SIMULATIONS PLUS INC
Form 10QSB
July 02, 2007

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-QSB

[x] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended May 31, 2007 or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1937

For the transition period from _________ to _________

Commission file number: 333-142882

SIMULATIONS PLUS, INC.
(Name of small business issuer 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
(Issuer's telephone number, including area code)

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No

The number of shares outstanding of the Issuer's common stock, par value $0.001 per share, as of June 29, 2007, was 7,848,200.

SIMULATIONS PLUS, INC.
FORM 10-QSB
FOR THE QUARTERLY PERIOD ENDED MAY 31, 2007

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PART I. FINANCIAL INFORMATION

SIMULATIONS PLUS, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET
at May 31, 2007
(Unaudited)

ASSETS

CURRENT ASSETS	
Cash and cash equivalents	$3,038,178
Accounts receivable, net of allowance for doubtful accounts and estimated contractual discounts of $57,233	2,864,436
Contracts receivable, net of discounts of $360	92,020
Inventory	260,568
Prepaid expenses and other current assets	47,082
Current portion of deferred tax	190,034

Total current assets	6,492,318
CAPITALIZED COMPUTER SOFTWARE DEVELOPMENT COSTS, net of accumulated amortization of $2,751,515	1,447,448
PROPERTY AND EQUIPMENT, net of accumulated amortization of $540,625 (Note 3)	102,922
CUSTOMER RELATIONSHIPS, net of accumulated amortization of $51,990	76,052
DEFERRED TAX	480,800
OTHER ASSETS	18,445
TOTAL ASSETS	$8,617,985

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

SIMULATIONS PLUS, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET
at May 31, 2007
(Unaudited)

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES	
Accounts payable	$ 88,738
Accrued payroll and other expenses	505,861
Accrued bonuses to officers	165,949
Accrued warranty and service costs	39,626
Current portion of deferred revenue	73,333
Total current liabilities	873,507
DEFERRED REVENUE	62,501
Total liabilities	936,008
COMMITMENTS AND CONTINGENCIES (Note 4)	--
SHAREHOLDERS' EQUITY (Note 5)	
Preferred stock, $0.001 par value 10,000,000 shares authorized no shares issued and outstanding	--
Common stock, $0.001 par value 20,000,000 shares authorized 7,845,150 shares issued and outstanding	4,197
Additional paid-in capital	5,763,960
Retained Earnings	1,913,820
Total shareholders' equity	7,681,977
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$8,617,985

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

SIMULATIONS PLUS, INC
CONSOLIDATED STATEMEN
for the three and nine mont

	Three months ended		Nine
	2007	2006	2007
NET SALES	$ 2,631,225	$ 1,788,284	$ 6,621,51
COST OF SALES	550,786	433,496	1,549,32
GROSS PROFIT	2,080,439	1,354,788	5,072,18
OPERATING EXPENSES			
Selling, general, and administrative	885,352	795,547	2,578,24
Research and development	226,749	118,707	626,80
Total operating expenses	1,112,101	914,254	3,205,05
INCOME (LOSS) FROM OPERATIONS	968,338	440,534	1,867,13
OTHER INCOME (EXPENSE)			
Interest income	35,377	4,447	76,18
Miscellaneous income	25	58	38
Interest expense	(4)	(40)	(
Gain on sale of assets	--	4,613	3,10
Gain on currency exchange	(798)	10,076	6,22
Total other income (expense)	34,600	19,154	85,89
INCOME BEFORE BENEFIT FROM (PROVISION FOR) INCOME TAXES	1,002,938	459,688	1,953,02
BENEFIT FROM (PROVISION FOR) INCOME TAXES			
Provision for income tax	(220,646)	(73,550)	(429,66
Change in valuation allowance	--	--	-
Total benefit from (provision for) income taxes	(220,646)	(73,550)	(429,66

NET INCOME	$ 782,292	$ 386,138	$ 1,523,36
BASIC EARNINGS PER SHARE	$ 0.10	$ 0.05	$ 0.2
Diluted earnings per share	$ 0.09	$ 0.05	$ 0.1
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING			
BASIC	7,718,180	7,391,542	7,561,62
DILUTED	9,180,629	8,226,066	8,893,88

* The number of shares at May 31, 2006 have been retroactively restated to reflect a 2-for-1 stock split that occurred on August 14, 2006.

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

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SIMULATIONS PLUS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
for the nine months ended May 31,
(Unaudited)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 1,523,363	$ 436,070
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization of property and equipment	37,588	33,829
Amortization of customer relationships	24,312	18,826
Amortization of capitalized software development costs	323,788	202,022
Bad debt expense	48,000	--
Stock-based compensation	13,248	--
Contribution of Equipment at book value	774	--
(Gain) on sale of assets	(3,102)	(7,739)
(Increase) decrease in		
Accounts receivable	(1,184,510)	(320,658)
Inventory	(23,520)	49,530
Deferred tax	429,666	83,061
Other assets	34,214	17,925
Increase (decrease) in		
Accounts payable	(126,680)	68,369
Accrued payroll and other expenses	140,949	(88,911)
Accrued bonuses to officers	67,196	19,001
Accrued income taxes	(1,600)	(1,600)
Accrued warranty and service costs	4,874	4,724

Deferred revenue	6,373	(67,687)
Net cash provided by operating activities	1,314,933	446,762
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(46,273)	(51,979)
Purchase of Bioreason's assets	--	(826,192)
Proceeds from sale of assets	4,475	15,425
Capitalized computer software development costs	(396,794)	(341,957)
Net cash used in investing activities	(438,592)	(1,204,703)

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

SIMULATIONS PLUS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
for the nine months ended May 31,
(Unaudited)

CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the exercise of stock options	476,801	103,081
Net cash provided by financing activities	476,801	103,081
Net increase (decrease) in cash and cash equivalents	$ 1,353,142	$ (654,860)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,685,036	1,754,042
CASH AND CASH EQUIVALENTS, END OF QUARTER	$ 3,038,178	$ 1,099,182
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
INTEREST PAID	$ 4	$ 40
INCOME TAXES PAID	$ 1,600	$ 1,600

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

SIMULATIONS PLUS, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS
(Unaudited)

Note 1: GENERAL

As contemplated by the Securities and Exchange Commission under Item 310(b) of Regulation S-B, the accompanying financial statements and footnotes have been condensed and therefore do not contain all disclosures required by generally accepted accounting principles. The interim financial data are unaudited; however, in the opinion of Simulations Plus, Inc. ("we", "our", "us"), the interim data includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the interim periods. Results for interim periods are not necessarily indicative of those to be expected for the full year.

