SIMULATIONS PLUS INC
Form 10-Q
July 14, 2011

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, 2011

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 [ ] 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 12, 2011 was 15,532,817 and no shares of preferred stock were outstanding.

Simulations Plus, Inc.
FORM 10-Q Quarterly Report
For the Quarterly Period Ended May 31, 2011

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SIMULATIONS PLUS, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS
at May 31, 2011 (Unaudited) and August 31, 2010 (Audited)

ASSETS	May 31, 2011	August 31, 2010
Current assets		
Cash and cash equivalents	$9,893,600	$9,631,762
Income tax refund receivable	259,434	225,510
Accounts receivable, net of allowance for doubtful accounts and estimated contractual discounts of $271,883 and $421,118	2,448,228	1,291,350
Contracts receivable	230,438	184,081
Inventory	386,206	554,867
Prepaid expenses and other current assets	148,511	138,163
Deferred income taxes	404,772	364,264
Total current assets	13,771,189	12,389,997
Capitalized computer software development costs, net of accumulated amortization of $5,008,113 and $4,487,757	2,370,763	2,186,419
Property and equipment, net (note 3)	173,794	55,984
Customer relationships, net of accumulated amortization of $124,800 and $118,442	3,242	9,600
Other assets	18,445	18,445
Total assets	$16,337,433	$14,660,445
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$390,324	$239,424
Accrued payroll and other expenses	452,714	511,106
Accrued bonuses to officer	60,000	60,000
Accrued income taxes	688,219	261,861
Accrued warranty and service costs	38,051	35,586
Deferred revenue	117,580	96,092
Total current liabilities	1,746,888	1,204,069
Long-term liabilities		
Deferred income taxes	782,593	410,523
Total liabilities	2,529,481	1,614,592
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 50,000,000 shares authorized 15,532,817 and 15,833,006 shares issued and outstanding	4,004	4,304
Additional paid-in capital	4,124,551	5,891,268
Retained earnings	9,679,397	7,150,281
Total shareholders' equity	13,807,952	13,045,853
Total liabilities and shareholders' equity	$16,337,433	$14,660,445

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

SIMULATIONS PLUS, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
For the Three and Nine Months Ended May 31,
(Unaudited)

	Three months ended		Nine months ended	
	2011	2010	2011	2010
Net sales	$3,438,902	$3,118,936	$9,599,575	$8,505,707
Cost of sales	816,398	699,402	2,306,202	2,006,766
Gross profit	2,622,504	2,419,534	7,293,373	6,498,941
Operating expenses				
Selling, general, and administrative	1,063,414	1,117,557	3,106,116	3,210,649
Research and development	238,183	234,318	700,864	747,741
Total operating expenses	1,301,597	1,351,875	3,806,980	3,958,390
Income from operations	1,320,907	1,067,659	3,486,393	2,540,551
Other income (expense)				
Interest income	22,948	27,433	67,906	73,479
Interest expense	-	-	(118)	(303)
Miscellaneous income (expense)	(231)	1,000	-	1,231
Gain on sales of property and equipment	-	969	240	1,993
Gain on currency exchange	34,663	14,955	43,004	130,149
Total other income	57,380	44,357	111,032	206,549
Income before provision for income taxes	1,378,287	1,112,016	3,597,425	2,747,100
Provision for income taxes	(324,144)	(371,903)	(1,068,309)	(936,321)
Net income	$1,054,143	$740,113	$2,529,116	$1,810,779
Basic earnings per share	$0.07	$0.05	$0.16	$0.11
Diluted earnings per share	$0.07	$0.04	$0.16	$0.11
Weighted-average common shares outstanding				
Basic	15,447,273	16,023,000	15,535,581	15,832,791
Diluted	16,039,951	16,830,281	16,114,138	16,499,813

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

SIMULATIONS PLUS, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine Months Ended May 31,
(Unaudited)

	2011	2010
Cash flows from operating activities		
Net income	$ 2,529,116	$ 1,810,779
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization of property and equipment	28,075	19,440
Amortization of customer relationships	6,358	10,846
Amortization of capitalized computer software development costs	520,355	477,900
Bad debts	-	139,419
Excess tax benefits from share-based arrangement	(24,081)	-
Stock-based compensation	113,313	81,175
Gain on sales of property and equipment	(240)	(1,024)
Deferred income taxes	331,562	198,071
(Increase) decrease in		
Accounts receivable and Contracts receivable	(1,203,235)	(479,996)
Income tax refundable	(33,924)	-
Inventory	57,012	(82,815)
Prepaid expenses and other assets	(10,348)	57,406
Increase (decrease) in		
Accounts payable	150,900	82,169
Accrued payroll and other expenses	(58,392)	(31,968)
Accrued income taxes	450,439	247,614
Accrued warranty and service costs	2,465	(2,505)
Deferred revenue	21,488	109,732
Net cash provided by operating activities	2,880,863	2,636,243
Cash flows from investing activities		
Purchases of property and equipment	(34,236)	(34,113)
Proceeds from sale of property and equipment	240	-
Capitalized computer software development costs	(704,699)	(690,002)
Net cash used in investing activities	(738,695)	(724,115)
Cash flows from financing activities		
Repurchase of common stock	(2,048,172)	(882,100)
Excess tax benefits from share-based arrangement	24,081	-
Proceeds from the exercise of stock options	143,761	79,680

Net cash used in financing activities		(1,880,330	)	(802,420)
Cash and cash equivalents, beginning of year		9,631,762		7,473,485
Cash and cash equivalents, end of period	$	9,893,600	$	8,583,193
Supplemental disclosures of cash flow information				
Interest paid	$	118	$	303
Income taxes paid	$	320,232	$	426,026

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

Simulations Plus, Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1: GENERAL

This report on Form 10-Q for the quarter ended May 31, 2011, should be read in conjunction with the Company's annual report on Form 10-K for the year ended August 31, 2010, filed with the Securities and Exchange Commission (“SEC”) on November 29, 2010. As contemplated by the SEC under Article 8 of Regulation S-X, the accompanying financial statements and footnotes have been condensed and therefore do not contain all disclosures required by generally accepted accounting principles. The interim financial data are unaudited; however, in the opinion of Simulations Plus, Inc. ("we", "our", "us"), the interim data includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the interim periods. Results for interim periods are not necessarily indicative of those to be expected for the full year.

