490,051	383,652
Amortization of Intellectual property	377,500	3,750
Stock-based compensation	150,624	71,087
Deferred income taxes	159,968	101,086
(Increase) decrease in		
Accounts receivable	(536,612)	(711,477)
Revenues in excess of billings	(92,310)	–
Prepaid income taxes	422,125	(38,739)
Prepaid expenses and other assets	8,095	14,629
Increase (decrease) in		
Accounts payable	(69,307)	160,712
Accrued payroll and other expenses	(397,090)	3,086
Accrued bonus	(72,000)	–
Billings in excess of revenues	(249,637)	–
Other liabilities	(9,930)	(9,929)
Deferred revenue	14,576	154,161
Net cash provided by operating activities	1,807,630	1,650,910
Cash flows from investing activities		
Purchases of property and equipment	(19,159)	(18,353)
Cash used to purchase Cognigen	(2,080,000)	–
Cash received in acquisition	190,184	–
Capitalized computer software development costs	(730,855)	(733,454)
Net cash provided by (used in) investing activities	(2,639,830)	(751,807)
Cash flows from financing activities		
Payment of Dividends	(1,684,660)	(1,450,429)
Proceeds from the exercise of stock options	4,973	73,445
Net cash (used in) financing activities of continuing operations	(1,679,687)	(1,376,984)
Net increase (decrease) in cash and cash equivalents	(2,511,887)	(477,881)
Cash and cash equivalents, beginning of year	8,614,929	10,179,298
Cash and cash equivalents, end of period	$6,103,042	$9,701,417

Supplemental disclosures of cash flow information		
Interest paid	$–	$–
Income taxes paid	$76,519	$572,192
Non-Cash Investing and Financing Activities		
Stock issued for acquisition of Cognigen Corporation	$3,277,170	$–
Creation of contract liability for acquisition of Cognigen Corporation	$1,854,404	$–

The accompanying notes are an integral part of these financial statements.

Simulations Plus, Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

February 28, 2015 and 2014

(Unaudited)

Note 1: GENERAL

This report on Form 10-Q for the quarter ended February 28, 2015, should be read in conjunction with the Company's annual report on Form 10-K for the year ended August 31, 2014, filed with the Securities and Exchange Commission ("SEC") on November 28, 2014. As contemplated by the SEC under Article 8 of Regulation S-X, the accompanying financial statements and footnotes have been condensed and therefore do not contain all disclosures required by generally accepted accounting principles. The interim financial data are unaudited; however, in the opinion of Simulations Plus, Inc. ("we", "our", "us"), the interim data includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the interim periods. Results for interim periods are not necessarily indicative of those to be expected for the full year.

Organization

Simulations Plus, Inc. was incorporated on July 17, 1996. On September 2, 2014 Simulations Plus, Inc. acquired all outstanding equity interests of Cognigen Corporation ("Cognigen") pursuant to the terms of the Merger Agreement and Cognigen became a wholly owned subsidiary of Simulations Plus, Inc. (collectively, the "Company").

Note 2: SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Simulations Plus, Inc. and, as of September 2, 2014, its wholly owned subsidiary, Cognigen Corporation. All significant intercompany accounts and transactions are eliminated in consolidation.

Estimates

Our condensed consolidated financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. These estimates and assumptions are affected by management’s application of accounting policies. Actual results could differ from those estimates. Significant accounting policies for us include revenue recognition, accounting for capitalized computer software development costs, valuation of stock options, and accounting for income taxes.

Revenue Recognition

We recognize revenues related to software licenses and software maintenance in accordance with Financial Accounting Standard Board (“FASB”) Accounting Standard Codification (“ASC”) 985-605, “*Software - Revenue Recognition”*. Software product revenue is recorded when the following conditions are met: 1) evidence of arrangement exists, 2) delivery has been made, 3) the amount is fixed, and 4) collectability is probable. Post-contract customer support ("PCS") obligations are insignificant; therefore, revenue for PCS is recognized at the same time as the licensing fee, and the costs of providing such support services are accrued and amortized over the obligation period.

As a byproduct of ongoing improvements and upgrades for the new programs and new modules of software, some modifications are provided to customers who have already purchased software at no additional charge. Other software modifications result in new, additional cost modules that expand the functionality of the software. These are licensed separately. We consider the modifications that are provided without charge to be minimal, as they do not significantly change the basic functionality or utility of the software, but rather add convenience, such as being able to plot some additional variable on a graph in addition to the numerous variables that had been available before, or adding some additional calculations to supplement the information provided from running the software. Such software modifications for any single product have typically occurred once or twice per year, sometimes more, sometimes less. Thus, they are infrequent. The Company provides, for a fee, additional training and service calls to its customers and recognizes revenue at the time the training or service call is provided.