Note 2: SIGNIFICANT ACCOUNTING POLICIES

Estimates

Our 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 software development costs, and accounting for income taxes.

Principles of Consolidation

The consolidated financial statements include the accounts of Simulations Plus, Inc. and its wholly owned subsidiary, Words+, Inc. All significant intercompany accounts and transactions are eliminated in consolidation.

Revenue Recognition

We recognize revenue related to software licenses and software maintenance in accordance with the American Institute of Certified Public Accountants ("AICPA") Statements of Position (SOP) No. 97-2, "Software Revenue Recognition." Product revenue is recorded at the time of unlocking the software on the customer's computer(s), net of estimated allowances and returns. Post-contract customer support ("PCS") obligations are insignificant; therefore, revenue for PCS is recognized at the same time, and the costs of providing such support services are accrued and amortized over the obligation period.

As a by-product of ongoing improvements and upgrades for our software, some modifications are provided to customers who have already licensed software at no additional charge. We consider these modifications to be minimal, as they are not changing the basic functionality or utility of the software, but rather adding convenience, such as being able to plot some additional variable on a graph in addition to the numerous variables that had been available before. Such software modifications for any single product have been typically once or twice per year, sometimes more, sometimes less. Thus, they are infrequent. We provide, for a fee, additional training and service calls to our customers and recognize revenue at the time the training or service call is provided.

We enter into one-year license agreements with most of our customers for the use of our pharmaceutical software products. However, from time to time, we enter into multi-year license agreements. We now unlock and invoice software one year at a time for multi-year licenses. Therefore, revenue is now recognized one year at a time. This eliminates the extreme variability in our reported revenues and earnings that we experienced in the past caused by booking multi-year license revenues up front.

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 maintain an allowance for doubtful accounts for estimated losses that may arise if any of our customers are unable to make required payments. We specifically analyze the age of customer balances, historical bad debt experience, customer credit-worthiness, and changes in customer payment terms when making estimates of the uncollectability of our trade accounts receivable balances. If we determine that the financial conditions of any of our 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.

Our long-term receivables are discounted at the present value. The discount is amortized over the life of the receivable and recognized as interest income. The balance as of May 31, 2007 represents Contract receivables which were purchased as a part of Bioreason's assets in November 2005.

Inventory

Inventory is stated at the lower of cost (first-in, first-out basis) or market and consists primarily of computers and peripheral computer equipment.

Capitalized Computer Software Development Costs

Software development costs are capitalized in accordance with SFAS No. 86, "Accounting for the Cost of Computer Software to be Sold, Leased, or otherwise 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 provided on a product-by-product basis on the straight-line method over the estimated economic life of the products (not to exceed five years). Amortization of software development costs amounted to $323,788 and $202,022 for the nine months ended

May 31, 2007 and 2006, respectively. We expect future amortization expense to vary due to increases in capitalized computer software development costs.

We test capitalized computer software costs for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable within a reasonable time. As a result, we have written off $1,763 during the nine months ended May 31, 2007.

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	5 years

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

Fair Value of Financial Instruments

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

Shipping and Handling

Shipping and handling costs, recorded as cost of sales, amounted to $77,565 and $64,026 for the nine months ended May 31, 2007 and 2006, respectively.

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 which was developed by other companies and incorporated into, or used in the development of, our final products.

Income Taxes

The Company utilizes SFAS No. 109, "Accounting for Income Taxes," which requires the recognition of deferred tax assets and liabilities for 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.

At the end of fiscal year 2006, we recorded $1,100,500 in deferred tax assets. For the first nine months of fiscal year 2007, we recorded a provision for deferred taxes in the amount of $429,666, resulting in a deferred tax asset of $670,834 at May 31, 2007. The evaluation of the deferred tax assets is based on our history of generating taxable profits and our projections of future profits as well as expected future tax rates to determine if the realization of the deferred tax asset is more-likely-than-not. Significant judgment is required in these evaluations, and differences in future results from our estimates could result in material differences in the realization of these assets.

Principles of Consolidation

The consolidated financial statements include the accounts of Simulations Plus, Inc. and its wholly owned subsidiary, Words+, Inc. All significant intercompany accounts and transactions are eliminated in consolidation.

Customer relationships

The Company purchased customer relationships as a part of the acquisition of certain assets of Bioreason, Inc. in November 2005. Customer relationships was recorded at a cost of $128,042, and is being amortized over 78 months under the sum-of-the-years'-digits method. Amortization expense for the nine months ended and accumulated amortization as of May 31, 2007 and 2006 amounted to $24,312 and $18,826, respectively.

Earnings per Share

The Company reports earnings per share in accordance with SFAS No. 128, "Earnings per Share." Basic earnings per share is computed by dividing income available to common shareholders by the weighted-average number of common shares available. Diluted earnings per share is computed similar to basic earnings per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. The components of basic and diluted earnings per share for the nine months ended May 31, 2007 and 2006 were as follows (the number of shares at 5/31/2006 reflects the effect of a 2-for-1 stock split for comparison purposes):

	05/31/2007	05/31/2006
Numerator		
Net income attributable to common shareholders	$1,523,363	$ 436,070
Denominator		
Weighted-average number of common shares outstanding during the year	7,561,624	7,344,018
Dilutive effect of stock options	1,332,258	760,942
Common stock and common stock equivalents used for diluted earning per share	8,893,882	8,104,960

Stock-Based Compensation

Prior to September 1, 2006, we accounted for employee stock options grants in accordance with APB No. 25, and adopted the disclosure-only provision of SFAS No. 123, "Accounting for Stock-Based Compensation."

In December 2004, the FASB issued Statement of Accounting Standard No. 123R, "Share-Based Payment", a revision of SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS 123R supersedes APB Opinion No. 25, and requires all companies to measure compensation expense for all share-based payments, including employee stock options, based upon the fair value of the stock-based awards at the date of grant. SFAS 123R is effective for the Company for Fiscal Year 2007, beginning September 1, 2006. Subsequent to the effective date, the pro forma disclosures previously permitted under SFAS No. 123 are no longer an alternative to financial statement recognition.