Note 2: SIGNIFICANT ACCOUNTING POLICIES

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.

Principles of Consolidation
The condensed 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 revenues related to software licenses and software maintenance in accordance with Accounting Standards Update (“ASU”) 2009-14, which amends FASB ASC Topic 985 to exclude tangible products containing software components and non-software components that function together to deliver the product’s essential functionality. Software products 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. We do not have tangible products containing software components; however, in the event we provide such products in the future, we will recognize its portion of revenue when tangible products are delivered. 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. For Words+ products, the revenue is recorded at the time of shipment, net of estimated allowances and returns.

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

We recognize contract study revenue either equally over the term of the contract or using the percentage of completion method, depending upon how the contract studies are engaged, in accordance with FASB ASC 605-35. 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 maintain an allowance for doubtful accounts for estimated losses that may arise if any of its customers are unable to make required payments. Management specifically analyzes 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 management determines 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. We also estimate the contractual discount obligation for third-party funding such as Medicare, Medicaid, and private insurance companies. Those estimated discounts are reflected in the allowance for doubtful accounts and contractual discounts.

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 FASB ASC 985-20. 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 $520,355 and $477,900 for the nine months ended May 31, 2011 and 2010, 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.

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.

Fair Value of Financial Instruments

Assets and liabilities recorded at fair value in the Condensed Consolidated 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, 2011 for assets and liabilities measured at fair value on a recurring basis:

	Level I	Level II	Level III	Total
Cash and cash equivalents	$ 9,893,600	$ -	$ -	$ 9,893,600
Total	$ 9,893,600	$ -	$ -	$ 9,893,600

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

Shipping and Handling

Shipping and handling costs, recorded as cost of sales, amounted to $60,034 and $88,944 for the nine months ended May 31, 2011 and 2010, 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
We utilize FASB ASC 740-10 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 basis 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.

We are currently being audited by the California Franchise Tax Board for the fiscal years ended August 31, 2007 and 2008. The outcome of this audit is not currently determinable.

Customer relationships
We 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 May 31, 2011 and 2010 amounted to $6,358 and $10,847, respectively. Accumulated amortization as of May 31, 2011 and 2010 was $124,800 and $115,574, respectively.

Earnings per Share
We report earnings per share in accordance with FASB ASC 260-10. Basic earnings per share is computed by dividing income available to common shareholders by the weighted-average number of common shares available. Diluted earnings per share is computed similar to basic earnings per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. The components of basic and diluted earnings per share for the nine months ended May 31, 2011 and 2010 were as follows:

	05/31/2011	05/31/2010
Numerator		
Net income attributable to common shareholders	$ 2,529,116	$ 1,810,779
Denominator		
Weighted-average number of common shares outstanding during the year	15,535,581	15,832,791
Dilutive effect of stock options	578,557	667,022
Common stock and common stock equivalents used for diluted earning per share	16,114,138	16,499,813

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Stock-Based Compensation

Compensation costs related to stock options are determined in accordance with FASB ASC 718-10 using the modified prospective method. Under this method, compensation cost 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 FASB ASC 718-10, amortized on a straight-line basis over the options' vesting period. Stock-based compensation was $113,313 and $81,175 for the nine months ended May 31, 2011 and 2010, respectively, and is included in the condensed consolidated statements of operations as Salaries, Consulting, and Research and Development expense.

Concentrations and Uncertainties

International sales accounted for 34% and 31% of net sales for the nine months ended May 31, 2011 and 2010, respectively. For Simulations Plus, Inc. (pharmaceutical segment), two customers accounted for 10% and 9% of net sales during the nine months ended May 31, 2011, compared with two customers accounting for 14% and 9% of net sales during the nine months ended May 31, 2010.

For Words+, Inc., third-party billing, which includes various government agencies as well as private insurance companies, accounted for 58%, and one school district accounted for 7% of net sales during the nine months ended May 31, 2011, compared with third-party billing accounted for 57% of net sales during the nine months ended May 31, 2010. If changes are made in government funding policies for Words+ products, Words+ revenue might be impacted. We continually evaluate and monitor regulatory developments in funding matters, and we do not expect Medicare and Medicaid of all 50 states to discontinue their funding of Words+ products; however, there can be no assurances that the current level of revenue from third parties will continue.

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.

For Simulations Plus (pharmaceutical segment), three customers comprised 26%, 11% (a dealer account representing various customers), and 10% of its accounts receivable at May 31, 2011, and three customers comprised 27%, 17%, 14% (one dealer account representing various customers) of its accounts receivable at May 31, 2010. For Words+, third-party billing, which includes various government agencies, comprised 83% of its accounts receivable at May 31, 2011, and 86% of its accounts receivable at May 31, 2010. Collection of those accounts receivable in a timely manner is critical in Words+' cash flow and its operations. We have three dedicated funding/billing personnel who continually track such collections.

Our subsidiary, Words+, Inc., purchases components for its main computer products from four 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 Words+ to obtain computers used in its products or to renew its licensing agreement to use pictographic symbols could negatively impact our financial position, results of operations, and cash flows.

Recently Issued Accounting Pronouncements

In September 2009, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2009-14 which amends FASB ASC Topic 985 to exclude tangible products containing software components and non-software components that function together to deliver the product's essential functionality. ASU 2009-14 applies to revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with

early application permitted. We adopted this standard in this first quarter of fiscal 2011 and believe adoption did not have a material impact on the Company's consolidated financial statements.