Generally, we enter into one-year license agreements with customers for the use of our pharmaceutical software products. We recognize revenue on these contracts when all the criteria are met.

Most license agreements have a term of one year; however, from time to time, we enter into multi-year license agreements. We generally unlock and invoice software one year at a time for multi-year licenses. Therefore, revenue is recognized one year at a time.

We recognize revenue from collaboration research and revenue from grants equally over their terms. For contract revenues based on actual hours incurred we recognize revenues when the work is performed. For fixed price contracts, we recognize contract study and other contract revenues using the percentage-of-completion method, depending upon how the contract studies are engaged, in accordance with ASC 605-35, "*Revenue Recognition – Construction-Type and Production-Type Contracts*". To recognize revenue using the percentage-of-completion method, we must determine whether we meet the following criteria: 1) there is a long-term, legally enforceable contract, 2) it is possible to reasonably estimate the total project costs, and 3) it is possible to reasonably estimate the extent of progress toward completion.

Cash and Cash Equivalents

For purposes of the statements of cash flows, we consider all highly liquid investments purchased with original maturities of three months or less to be cash equivalents.

Accounts Receivable

We analyze the age of customer balances, historical bad debt experience, customer creditworthiness, and changes in customer payment terms when making estimates of the collectability of the Company's trade accounts receivable balances. If we determine that the financial conditions of any of its customers deteriorated, whether due to customer-specific or general economic issues, an increase in the allowance may be made. Accounts receivable are written off when all collection attempts have failed

Capitalized Computer Software Development Costs

Software development costs are capitalized in accordance with ASC 985-20, *"Costs of Software to Be Sold, Leased, or Marketed"*. Capitalization of software development costs begins upon the establishment of technological feasibility and is discontinued when the product is available for sale.

The establishment of technological feasibility and the ongoing assessment for recoverability of capitalized software development costs require considerable judgment by management with respect to certain external factors including, but not limited to, technological feasibility, anticipated future gross revenues, estimated economic life, and changes in software and hardware technologies. Capitalized software development costs are comprised primarily of salaries and direct payroll-related costs and the purchase of existing software to be used in our software products.

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Amortization of capitalized software development costs is calculated on a product-by-product basis on the straight-line method over the estimated economic life of the products (not to exceed five years, although all of our current software products have already been on the market for 7-15 years except for our newest programs MedChem Designer™ and MembranePlus™, and we do not foresee an end-of-life for any of them at this point). Amortization of software development costs amounted to $490,051 and $383,652 for the six months ended February 28, 2015 and 2014, respectively, and amortization of software development costs was $276,761 and $191,823 for the three months ended February 28, 2015 and 2014, respectively. We expect future amortization expense to vary due to increases in capitalized computer software development costs.

We test capitalized computer software development costs for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Property and Equipment

Property and equipment are recorded at cost, less accumulated depreciation and amortization. Depreciation and amortization are provided using the straight-line method over the estimated useful lives as follows:

Equipment	5 years
Computer equipment	3 to 7 years
Furniture and fixtures	5 to 7 years
Leasehold improvements	Shorter of life of asset or lease

Maintenance and minor replacements are charged to expense as incurred. Gains and losses on disposals are included in the results of operations.

Intangible Assets and Goodwill

The Company performs valuations of assets acquired and liabilities assumed on each acquisition accounted for as a business combination and recognizes the assets acquired and liabilities assumed at their acquisition date fair value. Acquired intangible assets include customer relationships, software, trade name, and non-compete agreements. The Company determines the appropriate useful life by performing an analysis of expected cash flows based on historical experience of the acquired businesses. Intangible assets are amortized over their estimated useful lives using the straight-line method, which approximates the pattern in which the majority of the economic benefits are expected to be consumed.

Goodwill represents the excess of the cost of an acquired entity over the fair value of the acquired net assets. Goodwill is not amortized, instead it is tested for impairment annually or when events or circumstances change that would indicate that goodwill might be impaired. Events or circumstances that could trigger an impairment review include, but are not limited to, a significant adverse change in legal factors or in the business climate, an adverse action or assessment by a regulator, unanticipated competition, a loss of key personnel, significant changes in the manner of the Company's use of the acquired assets or the strategy for the Company's overall business, significant negative industry or economic trends or significant under-performance relative to expected historical or projected future results of operations.