Effective September 1, 2006, we adopted SFAS No. 123R using the modified prospective method. Under this method, compensation cost recognized during the nine months ended May 31, 2007 includes: (1) compensation cost for all share-based payments granted prior to, but not yet vested as of September 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123 amortized over the options' vesting period, and (2) compensation cost for all share-based payments granted subsequent to September 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123R amortized on a straight-line basis over the options' vesting period. As a result of adopting SFAS No. 123R on September 1, 2006, our stock-based compensation was $13,248 for the nine months ended May 31, 2007, and included in the condensed consolidated statements of operations as Consulting, and Research and development expense.

The table below represents our pro forma net income giving effect to the estimated compensation expense related to stock options that would have been reported if we had applied the fair value recognition provisions of SFAS No. 123 for the nine months ended May 31, 2006.

	Nine months Ended May 31, 2006
Net income (loss)	
As reported	$ 436,070
Stock based employee compensation cost, net of related tax effects, that would have been included in the determination of net income if the fair value method had been applied	(98,056)
Pro forma net income (loss)	$ 338,014
Earnings (loss) per common share	
Basic - as reported	$ 0.06
Basic - Pro forma	$ 0.05
Diluted - as reported	$ 0.05
Diluted - Pro forma	$ 0.04

For the nine months ended May 31, 2007, the stock-based employee compensation expense using the fair value recognition method under SFAS No. 123R is included in the condensed consolidated statements of operations. Therefore, it is not presented in the pro forma table above.

Concentrations and Uncertainties

International sales accounted for 38% and 37% of net sales for the nine months ended May 31, 2007 and 2006, respectively. For Simulations Plus, Inc., two customers accounted for 14% and 9% of net sales during the nine months ended May 31, 2007, and for Words+, Inc., one government agency accounted for 23%, and one customer accounted 14% of net sales during the nine months ended May 31, 2007.

The Company operates in the computer software industry, which is highly competitive and changes rapidly. The Company's operating results could be significantly affected by its ability to develop new products and find new distribution channels for new and existing products.

For Simulations Plus, three customers comprised 18%, 16%, and 15% of its accounts receivable at May 31, 2007, and four customers comprised 29%, 22%, 16% and 12% of accounts receivable at May 31, 2006. For Words+, one government agency comprised 37% and 23% of its accounts receivable at May 31, 2007 and 2006, respectively.

The Company's subsidiary, Words+, Inc., purchases components for its main computer products from three manufacturers. Words+, Inc. also uses a number of pictographic symbols that are used in its software products which are licensed from a third party. The inability of the Company to obtain computers used in its products or to renew its licensing agreement to use pictographic symbols could negatively impact the Company's financial position, results of operations, and cash flows.

Recently Issued Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board ("FSAB) issued FASB interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109" ("FIN 48"), which clarifies the accounting for uncertainty in income tax positions. The provisions of FIN 48 are effective for the Company on September 1, 2007, with the cumulative effect of the change in accounting principle, if any, recorded as an adjustment to opening retained earnings. We are currently evaluating the impact of adopting FIN 48; however we believe that adoption of FIN 48 will not have a material impact on our consolidated financial statement.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R), ("SFAS 158"), which requires the recognition of the overfunded or underfunded status of a defined benefit postretirement plan in a company's balance sheet. This portion of the new guidance is effective on December 31, 2006. Additionally, the pronouncement eliminates the option for companies to use a measurement date prior to their fiscal year-end effective December 31, 2008. Since we do not have any defined benefit pension or postretirement plans that are subject to SFAS 158, we do not expect the pronouncement to have a material impact on our consolidated financial statements.

In September 2006, The Securities and Exchange Commission ("SEC") released Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"). SAB 108 provides interpretive guidance on the SEC's views on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement.

The provisions of SAB 108 will be effective for the Company for the fiscal year ended August 2007. We are currently evaluating the impact of applying SAB 108; however, we believe that the application of SAB 108 will not have a material effect on our consolidated financial statements.

Note 3: PROPERTY AND EQUIPMENT

Furniture and equipment as of May 31, 2007 consisted of the following:

Equipment	$ 164,140
Computer equipment	342,242
Furniture and fixtures	61,498
Automobile	21,769
Leasehold improvements	53,898
Sub total	643,547
Less: Accumulated depreciation and amortization	(540,625)
Net Book Value	102,922

Note 4: COMMITMENTS AND CONTINGENCIES

Employee Agreement

On August 9, 2005, the Company entered into an employment agreement with its President/CEO that expires in August 2007. The employment agreement provides for an annual salary of $172,000 and an annual bonus equal to 5% of the Company's net income before taxes, not to exceed $150,000. The agreement also provides that 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.

Litigation

On April 6, 2006 we received notice from a liquidator for the former French subsidiary of Bioreason (Bioreason SARL), saying that the liquidator had initiated legal action against Simulations Plus in the French courts with respect to ClassPharmer distribution rights to European customers, and is claiming commissions and legal fees with respect to European customers. We have been working through our U.S. attorneys and a law firm in Paris. We have filed a counterclaim for our rights and lost sales against Bioreason SARL's assets by sending a debt recovery declaration to the liquidator on June 15, 2006.

On May 23, 2007, we received an e-mail from our French Lawyer that we had received a proposal for an amicable settlement, in which we would give up our claims if Bioreason SARL would agree to waive any claims against Simulations Plus. This proposal was accepted by phone by the lawyer of Bioreason SARL, and now we have signed the agreement which will be submitted to French court. We expect the final resolution of this issue in August 2007.

Note 5: STOCKHOLDERS' EQUITY

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 250,000 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 500,000. In February 2000, the shareholders approved an increase in the number of shares that may be granted under the Option Plan to 1,000,000. In December 2000, the shareholders approved an increase in the number of shares that may be granted under the Option Plan to 1,250,000. Furthermore, in February 2005, the shareholders approved additional 250,000 shares, resulting to the total number of shares that may be granted under the Option Plan to 1,500,000. All of the preceding numbers of options are based on numbers of options prior to the two-for-one stock split on August 14, 2006. 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 Options Plan under which a total of 500,000 shares of common stock had been reserved for issuance.