In September 2009, the FASB issued ASU 2009-13, “Revenue Arrangements with Multiple Deliverables”. ASU 2009-13 amends FASB ASC Topic 605 to require an entity to use an estimated selling price when vendor-specific objective evidence or acceptable third-party evidence does not exist for any products or services included in a multiple element arrangement. The arrangement consideration should be allocated among the products and services based upon their relative selling prices, thus eliminating the use of the residual method of allocation. ASU 2009-13 also requires expanded qualitative and quantitative disclosures regarding significant judgments made and changes in applying the guidance. ASU 2009-13 applies to fiscal years beginning after June 15, 2010, with early application permitted. We adopted this standard in this first quarter of fiscal 2011 and believe adoption did not have a material impact on the Company’s consolidated financial statements.

Note 3: PROPERTY AND EQUIPMENT

Property and equipment as of May 31, 2011 consisted of the following:

Equipment	$107,261
Computer equipment	410,190
Demo equipment	111,649
Furniture and fixtures	61,498
Automobile	21,769
Leasehold improvements	53,898
Sub total	766,265
Less: Accumulated depreciation and amortization	(592,471)
Net Book Value	173,794

Note 4: COMMITMENTS AND CONTINGENCIES

Employment Agreement
On August 31, 2009, we entered into an employment agreement with our President/Chief Executive Officer that expires in August 2011. The employment agreement provides for an annual base salary of $275,000 per year, and a performance bonus in an amount not to exceed 10% of Employee’s salary, or $27,500 per year, at the end of each fiscal year. The specific amount of the bonus to be awarded will be determined by the Compensation Committee of the Board of Directors, based on the financial performance and achievements of the Company for the previous fiscal year. The agreement also provides Employee stock options, exercisable for five years, to purchase fifty (50) 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 120,000 options over the term of the agreement. We may terminate the agreement upon 30 days' written notice if termination is without cause. Our 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.

For fiscal year 2010, the Compensation Committee awarded a $25,000 performance bonus to Walter Woltosz, our President/Chief Executive Officer, which was paid in December 2010.

Litigation
We are not a party to any litigation at this time and we are not aware of any pending litigation of any kind.

Note 5: SHAREHOLDERS' EQUITY

Stock Repurchase
On October 23, 2008, the Board of Directors authorized a share repurchase program (Phase I) enabling the buyback of up to $2.5 million in shares during a 12-month period beginning Monday, October 27, 2008. The actual repurchase started on December 2, 2008; therefore the Board of Directors extended it through December 1, 2009 in order to have a full 12-month period. We opened an account with Morgan Stanley Smith Barney for the purchase of such securities. Funds for any stock purchases are drawn from our cash reserves. Under the Phase I repurchase program, we repurchased 1,026,483 shares at an average price of $1.3182, for a total expenditure of $1,377,015 including commissions paid to a broker.

On January 10, 2010, the Board of Directors authorized a renewed share repurchase program (Phase II) effective as of February 15, 2010. The renewed program enables the Company to buy back up to one million shares during a 12-month period.

The details of repurchases made under Phase II program is listed in the table below. Our total expenditure for Phase II repurchases as of February 28, 2011 was $2,823,796 including commissions paid to a broker, which brings the totals of the combined Phase I and Phase II repurchases to 2,022,731 shares at an average price of $2.0501 and a total expenditure of $4,200,810, including commissions paid to a broker, as of May 31, 2011.

Period	Total Number of Shares Purchased	Average Price Paid per Share (excluding fees)	Remaining Shares Authorized for Repurchase Under the Share Repurchase Plan – Phase II
04/01/10 to 04/30/10	86,976	$2.2237	913,024
05/01/10 to 05/31/10	170,101	$2.3515	742,923
06/01/10 to 06/30/10	33,665	$2.3670	709,258
07/01/10 to 07/31/10	18,789	$2.4433	690,469
08/01/10 to 08/31/10	10,878	$2.4283	679,591
09/01/10 to 09/30/10	81,070	$2.6969	598,521
10/01/10 to 10/31/10	170,494	$3.1671	428,027
11/01/10 to 11/30/10	146,116	$2.9523	281,911
12/01/10 to 12/31/10	41,214	$2.5716	240,697
01/01/11 to 01/31/11	119,469	$2.9028	121,228
02/01/11 to 02/14/11*	117,476	$3.4510	3,725
Phase II Total	996,248	$2.8041	0

*Phase II repurchase program ended on 02/14/2011.

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.

TRANSACTIONS IN FY 2011

	Number of Options	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Life (Years)
Outstanding, August 31, 2010	1,493,902	$ 1.13	
Granted	20,000	$ 3.27	
Exercised/Released	(382,300)	$ 0.43	
Cancelled/Forfeited	(106,566)	$ 1.62	
Expired	(4,800)	$ 0.41	
Outstanding, May 31, 2011	1,020,236	$ 1.39	5.15
Exercisable, May 31, 2011	748,102	$ 1.27	4.40

The fair value of the options granted during the first nine months of fiscal year 2011 is estimated at $36,800. The fair value of these options was estimated at the date of grant using the Black-Scholes option-pricing model with the following assumptions: dividend yield of 0%, pre-vest forfeiture rate of 4.53%, expected volatility of 79.70%, risk-free interest rate of 1.17%, and expected life of 5.0 years.

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 our 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 our employee stock options.