Goodwill is tested for impairment at the reporting unit level, which is one level below or the same as an operating segment. As of February 28, 2015, the Company determined that it has two reporting units, Simulations Plus and Cognigen Corporation. When testing goodwill for impairment, the Company first performs a qualitative assessment to determine whether it is necessary to perform step one of a two-step annual goodwill impairment test for each reporting unit. The Company is required to perform step one only if it concludes that it is more likely than not that a reporting unit's fair value is less than its carrying value. Should this be the case, the first step of the two-step process is to identify whether a potential impairment exists by comparing the estimated fair values of the Company's reporting units with their respective book values, including goodwill. If the estimated fair value of the reporting unit exceeds book value, goodwill is considered not to be impaired, and no additional steps are necessary. If, however, the fair value of the reporting unit is less than book value, then the second step is performed to determine if goodwill is impaired and to measure the amount of impairment loss, if any. The amount of the impairment loss is the excess of the carrying amount of the goodwill over its implied fair value. The estimate of implied fair value of goodwill is primarily based on an estimate of the discounted cash flows expected to result from that reporting unit, but may require valuations of certain internally generated and unrecognized intangible assets such as the Company's software, technology, patents and trademarks. If the carrying amount of goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to the excess.

As of February 28, 2015, the entire balance of goodwill was attributed to the Company's Cognigen Corporation reporting unit. Intangible assets subject to amortization are reviewed for impairment whenever events or circumstances indicate that the carrying amount of these assets may not be recoverable. The Company has not recognized any impairment charges during the periods ended February 28, 2015 and 2014.

Reconciliation of Goodwill for the period ended February 28, 2015:

Balance, August 31, 2014	$–
Addition	4,789,248
Impairments	–
Balance, February 28, 2015	$4,789,248

<u>Other Intangible Assets</u>

The following table summarizes other intangible assets as of February 28, 2015:

	Amortization Period	Acquisition Value	Accumulated Amortization	Net book value
Customer relationships	Straight line 8 years	$1,100,000	$ 68,750	$1,031,250
Trade Name-Cognigen	None	500,000	0	500,000
Covenants not to compete	Straight line 5 years	50,000	5,000	45,000
		$1,650,000	$ 73,750	$1,576,250

Amortization expense for the three and six months ended February 28, 2015 was $36,875 and 73,750, respectively.

Business Acquisitions

The Company accounted for the acquisition of Cognigen using the purchase method of accounting where the assets acquired and liabilities assumed are recognized based on their respective estimated fair values. The excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill. Determining the fair value of certain acquired assets and liabilities is subjective in nature and often involves the use of significant estimates and assumptions, including, but not limited to, the selection of appropriate valuation methodology, projected revenue, expenses and cash flows, weighted average cost of capital, discount rates, estimates of advertiser and publisher turnover rates and estimates of terminal values. Business acquisitions are included in the Company's consolidated financial statements as of the date of the acquisition.

Fair Value of Financial Instruments

Assets and liabilities recorded at fair value in the Condensed Balance Sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair value. The categories, as defined by the standard are as follows:

Level Input:	**Input Definition:**
Level I	Inputs are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date.
Level II	Inputs, other than quoted prices included in Level I, that are observable for the asset or liability through corroboration with market data at the measurement date.
Level III	Unobservable inputs that reflect management’s best estimate of what market participants would use in pricing the asset or liability at the measurement date.

The following table summarizes fair value measurements by level at February 28, 2015 for assets and liabilities measured at fair value on a recurring basis:

	Level I	Level II	Level III	Total
Cash and cash equivalents	$6,103,042	$ –	$ –	$6,103,042
Total	$6,103,042	$ –	$ –	$6,103,042

For certain of our financial instruments, including accounts receivable, accounts payable, accrued payroll and other expenses, accrued bonus to officer, and accrued warranty and service costs, the amounts approximate fair value due to their short maturities.

Research and Development Costs

Research and development costs are charged to expense as incurred until technological feasibility has been established. These costs consist primarily of salaries and direct payroll-related costs. It also includes purchased software and databases which were developed by other companies and incorporated into, or used in the development of, our final products.

Income Taxes

We utilize FASB ASC 740-10, *"Income Taxes"* which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns.

Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each year-end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized. The provision for income taxes represents the tax payable for the period and the change during the period in deferred tax assets and liabilities.

Intellectual property

On February 28, 2012, we bought out the royalty agreement with Enslein Research of Rochester, New York. The cost of $75,000 is being amortized over 10 years under the straight-line method. Amortization expense for each of the six months periods ended February 28, 2015 and 2014 was $3,750 and was $1,875 for each three-month period ended February 28, 2015 and 2014. Accumulated amortization as of February 28, 2015 was $22,500.

On May 15, 2014, we entered into a termination and non-assertion agreement with TSRL, Inc., pursuant to which the parties agreed to terminate an exclusive software licensing agreement entered into between the parties in 1997. As a result, the company obtained a perpetual right to use certain source code and data, and TSRL relinquished any rights and claims to any GastroPlus products and to any claims to royalties or other payments under that 1997 agreement. We agreed to pay TSRL total consideration of $6,000,000, which is being amortized over 10 years under the straight-line method. Amortization expense for the three and six months ended February 28, 2015 was $150,000 and $300,000, respectively. Accumulated amortization as of February 28, 2015 was $475,000. (See Note 4).

Total amortization expense for intellectual property agreements for the three and six months ended February 28, 2015 and 2014 was $151,875 and $1,875, and $303,750 and $3,750, respectively. Accumulated amortization as of February 28, 2015 was $497,500.

Earnings per Share

We report earnings per share in accordance with FASB ASC 260-10. Basic earnings per share is computed by dividing income available to common shareholders by the weighted-average number of common shares available. Diluted earnings per share is computed similar to basic earnings per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. The components of basic and diluted earnings per share for the three and six months ended February 28, 2015 and 2014 were as follows:

	Three month ended		Six month ended	
	02/28/2015	02/28/2014	02/28/2015	02/28/2014
Numerator:				
Net income attributable to common shareholders	$970,233	$809,864	$1,499,136	$1,495,019
Denominator:				
Weighted-average number of common shares outstanding during the period	16,848,983	16,107,327	16,839,599	16,078,173
Dilutive effect of stock options	256,429	249,217	256,758	241,729
Common stock and common stock equivalents used for diluted earnings per share	17,105,412	16,356,544	17,096,357	16,319,902

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Stock-Based Compensation

Compensation costs related to stock options are determined in accordance with FASB ASC 718-10, *"Compensation-Stock Compensation",* using the modified prospective method. Under this method, compensation cost is calculated based on the grant-date fair value estimated in accordance FASB ASC 718-10, amortized on a straight-line basis over the options' vesting period. Stock-based compensation was $150,624 and $71,087 for the six months ended February 28, 2015 and 2014, respectively, and was $84,825 and $55,727 for the three months ended February 28, 2015 and 2014, respectively. This expense is included in the condensed consolidated statements of operations as Selling, General and Administration (SG&A), and Research and Development expense.

Recently Issued Accounting Pronouncements

In July 2013, the FASB issued ASU 2013-11, *Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*, which eliminates diversity in practice for the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss or a tax credit carryforward is available to reduce the taxable income or tax payable that would result from disallowance of a tax position. ASU 2013-11 affects only the presentation of such amounts in an entity's balance sheet and is effective for fiscal years beginning after December 15, 2013 and interim periods within those years. Early adoption is permitted. We adopted this standard during fiscal 2015 and believe that it did not have a significant effect on our financial position or results of operation.

In May 2014, FASB issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers. The standard will eliminate the transaction- and industry-specific revenue recognition guidance under current U.S. GAAP and replace it with a principles-based approach for determining revenue recognition. ASU 2014-09 is effective for annual and interim periods beginning after December 15, 2016. Early adoption is not permitted. The revenue recognition standard is required to be applied retrospectively, including any combination of practical expedients as allowed in the standard. We are evaluating the impact, if any, of the adoption of ASU 2014-09 to our financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

Note 3: Property and Equipment

Property and equipment as of February 28, 2015 consisted of the following:

Equipment	$416,798
Computer equipment	123,234
Furniture and fixtures	182,073
Leasehold improvements	103,599

Sub total	825,704
Less: Accumulated depreciation and amortization	(365,391)
Net Book Value	$460,313

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NOTE 4: CONTRACTS PAYABLE

TSRL

Pursuant to the termination and non-assertion agreement with TSRL (See note 2), the Company will pay TSRL $2,500,000 over a three-year period. The payment schedule, by year, is below.