All of the following numbers of options are based on numbers of options after the two-for-one stock split on August 14, 2006. On August 18, 2006, the Company accelerated the vesting of stock options previously awarded for which the underlying shares are registered, excluding 500,000 options for shares of unregistered stock. As a result, Options to purchase approximately 505,000 shares of common stock were accelerated, representing approximately 25% of all outstanding options. The Company's decision for this acceleration was to eliminate future compensation expense that the Company would otherwise recognize with respect to these options following the Company's adoption of SFAS 123(R), Share-Based Payment. The Company adopted FAS No. 123(R) on September 1, 2006, which is the beginning of the Company's 2007 fiscal year.

The following summarized the stock option transactions.

	Number of Options	Weighted-Average Exercise Price Per Share
Outstanding, August 31, 2006	2,040,072	$ 1.33
Granted	100,000	$ 2.15
Exercised	(403,654)	$ 1.21
Expired/Canceled	(96,000)	$ 2.15
Outstanding, May 31, 2007	1,640,418	$ 1.37
Exercisable, May 31, 2007	1,555,418	$ 1.35

Options Outstanding & Unvested at May 31, 2007

	Number Outstanding	Remaining Contractual Life (in years)	Weighted Average Fair Market Price
Non Vested before 9/1/2006	100,000		$ 1.70
Granted	100,000		$ 2.15
Vested	(20,000)		$ 1.70

Cancelled	(95,000)		$ 2.15
Non Vested at 05/31/2007	85,000	8.37	$ 1.72

The fair value of the options granted during the nine months ended May 31, 2007 is estimated at $81,860, of which 95% has been cancelled, reducing this figure to $4,093. The fair value of these options was estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions for the nine months ended May 31, 2007: dividend yield of 0%, expected volatility of 11%, risk-free interest rate of 4.72%, and expected life of ten years. The weighted-average fair value of options granted during the first fiscal quarter of FY07 was $0.82, and the weighted-average exercise price was $2.15.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which do not have vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

The weighted-average remaining contractual life of options outstanding issued under the Plan was 4.6 years at May 31, 2007. The exercise prices for the options outstanding at May 31, 2007 ranged from $0.53 to $2.48, and the information relating to these options is as follows:

Exercise Price	Stock Options Outstanding	Stock Options Exercisable	Weighted-Average Remaining Contractual Life of Options Outstanding	Weighted-Av Exercise Price of Options Outstandin
$0.53 - 1.00	616,768	616,768	3.2 years	$ 0.74
$1.00 - 1.50	517,600	517,600	2.7 years	$ 1.34
$1.50 - 2.50	506,050	421,050	8.3 years	$ 2.18
	1,640,418	1,555,418		

Other Stock Options

As of May 31, 2007, the independent members of the Board of Directors hold options to purchase 22,412 shares of common stock at exercise prices ranging from $0.60 to $2.63, which options were granted on or before August 31, 2006.

	Number of Options	Weighted average exercise price
Options Outstanding	22,412	$ 1.28

Options exercisable	18,412	$ 1.07

Note 6: SEGMENT AND GEOGRAPHIC REPORTING

We account for segments and geographic revenues in accordance with SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information." 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 nine months ended May 31, 2007 and 2006:

May 31, 2007

	Simulations Plus, Inc	Words +, Inc.	Eliminations
Net Sales	4,291,027	2,330,485	
Income (loss) from operations	1,731,961	135,172	
Identifiable assets	8,338,880	2,061,402	(1,782,297)
Capital expenditures	15,709	30,564	
Depreciation and Amortization	15,003	23,564	

May 31, 2006

	Simulations Plus, Inc	Words +, Inc.	Eliminations
Net Sales	2,179,379	1,909,511	
Income (loss) from operations	328,600	160,448	
Identifiable assets	6,166,713	1,599,912	(1,732,718)
Capital expenditures	33,090	23,890	
Depreciation and Amortization	10,439	23,390	

In addition, the Company allocates revenues to geographic areas based on the locations of its customers. Geographical revenues for the nine months ended May 31, 2007 and 2006 were as follows (in thousands):

May 31, 2007

	North America	Europe	Asia	Oceania	South America
Simulations Plus, Inc.	2,182	1,341	767	-0-	1
Words+, Inc.	1,904	380	28	17	2

Total	4,086	1,721	795	17	3

May 31, 2006

	North America	Europe	Asia	Oceania	South America
Simulations Plus, Inc.	1,089	581	510	-0-	-0-
Words+, Inc.	1,631	215	37	17	9
Total	2,720	796	547	17	9

Note 7: EMPLOYEE BENEFIT PLAN

We maintain a 401(K) Plan for all eligible employees. 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. Contributions by the Company to this Plan amounted to $45,874 and $35,482 for the nine months ended May 31, 2007 and 2006, respectively.

Note 8: SUBSEQUENT EVENT

Since May 1, 2007, an additional 3,050 stock options to purchase shares have been exercised by employees that generated $1,123 in the proceeds.

On April 6, 2006 we received notice from a liquidator for the former French subsidiary of Bioreason (Bioreason SARL), saying that the liquidator had initiated legal action against Simulations Plus in the French courts with respect to ClassPharmer distribution rights to European customers, and is claiming commissions and legal fees with respect to European customers. We have been working through our U.S. attorneys and a law firm in Paris. We have filed a counterclaim for our rights and lost sales against Bioreason SARL's assets by sending a debt recovery declaration to the liquidator on June 15, 2006.

On May 23, we received an e-mail from our French Lawyer that we had received a proposal for an amicable settlement, in which we would give up our claims if Bioreason SARL would agree to waive any claims against Simulations Plus. This proposal was accepted by phone by the lawyer of Bioreason SARL, and now we have signed the agreement which will be submitted to French court. We expect the final resolution of this issue in August 2007.

