SIMULATIONS PLUS INC
Form 10QSB
April 14, 2008

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 February 29, 2008 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: 001-32046

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 April 10, 2008, was 16,228,900.

SIMULATIONS PLUS, INC.
FORM 10-QSB
FOR THE QUARTERLY PERIOD ENDED FEBRUARY 29, 2008

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PART I. FINANCIAL INFORMATION

SIMULATIONS PLUS, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET
at February 29, 2008
(Unaudited)

ASSETS

CURRENT ASSETS	
Cash and cash equivalents	$5,507,079
Accounts receivable, net of allowance for doubtful accounts and estimated contractual discounts of $124,562	1,964,747
Inventory	281,385

Prepaid expenses and other current assets	215,061
Deferred tax asset	160,300
Total current assets	8,128,572
CAPITALIZED COMPUTER SOFTWARE DEVELOPMENT COSTS, net of accumulated amortization of $3,094,379	1,680,475
PROPERTY AND EQUIPMENT, net (note 3)	111,695
CUSTOMER RELATIONSHIPS, net of accumulated amortization of $72,935	55,107
OTHER ASSETS	18,445
TOTAL ASSETS	$9,994,294

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

SIMULATIONS PLUS, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET
at February 29, 2008
(Unaudited)

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES	
Accounts payable	$ 133,910
Accrued payroll and other expenses	427,179
Accrued bonuses to officer	58,274
Accrued warranty and service costs	29,270
Accrued income tax	363,041
Total current liabilities	1,011,674
Long-Term liabilities	
Deferred tax liability	83,000
Total liabilities	1,094,674
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	
16,228,900 shares issued and outstanding	4,700
Additional paid-in capital	6,230,295
Retained Earnings	2,664,625

Total shareholders' equity	8,899,620
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$9,994,294

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

SIMULATIONS PLUS,
CONSOLIDATED STATE
for the three and six months ended F

	Three months ended		Six
	2008	2007	2008
NET SALES	2,179,675	2,533,836	4,163,48
COST OF SALES	455,513	557,102	941,45
GROSS PROFIT	1,724,162	1,976,734	3,222,03
OPERATING EXPENSES			
Selling, general, and administrative	832,493	936,114	1,762,78
Research and development	251,894	216,432	477,84
Total operating expenses	1,084,387	1,152,546	2,240,62
INCOME FROM OPERATIONS	639,775	824,188	981,40
OTHER INCOME (EXPENSE)			
Interest income	47,076	24,881	92,22
Miscellaneous income	--	--	2
Gain on sale of assets	--	3,102	-
Gain on currency exchange	14,925	4,055	33,56
Total other income (expense)	62,001	32,038	125,80
INCOME BEFORE INCOME TAXES	701,776	856,226	1,107,21
INCOME TAXES			
Provision for income tax	(136,967)	(188,370)	(299,14
Total income taxes	(136,967)	(188,370)	(299,14

NET INCOME	$ 564,809	$ 667,856	$ 808,07
BASIC EARNINGS PER SHARE	$ 0.04	$ 0.04	$ 0.0
Diluted earnings per share	$ 0.03	$ 0.04	$ 0.0
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING			
BASIC	16,130,622	15,039,924	16,020,14
DILUTED	18,279,889	18,029,650	18,369,40

* The number of shares at February 28, 2007 has been retroactively restated to reflect a 2-for-1 stock split that occurred on October 1, 2007.

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

SIMULATIONS PLUS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
for the six months ended February 29, and 28,
(Unaudited)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 808,070	$ 741,071
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization of property and equipment	26,447	24,197
Amortization of customer relationships	13,589	16,582
Amortization of capitalized software development cost	236,785	222,811
Bad debt expense	62,947	48,000
Stock-based compensation	15,265	9,849
Contribution of Equipment at book value	--	774
(Gain) on sale of assets	--	(3,102)
(Increase) decrease in		
Accounts receivable	79,978	194,597
Inventory	(50,471)	(37,335)
Deferred tax	(63,900)	209,020
Other assets	(141,393)	15,113
Increase (decrease) in		
Accounts payable	(67,336)	95,322
Accrued payroll and other expenses	(64,433)	59,726
Accrued bonuses to officers	(143,015)	6,813
Accrued income taxes	291,741	(1,600)
Accrued warranty and service costs	(8,898)	374

