SIMULATIONS PLUS INC
Form 10-Q
July 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 **May 31, 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 July 14, 2015 was 16,892,117; no shares of preferred stock were outstanding.

Simulations Plus, Inc.

FORM 10-Q

For the Quarterly Period Ended May 31, 2015

Table of Contents

PART I. FINANCIAL INFORMATION

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Item 1. Condensed Financial Statements

SIMULATIONS PLUS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

As of

	(Unaudited) May 31, 2015	(Audited) August 31, 2014
ASSETS		
Current assets		
Cash and cash equivalents	$6,428,596	$8,614,929
Accounts receivable, net of allowance for doubtful accounts of $0	3,990,467	1,708,158
Revenues in excess of billings	924,793	158,914
Prepaid income taxes	–	748,359
Prepaid expenses and other current assets	269,776	188,160
Deferred income taxes	209,705	114,846
Total current assets	$11,823,337	$11,533,366
Long-term assets		
Capitalized computer software development costs, net of accumulated amortization of $7,358,012 and $6,609,283	$3,880,162	$3,452,541
Property and equipment, net (note 3)	420,629	95,242
Intellectual property, net of accumulated amortization of $649,375 and $193,750	5,425,625	5,881,250
Other intangible assets net of accumulated amortization of $110,625	1,539,375	–
Goodwill	4,789,248	–
Other assets	34,082	18,445
Total assets	$27,912,458	$20,980,844
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$133,126	$130,547
Accrued payroll and other expenses	427,750	340,709
Accrued bonuses to officer	72,000	120,000
Income taxes payable	178,894	–
Other current liabilities	19,859	19,859
Current portion - Contracts payable (note 4)	750,000	750,000
Billings in excess of revenues	93,122	–
Deferred revenue	42,168	30,370
Total current liabilities	$1,716,919	$1,391,485

Long-term liabilities		
Deferred income taxes	$3,510,899	$2,375,874
Payments due under Contracts payable (note 4)	2,854,404	1,750,000
Other long-term liabilities	13,239	28,134
Total liabilities	$8,095,461	$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 16,887,117 and 16,349,955 shares issued and outstanding	$5,358	$4,821
Additional paid-in capital	9,643,394	6,085,427
Retained earnings	10,168,245	9,345,103
Total shareholders' equity	$19,816,997	$15,435,351
	$–	–
Total liabilities and shareholders' equity	$27,912,458	$20,980,844

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

SIMULATIONS PLUS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

For the three and nine months ended May 31,

(Unaudited)

	Three months ended		Nine months ended	
	2015	2014	2015	2014
Net Revenues	$5,942,082	$3,740,567	$14,602,464	$9,463,059
Cost of revenues	1,115,402	227,600	3,238,796	1,168,219
Gross margin	4,826,680	3,512,967	11,363,668	8,294,840
Operating expenses				
Selling, general, and administrative	1,624,610	1,204,312	5,303,792	3,378,950
Research and development	348,285	234,685	981,633	750,808
Total operating expenses	1,972,895	1,438,997	6,285,425	4,129,758
Income from operations	2,853,785	2,073,970	5,078,243	4,165,082
Other income (expense)				
Interest income	4,391	8,017	13,394	25,000
Gain(loss) on currency exchange	(35,632)	7,340	(78,107)	35,477
Total other income (expense)	(31,241)	15,357	(64,713)	60,477
Income from operations before provision for income taxes	2,822,544	2,089,327	5,013,530	4,225,559
Provision for income taxes	(970,122)	(781,778)	(1,661,972)	(1,422,991)
Net Income	$1,852,422	$1,307,549	$3,351,558	$2,802,568
Earnings per share				
Basic	$0.11	$0.08	$0.20	$0.17
Diluted	$0.11	$0.08	$0.20	$0.17
Weighted-average common shares outstanding				
Basic	16,862,128	16,193,976	16,847,191	16,117,198
Diluted	17,073,155	16,455,078	17,070,334	16,361,695

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

SIMULATIONS PLUS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the nine months ended May 31,

(Unaudited)

	2015	2014
Cash flows from operating activities		
Net income	$3,351,558	$2,802,568
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization of property and equipment	168,585	35,730
Amortization of capitalized computer software development costs	748,730	584,237
Amortization of Intellectual property	566,250	30,625
Stock-based compensation	230,501	103,498
Deferred income taxes	377,666	1,349,585
(Increase) decrease in		
Accounts receivable	(1,347,791)	(1,229,485)
Revenues in excess of billings	(368,170)	–
Prepaid income taxes	748,359	(644,945)
Prepaid expenses and other assets	7,106	72,993
Increase (decrease) in		
Accounts payable	(56,838)	31,345
Accrued payroll and other expenses	(357,397)	38,255
Accrued bonus	(48,000)	30,000
Billings in excess of revenues	(253,318)	–
Accrued income taxes	178,894	–
Other liabilities	(14,895)	(14,894)
Deferred revenue	11,796	145,444
Net cash provided by operating activities	$3,943,036	3,334,956
Cash flows from investing activities		
Purchases of property and equipment	(35,620)	(21,339)
Purchases of intellectual property	–	(2,500,000)
Cash used to purchase Cognigen	(2,080,000)	–
Cash received in acquisition	190,184	–
Capitalized computer software development costs	(976,350)	(1,051,700)
Net cash provided by (used in) investing activities	(2,901,786)	(3,573,039)
Cash flows from financing activities		
Payment of Dividends	(2,528,416)	(2,258,688)
Payments on Contracts Payable	(750,000)	
Proceeds from the exercise of stock options	50,833	75,445
Net cash (used in) financing activities of continuing operations	(3,227,583)	(2,183,243)

Net increase (decrease) in cash and cash equivalents	(2,186,333)	(2,421,326)
Cash and cash equivalents, beginning of year	8,614,929	10,179,298
Cash and cash equivalents, end of period	$6,428,596	$7,757,972
Supplemental disclosures of cash flow information		
Interest paid	$–	$–
Income taxes paid	$320,707	$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	$–
Purchase of intellectual property with shares and notes payable	$–	$3,500,000

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

Simulations Plus, Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2015 and 2014

(Unaudited)

Note 1: GENERAL

This report on Form 10-Q for the quarter ended May 31, 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 include 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 licensed 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. Certain of the Company's software products are housed and supported on the Company's computer networks. Software revenues for those products are including in income over the life of the contract.

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 credit worthiness, 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.

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 $748,730 and $584,237 for the nine months ended May 31, 2015 and 2014, respectively, and amortization of software development costs was $258,679 and $200,585 for the three months ended May 31, 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 May 31, 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 May 31, 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 May 31, 2015 and 2014.

Reconciliation of Goodwill for the period ended May 31, 2015:

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

Other Intangible Assets

The following table summarizes other intangible assets as of May 31, 2015:

	Amortization Period	Acquisition Value	Accumulated Amortization	Net book value
Customer relationships	Straight line 8 years	$1,100,000	$ 103,125	$996,875
Trade Name-Cognigen	None	500,000	0	500,000

Covenants not to compete	Straight line 5 years	50,000	7,500	42,500
		$1,650,000	$ 110,625	$1,539,375

Amortization expense for the three and nine months ended May 31, 2015 was $36,875 and $110,625, 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 May 31, 2015 for assets and liabilities measured at fair value on a recurring basis:

	Level I	**Level II**	**Level III**	**Total**
Cash and cash equivalents	$6,428,596	$ –	$ –	$6,428,596
Total	$6,428,596	$ –	$ –	$6,428,596

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 that 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 nine months periods ended May 31, 2015 and 2014 was $5,625 and was $1,875 for each three-month period ended May 31, 2015 and 2014. Accumulated amortization as of May 31, 2015 was $24,375.