Cognigen

On September 2, 2014, the Company acquired Cognigen Corporation (See note 11). As part of the consideration the Company agreed that within three business days following the two year anniversary of July 23, 2014 (the date of the Merger Agreement) and subject to any offsets, the Company will pay the former shareholders of Cognigen a total of $1,800,000, comprised of $720,000 of cash and the issuance of 170,014 shares of stock.

Future payments under the Agreements, which are non-interest-bearing, are due as follows:

Twelve month Period ending February 28	TSRL	Cognigen	Total
2015	$750,000	$–	$750,000
2016	750,000	1,854,404	2,604,404
2017	1,000,000	0	1,000,000
Total	$2,500,000	$1,854,404	$4,104,404
Less Current portion	(750,000)	–	(750,000)
Contract payable, net of current portion	$1,750,000	$1,854,404	$3,604,404

Note 5: COMMITMENTS AND CONTINGENCIES

Employment Agreement

On August 22, 2013, the Company entered into an employment agreement with its President/Chief Executive Officer that expired in August 2014. The employment agreement provided for an annual base salary of $300,000 per year, and a performance bonus in an amount equal to 5% of the Company’s net income before taxes of the previous fiscal year, not to exceed $60,000. The agreement also provided Employee stock options, exercisable for five years, to purchase ten (10) shares of Common Stock for each one thousand dollars ($1,000) of net income before taxes at the end of each fiscal year up to a maximum of 20,000 options over the term of the agreement. The Company may terminate the agreement upon 30 days written notice if termination is without cause. The Company's only obligation would be to pay its President the greater of a) 12 months’ salary or b) the remainder of the term of the employment agreement from the date of notice of termination. A copy of the agreement is attached to the Company’s 2013 Form 10-K filed with the

SEC on November 18, 2013 as Exhibit 10.9.

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For fiscal year 2013, the Compensation Committee awarded a $30,000 performance bonus to Walter Woltosz, our President/Chief Executive Officer, which was paid in September 2013.

Effective September 1, 2014, the Company entered into a new Employment Agreement with Walter S. Woltosz to serve as Chief Executive Officer of the Company (the "Woltosz Employment Agreement"). The Woltosz Employment Agreement has a one-year term. Under the terms of the Woltosz Employment Agreement, Mr. Woltosz is required to devote a minimum of 60% of his productive time to the position of Chief Executive Officer of the Company. He will receive annual compensation of $180,000, be eligible to receive up to 12,000 Company stock options under the 2007 Simulations Plus, Inc. Stock Option Plan, as determined by the Company's Board of Directors, and shall be paid an annual performance bonus of up to 5% of the Company's net income before taxes, not to exceed $36,000. A copy of the Woltosz Employment Agreement was filed as an attachment to the 8-K filed with the Securities and Exchange Commission on September 4, 2014.

On September 2, 2014, Thaddeus H. Grasela, Jr., Ph.D., was appointed President of the Company and its wholly-owned subsidiary Cognigen, and the Company and Cognigen have entered into an Employment Agreement with Dr. Grasela (the "Grasela Employment Agreement") which has a three-year term. Pursuant to the Grasela Employment Agreement, Dr. Grasela will receive an annual base salary of $250,000, will be eligible to receive Company stock options under the 2007 Simulations Plus, Inc. Stock Option Plan, as determined by the Company's Board of Directors, and will be eligible to receive an annual performance bonus in an amount not to exceed 10% of salary to be determined by the Compensation Committee of the Company's Board of Directors.

License Agreement

We have a royalty agreement with Accelrys, Inc. (the original agreement was entered into with Symyx Technologies in March 2010; Symyx Technologies later merged with Accelrys, Inc.) for access to their Metabolite Database for developing our Metabolite Module within ADMET Predictor™. The module was renamed the Metabolism Module when we released ADMET Predictor version 6 on April 19, 2012. Under this agreement, we pay 25% of revenue derived from the sale of Metabolism/Metabolite module to Accelrys. In 2014, Dassault Systemes of France acquired Accelrys and the company now operates under the name Biovia.

For the six months ended February 28, 2015 and 2014 we incurred royalty expense of $34,989 and $364,369, respectively and for the three months ended February 28, 2015 and 2014, we incurred royalty expense of approximately $24,824 and $198,837, respectively.