Deferred revenue	--	41,109
Net cash provided by operating activities	995,376	1,643,321
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(61,390)	(35,143)
Proceeds from sale of assets	13,152	4,475
Capitalized computer software development costs	(389,450)	(265,616)
Net cash used in investing activities	(437,688)	(296,284)

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

SIMULATIONS PLUS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
for the six months ended February 29, and 28,
(Unaudited)

CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the exercise of stock options	411,677	187,043
Net cash provided by financing activities	411,677	187,043
Net increase in cash and cash equivalents	$ 969,365	$1,534,080
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	4,537,714	1,685,036
CASH AND CASH EQUIVALENTS, END OF QUARTER	$5,507,079	$3,219,116
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
INTEREST PAID	$ --	$ --
INCOME TAXES PAID	$ 180,000	$ 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 to 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.

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 $236,785 and $222,811 for the six months ended February 29, 2008 and February 28, 2007, 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.

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 $45,427 and $50,243 for the six months ended February 29, 2008 and February 28, 2007, 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.

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.

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 six months ended and accumulated amortization as of February 29, 2008 and February 28, 2007 amounted to $13,589 and $16,582, respectively, and $72,935 and $44,260, 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 six months ended February 29, 2008 and February 28, 2007 were as follows (the number of shares at 02/28/2007 reflects the effect of a 2-for-1 stock split on October 1, 2007 for comparison purposes):

	02/29/2008	02/28/2007
Numerator		
Net income (loss) attributable to common shareholders	$ 664,327	$ 741,071
Denominator		
Weighted-average number of common shares outstanding during the year	16,020,147	14,964,096
Dilutive effect of stock options	2,349,253	2,661,216
Common stock and common stock equivalents used for diluted earning per share	18,369,400	17,625,312

Stock-Based Compensation

Effective September 1, 2006, we adopted SFAS No. 123R using the modified prospective method. Under this method, compensation cost recognized during the six months ended February 29, 2008 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 expenses were $15,265 and $9,849 for the six months ended February 29, 2008 and February 28, 2007, respectively, and are included in the condensed consolidated statements of operations as Salaries and Wages, Consulting, and Research and development expense.

Concentrations and Uncertainties

International sales accounted for 43% and 36% of net sales for the six months ended February 29, 2008 and February 28, 2007, respectively. For Simulations Plus, Inc., two customers accounted for 20% and 10% of net sales during the six months ended February 29, 2008, compared with two customers accounting for 22% and 15% of net sales during the same period in FY07. For Words+, Inc., one government agency accounted for 20%, and one customer accounted for 16% of net sales during the six months ended February 29, 2008, compared with one government agency accounting for 28%, and one customer accounting for 13% of net sales during the same period in FY07.

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, four customers comprised 21%, 18%, 14% and 10% of its accounts receivable at February 29, 2008, and five customers comprised 25%, 20%, 13%, 12% and 10% of accounts receivable at February 28, 2007. For Words+, two government agencies comprised 28% and 10%, and two customers comprised 14% and 10% of its accounts receivable at February 29, 2008 while one government agency comprised 37% of its accounts receivable at February 28, 2007.

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 ("FASB") 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 were effective for the Company on September 1, 2007. The adoption of FIN 48 did not have a material impact on our consolidated financial statements.

Note 3: PROPERTY AND EQUIPMENT

Furniture and equipment as of February 29, 2008 consisted of the following:

Equipment	$ 173,245
Computer equipment	334,605
Furniture and fixtures	61,498
Automobile	21,769

Leasehold improvements	53,898
Sub total	645,015
Less: Accumulated depreciation and amortization	(533,320)
Net Book Value	111,695

Note 4: COMMITMENTS AND CONTINGENCIES

Employee Agreement

On August 9, 2007, the Company entered into an employment agreement with its President/Chief Executive Officer that expires in August 2009. The employment agreement provides for an annual salary of $250,000. At the CEO's request, this new agreement does not include an annual bonus, which has ranged up to $150,000 in all previous agreements. Thus, a savings to the Company of up to $75,000 per year may be realized as a result of this new agreement. 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 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 April 9, 2008, we have received the approval of the settlement agreement from the commercial division of French Ordinary Court. This means that the settlement agreement is now enforceable, and this case is finally closed.

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 an 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 at the end of 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.