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 nine months ended May 31, 2015 and 2014 was $450,000 and $25,000 respectively. Amortization expense for the three months ended May 31, 2015 and 2014 was $150,000 and $25,000 respectively. Accumulated amortization as of May 31, 2015 was $625,000. (See Note 4).

Total amortization expense for intellectual property agreements for the nine months ended May 31, 2015 and 2014 was $455,625 and $30,625, respectively. Total amortization expense for intellectual property agreements for the three months ended May 31, 2015 and 2014 was $151,875 and $26,875, respectively. Accumulated amortization as of May 31, 2015 was $649,375.

Earnings per Share

We report earnings per share (EPS) in accordance with FASB ASC 260-10. Basic EPS is computed by dividing income available to common shareholders by the weighted-average number of common shares available. Diluted EPS is computed similar to basic EPS, 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 EPS for the three and nine months ended May 31, 2015 and 2014 were as follows:

	Three month ended	Nine month ended

	05/31/2015	05/31/2014	05/31/2015	05/31/2014
Numerator:				
Net income attributable to common shareholders	$1,852,422	$1,307,549	$3,351,558	$2,802,568
Denominator:				
Weighted-average number of common shares outstanding during the period	16,862,128	16,193,976	16,847,191	16,117,198
Dilutive effect of stock options	211,027	261,102	223,143	244,497
Common stock and common stock equivalents used for diluted EPS	17,073,155	16,455,078	17,070,334	16,361,695

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 $230,501 and $103,498 for the nine months ended May 31, 2015 and 2014, respectively, and was $79,877 and $32,411 for the three months ended May 31, 2015 and 2014, respectively. This expense is included in the condensed consolidated statements of operations as Selling, General and Administrative (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, 2017. Early adoption is permitted for years beginning after December 15, 2016. 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 May 31, 2015 consisted of the following:

Equipment	$426,555
Computer equipment	123,234
Furniture and fixtures	188,778
Leasehold improvements	103,599

Sub total	842,166
Less: Accumulated depreciation and amortization	(421,537)
Net Book Value	$420,629

12

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 May 31	TSRL	Cognigen	Total
2016	750,000	0	750,000
2017	1,000,000	1,854,404	2,854,404
Total	$1,750,000	$1,854,404	$3,604,404
Less Current portion	(750,000)	–	(750,000)
Contract payable, net of current portion	$1,000,000	$1,854,404	$2,854,404

Note 5: COMMITMENTS AND CONTINGENCIES

Employment Agreement

On August 22, 2013, the Company entered into an employment agreement with its 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.

13

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

The Company executed 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 a royalty of 25% of revenue derived from the sale of the Metabolism/Metabolite module to Accelrys. In 2014, Dassault Systemes of France acquired Accelrys and the company now operates under the name Biovia. Under this agreement for the nine months ended May 31, 2015 and 2014 we incurred royalty expense of $58,187 and $32,680, respectively and for the three months ended May 31, 2015 and 2014, we incurred royalty expense of approximately $23,197 and $8,613, 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
11/8/2013	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
8/4/2014	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
11/7/2014	11/14/2014	16,841,114	$0.05	$842,056
1/26/2015	2/2/2015	16,852,117	$0.05	$842,606
5/11/2015	5/18/2015	16,875,117	$0.05	$843,754
Total				**$2,528,416**

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.

15

Qualified Incentive Stock Options (Qualified ISO)

As of May 31, 2015, employees hold Qualified ISO to purchase 752,500 shares of common stock at exercise prices ranging from $1.00 to $6.85, which were granted prior to May 31, 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	6.27
Granted	17,000	$ 6.85	
Exercised	(39,500)	$ 1.29	
Cancelled/Forfeited	(23,500)	$ 6.85	
Outstanding, May 31, 2015	752,500	$ 4.75	5.73
Exercisable, May 31, 2015	345,500	$ 2.52	2.70

The fair value of the options, including both ISO and NQSO options, granted during the nine months ended May 31, 2015 is estimated at $44,987. 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 May 31, 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 May 31, 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 May 31, 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, May 31, 2015	35,600	$ 5.05	7.13
Exercisable, May 31, 2015	19,000	$ 4.29	5.72

The weighted-average remaining contractual life of options outstanding issued under the Plan, both Qualified ISO and Non-Qualified SO, was 5.72 years at May 31, 2015. The exercise prices for the options outstanding at May 31, 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	163,000	3.02 years	$1.03	163,000	3.21 years	$1.03
$1.51	$3.00	8,600	4.91 years	$2.37	8,600	4.91 years	$2.37
$3.01	$4.50	133,500	2.11 years	$3.25	131,700	2.04 years	$3.24
$4.51	$6.00	128,000	3.60 years	$5.47	57,200	3.46 years	$5.42
$6.01	$6.85	355,000	9.17 years	$6.84	4,000	2.25 years	$6.68
TOTAL		**788,100**	**5.79 years**	**$4.76**	**364,500**	**2.86 years**	**$2.61**

NOTE 7: RELATED PARTY TRANSACTIONS

As of May 31, 2015, included in bonus expenses to officers was $72,000, of which $45,000 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 $27,000 accrued bonus representing an estimated quarterly amount of bonus payable to the 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 39.5% and 53% of net sales for the nine months ended May 31, 2015 and 2014, respectively. Three customers accounted for 8% (a dealer account in Japan representing various customers), 7%, and 5% of sales for the nine months ended May 31, 2015, compared with three customers accounting for 14% (a dealer account in Japan representing various customers), 9%, and 5% of sales for the nine months ended May 31, 2014.

Accounts receivable concentration shows that two customers comprise 18% and 16% (a dealer account in Japan representing various customers), respectively, of accounts receivable at May 31, 2015, compared to three customers that comprised 23%, 18% (a dealer account in Japan representing various customers), and 10% of accounts receivable at May 31, 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 nine months ended May 31, 2015 (in thousands):

Three months ended May 31, 2015

	Simulations Plus, Inc.	Cognigen Corporation*	Eliminations	Total
Net Revenues	$ 4,541	$ 1,401		$5,942
Income (loss) from operations before income taxes	$ 2,445	$ 377		$2,822
Total assets	$ 26,336	$ 8,814	$ (7,238)	$27,912
Capital expenditures	$ 7	$ 10		$17
Capitalized software costs	$ 193	$ 53		$246
Depreciation and Amortization	$ 413	$ 91		$504

Nine months ended May 31, 2015

	Simulations Plus, Inc.	Cognigen Corporation*	Eliminations	Total
Net Revenues	$ 10,795	$ 3,807		$14,602
Income (loss) from operations before income taxes	$ 4,386	$ 627		$5,013
Total assets	$ 26,336	$ 8,814	$ (7,238)	$27,912
Capital expenditures	$ 23	$ 14		$37
Capitalized software costs	$ 860	$ 116		$976
Depreciation and Amortization	$ 1,211	$ 273		$1,484

*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 nine months ended May 31, 2015 and 2014 were as follows (in thousands):

Three months ended May 31, 2015

	Europe	Asia	Total

	North America			South America	
Simulations Plus, Inc.	$ 2,239	$1,287	$1,003	$ 12	$4,541
Cognigen Corporation *	$ 1,401	$0	$0	$ 0	$1,401
Total	$ 3,640	$1,287	$1,003	$ 12	$5,942

Nine months ended May 31, 2015

	North America	Europe	Asia	South America	Total
Simulations Plus, Inc.	$ 5,029	$3,201	$2,552	$ 13	$10,795
Cognigen Corporation *	$ 3,807	–	–	–	$3,807
Total	$ 8,836	$3,201	$2,552	$ 13	$14,602

*Cognigen Corporation was acquired on September 2, 2014

Three and nine months ended May 31, 2014**

	North America	Europe	Asia	South America	Total
Three Months	$ 2,350	$672	$719	$ 0	$3,741
Nine Months	$ 4,480	2,684	2,273	$ 26	$9,463

** 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 $179,591 and $89,784 for the nine months ended May 31, 2015 and 2014, respectively, and $56,745 and $28,028 for the three months ended May 31, 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 its 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

19

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 anticipate benefiting from any tax deductions in future periods for recognized goodwill.