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

FORWARD-LOOKING STATEMENTS

CERTAIN STATEMENTS IN THIS QUARTERLY REPORT ON FORM 10-QSB, OR THE "REPORT," ARE "FORWARD-LOOKING STATEMENTS." THESE FORWARD-LOOKING STATEMENTS INCLUDE, BUT ARE

NOT LIMITED TO, STATEMENTS ABOUT THE PLANS, OBJECTIVES, EXPECTATIONS AND INTENTIONS OF SIMULATIONS PLUS, INC., A CALIFORNIA CORPORATION (REFERRED TO IN THIS REPORT AS THE "COMPANY") AND OTHER STATEMENTS CONTAINED IN THIS REPORT THAT ARE NOT HISTORICAL FACTS. FORWARD-LOOKING STATEMENTS IN THIS REPORT OR HEREAFTER INCLUDED IN OTHER PUBLICLY AVAILABLE DOCUMENTS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION, OR THE "COMMISSION," REPORTS TO OUR STOCKHOLDERS AND OTHER PUBLICLY AVAILABLE STATEMENTS ISSUED OR RELEASED BY US INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH COULD CAUSE OUR ACTUAL RESULTS, PERFORMANCE (FINANCIAL OR OPERATING) OR ACHIEVEMENTS TO DIFFER FROM THE FUTURE RESULTS, PERFORMANCE (FINANCIAL OR OPERATING) OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. SUCH FUTURE RESULTS ARE BASED UPON MANAGEMENT'S BEST ESTIMATES BASED UPON CURRENT CONDITIONS AND THE MOST RECENT RESULTS OF OPERATIONS. WHEN USED IN THIS REPORT, THE WORDS "EXPECT," "ANTICIPATE," "INTEND," "PLAN," "BELIEVE," "SEEK," "ESTIMATE" AND SIMILAR EXPRESSIONS ARE GENERALLY INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS, BECAUSE THESE FORWARD-LOOKING STATEMENTS INVOLVE RISKS AND UNCERTAINTIES. THERE ARE IMPORTANT FACTORS THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE EXPRESSED OR IMPLIED BY THESE FORWARD-LOOKING STATEMENTS, INCLUDING OUR PLANS, OBJECTIVES, EXPECTATIONS AND INTENTIONS AND OTHER FACTORS.

GENERAL

BUSINESS

Simulations Plus, Inc. (the "Company" or "Simulations Plus", or "we" or "our") and its wholly owned subsidiary, Words+, Inc. ("Words+") produce different types of products: (1) Simulations Plus, incorporated in 1996, develops and produces software for use in pharmaceutical research and for education, and also provides contract research services to the pharmaceutical industry, and (2) Words+, founded in 1981, produces computer software and specialized hardware for use by persons with disabilities, as well as a personal productivity software program called Abbreviate! for the retail market. For the purposes of this document, we sometimes refer to the two businesses as "Simulations Plus" when referring to the business that is primarily pharmaceutical software and services, and "Words+" when referring to the business that is primarily assistive technologies for persons with disabilities.

SIMULATIONS PLUS

PRODUCTS

We currently offer four software products for pharmaceutical research: ADMET Predictor(TM), ClassPharmer(TM), DDDPlus(TM), and GastroPlus(TM).

ADMET PREDICTOR

ADMET (Absorption, Distribution, Metabolism and Excretion and Toxicity) Predictor consists of a library of statistically significant numerical models that predict various properties of chemical compounds from just their molecular structures. This capability means a chemist can merely draw a molecule diagram and get estimates of these properties, even though the molecule has never existed. Drug companies search through millions of such "virtual" molecular structures as they attempt to find new drugs. The vast majority of these molecules are not suitable as medicines for various reasons. Some have such low solubility that they will not dissolve well, some have such low permeability through the intestinal wall that they will not be absorbed well, some degrade so quickly that they are not stable enough to have a useful shelf life, some bind to proteins (like albumin) in blood to such a high extent that little unbound drug is available to reach the target, and some will be toxic in various ways. Identification of such properties as early as possible enables researchers to eliminate poor compounds without spending time and money to make them and then run experiments to identify these weaknesses. Today, many molecules can be eliminated on the basis of computer predictions, such as those provided by ADMET Predictor.

Several studies have now been published that compare the predictive accuracy of software programs like ADMET Predictor. In each case, out of more than a dozen programs, ADMET Predictor has been ranked first in accuracy over all other programs (it was ranked second in one study, but that study was later redone with a more difficult set of test compounds and a newer version of ADMET Predictor, and it was then ranked first). This is a remarkable accomplishment, considering the greater size and resources of many of the competitors.

ADMET Predictor now includes the former separate ADMET Modeler program for greater user convenience and to enhance the ADMET Predictor product. ADMET Modeler was first released in July of 2003 as a separate product, and was integrated into ADMET Predictor last year. This powerful program is used to generate the predictive models used in ADMET Predictor in a small fraction of the time once required to build these models. For example, the new toxicity models were developed in a matter of a few hours once we completed the tedious effort of "cleaning up" the databases (which seem to always contain a number of errors). Prior to the availability of ADMET Modeler, we would have needed as much as three months after cleaning the databases for each new model to obtain similar results.

Pharmaceutical companies spend enormous amounts of money conducting a wide variety of experiments on new molecules each year. Using such data to build predictive models provides a second return on this investment; however, in the past, model-building has traditionally been a tedious activity that required a specialist. With ADMET Modeler, scientists without model-building experience can now use their own experimental data to quickly create high quality predictive models.

During this reporting period, continuous improvement of ADMET Predictor/Modeler has continued. Additional models were developed based on the proprietary database of salmonella mutagenicity measurements we acquired as part of the assets of Bioreason, Inc. in November 2005. Unlike previous models for salmonella mutagenicity that lump together strains of the bacteria, this unique database provides individual mutagenicity data for each of ten individual strains. Modeling each strain by itself provides more focused and accurate models, and we believe this capability will be unique. We expect to release the new models in the fourth fiscal quarter with the next release of ADMET Predictor.

Another enhancement of ADMET Predictor has been to provide compatibility with the popular Pipeline Pilot(TM) software offered by SciTegic, a subsidiary of Accelrys. This software serves as a tool to allow chemists to run several different software programs in series to accomplish a set workflow for large numbers of molecules. In early discovery, chemists often work with hundreds of thousands or millions of "virtual" molecules - molecules that exist only in a computer. The chemist tries to decide which few molecules from these large "libraries" should be made and tested. Using Pipeline Pilot with ADMET Predictor (and ClassPharmer - see below), perhaps in conjunction with other software products, the chemist can create and screen very large libraries faster and more efficiently than running each program by itself.