Litigation

Except as described below, we are not a party to any legal proceedings and are not aware of pending legal proceedings of any kind.

In June 2014, the Company was served with a complaint in a civil action entitled Sherri Winslow v. Incredible Adventures, Inc., et al. (Los Angeles Superior Court Case No. BC545789) alleging wrongful death and seeking unspecified damages arising out of a May 18, 2012 plane crash in the State of Nevada. The Company's Chief Executive Officer owns the subject aircraft and is also a named defendant. The complaint alleged that the Company was the owner of the subject aircraft. The Company denies all material allegations against it, including that it owns or has ever owned any interest in the subject aircraft. On November 25, 2014, the plaintiff and the Company signed a stipulation of dismissal pursuant to which the plaintiff agreed to dismiss the Company without prejudice. If the plaintiff does not discover evidence during a nine month period to and including August 31, 2015 that justifies bringing the Company back into the litigation, the Company will prepare a dismissal with prejudice to be signed on behalf of the plaintiff.

Note 6: SHAREHOLDERS' EQUITY

Dividend

The Board of Directors declared cash dividends during fiscal year 2014. The details of dividends paid are in the following table:

Record Date	Distribution Date	Number of Shares Outstanding on Record Date	Dividend per Share	Total Amount
11/08/2013	11/15/2013	16,073,894	$ 0.04	$ 642,956
2/17/2014	2/24/2014	16,149,460	$ 0.05	807,473
5/09/2014	5/16/2014	16,165,171	$ 0.05	808,259
8/04/2014	8/11/2014	16,337,955	$ 0.05	816,897
Total				$ 3,075,585

The Board of Directors has also declared cash dividends during fiscal year 2015. The details of dividends paid are in the following table:

Record Date	Distribution Date	Number of Shares Outstanding on Record Date	Dividend per Share	Total Amount
11/07/2014	11/14/2014	16,841,114	$ 0.05	$ 842,056
1/26/2015	2/2/2015	16,852,117	$ 0.05	$ 842,604
Total				$ 1,684,660

Stock Option Plan

In September 1996, the Board of Directors adopted, and the shareholders approved, the 1996 Stock Option Plan (the "Option Plan") under which a total of 1,000,000 shares of common stock had been reserved for issuance. In March 1999, the shareholders approved an increase in the number of shares that may be granted under the Option Plan to 2,000,000. In February 2000, the shareholders approved an increase in the number of shares that may be granted under the Option Plan to 4,000,000. In December 2000, the shareholders approved an increase in the number of shares that may be granted under the Option Plan to 5,000,000. Furthermore, in February 2005, the shareholders approved an additional 1,000,000 shares, resulting in the total number of shares that may be granted under the Option Plan to 6,000,000. The 1996 Stock Option Plan terminated in September 2006 by its term.

On February 23, 2007, the Board of Directors adopted and the shareholders approved the 2007 Stock Option Plan under which a total of 1,000,000 shares of common stock had been reserved for issuance. On February 25, 2014 the shareholders approved an additional 1,000,000 shares increasing the total number of shares that may be granted under the Option Plan to 2,000,000.

Qualified Incentive Stock Options (Qualified ISO)

As of February 28, 2015, employees hold Qualified ISO to purchase 802,200 shares of common stock at exercise prices ranging from $1.00 to $6.85, which were granted prior to February 28, 2015.

Transactions in FY15	Number of Options	Weighted-Average Exercise Price Per Share		Weighted-Average Remaining Contractual Life
Outstanding, August 31, 2014	798,500	$	4.59	6.265
Granted	17,000	$ 6.85		
Exercised	(4,500)	$ 1.11		
Cancelled/Forfeited	(8,800)	$ 6.85		
Outstanding, February 28, 2015	802,200	$ 4.64		5.840
Exercisable, February 28, 2015	370,500	$ 2.40		2.737

The fair value of the options, including both ISO and NQSO options, granted during the six months ended February 28, 2015 is estimated at $130,781. The fair value of these options was estimated at the date of grant using the Black-Scholes option-pricing model with the following assumptions for Fiscal quarter ended February 28, 2015: dividend yield of 2.92%, pre-vest forfeiture rate of 6.23%, expected volatility of 49.55%, risk-free interest rate of 2.23%, and expected life of 6.90 years.

Non-Qualified Stock Options (Non-Qualified ISO)

As of February 28, 2015, the outside members of the Board of Directors hold options to purchase 35,600 shares of common stock at exercise prices ranging from $1.67 to $6.85, which were granted prior to February 28, 2015.