The accounting for this acquisition has not been completed, as further valuations and analysis is required to establish beginning fair market values and the implication on deferred taxes. The amounts shown are provisional, and do not include any adjustments for charges that will result from integration activities related to the acquisition. Additional assets or liabilities may be recorded that could affect the amounts. During the measurement period, any such adjustments to provisional amounts would increase or decrease goodwill. Adjustments that occur after the end of the measurement period will be recognized in the post-combination current period operations.

Consolidated supplemental Pro Forma information

The following consolidated supplemental pro forma information assumes that the acquisition of Cognigen took place on September 1, 2013 for the income statements for the three- and nine-month periods ended May 31, 2014. These amounts have been calculated after applying the Company's accounting policies and adjusting the results of Cognigen to reflect the same expenses in the period ended May 31, 2014 that were incurred in the period ended May 31, 2015. The adjustments include costs of acquisition of $410,000, the amortization of intangibles acquired during the merger, and depreciation changes to reflect the value of the fixed assets acquired that would have occurred assuming the fair value adjustments to fixed assets had been applied on September 1, 2013, together with consequential tax effects.

	For the three months ended May 31		**For the nine months ended May 31**	
	(in 1000's)		**(in 1000's)**	
	2015	**2014**	**2015**	**2014**
Net Sales	$5,942	$5,073	$14,602	$13,116
Net Income	$1,852	$1,506	$3,352	$2,543

Item 2. Management's Discussion and Analysis or Plan of Operations

Forward-Looking Statements

This document and the documents incorporated in this document by reference contain forward-looking statements that are subject to risks and uncertainties. All statements other than statements of historical fact contained in this document and the materials accompanying this document are forward-looking statements.

The forward-looking statements are based on the beliefs of our management, as well as assumptions made by and information currently available to our management. Frequently, but not always, forward-looking statements are identified by the use of the future tense and by words such as “believes,” expects,” “anticipates,” “intends,” “will,” “may,” “cou “would,” “projects,” “continues,” “estimates” or similar expressions. Forward-looking statements are not guarantees of future performance and actual results could differ materially from those indicated by the forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause our or our industry’s actual results, levels of activity, performance, or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by the forward-looking statements.

The forward-looking statements contained or incorporated by reference in this document are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (“Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (“Exchange Act”) and are subject to the safe harbor created by the Private Securities Litigation Reform Act of 1995. These statements include declarations regarding our plans, intentions, beliefs, or current expectations.

Among the important factors that could cause actual results to differ materially from those indicated by forward-looking statements are the risks and uncertainties described under “Risk Factors” in our Annual Report and elsewhere in this document and in our other filings with the SEC.

Forward-looking statements are expressly qualified in their entirety by this cautionary statement. The forward-looking statements included in this document are made as of the date of this document and we do not undertake any obligation to update forward-looking statements to reflect new information, subsequent events or otherwise.

General

BUSINESS

As used in this report, each of the terms “we,” “us,” “our,” the “Company” and “Simulations Plus” refers to Simulations Plus, Inc. and Cognigen Corporation, unless otherwise stated or the context otherwise requires.

OVERVIEW

Simulations Plus, Inc., incorporated in 1996, is a premier developer of groundbreaking drug discovery and development software for mechanistic modeling and simulation. Our software is licensed to major pharmaceutical, biotechnology, agrochemical, and food industry companies and to regulatory agencies worldwide for use in the conduct of industry-based research. We also provide consulting services to these industries. Recently, we have been exploring the application of some of our machine-learning technologies for problems in aerospace and healthcare outside of our traditional markets. Simulations Plus is headquartered in Southern California and its common stock trades on the NASDAQ Capital Market under the symbol “SLP.”

In September 2014, Simulations Plus acquired Cognigen Corporation (Cognigen) as a wholly owned subsidiary. The acquisition is expected to add approximately $5 million to our revenues for the fiscal year ended August 31, 2015.

Cognigen, incorporated in 1992, is a leading provider of population modeling and simulation contract research services for the pharmaceutical and biotechnology industries. Cognigen's clinical-pharmacology-based consulting services include pharmacokinetic and pharmacodynamic modeling, clinical trial simulations, data programming, and technical writing services in support of regulatory submissions. Cognigen has also developed software for harnessing cloud-based computing in support of modeling and simulation activities and provides consulting services to improve interdisciplinary collaborations and R&D productivity.

We are a global leader focused on improving the ways scientists use knowledge and data to predict the properties and outcomes of pharmaceutical and biotechnology agents, and one of only two global companies who provide a wide range of preclinical and clinical consulting services and software. Our innovations in integrating new and existing science in medicinal chemistry, computational chemistry, pharmaceutical science, biology, and physiology into our software have made us the leading software provider for physiologically based pharmacokinetics (PBPK) modeling and simulation.

We generate revenue by delivering relevant, cost-effective software and creative and insightful consulting services. Pharmaceutical and biotechnology companies use our software programs and scientific knowledge to guide discovery and preclinical development programs. They also use it to enhance their understanding of the properties of potential new medicines and to use emerging data to improve formulations, select and justify dosing regimens, support the generics industry, optimize clinical trial design, and simulate outcomes in special populations, such as the elderly and pediatric patients.

PRODUCTS

General

Simulations Plus develops and produces software for use in pharmaceutical research and in the education of pharmacy and medical students, and we provide contract consulting services to the pharmaceutical and chemical industries. Our wholly owned subsidiary, Cognigen, conducts high-quality analysis and regulatory report generation for data gathered during clinical trials of new and existing pharmaceutical products. Cognigen also has developed a proprietary software product called KIWI™, which is used internally and by some of its customers to access data and analysis results on Cognigen's internal computer cloud. Each business division is discussed separately below, followed by a discussion of the expected synergies from the combination of Simulations Plus and Cognigen.

Simulations Plus

We currently offer six software products for pharmaceutical research: three simulation programs that provide time-dependent results based on solving large sets of differential equations: GastroPlus™, DDDPlus™, and MembranePlus™; and three programs that are based on predicting and analyzing static (not time-dependent) properties of chemicals: ADMET Predictor™, MedChem Designer™, and MedChem Studio™. We call the combination of ADMET Predictor, MedChem Designer, and MedChem Studio our ADMET Design Suite™. After years in development, our newest software product, MembranePlus, was released in October 2014.

GastroPlus

Our flagship product and largest source of revenue is GastroPlus. GastroPlus simulates the absorption, pharmacokinetics, and pharmacodynamics of drugs administered to humans and animals, and is currently the most widely used software of its type in pharmaceutical companies worldwide, the U.S. Food and Drug Administration (FDA), the U.S. National Institutes of Health (NIH), and other government agencies in the U.S. and other countries. Because of the widespread use of GastroPlus, we were the only non-European company invited to join the European Innovative Medicines Initiative (IMI) program for Oral Bioavailability Tools (OrBiTo). OrBiTo is an international collaboration among 27 industry, academic, and government organizations working in the area of oral absorption of pharmaceutical products. Because we are outside of Europe, our participation in this project is at our own expense, while other members are compensated for their work; however, we are a full member with access to all of the data and discussions of all other members. We believe participation in this initiative enables us to benefit from and to contribute to advancing the prediction of human oral bioavailability from preclinical data, and ensures that we are in front of the audience of member pharmaceutical companies and regulatory agencies.

After the end of our 2014 fiscal year, in September 2014, we entered into a research collaboration agreement (RCA) with the FDA to enhance the Ocular Compartmental Absorption and Transit (OCAT™) model within the Additional Dosing Routes Module of GastroPlus to provide a tool for generic companies and the FDA to assess the likely bioequivalence of generic drug formulations dosed to the eye. Under this RCA, we receive $200,000 per year. This RCA may be renewed for up to a total of three years based on the progress achieved during the project.