In addition, modifications that provide enhanced user convenience and data analysis capabilities have continued to be added to both the ADMET Predictor and ADMET Modeler portions of the code, and these are in final test. The new capabilities will be demonstrated at the American Chemical Society meeting in Chicago in late March.

CLASSPHARMER

ClassPharmer improvements during the third quarter have focused on expanding Pipeline Pilot compatibility, incorporating new features requested by users around the world, and adding other new capabilities. In April, we announced the release of a new version of ClassPharmer (4.3) that contains a powerful new molecule design capability called the R-Table Exploder. This capability provides a way for chemists to automatically generate large numbers of novel chemical structures based on the known chemistry from compounds that have already been synthesized and tested. We expect to announce a new release during the fourth quarter with greater molecule design flexibility.

DDDPLUS

DDDPlus sales have continued to grow as formulation scientists recognize the value of this one-of-a-kind simulation software in their work. Continuous improvements have been added to further enhance the value of this product to our customers. Numerous user convenience features have been added, as well as more sophisticated handling of dosage forms that incorporate multiple polymers for controlled release.

GASTROPLUS

GastroPlus continues to enjoy its "gold standard" status in the industry for its class of simulation software. It is used from early drug discovery through preclinical development and into early ddclinical trials. The information provided through GastroPlus simulations guides project decisions in various ways. Among the kinds of knowledge gained through such simulations are: (1) the best "first dose in human" for a new drug prior to Phase I trials, (2) whether a potential new drug compound is likely to be absorbed at high enough levels to achieve the desired blood concentrations needed for effective therapy, (3) whether the absorption process is affected by certain enzymes and transporter proteins in the intestinal tract that may cause the amount of drug reaching the blood to be very different from one region of the intestine to another, (4) when certain properties of a new compound are probably adequately estimated through computer ("in silico") predictions or simple experiments rather than through more expensive and time-consuming IN VITRO or animal experiments, (5) what the likely variations in blood and tissue concentration levels would be in a large population, in different age groups or in different ethnic groups, and (6) whether a new formulation for an existing approved drug is likely to demonstrate "bioequivalence" (equivalent blood concentration versus time) to the currently marketed dosage form in a human trial.

Our marketing intelligence indicates that GastroPlus enjoys a dominant position in the number of users worldwide. In addition to virtually every major pharmaceutical company, licenses include a growing number of smaller pharmaceutical and biotech companies, generic drug companies, and drug delivery companies (companies that design the tablet or capsule for a drug compound that was developed by another company). Although these companies are smaller than the pharmaceutical giants, they can also save considerable time and money through simulation. We believe this part of the industry, which includes hundreds of companies, represents major growth potential for GastroPlus. Our experience has been that the number of new companies adopting GastroPlus shows steady growth, adding to the base of annual licenses each year. We announced the renewal of GastroPlus licenses by both Hoffmann LaRoche and another very large pharmaceutical company in December, with increased license fees in both cases.

We are aware that other companies have developed competitive software; however, based on customer feedback, we believe that the competitive threat to GastroPlus is limited. We continue working on improving GastroPlus under the two-year (one full-time equivalent) contract we announced on August 31, 2006, as well as our own internal product improvement efforts.

CONTRACT RESEARCH AND CONSULTING SERVICES

Our recognized expertise in oral absorption and pharmacokinetics is evidenced by the fact that our staff members have been speakers or presenters at over 40 prestigious scientific meetings worldwide in the past three years. We frequently conduct contracted studies for 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 increasing steadily, and we expect this trend to continue. Consulting contracts serve both to showcase our technologies and as a way to build relationships with new customers, as well as strengthening relationships with our existing customers.

GOVERNMENT-FUNDED RESEARCH

We submitted a proposal to the National Institutes for Health in December for a $100,000 Phase I Small Business Innovation Research (SBIR) grant to develop an advanced method for calculating certain important parameters that would extend the capabilities of our ADMET Predictor/Modeler product. Simulations Plus was awarded this grant in June. If we are successful in this Phase I effort, we will be eligible to apply for a Phase II follow-on grant on the order of $750,000. We submitted a second SBIR grant proposal in early April, and we are currently awaiting the results of the review process. SBIR grant funds provide the ability to expand staff and grow the product line without adversely affecting earnings, because the expenses associated with the efforts in the studies are funded largely, if not completely, through the grants.

WORDS+ SUBSIDIARY

PRODUCTS

Our wholly owned subsidiary, Words+, Inc. has been an industry pioneer and technology leader for over 25 years in introducing and improving augmentative and alternative communication and computer access software and devices for disabled persons. We intend to continue to be at the forefront of the development of new products. We will continue to enhance our major software products, E Z Keys(TM) and Say-it! SAM(TM), as well as our growing line of hardware products. We are also considering acquisitions of other products, businesses and companies that are complementary to our existing augmentative and alternative communication and computer access business lines. We purchased the Say-it! SAM technologies from SAM Communications, LLC of San Diego in December 2003. This acquisition gave us our smallest, lightest augmentative communication system, which is based on a Hewlett-Packard iPAQ personal digital assistant (PDA). PDA-based communication devices have been very successful in the augmentative communication market, and this technology purchase has enabled us to move into this market segment faster and at lower cost than developing the product ourselves. SAM-based products now account for a significant share of our growing Words+ revenues. Since the acquisition of the Say-it! SAM technologies, we have continued to add new functionality to the SAM software and to offer it on additional hardware platforms.

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RESULTS OF OPERATIONS

COMPARISON OF THREE MONTHS ENDED MAY 31, 2007 AND 2006.