The weighted-average remaining contractual life of options outstanding issued under the Plan was 5.1 years at May 31, 2011. The exercise prices for the options outstanding at May 31, 2011 ranged from $0.26 to $3.02, 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
$0.26	$0.75	47,336	0.7 years	$0.26	47,336	0.7 years	$0.26
$0.76	$1.25	829,900	5.1 years	$1.20	646,966	4.4 years	$1.20
$1.26	$3.02	143,000	7.1 years	$2.87	53,800	7.0 years	$2.92
		1,020,236	5.1 years	$1.39	748,102	4.4 years	$1.27

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Other Stock Options

As of May 31, 2011, the Board of Directors holds options to purchase 63,000 shares of common stock at exercise prices ranging from $0.30 to $6.68, which were granted prior to May 31, 2011.

TRANSACTIONS IN FY 2011

Transactions in FY11	Number of Options	Weighted-Average Exercise Price Per Share
Outstanding, August 31, 2010	71,000	$ 2.02
Granted	-	$ -
Exercised	-	$ -
Expired	-	$ -
Outstanding, May 31, 2011	71,000	$ 2.02
Exercisable, May 31, 2011	48,500	$ 1.03

Note 6: RELATED PARTY TRANSACTIONS

As of May 31, 2011, included in bonus expenses to officers was $85,000, of which $60,000 was accrued bonus representing 5% of the Company's FY11 net income before bonuses and taxes, not exceeding $60,000, to be paid to the Corporate Secretary, Virginia Woltosz, as an annual bonus as part of the terms of the sale of Words+ to Simulations Plus in 1996. The other $25,000, paid in December 2010, was a performance bonus to Walter Woltosz, our President/Chief Executive Officer.

Note 7: SEGMENT AND GEOGRAPHIC REPORTING

We account for segments and geographic revenues in accordance with ASC 280-10. 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, 2011 and May 31, 2010 (in thousands):

	May 31, 2011			
	Simulations Plus, Inc	Words +, Inc.	Eliminations	Total
Net Sales	$ 7,312	$ 2,288		$ 9,600
Income (loss) from operations	3,427	59		3,486
Identifiable assets	16,093	1,533	$ (1,289)	16,337
Capital expenditures	8	138		146
Depreciation and Amortization	522	33		555

	May 31, 2010			
	Simulations Plus, Inc	Words +, Inc.	Eliminations	Total
Net Sales	$ 6,287	$ 2,219		$ 8,506
Income (loss) from operations	2,763	(222)		2,541
Identifiable assets	14,496	1,590	$ (1,520)	14,566
Capital expenditures	22	12		34
Depreciation and Amortization	466	42		508

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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, 2011 and 2010 were as follows (in thousands):

	May 31, 2011					
	North America	Europe	Asia	Oceania	South America	Total
Simulations Plus, Inc.	$ 3,896	$ 2,325	$ 1,060	$ -	$ 31	$ 7,312
Words+, Inc.	2,218	6	9	52	3	2,288
Total	$ 6,114	$ 2,331	$ 1,069	$ 52	$ 34	$ 9,600

	May 31, 2010					
	North America	Europe	Asia	Oceania	South America	Total
Simulations Plus, Inc.	$ 3,749	$ 1,680	$ 850	$ -	$ 8	$ 6,287
Words+, Inc.	2,121	25	36	37	-	2,219
Total	$ 5,870	$ 1,705	$ 886	$ 37	$ 8	$ 8,506

Note 8: EMPLOYEE BENEFIT PLAN

We maintain a 401(K) Plan for all eligible employees, and 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 $79,062 and $62,864 for the nine months ended May 31, 2011 and May 31, 2010, respectively.

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,” “c “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

Simulations Plus, Inc. (together with its subsidiary referred to as the “Company,” “us,” “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, as well as provides contract research services to the pharmaceutical industry. Simulations Plus has also taken over responsibility for producing a personal productivity software program called Abbreviate! originally spun out of products for the disabled by Words+ for the retail market, and (2) Words+, founded in 1981, produces computer software and specialized hardware for use by persons with disabilities. For the purposes of this document, we sometimes refer to the two businesses as “Simulations Plus” when referring to the business that is pharmaceutical software and services, educational software, and Abbreviate!, and “Words+” when referring to the business that is focused on assistive technologies for persons with disabilities.

SIMULATIONS PLUS

We currently offer five software products for pharmaceutical research: ADMET Predictor™, MedChem Designer™, MedChem Studio™ (formerly known as ClassPharmer™), DDDPlus™, and GastroPlus™.

ADMET Predictor™

ADMET Predictor is a computer program that takes molecular structures as inputs and predicts over 120 different properties for them at the rate of about 200,000 compounds per hour on a fast personal computer. This capability means that a chemist can process a huge number of molecules through ADMET Predictor in a very short time, and can identify those molecules that are sure to fail as potential drug candidates without the need to ever synthesize and test them. The gain in productivity using these in silico (computer) predictions is enormous. Millions of “virtual” compounds can be created and screened in a day compared to months of work to synthesize and test a few hundred actual compounds. The ability to quickly eliminate obviously poor compounds in this manner enables chemists to investigate a much larger “chemical space” in their search for new medicines. We released version 5.5 of ADMET Predictor during the second quarter with a large set of new features and over 30 new property predictions. ADMET Predictor achieves its consistent top ranking among competitive programs because of its unique set of molecular and atomic descriptors and its powerful ADMET Modeler™ training algorithms.

Pharmaceutical companies spend enormous amounts of money conducting a wide variety of experiments on new molecules each year. Using their own proprietary data to build predictive models provides a second return on this investment; however, in the past, model building has traditionally been a tedious activity performed by specialists. The ADMET Modeler program that is integrated into ADMET Predictor enables scientists without model-building experience to use their own experimental data to quickly create proprietary, high-quality predictive models using the same powerful modeling methods we use to build our top-ranked property predictions.

Third quarter activities were focused on finalizing the remaining models that were to be developed under our Small Business Innovation Research (SBIR) grant with the National Institutes of Health (NIH) and beginning to write the final report for the grant. In addition, we began work on enhancing the multidimensional graphical output capability of the Miner3D™ option within ADMET Predictor.