During this reporting period, we submitted a proposal in response to a new request from the FDA for a similar RCA to investigate dosing of Long-Acting Injectable Microspheres. If awarded, this effort will also be funded for $200,000 per year for up to three years; however, we will not know whether we will be awarded a contract until August or September 2015.

Version 9.0 of GastroPlus was released during the current reporting period. This is the largest single upgrade we've made to the program to date, and the expanded level of science and technology incorporated in this version adds valuable new functionalities that we believe provides the most advanced decision-making tool for preclinical and early clinical trial simulation and modeling analysis available today. Several of the significant enhancements include:

- ability to simulate the absorption and distribution of biologics (antibodies and proteins)
- ability to simulate dosing to the skin, including patches, creams, ointments, and subcutaneous injections
- tighter integration with our ADMET Predictor™ software to increase the utility of the program in early drug discovery.

Our goal with GastroPlus is to integrate the best science into user-friendly software to enable pharmaceutical researchers and regulators to perform sophisticated analyses of complex drug behaviors in humans and laboratory animals. Already the most widely used program in the world for physiologically based pharmacokinetics (PBPK), the addition of these new capabilities is expected to expand the user base earlier into both earlier drug discovery as well as

expanded application in clinical trial data analysis within the pharmaceutical industry, while also helping us further penetrate the biopharmaceuticals, food, cosmetics, and general toxicology markets.

DDDPlus

DDDPlus simulates *in vitro* laboratory experiments that measure the rate of dissolution of a drug and, if desired, the additives (excipients) in a particular dosage form (e.g., tablet or capsule) under a variety of experimental conditions. This software program is used by formulation scientists in industry and the FDA to (1) understand the physical mechanisms affecting the dissolution rate for various formulations, (2) reduce the number of cut-and-try attempts to design new drug formulations, and (3) design *in vitro* dissolution experiments to better mimic *in vivo* conditions. A major upgrade to DDDPlus is in final stages of development and is currently expected to be released during 4QFY15 prior to August 31, 2015.

MembranePlus™

MembranePlus is a new product that has been under development for a number of years, but was put on hold for several years due to other priorities. The development effort was revived in the past two years and the program was released in October 2014. Similar to DDDPlus, MembranePlus simulates laboratory experiments, but in this case, the experiments are for measuring permeability of drug-like molecules through various membranes, including several different cell cultures (Caco-2, MDCK) as well as artificially formulated membranes (PAMPA). The value of such a simulation derives from the fact that when the permeabilities of the same molecules are measured in different laboratories, results are often significantly different. These differences are caused by a complex interplay of factors in how the experiment was set up and run. MembranePlus simulates these experiments with their specific experimental details, and this enables scientists to better interpret how results from specific experimental protocols can be used to predict permeability in human and animals, which is the ultimate goal. We believe MembranePlus is unique and a number of customers have expressed interest in the program and sales are beginning to come in. We expect to see a gradual increase in sales for this new product, much like we experienced with DDDPlus in its introduction, as scientists learn what such a program can do for them.

ADMET Predictor™

ADMET (Absorption, Distribution, Metabolism, Excretion, and Toxicity) Predictor is a chemistry-based computer program that takes molecular structures as inputs and predicts approximately 145 different properties for them at an average rate of over 100,000 compounds per hour on a modern laptop computer. This capability allows chemists to generate estimates for a large number of important molecular properties without the need to synthesize and test the molecules, or to generate estimates of unknown properties for molecules that have been synthesized, but for which only a limited number of experimental properties have been measured. Thus, a chemist can assess the likely success of a large number of existing molecules in a company’s chemical library, as well as molecules that have never been made, by providing their molecular structures, either by drawing them using a tool such as our MedChem Designer software, or by automatically generating large numbers of molecules using various computer algorithms, including those embedded in our MedChem Studio software.

ADMET Predictor has been top-ranked for predictive accuracy in peer-reviewed, independent comparison studies, while generating its results at a high throughput rate. Although the state-of-the-art of this type of software does not enable identifying the best molecule in a series, it does allow early screening of molecules that are highly likely to fail as potential drug candidates (i.e., the worst molecules, which is usually the majority of a chemical library) before synthesizing and testing them. Thus, millions of compounds can be created and screened in a day, compared to

potentially months or years of work to actually synthesize and test a much smaller number of actual compounds.

This latest release of ADMET Predictor contains updated cytochrome P450 enzyme kinetics models that are seamlessly integrated into the recently released GastroPlus™ Version 9.0, enhancing the synergy between predicted properties and PBPK simulations. It also contains two new models related to human liver microsome (HLM) stability, an experiment that is routinely run on newly synthesized compounds in the pharmaceutical industry. The updated models illustrate our commitment to providing the best predictive models in the industry.

The ADMET Modeler™ subprogram that is integrated into ADMET Predictor enables scientists to use their own experimental data to quickly create proprietary high-quality predictive models using the same powerful machine learning methods we use to build our top-ranked property predictions. Pharmaceutical companies expend substantial time and money conducting a wide variety of experiments on new molecules each year, resulting in large databases of experimental data. Using this proprietary data to build predictive models can provide a second return on their investment; however, model building has traditionally been a difficult and tedious activity performed by specialists. The automation in ADMET Modeler makes it easy for a scientist to create very powerful models with a minimum of training.

We are currently examining three applications of this machine learning engine outside of our normal pharmaceutical markets: (1) building predictive models for missile aerodynamic force and moment coefficients as a function of missile geometry, Mach number, and angle of attack, (2) classifying/identifying missiles from radar tracking data, and (3) classifying patients as healthy or experiencing some disease state or genetic disorder evidenced by magnetic resonance imaging (MRI) of the brain. Other potential applications for this modeling engine have also been identified; however, our focus to date has been in these three areas.

The aerodynamic coefficient prediction problem was identified by the aerospace engineering department at Auburn University. Working with them, we have done some preliminary testing of the ADMET Modeler modeling engine for this type of problem. Results have been encouraging, and we believe there are government agencies and industrial aerospace companies that will find such a capability to be useful. To this end, we are developing a prototype AEROModeler™ program to test this concept and to use as a demonstrator for proposal efforts directed to potential funding agencies. A joint Simulations Plus/Auburn University scientific poster was accepted for presentation at the National Space and Missile Material Symposium/Commercial and Government Responsive Access to Space Technology Exchange (NSMMS/CRASTE) Conference in Huntsville, Alabama, in June 2014 and another in June 2015. Positive feedback both from government agencies and aerospace contractors was received at both meetings, not only for aerodynamic coefficient predictions, but also for application to several other potential problems of interest to the industry. We have also successfully applied the same technology to identify/classify missiles from radar tracking data in a proof-of-concept study. Identification of missile characteristics from radar tracking data can be a valuable tool, for example, in rapidly determining whether defensive countermeasures are needed for an observed launch, and if so, what type(s) of countermeasures are most appropriate. We presented at two aerospace conferences in June 2015 to further show what our technology can do for these new applications.

The analysis of magnetic resonance imaging (MRI) data to classify patients as healthy or likely to experience a form of autism (in our first proof-of-concept case) has been developed in cooperation with the MRI Research Facility at Auburn University. This state-of-the-art facility has two MRIs – a 3-Tesla machine and a 7-Tesla machine. The amount of data from MRI imaging is massive, requiring us to modify our code to handle much larger data arrays than our previous applications have required. Our current goal is to demonstrate the potential of our modeling technology to provide useful classification of a patient into one of four groups based only on MRI data, so that we can approach various agencies (such as the NIH) to obtain funding to develop a commercial product. We presented a scientific poster at the Fourth Biennial Conference on Resting State/Brain Connectivity held at the Massachusetts Institute of Technology in September 2014 that received interest from a number of researchers working in this area. Although our recent Phase I Small Business Innovation Research (SBIR) proposal to the National Institute of Biomedical Imaging

and Bioengineering did not result in an award, we believe other funding opportunities exist and that the results we have achieved are significantly better than results from other organizations published in the scientific literature.