The following table sets forth our consolidated statements of operations (in thousands) and the percentages that such items bear to net sales:

	Three Months Ended			
	05/31/07		05/31/06	
Net sales	$ 2,631	100%	$ 1,788	100%
Cost of sales	551	20.9	433	24.2
Gross profit	2,080	79.1	1,355	75.8
Selling, general and administrative	885	33.6	795	44.5
Research and development	227	8.6	119	6.7
Total operating expenses	1,112	42.3	914	51.1
Income from operations	968	36.8	441	24.7
Other income	35	1.3	19	1.1
Net income before taxes	1,003	38.1	460	25.7
Benefit from (provision for) income taxes	(221)	(8.4)%	(74)	(4.1)%
Net income	$ 782	29.7%	$ 386	21.6%

NET SALES

Consolidated net sales increased $843,000, or 47.1%, to $2,631,000 in the third fiscal quarter of 2007 (3QFY07) from $1,788,000 in the third fiscal quarter of 2006 (3QFY06). Our sales from pharmaceutical and educational software increased approximately $562,000, or 51.3%; and our Words+, Inc. subsidiary's sales increased approximately $281,000, or 40.6%, for the quarter. We attribute the increase in pharmaceutical software sales primarily to increased licenses, both to new customers and for new modules and additional licenses to renewal customers. In addition to our software sales, revenues from our contract services increased in 3QFY07 compared with 3QFY06.

We attribute the increase in Words+ sales primarily to an increase in sales of

"Say-it! SAM", and "Freedom" products. Some declines in software sales and "MessageMate" products were offset by these increases.

COST OF SALES

Consolidated cost of sales increased $118,000, or 27.1%, to $551,000 in the 3QFY07 from $433,000 in 3QFY06. The percentage of cost of sales in the 3QFY07 decreased 3.3% to 20.9% from 24.2% in 3QFY06. For Simulations Plus, cost of sales decreased $19,000, or 14.3%. As a percentage of revenue, cost of sales also decreased to 6.9% in 3QFY07 from 12.1% in 3QFY06. A significant portion of cost of sales 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 sales. This amortization cost increased, as more new products become available for sale, approximately $36,000, or 61.9%, in 3QFY07 compared with 3QFY06. Another significant portion of cost of sales is Royalty expense which decreased approximately $54,000, or 72.4%, in 3QFY07 compared with 3QFY06. Royalty cost is subject to the revenue generated from GastroPlus base program, therefore this decrease is due to the fact that the proportion of other products and services as to the total revenue increased.

For Words+, cost of sales increased $137,000, or 45.3%. As a percentage, cost of sales increased 1.5% between the third fiscal quarter of FY07 and FY06. We attribute the percentage increase in cost of sales for Words+ primarily to one large order, of which a partial shipment was incurred this quarter, with reduced margin as a result of a volume discount, in addition to increased costs of computers. Last fiscal year, we were able to obtain purchase discounts by volume purchases of computers; however such discounts were not available to us when the new models came on the market and the previous models were discontinued.

GROSS PROFIT

Consolidated gross profit increased $725,000, or 53.6%, to $2,080,000 in the 3QFY07 from $1,355,000 in 3QFY06. We attribute this increase to the increase in sales of pharmaceutical software, contract studies, and Words+ products which outweighed increases in cost of goods sold.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Consolidated selling, general and administrative (SG&A) expenses increased $90,000, or 11.3%, to $885,000 in 3QFY07 from $795,000 in 3QFY06. For Simulations Plus, SG&A increased $16,000, or 3.1%. As a percentage of sales, SG&A decreased to approximately 32.1% in 3QFY07 from approximately 47.2% in 3QFY06. The major increases in SG&A expenses were commissions, trade shows, investor relations, accrued bonus to officers, salaries and payroll-related expenses such as health insurance, 401K and payroll taxes, which outweighed decreases in equipment rentals, professional fees.

For Words+, SG&A expenses increased $74,000, or 26.6%, due primarily to increases in commissions, catalogs, trade shows, marketing consultant fees, technical service cots, salaries and payroll-related expenses such as health insurance and payroll taxes, telephone and supplies. These increases outweighed decreases in advertising, travel expense, and contributions.

RESEARCH AND DEVELOPMENT

We incurred approximately $357,000 of research and development costs for both companies during 3QFY07. Of this amount, $130,000 was capitalized and $227,000 was expensed. In 3QFY06, we incurred $215,000 of research and development costs, of which $96,000 was capitalized and $119,000 was expensed. The increase of $142,000, or 66.0%, in total research and development expenditures from 3QFY06 to 3QFY07 was due primarily to increases in salaries because of new hires and salary increases to existing staff.

OTHER INCOME (EXPENSE)

Net other income (expense) in 3QFY07 increased by $16,000, or 80.6%, to $35,000 in 3QFY07 from $19,000 in 3QFY06. This is due primarily to increased interest revenue from Money Market accounts, gains on currency exchange, and gain on sale of assets.

PROVISION FOR INCOME TAXES

The provision for income taxes increased by $147,000, or 200.0%, to $221,000 in 3QFY07 from $74,000 in 3QFY06 due to increase in net income. These taxes will not actually be paid, but will be offset by a reduction in our deferred tax asset.

NET INCOME

Consolidated net income increased by $396,000, or 102.6%, to $782,000 in 3QFY07 from $386,000 in 3QFY06. We attribute this increase in profit primarily to the increases in revenue from both pharmaceutical software and Words+ products and from other income, which outweighed increases in cost of sales, selling, and general and administrative expenses, research and development expenses, and provision for income taxes.

COMPARISON OF NINE MONTHS ENDED MAY 31, 2007 AND 2006.

The following table sets forth our consolidated statements of operations (in thousands) and the percentages that such items bear to net sales:

	Nine months Ended			
	05/31/07		05/31/06	
Net sales	$ 6,621	100%	$ 4,089	100%
Cost of sales	1,549	23.4	1,152	28.2
Gross profit	5,072	76.6	2,937	71.8
Selling, general and administrative	2,578	38.9	2,112	51.7
Research and development	627	9.5	336	8.2
Total operating expenses	3,205	48.4	2,448	59.9
Income from operations	1,867	28.2	489	12.0
Other income	86	1.3	30	0.7
Net income before taxes	1,953	29.5	519	12.7

Benefit from (provision for) income taxes	(430)	(6.5)	(83)	(2.0)
Net income	$ 1,523	23.0%	$ 436	10.7%

NET SALES

Consolidated net sales increased $2,532,000, or 61.9%, to $6,621,000 in the first nine months of fiscal year 2007 (FY07) from $4,089,000 in the first nine months of fiscal year 2006 (FY06). Our sales from pharmaceutical and educational software increased approximately $2,111,000, or 96.9%; and our Words+, Inc. subsidiary's sales increased approximately $421,000, or 22.0%, for the first nine months of fiscal year 2007. We attribute the increase in pharmaceutical software sales primarily to increased licenses, both to new customers and for new modules, additional licenses to renewal customers, and contract studies.