Transactions in FY15	Number of Options	Weighted-Average Exercise Price Per Share		Weighted-Average Remaining Contractual Life
Outstanding, August 31, 2014	56,600	$	4.82	7.96
Granted	0	$ 0.00		
Exercised	(6,503)	$ 3.28		
Cancelled/Forfeited	(14,497)	$ 4.97		
Outstanding, February 28, 2015	35,600	$ 5.05		7.38
Exercisable, February 28, 2015	19,000	$ 4.29		7.32

The weighted-average remaining contractual life of options outstanding issued under the Plan, both Qualified ISO and Non-Qualified SO, was 5.90 years at February 28, 2015. The exercise prices for the options outstanding at February 28, 2015 ranged from $1.00 to $6.85, and the information relating to these options is as follows:

Exercise Price		Awards Outstanding			Awards Exercisable		
Low	High	Quantity	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Quantity	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
$1.00	$1.50	193,000	3.02 years	$1.04	193,000	3.02 years	$1.04
$1.51	$3.00	13,600	5.15 years	$2.41	3,600	5.19 years	$2.19
$3.01	$4.50	133,500	2.36 years	$3.25	131,700	2.29 years	$3.23
$4.51	$6.00	128,000	3.85 years	$5.47	57,200	3.71 years	$5.42
$6.01	$6.85	369,700	9.42 years	$6.84	4,000	2.50 years	$6.67
TOTAL		**837,800**	**5.90 years**	**$4.65**	**389,500**	**2.89 years**	**$2.49**

NOTE 7: RELATED PARTY TRANSACTIONS

As of February 28, 2015, included in bonus expenses to officers was $48,000, of which $30,000 was accrued bonus representing an estimated quarterly amount of bonus payable to the Corporate Secretary, Virginia Woltosz, as part of the terms of the sale of Words+ to Simulations Plus in 1996, and $18,000 accrued bonus representing an estimated quarterly amount of bonus payable to our President/Chief Executive Officer, Walter Woltosz as part of his current employment agreement.

NOTE 8: CONCENTRATIONS AND UNCERTAINTIES

Revenue concentration shows that International sales accounted for 39.8% and 53% of net sales for the six months ended February 28, 2015 and 2014, respectively. Two customers accounted for 10% (a dealer account in Japan representing various customers) and 8% of sales for the six months ended February 28, 2015 compared to one customer (a dealer account in Japan representing various customers) accounting for 10% of sales for the six months ended February 28, 2014.

Accounts receivable concentration shows that one customer (a dealer account in Japan representing various customers) comprised 13% of accounts receivable at February 28, 2015, compared to two customers comprising 13% (a dealer account in Japan representing various customers) and 11% of accounts receivable at February 28, 2014.

We operate in the computer software industry, which is highly competitive and changes rapidly. Our operating results could be significantly affected by our ability to develop new products and find new distribution channels for new and existing products.

The majority of our customers are in the pharmaceutical industry. Consolidation and downsizing in the pharmaceutical industry could have an impact on our revenues and earnings going forward.

NOTE 9: SEGMENT AND Geographic Reporting

We account for segments and geographic revenues in accordance with guidance issued by the FASB. Our reportable segments are strategic business units that offer different products and services.

Results for each segment and consolidated results are as follows for the three and six months ended February 28, 2015 (in thousands):

Three months ended February 28, 2015

	Simulations Plus, Inc	Cognigen Corporation*	Eliminations	Total
Net Revenues	$ 3,302	$ 1,271		$4,574
Income (loss) from operations	$ 1,288	$ 187		$1,475
Total assets	$ 25,974	$ 8,327	$ (7,238)	$27,063
Capital expenditures	$ 0	$ 0		$0
Capitalized software costs	$ 393	$ 39		$432
Depreciation and Amortization	$ 431	$ 91		$458

Six months ended February 28, 2015

	Simulations Plus, Inc	Cognigen Corporation*	Eliminations	Total
Net Revenues	$ 6,254	$ 2,406		$8,660
Income (loss) from operations	1,975	249		$2,224
Total assets	$ 25,974	$ 8,327	$ (7,238)	$27,063
Capital expenditures	$ 17	$ 3		$20
Capitalized software costs	$ 667	$ 64		$730
Depreciation and Amortization	$ 798	$ 182		$980

*Cognigen Corporation was acquired on September 2, 2014.