We believe our machine learning modeling engine has a wide variety of applications and we intend to pursue funding to develop customized tools based on the engine for a number of potential applications.

MedChem Designer™

MedChem Designer was launched in 2011. It was initially a molecule-drawing program, or "sketcher", but now has capabilities exceeding those of other molecule-drawing programs because of its integration with both MedChem Studio and ADMET Predictor. We provide MedChem Designer for free to our customers because we believe that in the long run it will help to increase demand for ADMET Predictor and MedChem Studio, and because most other existing molecule-drawing programs are also provided for free. Our free version includes a small set of ADMET Predictor's best-in-class property predictions, allowing the chemist to modify molecular structures and then see a few key properties very quickly. With a paid ADMET Predictor license the chemist would see the entire 145 predictions that are available. Over 14,000 copies of MedChem Designer have been downloaded by scientists around the world.

When used with a license for ADMET Predictor, MedChem Designer becomes a *de novo* molecule design tool. With it, a researcher can draw one or more new molecular structures, then click on the ADMET Predictor icon and have over 145 properties for each structure calculated in seconds, including our proprietary ADMET Risk™ index. Researchers can also click on an icon to generate the likely metabolites of a molecule and then predict all of the properties of those metabolites from ADMET Predictor, including each of their ADMET Risk scores. This is important because a metabolite of a molecule can be therapeutically beneficial (or harmful) even though the parent molecule is not.

Our proprietary ADMET Risk score provides a single number that tells the chemist how many default threshold values for various predicted properties were crossed (or violated) by each structure. The default rules can be modified and new rules can be added by the user to include any desired rule set based on any combination of calculated descriptors, predicted properties, and user inputs. Thus, in a single number, the chemist can instantly compare the effects of different structural changes in many dimensions. The ideal score is zero; however, a low score greater than zero might be acceptable, depending on what property(s) caused the points to be assigned. If the number is too high (greater than 5-6), the molecule is not likely to be successful as a drug. As chemists attempt to modify structures to improve one property, they often cause others to become unacceptable. Without ADMET Risk, the chemist would have to individually examine many key properties for each new molecule (and its metabolites) to determine whether any of them became unacceptable as a result of changing the structure.

During fiscal year 2014, we released version 3.0 of MedChem Designer, which added the ability to capture the image of a molecular structure from a variety of publication files with a new snapshot tool, and then have the program automatically convert the graphic image into any of several computer-based chemical structure files. Converting from lines and letters on the screen to an exact chemical representation of the molecule (Optical Structure Recognition, or OSR) is a complex task. Although a few OSR programs are in existence, we are not aware of any that can accurately convert as many varieties of images to chemical representation as the OSR tool within MedChem Designer. Such a capability allows chemists to quickly capture molecular structures from the scientific literature, PowerPoint® presentations, and other documents to use for various purposes, including for use in our simulation and modeling software programs.

26

MedChem Studio™

MedChem Studio is a tool that is used both for data mining and for *de novo* design of new molecules. In its data-mining role, MedChem Studio facilitates searching of large chemical libraries to find molecules that contain identified substructures, and it enables rapid generation of clusters (classes) of molecules that share common substructures from high-throughput screening (HTS) data. MedChem Studio version 4.0 was released during fiscal year 2014.

While MedChem Designer can be used to refine a small number of molecules, MedChem Studio can be used to create and screen (with ADMET Predictor) a very large number of molecules down to a few promising lead candidates. MedChem Studio has features that enable it to generate new molecular structures using a variety of *de novo* design methods. When MedChem Studio is used with ADMET Predictor and MedChem Designer (which we refer to as our ADMET Design Suite), we believe the programs provide an unmatched capability for chemists to create and search through large libraries of compounds that have undergone high-throughput-screening experiments to find the most promising classes (groups of molecules with a large common part of their structures) and molecules that are active against a particular target. In addition, MedChem Studio can take an interesting (but not acceptable) molecule and, using a variety of design algorithms, quickly generate many thousands to millions of high-quality analogs (similar new molecules). These molecules can then be screened using ADMET Predictor to find molecules that are both active against the target as well as acceptable in a variety of ADMET properties.

NCE Projects

During late 2012, we initiated a new molecule (NCE, or New Chemical Entity) design project in which we used our own products to design novel molecules and have them synthesized and tested. Our goal was to demonstrate the ability of our ADMET Design Suite to generate new lead molecules in a fraction of the time and cost normally required in the pharmaceutical industry. We have conducted two NCE design projects. In the first, we designed molecules to test against the malaria parasite *Plasmodium falciparum*, and in the other we designed molecules to test against the cyclo-oxygenase-2 (COX-2) enzyme that is the target for Celebrex®, while also inhibiting to a lesser extent the COX-1 enzyme that is the target for aspirin. Both projects were successful in that every one of the molecules we designed inhibited the malaria parasite or the COX-2/COX-1 enzymes. We believe these projects demonstrate that our ADMET Design Suite can save considerable time and money in developing new lead compounds for particular targets. We have generated revenue from new software sales that resulted from presenting our NCE project results.

KIWI™

Drug development programs rely increasingly on modeling and simulation analyses to support decision making and submissions to regulatory agencies. To ensure high-quality analyses, organizations must not only apply high-quality science, but must also be able to support the science by being able to validate the results. KIWI is a cloud-based web application that was developed by our Cognigen subsidiary to efficiently organize, process, maintain, and communicate the volume of data and results generated by pharmacologists and scientists over the duration of a drug development program. The validated workflow and tools within KIWI promote traceability and reproducibility of

results.

The pharmaceutical industry has been rapidly adopting cloud technology as a solution to ever-expanding computer processing needs. Leveraging our 20-plus years of experience in providing an architecture supporting modeling and simulation efforts, we have developed KIWI as a secure, validated, enterprise-scale environment, enabling global teams to collaborate on model-based decision making. KIWI has proven to be a valuable platform for encouraging interdisciplinary discussions about the model development process and interpretation of results. We continue to receive positive feedback about the functionality implemented in KIWI and the value of the approach we have taken to harness cloud technology. As Cognigen intends to continue to improve functionality and collaboration within the KIWI platform, the licensing fee is expected to be a source of recurring high-margin revenue for further development and growth. KIWI Version 1.3 was released in May 2015. This version of KIWI provides our user community with access to new features that accelerate completion of modeling projects by decreasing run times and facilitating the comparison and exporting of results across models. These features include dynamic comparisons of model parameter estimates and diagnostic plots, export of model run records for regulatory submissions, and accelerated infrastructure with the upgrade to the latest versions of NONMEM® and Perl-speaks-NONMEM running in a 64-bit Linux environment.

Contract Research and Consulting Services

Our employees have expertise in oral absorption and pharmacokinetics. They have been speakers or presenters at over 150 scientific meetings worldwide in the past four years. We frequently conduct contracted studies for large customers (including the five largest pharmaceutical companies) who have particularly difficult problems and who recognize our expertise in solving them, as well as for smaller customers who prefer to have studies run by our scientists rather than to license our software and train someone to use it. The demand for our consulting services has been steadily increasing, and we have expanded our Simulations Studies team to meet the increased workload. Our acquisition of Cognigen has resulted in increased demand for the consulting services of both companies.

We currently provide software to the FDA under a Research Collaboration Agreement (RCAs) that was initiated in January 2011, and we are actively working with the FDA on two other RCAs: the one for the ocular model in GastroPlus described above under "--GastroPlus," and two more described below.