The following table summarizes the stock option transactions. All of the numbers of options reflect a 2-for-1 stock split on August 14, 2006 and another 2-for-1 stock split on October 1, 2007.

	Number of Options	Weighted-Average Exercise Price Per Share
Outstanding, August 31, 2007	3,209,736	$ 0.6
Granted	287,000	$ 3.0
Exercised	(467,500)	$ 0.8
Expired/Cancelled	(202,000)	$ 0.5
Outstanding, February 29, 2008	2,827,236	$ 0.9
Exercisable, February 29, 2008	2,412,236	$ 0.6

	Weighted Average Number Outstanding	Market Pr
Non Vested before 9/1/2007	170,000	
Granted	287,000	
Vested	(42,000)	
Cancelled	-	
Non Vested at 02/29/2008	415,000	

*Weighted Average Fair Market Price was calculated by using the Black-Scholes option valuation model, which was developed for use in estimating the fair value of traded options and 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 4.28 years at February 29, 2008. The exercise prices for the options outstanding at February 29, 2008 ranged from $0.26 to $3.03, and the information relating to these options is as follows:

	Weighted-Average Remaining	Weighted-Av Exercis

Exercise Price	Stock Options Outstanding	Stock Options Exercisable	Contractual Life of Options Outstanding	Price o Options Outstandi
$0.26 - 0.50	1,003,936	1,003,936	2.53 years	$ 0
$0.51 - 0.75	841,200	841,200	1.95 years	$ 0
$0.76 - 1.25	695,100	567,100	7.31 years	$ 1
$1.26 - 3.03	287,000	0	9.97 years	$ 3
	2,827,236	2,412,236		

Other Stock Options

As of February 29, 2008, the independent members of the Board of Directors hold options to purchase 52,824 shares of common stock at exercise prices ranging from $0.30 to $6.68, which options were granted on or before February 29, 2008.

	Number of Options	Weighted average exercise price
Options Outstanding	52,824	$ 1.55
Options exercisable	40,024	$ 0.58

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 six months ended February 29, 2008 and February 28, 2007:

	February 29, 2008			
	Simulations Plus, Inc	Words +, Inc.	Eliminations	
Net Sales	2,987,934	1,175,550		
Income (loss) from operations	1,053,464	(72,061)		
Identifiable assets	9,860,669	2,009,867	(1,795,942)	
Capital expenditures	0	61,390		
Depreciation and Amortization	9,210	17,237		

	February 28, 2007			
	Simulations Plus, Inc	Words +, Inc.	Eliminations	
Net Sales	2,632,197	1,358,090		

Income (loss) from operations	923,517	(24,722)		
Identifiable assets	7,471,982	1,891,003	(1,709,816)	
Capital expenditures	15,709	19,434		
Depreciation and Amortization	9,613	14,584		

In addition, the Company allocates revenues to geographic areas based on the locations of its customers. Geographical revenues for the six months ended February 29, 2008 and February 28, 2007 were as follows (in thousands):

	February 29, 2008				
	North America	Europe	Asia	Oceania	South America
Simulations Plus, Inc.	1,441	1,212	334	-0-	-0-
Words+, Inc.	949	192	15	20	-0-
Total	2,390	1,404	349	20	-0-

	February 28, 2007				
	North America	Europe	Asia	Oceania	South America
Simulations Plus, Inc.	1,414	908	310	-0-	-0-
Words+, Inc.	1,129	191	25	11	2
Total	2,543	1,099	335	11	2

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 $36,168 and $30,518 for the six months ended February 29, 2008 and February 28, 2007, respectively.

Note 9: SUBSEQUENT EVENT

On April 9, 2008, we have received the approval of the settlement agreement from the commercial division of French Ordinary Court. This means that the settlement agreement is now enforceable, and this case is finally closed.

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, 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). No other software product was consistently in the top 4 in these studies. This is a remarkable accomplishment, considering the greater size and resources of many of our competitors.