We attribute the increase in Words+ sales primarily to increases in sales of "Say-it! SAM", "TuffTalker" and "Freedom" products. Some declines in software sales and "TuffTalker Plus" products were offset by these increases.

COST OF SALES

Consolidated cost of sales increased $397,000, or 34.5%, to $1,549,000 in the first nine months of FY07 from $1,152,000 in the first nine months of FY06; however, as a percentage of revenue, cost of sales decreased 15.8%. For Simulations Plus, cost of sales increased $153,000, or 51.4%; however, as a percentage of revenue, cost of sales decreased to 10.5% in the first nine months of FY07 from 13.7% in the first nine months of FY06. A significant portion of cost of sales 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 sales. This amortization cost increased approximately $137,000, or 107.5%, in the first nine months of FY07 compared with the same period in FY06. Royalty expense increased approximately $16,000, or 9.6%, in the first nine months of FY07 compared with the same period in FY06; however, as a percentage of revenue, royalty expense decreased 3.5% between the first nine months of FY07 and FY06, thus resulting in a decrease in the percentage of cost of sales.

For Words+, cost of sales increased $244,000, or 28.6%. As a percentage of revenue, cost of sales increased 2.4% between the first nine months of FY07 and FY06. We attribute the percentage increase in cost of sales for Words+ primarily to volume discounts provided to a distributor for one large order in the fiscal second and third quarters and to increased costs of computers and PDAs which are main parts for the systems we sell.

GROSS PROFIT

Consolidated gross profit increased $2,135,000, or 72.7%, to $5,072,000 in the first nine months of FY07 from $2,937,000 in the first nine months of FY06. We attribute this increase to the increase in sales of pharmaceutical software, contract studies, and Words+ products which outweighed increases in cost of goods sold.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Consolidated selling, general and administrative (SG&A) expenses increased $466,000, or 22.1%, to $2,578,000 in the first nine months of FY07 from $2,112,000 in the first nine months of FY06. For Simulations Plus, SG&A

increased $263,000, or 20.3%. As a percentage of sales, SG&A decreased from approximately 59.4% in the first nine months of FY06 to approximately 36.3% in the first nine months of FY07. The major increases in SG&A expenses were selling expenses, such as commissions to dealers and trade shows, accrued bonus to officers, bad debts from one of receivables from the purchased assets of Bioreason, and increases in salaries and payroll-related expenses such as health insurance, 401K and payroll taxes, which outweighed decreases in professional fees, equipment rental, and recruitment.

For Words+, SG&A expenses increased $203,000, or 9.6%, due primarily to increases in commissions, catalogs, marketing consultant fees, telephone and supplies. These increases outweighed decreases in utilities, technical service costs, and travel expense.

RESEARCH AND DEVELOPMENT

We incurred approximately $1,023,000 of research and development costs for both companies during the first nine months of FY07. Of this amount, $396,000 was capitalized and $627,000 was expensed. In the first nine months of FY06, we incurred $924,000 of research and development costs, of which $588,000, including an allocation of appraised value of $246,000 on ClassPharmer software, was capitalized and $336,000 was expensed. The increase of $99,000, or 10.7%, in total research and development expenditures from the first nine months of FY06 to the first nine months of FY07 was due primarily to increases in salaries because of new hires in Life Science Department and salary increases to the existing staff despite of the acquisition cost for the ClassPharmer software in FY06.

OTHER INCOME

Net other income in the first nine months of FY07 increased by $56,000, or 185.5%, from $30,000 to $86,000. This is due primarily to increased interest revenue from Money Market accounts.

PROVISION FOR INCOME TAXES

The provision for income taxes increased by $347,000, or 417.3%, to $430,000 in the first nine months of FY07 from $83,000 in the first nine months of FY06. These taxes will not actually be paid, but will be offset by a reduction in our deferred tax asset.

NET INCOME (LOSS)

Consolidated net income increased by $1,087,000, or 249.3%, to $1,523,000 in the first nine months of FY07 from $436,000 in the first nine months of FY06. We attribute this increase in profit primarily to the increases in revenue from pharmaceutical software, contract studies, Words+ products, and other income, which outweighed increases in cost of sales, selling, and general and administrative expenses, research and development expenses, provision for income taxes.

LIQUIDITY AND CAPITAL RESOURCES

Our principal sources of capital have been cash flows from our operations. We have achieved continuous positive operating cash flow in the last six 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 and disability businesses 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 were compensated in Japanese yen by some Japanese customers. As a result, we experienced a small gain from currency exchange in the first nine months of FY07. In the future, if foreign currency transactions increase significantly, then we may mitigate this effect through 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

(a) EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES.
As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company required to be included in the Company's periodic SEC filings.

(b) CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING.
There were no changes in the Company's internal controls over financial reporting during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On April 6, 2006 we received notice from a liquidator for the former French subsidiary of Bioreason (Bioreason SARL), saying that the liquidator had initiated legal action against Simulations Plus in the French courts with respect to ClassPharmer distribution rights to European customers, and is claiming commissions and legal fees with respect to European customers. We have been working through our U.S. attorneys and a law firm in Paris. We have filed a counterclaim for our rights and lost sales against Bioreason SARL's assets by sending a debt recovery declaration to the liquidator on June 15, 2006.

On May 23, 2007, we received an e-mail from our French Lawyer that we had received a proposal for an amicable settlement, in which we would give up our claims if Bioreason SARL would agree to waive any claims against Simulations Plus. This proposal was accepted by phone by the lawyer of Bioreason SARL, and now we have signed the agreement which will be submitted to French court. We expect the final resolution of this issue in August 2007.

Item 2. Changes in Securities

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on form 8-K

(a) Exhibits:

31.1-2	Certification of Chief Executive Officer and Chief Financial Officer
32	Certification pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002

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 2, 2007.

Simulations Plus, Inc.

Date: July 2, 2007 By: /s/ MOMOKO BERAN

Momoko Beran

Chief Financial Officer