In addition, the Company allocates revenues to geographic areas based on the locations of its customers. Geographical revenues for the three months and six months ended February 28, 2015 and 2014 were as follows (in thousands):

Three months ended February 28, 2015

	Europe	Asia		Total

	North America			South America	
Simulations Plus, Inc.	$ 1,459	$1,265	$578	$ 1	$3,303
Cognigen Corporation *	$ 1,271	$0	$0	$ 0	$1,271
Total	$ 2,730	$1,265	$578	$ 1	$4,574

Six months ended February 28, 2015

	North America	Europe	Asia	South America	Total
Simulations Plus, Inc.	$ 2,805	$1,905	$1,543	$ 1	$6,254
Cognigen Corporation *	$ 2,406	–	–	–	$2,406
Total	$ 5,211	$1,905	$1,543	$ 1	$8,660

*Cognigen Corporation was acquired on September 2, 2014

Three and six months ended February 28, 2014**

	North America	Europe	Asia	South America	Total
Three Months	$ 968	$1,432	$673	$ 8	$3,081
Six Months	$ 2,228	$1,968	$1,515	$ 11	$5,722

** Does not include Cognigen Corporation acquired on September 2, 2014

Note 10: EMPLOYEE BENEFIT PLAN

We maintain a 401(K) Plan for all eligible employees, and we make matching contributions equal to 100% of the employee’s elective deferral, not to exceed 4% of total employee compensation. We can also elect to make a profit-sharing contribution. Our contributions to this Plan amounted to $122,846 and $61,756 for the six months ended February 28, 2015 and 2014, respectively, and $65,519 and $35,629 for the three months ended February 28, 2015 and 2014, respectively.

Note 11: ACQUISITION/MERGER WITH COGNIGEN CORPORATION

On July 23, 2014, the Company entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Cognigen Corporation (“Cognigen”). On September 2, 2014, the Company consummated the acquisition of all outstanding equity interests of Cognigen pursuant to the terms of the Merger Agreement, with Cognigen merging with and into a newly formed, wholly owned subsidiary of the Company. We believe the combination of Simulations Plus and Cognigen provides substantial future potential based on the complementary strengths of each of the companies.

Under the terms of the Merger Agreement, as described below, the Company will pay the former shareholders of Cognigen total consideration of $7,000,000, consisting of $2,800,000 of cash and $4,200,000 worth of newly issued, unregistered shares of the Company’s common stock.

On September 2, 2014, the Company paid the former shareholders of Cognigen a total of $5,200,000, comprised of cash in the amount of $2,080,000 and the issuance of 491,159 shares of the Company’s common stock valued at $3,120,000 (under the terms of the Merger Agreement a price of approximately $6.35 dollars per share was used based upon the volume-weighted average closing price of the Company’s shares of common stock for the 30-consecutive-trading-day period ending two trading days prior to September 2, 2014). The actual stock price at September 2, 2014 was $6.67, so the total value of the stock issued was approximately $3,277,000. The Merger Agreement provides for a two-year market standoff period in which the newly issued shares may not be sold by the recipients thereof.

Within three business days following the two-year anniversary of July 23, 2014 (the date of the Merger Agreement) and subject to any offsets, the Company will pay the former shareholders of Cognigen a total of $1,800,000, comprised of $720,000 of cash and the issuance of 170,014 shares of stock valued at $1,080,000 under the formula described above.

The Merger Agreement provided for a targeted working capital adjustment to be made 120 days after the closing date.

Under the acquisition method of accounting, the total estimated purchase price is allocated to Cognigen's tangible and intangible assets and liabilities based on their estimated fair values at the date of the completion of the acquisition (September 2, 2014). The following table summarizes the preliminary allocation of the purchase price for Cognigen:

Assets acquired, including accounts receivable of $934,000 and estimated Contracts receivable of $530,000	$1,524,389
Fixed assets acquired	458,351
Estimated value of software acquired	200,000
Estimated value of Intangibles acquired (Customer Lists, trade name etc.)	1,600,000
Working Capital Adjustment	(26,707)
Current Liabilities assumed	(644,499)
Goodwill	4,789,248
Estimated Deferred income taxes	(662,500)
Total Consideration	$7,238,282

Goodwill has been provided in the transaction based on estimates of future earnings of this subsidiary including anticipated synergies associated with the positioning of the combined company as a leader in model-based drug development. Based on the structure of the transaction, the Company does not antici