Our RCA with the FDA's Center for Food Safety and Applied Nutrition (CFSAN) began in January 2011. FDA scientists are continuing to use ADMET Predictor/Modeler under this RCA to build predictive models for likely toxicities of food additives and contaminants from FDA data sets. Included early on in this effort was a special modification to ADMET Predictor requested by FDA scientists to allow the user to set a minimum value for specificity or sensitivity when building a model, and this became a standard part of the program available to all users. Sensitivity refers to how well a model identifies toxic (or any other property) compounds. A model that determined all compounds are toxic would have 100% sensitivity, because all toxic compounds would be labeled as such; however, all nontoxic compounds would also be labeled toxic. Specificity refers to how well a model distinguishes between toxic and nontoxic compounds. Increasing one usually results in decreasing the other. Depending on the purpose of the model, some scientists will prefer to train models that emphasize one statistic over the other.

During fiscal year 2014, we entered into an RCA with the FDA's Office of Generic Drugs (OGD). The objective of this RCA, which also has a five-year renewable term, is directed toward the FDA's evaluation of mechanistic IVIVCs (*in vitro-in vivo* correlations), an approach to determine whether mechanistic absorption modeling (MAM) correlates laboratory (*in vitro*) dissolution experiments with the *in vivo* behavior of dosage forms better than traditional empirical methods.

Also in fiscal year 2014, Simulations Plus was notified by the U.S. Food and Drug Administration (FDA) that the company was awarded a $200,000 cooperative agreement to develop improved modeling and simulation capabilities for dosage forms designed to be applied to the eye. The initial award provides support for the first year of the project. Funding for a second and third year of effort, at $200,000 per year, is subject to the availability of funds and satisfactory progress of the project.

Cognigen

We acquired Cognigen on September 2, 2014. Cognigen has a reputation for high-quality analyses and regulatory reporting of data collected during preclinical experiments and clinical trials of new and existing pharmaceutical products, typically working on 30-40 drug projects per year. The modeling analysis of clinical trial data that Cognigen performs is different from the modeling analysis offered by Simulations Plus; the former relies more on statistical and semi-mechanistic models, whereas the latter relies more on mechanistic models. Statistical models rely on direct observation and the mathematical equations are used to fit data collected across multiple studies along with describing the variability within and between patients taking a medicine when the mechanistic understanding of a medicine may not be fully understood. Mechanistic models are based on the detailed understanding of the human body and the chemistry of the drug and involve mathematical and scientific representation of the phenomena involved in drug dissolution/precipitation, absorption, distribution, metabolism, and elimination. Collectively, the models guide drug formulation design and dose selection.

At recent meetings held by the FDA and other regulatory agencies, such agencies emphasized an interest in bringing physiologically based pharmacokinetics (PBPK – a core strength of Simulations Plus) into clinical pharmacology (a core strength of Cognigen). We believe the combined strengths of Cognigen and Simulation Plus will uniquely position us at the forefront of model-based drug development going forward. Cognigen scientists are now using GastroPlus PBPK models frequently to support their consulting studies in addition to the more traditional NONMEM models used in clinical pharmacology.

STRATEGY

Our business strategy is to do the things we need to do to promote growth both organically (by expanding our current products and services through in-house efforts) and by acquisition. We believe in the “Built to Last” approach - that the fundamental science and technologies that underlie our business units are the keys both to improving our existing products and to expanding the product line with new products that meet our various customers’ needs. We believe the continued growth of our pharmaceutical software and services business segment is the result of steadily increasing adoption of simulation and modeling software tools across the pharmaceutical industry, as well as the expertise we offer as consultants to assist companies involved in the research and development of new medicines. We have received a continuing series of study contracts with pharmaceutical companies ranging from several of the largest in the world to a number of medium-sized and smaller companies in the U.S. and Europe.

On July 23, 2014, we signed a merger agreement with Cognigen. The merger closed on September 2, 2014, and Cognigen became our wholly owned subsidiary. We believe the combination of Simulations Plus and Cognigen provides substantial future potential based on the complementary strengths of each of the companies. It is our intent to continue to search for acquisition opportunities that are compatible with our current businesses and that are accretive, i.e., adding to both revenues and earnings.

The Company’s financial performance has enabled the Company to maintain significant cash reserves while seeking merger candidates and continuing to invest in our marketing and sales activities in order to reach a wider customer base, as well as to distribute significant cash dividends to our shareholders, buy out the former royalty agreement with TSRL related to GastroPlus, and still have sufficient reserves to close the acquisition of Cognigen Corporation in September 2014.

In the fiscal year ended August 31, 2014 we distributed $0.19 per share in dividends to our shareholders. In fiscal year 2015 we have distributed $0.05 per share in November 2014, February 2015, and May 2015. The Board of Directors will decide whether to approve the same dividend in August 2015 at its July 2015 meeting. We anticipate future dividends to be $0.05 per share per quarter; however, there can be no assurances that such dividends will be distributed, or if so, whether the amounts will be more, less, or the same as expected. Each quarter, the Board of Directors must approve each dividend distribution and may decide to increase, decrease, or eliminate dividend distributions at any time.

Results of Operations

Comparison of Three Months Ended May 31, 2015 and 2014.

The following table sets forth our condensed statements of operations (in thousands) and the percentages that such items bear to net sales (because of rounding, numbers may not foot):

	Three Months Ended			
	05/31/15		05/31/14	
Net revenues	$5,942	100.0%	$3,741	100.0%
Cost of revenues	1,115	18.8	228	6.1
Gross margin	4,827	81.2	3,513	93.9
Selling, general and administrative	1,625	27.3	1,204	32.2
Research and development	348	5.9	235	6.3
Total operating expenses	1,973	33.2	1,439	38.5
Income from operations	2,854	48.0	2,074	55.4
Other income	(32)	(0.5)	15	0.4
Income from operations before taxes	2,822	47.5	2,089	55.9
(Provision for) income taxes	(970)	(16.4)	(781)	(20.9)
Net income	$1,852	31.1 %	$1,308	35.0 %

Net Revenues

Consolidated net revenues increased by 58.9% or $2.201 million to $5.942 million in the third fiscal quarter of Fiscal Year 2015 (“3QFY15”) from $3.741 million in the third fiscal quarter of Fiscal Year 2014 (“3QFY14”). $1.401 million of this increase was from revenues generated by our newly acquired subsidiary, Cognigen Corporation. Net revenues of Simulations Plus increased $801,000 or 21.4%, to $4.541 million in 2QFY15 from $3.741 million in 3QFY14. Software sales increased by 21.8% aided by an order that carried into the current fiscal quarter of approximately $250,000 that renewed in the first week of the third quarter.

Cost of Revenues

Consolidated cost of revenues increased by $887,000 in 3QFY15 to $1.115 million from $228,000 in 3QFY14. A major portion of this increase was due to salary expenses of $485,000 added as a result of the Cognigen Acquisition. Cost of revenues for Simulations Plus increased $390,000 in 3QFY15 compared to 3QFY14. $125,000 of this increase was increased amortization expense associated with the TSRL agreement signed in May 2014 (see note 4). In addition, in 3QFY14 the company posted a $165,000 royalty benefit associated with the signing of the TSRL agreement. A significant portion of cost of revenues for pharmaceutical software products is the systematic amortization of capitalized software development costs, which is an independent fixed cost rather than a variable cost

related to revenues. This amortization cost increased approximately $48,000 or 24%, in 3QFY15 compared with 3QFY14. The increase is related to our latest releases of GastroPlus and ADMET Predictor. As a result of these changes, cost of revenues as a percentage of revenue increased from 6.1% in 3QFY14 to 18.8% in 3QFY15.

Gross Margin

Consolidated gross margin increased $1.314 million or 37.4%, to $4.827 million in 3QFY15 from $3.513 million in 3QFY14. $903,000 of this increase in gross margin is from Cognigen, which showed a 64.5% gross margin on $1.401 million in revenues. The remainder of the increase came mainly from the Simulations Plus margin on software sales.