MedChem Designer™

MedChem Designer was launched in February 2011. It is first a molecule drawing program, or “sketcher”, but it does much more than other molecule drawing programs because of its tight integration with both MedChem Studio and ADMET Predictor. When coupled with ADMET Predictor, MedChem Designer becomes a very powerful de novo design tool for medicinal chemists. With it, they can draw one or more molecules (structures), then click on an icon for ADMET Predictor and have over 120 properties for each structure calculated in seconds. We believe this provides a novel and unequaled capability for new molecule design. We provide MedChem Designer for free because we believe that in the long run it will help to increase demand for ADMET Predictor and MedChem Studio. Most existing molecule drawing programs are also free, so in order to convince chemists to try MedChem Designer, it must also be provided for free. Although the free version includes a small set of interesting ADMET Predictor property predictions, allowing the chemist to see a few key properties very quickly, there are many more properties that are needed to determine the suitability of any structure as a drug, and ADMET Predictor can predict a large number of such properties if the user has a license for it.

During the third quarter, we began working on extending MedChem Designer’s capabilities to inclue the ability to show the most likely metabolites that would be produced from a parent molecule. This capability requires licenses for the ADMET Predictor Enslein Metabolism Module and the Metabolite Module.

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MedChem Studio™

MedChem Studio continues to evolve into an ever-more-powerful tool for medicinal and computational chemists for both data mining and for designing new drug-like molecules. Coupled with the top-rated property predictions in ADMET Predictor, we believe the two programs provide an unmatched capability for chemists to search through large libraries of compounds that have undergone high throughput screening experiments to find the most promising classes and molecules that are active against a particular target. In addition, MedChem Studio with ADMET Predictor can take an interesting (but not acceptable) molecule and very quickly generate high quality analogs (i.e., similar new molecules) using a variety of design algorithms to generate new molecules that are predicted to be both active against the target as well as acceptable in a variety of ADMET properties. Now, MedChem Designer (see above) is also a part of MedChem Studio version 2.0, which we release in April. The user can click on the MedChem Designer icon and bring up the drawing window for a variety of purposes in MedChem Studio, as well as to use MedChem Designer while inside MedChem Studio to investigate how modifications to the structures of molecules can improve their properties.

MedChem Studio's automatic molecule design capabilities provide a number of ways for chemists to rapidly generate large numbers of novel chemical structures based on intelligence from compounds that have already been synthesized and tested, or from basic chemical reactions selected by the user. Export of results is available in Microsoft Excel™ format as well as other convenient file formats requested by users. Numerous improvements were incorporated into the version 2.0 release of MedChem Studio, including the MedChem Designer integration, a much-expanded multidimensional graphical output capability called Miner3D™, updated rules for checking for duplicate structures, more flexibility in reading certain file formats, and a number of other convenience features.

DDDPlus

DDDPlus simulates in vitro laboratory experiments that measure the rate of dissolution of the drug contained in tablets and capsules in a variety of experimental conditions. This one-of-a-kind software program is used by formulation scientists to reduce the number of cut-and-try attempts to design new drug formulations, as well as to design in vitro experiments to better mimic in vivo conditions. Development during the third quarter focused on completing and testin the new Virtual Trial capability plus enhancing the Parameter Sensitivity Analysis capability withint he program. Because no two experiments are ever exactly the same, the Virtual Trial feature enables the formulation scientist to automatically run many simulations to assess the likely variances in dissolution behaviors with expected variances in experimental parameters. Version 4.0 was released shortly after the end of the third quarter.

GastroPlus

GastroPlus simulates the absorption, pharmacokinetics, and pharmacodynamics of drugs administered to humans and animals, and is currently in use at numerous pharmaceutical companies, the U.S. Food and Drug Administration (FDA), the U.S. National Institutes of Health, and other government agencies in the U.S. and other countries.

The insight gained through GastroPlus simulations can guide project decisions in various ways. Among the kinds of knowledge gained through such simulations are: (1) the best estimate for "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 after absorption from one region of the intestine to another, (4) when certain properties of a new compound are probably adequately estimated by in silico predictions (such as from ADMET Predictor) or from 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 of a new drug 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 (important for generic drug companies and the Office of Generic Drugs at the FDA, which has numerous licenses for GastroPlus).

Our marketing intelligence and reorder history indicate that GastroPlus continues to dominate its market niche in the number of users worldwide. In addition to virtually every major pharmaceutical company, licenses include government agencies in the U.S and abroad, 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, we believe they can also save considerable time and money through simulation. We believe this part of the industry, which we believe includes a few thousand companies, represents major growth potential for GastroPlus. Our experience has been that the number of new companies adopting GastroPlus continues to grow steadily, adding to the base of annual license renewals each year. Recent consolidations by larger companies have not adversely affected our sales to date. In fact, because of the increased need for improving productivity, those companies have often adopted in silico tools at ever-greater levels, with the result that large company licenses have often increased at renewal time even in the face of such consolidation.

Third quarter efforts on GastroPlus have been focused primarily on adding and validating both transporter proteins and induction of both enzymes and transporters to the powerful Drug-Drug Interaction Module we release last year, adding enzymes and transporters to the Additional Dosing Routes Module for ocular and pulmonary dosing, and a series of enhancements to the ocular and pulmonary capabilities in the Additional Dosing Routes Module. Third quarter efforts also included expanding the capabilities of the PDPlus™ Module that enables pharmaceutical scientists to rapidly build and test a variety of pharmacodynamic models to see which, if any, provide a suitable prediction of therapeutic and adverse effects as doses and dosing intervals change.