Selling, General and Administrative Expenses

Selling, general, and administrative (SG&A) expenses increased $421,000 or 34.9%, to $1.625 million in 3QFY15 from $1.204 million in 3QFY14.

The major increases in SG&A expense were:

- Cognigen Corporation SG&A Expenses, which were $494,000 for 3QFY15. Significant expenses for Cognigen for 3QFY15 were as follows:
  - Selling expenses: $28,000
  - Amortization of customer lists and other intangibles: $37,000.
  - Depreciation Expense: $44,000.
  - Employee benefits: $82,000.
  - Software licensing: $43,000.
  - Payroll and payroll taxes: $182,000.
  - Rent: $47,000.

- Simulation Plus SG&A expenses were down $74,000 in 3QFY15 compared to 3QFY14
  - Increases:
    - Salaries: Increased $74,000 in 3QFY15, mainly due to increases in stock-based compensation, annual salary adjustments and related payroll taxes.
  - Decreases:
    - Professional fees: Legal Fees decreased by $111,000 from 3QFY14 The Company incurred substantial legal fees in the 3QFY14 associated with legal review and negotiation of the TSRL agreement and the Cognigen acquisition.
    - Selling expenses: Travel Costs: Decreased by $44,000 in 3QFY15, the result of less foreign travel compared to 3QFY14
    - Consulting Fees: decreased by $32,000. During 3QFY14 we were paying a business consultant related to our acquisition activities.

Research and Development

We incurred approximately $594,000 of research and development costs during 3QFY15. Of this amount, $246,000 was capitalized software development costs and $348,000 was expensed. In 3QFY14, we incurred $552,000 of research and development costs, of which $317,000 was capitalized software development costs and $235,000 was expensed.

Other income (expense)

Net other income (expense) in 3QFY15 decreased by $47,000 to a net expense of $32,000 from $15,000 of income in 3QFY14. This is due mainly to currency exchange losses in 3QFY15 caused by the strengthening US dollar.

Provision for Income Taxes

The provision for income taxes was $970,000 for 3QFY15 compared to $781,000 for 3QFY14. Our effective tax rate decreased to 34.4% in 3QFY15 from 37.4% in 3QFY14. The decreased rate is attributed to the effect of stock-based compensation deductions and tax credits in 3QFY15 and prior year true-up adjustments posted in 3QFY14.

Net Income

Net income increased by $544,000 or 41.6%, in 3QFY15 to $1.852 million from $1.308 million in 3QFY14. $256,000 of this increase to earnings came from our Cognigen subsidiary, with $289,000 increase from the parent.

Comparison of Nine Months Ended May 31, 2015 and 2014.

The following table sets forth our condensed statements of operations (in thousands) and the percentages that such items bear to net sales (because of rounding, numbers may not foot):

	Nine Months Ended			
	05/31/15		05/31/14	
Net revenues	$14,603	100.0%	$9,463	100.0%
Cost of revenues	3,239	22.2	1,168	12.4
Gross margin	11,364	77.8	8,295	87.6
Selling, general and administrative	5,304	36.3	3,380	35.7
Research and development	981	6.7	750	7.9
Total operating expenses	6,285	43.0	4,130	43.6
Income from operations	5,079	34.8	4,165	44.0
Other income	(65)	(0.4)	61	0.6
Income from operations before taxes	5,014	34.4	4,226	44.6
(Provision for) income taxes	(1,662)	(11.4)	(1,423)	(15.0)
Net income	$3,352	23.0 %	$2,803	29.6 %

Net Revenues

Consolidated net revenues increased by 54.3% or $5.140 million to $14.603 million in the first nine months of Fiscal Year 2015 (“9moFY15”) from $9.463 million in the first nine months of Fiscal Year 2014 (“9moFY14”). $3.807 million of this increase was from revenues generated by our newly acquired subsidiary, Cognigen Corporation. Net revenues of the Simulations Plus division increased $1.332 million or 14.1%, to $10.795 million in 9moFY15 from $9.463 million in 9moFY14. 9moFY15 software sales increased $1.055 million or 11.7% and training revenues increased $61,000 or 51% while analytical study revenues were up by $208,000 or 60% compared to 9moFY14.

Cost of Revenues

Consolidated cost of revenues increased 177% by $2.070 million to $3.239 million in 9moFY15 from $1.168 million in 9moFY14. The majority of this increase was salary expenses of $1.525 million added as a result of the Cognigen acquisition. Cost of revenues for Simulations Plus increased by $504,000 in 9moFY15 compared to 9moFY14. Of that amount, $134,000 was due to increased software amortization costs, and $82,000 was due to increased labor costs associated with increased study activities plus another $28,000 of increased technical support costs. Simulations Plus saw a decrease in royalty costs of $149,000 for the first nine months, which was offset by increased amortization cost of $450,000 related to the TSRL agreement (see note 4).

Cost of revenues as a percentage of revenue increased from 12.4% in 9moFY14 to 22.2% in 9moFY15. The majority of this percentage change is a result of the blending of lower margins on Cognigen's consulting services with Simulations Plus's higher margins that are based primarily on software license sales.

A significant portion of cost of revenues for pharmaceutical software products is the systematic amortization of capitalized software development costs, which is an independent fixed cost rather than a variable cost related to revenues. This amortization cost increased approximately $164,000 or 28% in 9moFY15 compared with 9moFY14. The increase is related to our latest releases of GastroPlus and ADMET Predictor.

Gross Margin

Consolidated gross margin increased $3.069 million or 37%, to $11.364 million in 9moFY15 from $8.295 in 9moFY14. $2.241 million of this increase in gross margin is from Cognigen, which showed a 58.9% gross margin on $3.807 million in revenues for 9moFY15. The remainder of the increase came mainly from software license sales and analytical studies.

Selling, General and Administrative Expenses

Selling, general, and administrative (SG&A) expenses increased $1.924 million, or 57% to $5.304 million in 9moFY15 from $3.380 million in 9moFY14.

The major increases in SG&A expense were:

- Cognigen Corporation SG&A Expenses, which were $1.065 million for 9moFY15. Significant expenses for Cognigen for 9moFY15 were as follows:
  - Selling expenses: $64,000.
  - Amortization of customer lists and other intangibles: $111,000.
  - Depreciation Expense: $133,000.
  - Employee benefits: $264,000.
  - Software licensing: $126,000.
  - Payroll and payroll taxes: $574,000.
  - Rent - $141,000.

- Simulation Plus-Overall SG&A costs were up $366,000 in 9moFY15 compared to 9moFY14
  - Increases:

§ Consulting Fees: Fees were up $319,000 for 9moFY15 compare to 9moFY14. We paid $398,000 in one-time fees and expenses to our financial advisor/business broker related to the Cognigen acquisition. That one-time expense represented 2.7% of revenues and 7.5% of the SG&A costs for the period ended 9moFY15.

§ Commission expense: We incurred commissions to our Japanese and Chinese dealers as they increased their sales. Commissions were up by $62,000.

§ Employee benefits: increased by $37,000 due to increased medical insurance costs and higher 401K costs on increased salaries.

§ Payroll and payroll taxes: increased $127,000 due to annual salary increases and an increase in administrative time associated with the Cognigen integration.

  - Decreases:

- Legal fees: We paid $13,000 in one-time legal fees during 9moFY15 to complete the activities related to the Cognigen acquisition; however, overall legal fees for 9moFY15 vs 9moFY14 decreased by $145,000. In 2014, we incurred legal fees associated with the buyout of the TSRL agreement (See Note 4), the review of proxy issues, and legal issues associated with the amendment of the Company's 2007 Stock Option Plan , and the Cognigen acquisition.
- Bonus Expense was $48,000 less in 9moFY15 compared to 8moFY14 due to a change in executive officer agreements and the timing of the 2014 bonus.

Research and Development

We incurred approximately $1.957 million of research and development costs during 9moFY15. Of this amount, $976,000 was capitalized software development costs and $981,000 was expensed. In 9moFY14 we incurred $1.803 million of research and development costs, of which $1.052 million was capitalized software development costs and $750,000 was expensed.

Other income (expense)

Net other income (expense) in 9moFY15 decreased by $126,000 to a net expense of $65,000 from an income of $61,000 in 9moFY14. This is due mainly to currency exchange losses in 9moFY15 due to currency fluctuations caused by the strengthening US dollar.

Provision for Income Taxes

The provision for income taxes was $1.662 million for 9moFY15 compared to $1.423 million for 9moFY14. Our effective tax rate decreased to 33.1% in 9moFY15 from 33.7% in 9moFY14.

Net Income

Net income increased by $549,000, or 19.6%, to $3.352 million in 9moFY15 from $2.803 million in 9moFY14. As discussed above, we incurred one-time consulting costs associated with the Cognigen acquisition of $400,000. Without those one-time costs, net income would have increased by approximately another $280,000 to $3.632 million, an increase of 30% over 9moFY14.

Liquidity and Capital Resources

Our principal sources of capital have been cash flows from our operations. We have achieved continuous positive operating cash flow over the last eight fiscal years. We believe that our existing capital and anticipated funds from operations will be sufficient to meet our anticipated cash needs for working capital and capital expenditures for the foreseeable future. Thereafter, if cash generated from operations is insufficient to satisfy our capital requirements, we may open a revolving line of credit with a bank, or we may have to sell additional equity or debt securities or obtain expanded credit facilities. In the event such financing is needed in the future, there can be no assurance that such financing will be available to us, or, if available, that it will be in amounts and on terms acceptable to us. If cash flows from operations became insufficient to continue operations at the current level, and if no additional financing was obtained, then management would restructure the Company in a way to preserve its pharmaceutical business while maintaining expenses within operating cash flows.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our risk from exposure to financial markets is limited to foreign exchange variances and fluctuations in interest rates. We may be subject to some foreign exchange risks. Most of our business transactions are in U.S. dollars, although we generate significant revenues from customers overseas. The exception is that we have been compensated in Japanese yen by Japanese customers and PRC Yuan by Chinese customers. We adjusted our prices for Japan in April to offset some of the effect of the exchange rate. In the future, if foreign currency transactions increase significantly, then we may mitigate this effect through price adjustments and/or foreign currency forward contracts whose market-to-market gains or losses are recorded in "Other Income or expense" at the time of the transaction. To date, exchange rate exposure has not resulted in a material impact.

Item 4. Controls and Procedures

We are responsible for maintaining disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Disclosure controls and procedures are controls and other procedures designed to ensure that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Based on management's evaluation (with the participation of our chief executive officer and chief financial officer) of our disclosure controls and procedures as required by Rule 13a-15 under the Exchange Act, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were effective.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal controls over financial reporting, as defined in Exchange Act Rule 13a-15(f). Our internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of condensed financial statements for external purposes in accordance with generally accepted accounting principles.

No changes were made in our internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during our most recent fiscal quarter that have materially affected or are reasonably likely to materially affect, our internal controls over financial reporting.

Our management, including our CEO, president, and CFO, does not expect that our disclosure controls or internal controls over financial reporting will prevent all errors or all instances of fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The

design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and any design may not succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. Because of the inherent limitation of a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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.

Item 1A. Risk Factors
Not applicable.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
None.

Item 3. Defaults Upon Senior Securities
None.

Item 4. Mine Safety Disclosures
None.

Item 5. Other Information
None.

Item 6. Exhibits

EXHIBIT NUMBER	DESCRIPTION
2.1	Agreement and Plan of Merger, dated July 23, 2014, by and among the Company, Cognigen Corporation and the other parties thereto. (13)^
3.1	Articles of Incorporation of the Company. (5)
3.2	Amended and Restated Bylaws of the Company. (5)
4.1	Articles of Incorporation of the Company. (incorporated by reference to Exhibit 3.1 hereof)
4.2	Amended and Restated Bylaws of the Company. (incorporated by reference to Exhibit 3.2 hereof)
4.3	Form of Common Stock Certificate (1)
4.4	Share Exchange Agreement (1)
10.1	The Company's 1996 Stock Option Plan and forms of agreements relating thereto (1) (†)
10.2(a)	Exclusive License Software Agreement by and between the Company and Therapeutic Systems Research Laboratories dated June 30, 1997. (2)
10.2(b)	Termination and Non-Assertion Agreement entered into on May 15, 2014 by and between the Company and TSRL, Inc. (11)
10.3(a)	The Company's 2007 Stock Option Plan. (3) (†)
10.3(b)	The Company's 2007 Stock Option Plan as amended as of December 6, 2013. (10) (†)
10.4(a)	Lease dated May 12, 2005 by and between Freeway Ventures, LLC and the Company. (6)
10.4(b)	Notice of Election to Extend Term of Lease by and between the Company and Crest Development LLC (formerly Freeway Ventures LLC) dated July 29, 2010.(4)
10.4(c)	One Amendment to Lease by and between the Company and Crest Development LLC entered into as May 23, 2013. (8)
10.5	Stock Purchase Agreement by and among the Company, Words+, Inc., and Prentke Romich Company dated November 15, 2011. (7)
10.6	Employment Agreement by and between the Company and Walter S. Woltosz, dated as of July 22, 2011. (5) (†)
10.7	Employment Agreement by and between the Company and Walter S. Woltosz, dated as of August 22, 2013. (9) (†)
10.8	Employment Agreement by and between the Company and Walter S. Woltosz, dated as of August 28, 2014. (12) (†)
10.9	Employment Agreement by and between the Company and Thaddeus H Grasela Jr. dated as of September 2, 2014. (12) (†)
31.1	Section 302 – Certification of the Principal Executive Officer*
31.2	Section 302 – Certification of the Principal Financial Officer*
32.1	Section 906 – Certification of the Chief Executive Office and Chief Financial Officer**
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

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^ Schedules and exhibits omitted pursuant to Item 601(b)(2) of Registration S-K. The registrant agrees to furnish supplementally a copy of any omitted schedule to the SEC upon request.

* Filed herewith

** Furnished herewith

(1) Incorporated by reference to the Company's Registration Statement on Form SB-2 (Registration No. 333-6680) filed on March 25, 1997.

(2) Incorporated by reference to the Company's Form 10-KSB for the fiscal year ended August 31, 1997.

(3) Incorporated by reference to the Company's Form 10-K for the fiscal year ended August 31, 2009.

(4) Incorporated by reference to the Company's Form 10-K for the fiscal year ended August 31, 2010.

(5) Incorporated by reference to the Company's Form 10-K for the fiscal year ended August 31, 2011.

(6) Incorporated by reference to the Company's Form 10-KSB for the fiscal year ended August 31, 2006.

(7) Incorporated by reference to the Company's Form 8-K filed November 16, 2011.
(8) Incorporated by reference to the Company's Form 10-Q filed July 10, 2013.

(9) Incorporated by reference to the Company's Form 10-K filed November 18, 2013.

(10) Incorporated by reference to the Company's Form 10-Q filed April 9, 2014.

(11) Incorporated by reference to the Company's Form 8-K filed May 19, 2014.

(12) Incorporated by reference to the Company's Form 8-K filed September 4, 2014.

(13) Incorporated by reference to the Company's Form 8-K/A filed November 18, 2014.

SIGNATURE

In accordance with Section 13 or 15 (d) of the Securities Exchange Act of 1934, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Lancaster, State of California, on July 14, 2015.

Simulations Plus, Inc.

Date: July 14, 2015 By:*/s/ John R. Kneisel*
John R. Kneisel
Chief Financial Officer