Contract Research and Consulting Services

Our recognized world-class expertise in oral absorption and pharmacokinetics is evidenced by the fact that our staff members have been speakers or presenters at over 50 prestigious scientific meetings worldwide in the past five years. We frequently conduct contracted studies for large customers (including top 5 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 increasing steadily, and we expect this trend to continue. Long-term collaborations and shorter-term consulting contracts serve both to showcase our technologies and to build and strengthen customer relationships.

During the third quarter we began work on our 5-year collaboration agreement with the Center for Food Safety and Applied Nutrition (CFSAN) of the U.S. Food and Drug Administration (FDA) to use our ADMET Predictor/Modeler capabilities to build predictive models for likely toxicities of food additives and contaminants. We’ve analyzed FDA databases and worked with FDA scientists to ensure that the data to be used ofr building new predictive models is as correct as we can reasonable make it. We’ve begun building a series of models to classify new compounds as carcinogenic (cancer-causing) in rats and/or mice from large FDA datasets.

Government-Funded Research

We have completed our $525,000 Phase II Small Business Innovation Research ("SBIR") grant awarded by the National Institutes of Health ("NIH"). This SBIR grant provided funds that allowed us to expand staff and grow the product line without adversely affecting earnings, because the expenses associated with the efforts in the grant study are funded largely through the grant, with some company support. The improvements to ADMET Predictor under this grant have allowed us to build new models for prediction of metabolic sites (i.e., predicting which atoms in a molecule have the highest propensity for metabolism by the most common metabolizing enzymes in human). This is a very powerful capability that will enhance not only ADMET Predictor, but also the MedChem Studio/ADMET Predictor combination for design of new molecules.

WORDS+ SUBSIDIARY

PRODUCTS

Our wholly owned subsidiary, Words+, Inc., has been an industry pioneer and technology leader for over 28 years, focused on introducing and improving augmentative and alternative communication and computer access software and devices for people with disabilities. Words+ introduced EyeProTM, a licensed eyegaze product, at a national conference during March, 2010. Eyegaze technology allows people to operate a computer or communication device by simply looking at the computer screen, and has been a major breakthrough for people with severe disabilities. Words+ unveiled EyeProTMGS, a new proprietary eyegaze product designed, engineered, and wholly owned by Words+ at the same national conference one year later in March, 2011.

EyePro GS

EyePro GS is designed to be more customizable to the client, provide more advanced control to the therapist during initial setup, and have a more user friendly interface for the end user than competing designs. The new design also significantly reduces our bill of materials, and both strengthens and secures our position as a provider of eyegaze technology. Our engineers obtained FCC approval, and focused on field testing and integration with E Z KeysTM and Say-it! SAMTM during the third quarter. By offering the popular original licensed EyePro, and the new Words+ EyePro GS we provide our customers with more choices from Words+.

ConversaTM

Conversa, a tablet-based speech generating device, was upgraded to introduce Windows 7 on a flip screen tablet PC platform during the third quarter. The product can be used as either a notebook or tablet device depending upon customer need, and introduces perpetual use by the client because of hot swappable auxiliary battery design. It is available in two screen sizes: The new product names are Conversa CV (Twelve inch screen standard Medicare approved device) and Conversa CVX (Thirteen inch screen to help with visual limitations at extra cost). The Conversa CV also replaces the Freedom LITE, streamlining our current product line, inventory and support requirements.

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 expanding our staff within the pharmaceutical software and services segment) and by acquisition. We believe that the fundamental science and technology that underlies our business units are the keys to improving our existing products and to expanding the product line with new products that meet our various customers' needs. Acquisition continues to be a high priority and we have spent considerable time and effort searching for suitable acquisition opportunities for several years. Our three completed acquisitions to date (two on the pharmaceutical side of the business and one on the disability products side) have all proved to be immediately accretive, adding to both revenues and earnings. Due diligence meetings with a number of potential companies over the past several years have resulted either in discovery of factors that made them unsuitable, or in financial terms and conditions that would not have been favorable to our shareholders. We continue to search for

suitable acquisitions and we consider this to be a high-priority activity.

Results of Operations

Comparison of Three Months Ended May 31, 2011 and May 31, 2010.

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			
	05/31/10		05/31/09	
Net sales	$3,439	100%	$3,119	100%
Cost of sales	816	23.7	699	22.4
Gross profit	2,623	76.3	2,420	77.6
Selling, general and administrative	1,064	30.9	1,118	35.8
Research and development	238	6.9	234	7.5
Total operating expenses	1,302	37.9	1,352	43.4
Income from operations	1,321	38.4	1,068	34.2
Other income	57	1.7	44	1.4
Net income before taxes	1,378	40.1	1,112	35.7
(Provision for) income taxes	(324)	(9.4)	(372)	(11.9)
Net income	$1,054	30.6%	$740	23.7%

Net Sales

Consolidated net sales increased $320,000, or 10.3%, to $3,439,000 in the third fiscal quarter of 2011 (3QFY11) from $3,119,000 in the third fiscal quarter of 2010 (3QFY10). Our sales from pharmaceutical and educational software increased approximately $315,000, or 13.5%; and our Words+, Inc. subsidiary's sales increased approximately $5,000, or 0.7%, for the quarter. We attribute the increase in pharmaceutical software sales to increases in number of licenses with new and existing customers, licensing of new modules to existing customers, increased revenues from consulting study contracts and training workshops, which outweighed a decrease in SBIR grant funds which ended on March 31, 2011. We attribute the increase in Words+ sales to increased revenue from our "EyePro" and "Freedom" products, which outweighed decreased revenues from "Say-it-SAM!" handheld communication products.

Cost of Sales

Consolidated cost of sales increased $117,000, or 16.7%, to $816,000 in 3QFY11 from $699,000 in 3QFY10. Cost of sales as a percentage of revenue for 3QFY11 increased 1.3% to 23.7% from 22.4% in 3QFY10. For Simulations Plus (pharmaceutical business), cost of sales increased $71,000, or 19.9%, and as a percentage of revenue, cost of sales increased 0.8% to 16.1% in 3QFY11 from 15.3% in 3QFY10. We attribute the increase in cost to royalty expense, which we pay for revenue generated from the GastroPlus core program as well as our ADMET Predictor Enslein Metabolism module, and increase in salaries paid to scientists who worked on analytical studies.

For Words+, cost of sales increased $46,000, or 13.4%. As a percentage of revenue, cost of sales increased to 48.9% in 3QFY11 from 43.4% in 3QFY10. We attribute the percentage increase in cost of sales for Words+ to sales generated from products with lower margins. As we mentioned in the sales discussion above, we experienced increased revenue from our "EyePro" and "Freedom" products, which have lower margins, resulting in a higher cost of sales.

Gross Profit
Consolidated gross profit increased $203,000, or 8.4%, to $2,623,000 in 3QFY11 from $2,420,000 in 3QFY10. We attribute this increase to increased sales of pharmaceutical software and services which outweighed the increase in cost of goods sold.

Selling, General and Administrative Expenses
Consolidated selling, general and administrative (SG&A) expenses decreased $54,000, or 4.8%, to $1,064,000 in 3QFY11 from $1,118,000 in 3QFY10. For Simulations Plus, SG&A increased $8,000, or 1.2%; however as a percentage of sales, SG&A decreased to approximately 25.8% in 3QFY11 from approximately 29.0% in 3QFY10. The major increases in SG&A expenses were advertising, consultant fees, and health insurance, which outweighed decreases in travel expenses, commissions, consultant fees, and vacation expenses.

For Words+, SG&A expenses decreased $62,000, or 14.0%, due to decreases in travel, allowances for bad debts, repairs, salaries, and service costs which outweighed increases in commissions and health insurance.

Research and Development
We incurred approximately $492,000 of research and development costs for both companies during 3QFY11. Of this amount, $254,000 was capitalized and $238,000 was expensed. In 3QFY10, we incurred $468,000 of research and development costs, of which $234,000 was capitalized and $234,000 was expensed. The increase of $24,000, or 5.1%, in total research and development expenditures from 3QFY10 to 3QFY11 was due to salary of a new hire and salary increases to existing staff.

Other income (expense)
Net other income (expense) increased by $13,000, or 29.4%, to $57,000 in 3QFY11 from $44,000 in 3QFY10. This is due to increases in gains from currency exchange which outweighed decrease in interest income from our Money Market account.

Provision for Income Taxes
The provision for income taxes decreased by $48,000, or 12.8%, to $324,000 in 3QFY11 from $372,000 in 3QFY10 due to our estimation of higher R&D credit in fiscal year 2011. The tax rate used in this report is somewhat lower than the standard rate because of various tax credits generated and used during this reporting period.

Net Income
Consolidated net income increased by $314,000, or 42.4%, to $1,054,000 in 3QFY11 from $740,000 in 3QFY10. We attribute this increase in profit to the increases in gross profits from pharmaceutical software/services, other income, and decrease in SG&A expense which outweighed increases in R&D expense and tax provision.

Comparison of Nine months Ended May 31, 2011 and May 31, 2010.

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			
	05/31/10		05/31/09	
Net sales	$9,600	100%	$8,506	100%
Cost of sales	2,307	24.0	2,007	23.6
Gross profit	7,293	76.0	6,499	76.4
Selling, general and administrative	3,106	32.4	3,210	37.7

Research and development	701	7.3	748	8.8
Total operating expenses	3,807	39.7	3,958	46.5
Income from operations	3,486	36.3	2,541	29.9
Other income	111	1.2	206	2.4
Net income before taxes	3,597	37.5	2,747	32.3
(Provision for) income taxes	(1,068)	(11.1)	(936)	(11.0)
Net income	$2,529	26.3%	$1,811	21.3%

Net Sales

Consolidated net sales increased $1,094,000, or 12.9%, to $9,600,000 in the first nine months of fiscal year 2011 (9moFY11) from $8,506,000 in the first nine months of fiscal year 2010 (9moFY10). Our sales from pharmaceutical software and services increased approximately $1,025,000, or 16.3%, and our Words+, Inc. subsidiary's sales increased approximately $69,000, or 3.1%, for 9moFY11.

We attribute the increase in pharmaceutical software sales to increased licenses to new customers, new modules and additional licenses to renewal customers, and to workshop revenues which outweighed the decrease in revenue from collaborations/contract studies due to completing a large contract and SBIR Phase II Grant which ended on March 31, 2011. We attribute the increase in Words+ sales to sales of "EyePro" and "Freedom" products which outweighed the decrease in revenue from "Say-it SAM!" handheld devices.

Cost of Sales

Consolidated cost of sales increased $300,000, or 14.9%, to $2,307,000 in 9moFY11 from $2,007,000 in 9moFY10. Cost of sales as a percentage of revenue in 9moFY11 increased 0.4% to 24.0% from 23.6% in 9moFY10. For Simulations Plus, cost of sales increased $246,000, or 26.0%. As a percentage of revenue, cost of sales also increased 1.2% to 16.3% in 9moFY11 from 15.1% in 9moFY10. Royalty expense, which is a variable cost related to sales of our GastroPlus core program as well as our new ADMET Predictor Enslein Metabolism Module, increased approximately $126,000, or 33%, in 9moFY11 compared with 9moFY10. 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 $56,000, or 13%, in 9moFY11 compared with 9moFY10. Analytical study costs also increased due to increased man-hours spent on consulting contracts.

For Words+, cost of sales increased $54,000, or 5.1%. As a percentage of revenue, cost of sales also increased 0.9% to 48.7% in 9moFY11 from 47.8% in 9moFY10. We attribute the percentage increase in cost of sales for Words+ to sales generated from products with lower margins. As we mentioned in the sales discussion above, we increased revenues from "EyePro" and "Freedom" products which have a lower margin, thus resulting in higher cost of sales.

Gross Profit

Consolidated gross profit increased $794,000, or 12.2%, to $7,293,000 in 9moFY11 from $6,499,000 in 9moFY10. We attribute this increase to increased sales of pharmaceutical software and services with healthy gross margin and the increase in gross profit from Words+ products.

Selling, General and Administrative Expenses

Consolidated selling, general and administrative (SG&A) expenses decreased $104,000, or 3.3%, to $3,106,000 in 9moFY11 from $3,210,000 in 9moFY10. For Simulations Plus, SG&A increased $150,000, or 8.1%; however, as a percentage of sales, SG&A decreased 2.1%, from 29.9% in 9moFY10 to 27.8% in 9moFY11. The major increases in SG&A expenses were commissions, bonuses, investor relations, salaries and payroll-related expenses which outweighed decreases in travel, trade shows, and professional fees in 9moFY11.

For Words+, SG&A expenses decreased $254,000, or 19.2%. As a percentage of sales, SG&A also decreased 12.9%, from59.8% in 9moFY10 to 46.9% in 9moFY11. We attribute this decrease in SG&A to a decrease in allowance for bad debts, commission expense, travel, professional fees, repairs and supplies, which outweighed increases in demo equipment, health insurance, and service costs.

Research and Development

We incurred approximately $1,406,000 of research and development costs for both companies in 9moFY11. Of this amount, $705,000 was capitalized and $701,000 was expensed. In 9moFY10, we incurred $1,425,000 of research and development costs, of which $677,000 was capitalized and $748,000 was expensed. The decrease of $19,000, or 1.3%, in total research and development expenditures from 9moFY10 to 9moFY11 was due to greater hours expended on study contracts, which are expensed under cost of goods sold.

Other income

Net other income in 9moFY11 decreased by $95,000, or 44.0%, from $206,000 to $111,000. This is due to the fact that we invoiced in US dollar currency rather than Japanese yen in the first nine months of FY11 in accordance with our Japanese distributor's request, in addition to price changes in our Japanese price list reflecting the recent currency exchange rate.

Provision for Income Taxes

The provision for income taxes increased by $132,000, or 14.1%, to $1,068,000 in 9moFY11 from $936,000 in 9moFY10. This increase is due to higher net income despite of our estimation of lower provision for income tax rate in fiscal year 2011 comparing with 2010.

Net Income (loss)

Consolidated net income increased by $718,000, or 39.7%, to $2,529,000 in 9moFY11 from $1,811,000 in 9moFY10. We attribute this increase in profit to the increases in revenue from pharmaceutical software/services and Words+ products, and decreases in SG&A and R&D expenses, which outweighed increases in cost of sales and tax provision, and the decrease in other income.

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 and in Euros by one European customer; however most of the time during 9moFY11, our business transactions were in U.S. dollars at customers' requests. As a result, we experienced a smaller gain in 9moFY11 than 9moFY10 from currency exchange. 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

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 our 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 consolidated 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 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

The Company is not a party to any legal proceedings and is not aware of any pending legal proceedings of any kind.

Item 1A. Not applicable.

Item 2. Changes in Securities

On January 10, 2010, the board of directors authorized a renewed share repurchase program effective as of February 15, 2010. The renewed program enables the Company to buy back up to one million shares during a 12-month period. As of February 14, 2011 when the program ended, the Company had bought back 996,248 shares under this renewed repurchase program.

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

EXHIBIT NUMBER	DESCRIPTION
3.1	Articles of Incorporation of Simulations Plus, Inc. (1)
3.2	Amended and Restated Bylaws of Simulations Plus, Inc. (1)
4.1	Articles of Incorporation of Simulations Plus, Inc. (incorporated by reference to Exhibit 3.1 hereof) and Bylaws of Simulations Plus, Inc. (incorporated by reference to Exhibit 3.2 hereof)
4.2	Form of Common Stock Certificate (1)
4.3	Share Exchange Agreement (1)
10.1	Simulations Plus, Inc. 1996 Stock Option Plan (the “Option Plan”) and forms of agreements relating thereto (1)
10.24	Exclusive License Software Agreement by and between Simulations Plus, Inc. and Therapeutic Systems Research Laboratories dated June 30, 1997. (2)
10.43	Lease Agreement by and between Simulations Plus, Inc. and Venture Freeway, LLC. (4)
10.45	Employment Agreement by and between the Company and Walter S. Woltosz (5)
10.46	Simulations Plus, Inc. 2007 Stock Option Plan (the “2007 Option Plan”) (6))
10.47	Lease extension agreement by and between Simulations Plus, Inc. and Crest Development (7)
21.1	List of Subsidiaries (8)
31.1	Rule 13a-14(a)/15d-14(a) – Certification of Chief Executive Officer (CEO). (8)
31.2	Rule 13a-14(a)/15d-14(a) – Certification of Chief Financial Officer (CFO). (8)
32	Section 1350 – Certification of CEO and CFO. (8)

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(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 Registration Statement on Form S-8 (Registration No. 333-91592) filed on June 28, 2002.
(4) Incorporated by reference to the Company's Form 10-KSB for the fiscal year ended August 31, 2006.
(5) Incorporated by reference to the Company's Form 10-K for the fiscal year ended August 31, 2009.
(6) Incorporated by reference to the Company's Form 10-Q for the fiscal quarter ended November 30, 2009.
(7) Incorporated by reference to the Company's Form 10-K for the fiscal year ended August 31, 2010.
(8) Filed herewith.

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, 2011.

Simulations Plus, Inc.

Date: July 14, 2011

By: /s/ MOMOKO BERAN
Momoko Beran
Chief Financial Officer
(Principal Financial Officer)