ADMET Predictor includes ADMET Modeler. ADMET Modeler was first released in July of 2003 as a separate product, and was integrated into ADMET Predictor in 2006. This powerful program automates the generation of predictive models used in ADMET Predictor in a small fraction of the time once required to build these models. For example, new toxicity models were developed in a matter of a few hours once we completed the tedious effort of "cleaning up" the databases (which often contain a significant 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, improvement of ADMET Predictor/Modeler has continued. We completed Phase I of our NIH SBIR (Small Business Innovation Research) grant and we finalized our Phase II proposal, which was submitted on December 5, 2007. Our Phase I study clearly demonstrated that we are able to generate partial atomic charges within molecules with excellent accuracy at a rate of millions of molecules per day, compared with traditional methods that require about one day per molecule. Because of this success, we are optimistic about our Phase II proposal for an additional $750,000 over two years. However, there can be no assurances that we will receive a Phase II award, nor that if we do receive one, that it will be in the amount of $750,000 for the two-year period of performance. In early April, we received notice that our proposal was returned unscored, with one reviewer providing a favorable review and another providing an unfavorable review. The unfavorable review included several statements that were incorrect, including that the accuracy of the partial charges produced by this new method and the speed with which they are generated are not innovative. This is easily disproved, and we will resubmit this proposal at the next submittal date in August.

We released ADMET Predictor version 2.4 during March 2008, which incorporates the new Enslein Metabolism Module for the prediction of kinetic rate constants for metabolism via hydroxylation (the most common form of metabolism) by the

five most common enzymes, which are known as CYP 450-1A2, -2C9, -2C19, and -3A4. To our knowledge, this is the first such capability available in a commercial software product, and the predictions are based on a proprietary database developed by Enslein Research of Rochester, NY. This additional cost module was evaluated by industry scientists prior to release and received high praise for its utility and potential cost savings.

Version 2.4 also allows smaller companies to license separate modules when all the capabilities of the program are not required. The total price with all modules remains the same; however, we have received a number of requests to provide only limited capabilities at a lower price for some companies, and this new licensing approach is expected to increase sales by enabling smaller companies to license only the parts of the program that they need.

ADMET Predictor is compatible 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.

Modifications that provide enhanced user convenience and data analysis capabilities continue to be added to both ADMET Predictor and ADMET Modeler. A powerful new graphics capability is in development that will allow users to visualize results in multiple dimensions. We continue to improve methods for automatically selecting the best molecular descriptors for modeling a particular molecular property. We are updating all of our models using the new partial

charge descriptors developed under our SBIR grant. We are obtaining additional toxicity databases to extend the number of toxicity predictions. Tight integration with both GastroPlus and ClassPharmer has been achieved. Licenses of ADMET Predictor have already been purchased by users who want the combined capabilities of GastroPlus or ClassPharmer with ADMET Predictor, but who do not need the full capabilities of ADMET Predictor/ADMET Modeler.

CLASSPHARMER

ClassPharmer continues to evolve into a more and more powerful tool for medicinal and computational chemists. Coupled with ADMET Predictor, the two provide an unmatched capability for chemists to search through huge libraries of compounds to find the most interesting classes and molecules that are active against a particular target. In addition, ClassPharmer with ADMET Predictor can take an interesting molecule and generate high quality analogs (similar molecules) using different algorithms to ensure that the new molecules are both active and that they are also acceptable in a variety of ADMET (Absorption, Distribution, Metabolism, Excretion and Toxicity) properties.

Improvements during the second quarter were focused on incorporating more new features requested by our users around the world, as well as adding other new capabilities identified in-house. As of this writing, ClassPharmer 4.5 is in final beta testing and documentation. This new version will add the detection of Activity Cliffs, i.e., small changes in molecular structure that produce large changes in activity or some other property.

In October 2007, we announced the release of ClassPharmer 4.4 that further enhanced the ability of the program to design new molecules. Version 4.5 will add again to this capability through tighter integration with ADMET Predictor, detection of Activity/Property Cliffs, more powerful options for chemical reactions, and a number of new user convenience features.

ClassPharmer's molecule design capabilities provide 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(TM) format as well as other convenient file formats requested by users.

DDDPLUS

DDDPlus sales have continued to grow as formulation scientists recognize the value of this one-of-a-kind simulation software in their work. 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. Work on DDDPlus was limited during this quarter in favor of other projects.

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 clinical 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 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.

In this reporting period we improved the PKPlus(TM) Module to enable it to fit pharmacokinetic models to multiple data sets, including both intravenous and oral dosage forms. We made further improvements to the new sophisticated kidney model to simulate how drugs are cleared in urine. And we continue to add convenience features requested by our users. We also added the ability of the program to track metabolites of a parent drug, including metabolites of metabolites, to as many levels as desired. This is a significant new capability because it allows the user to predict how much of each metabolite will be generated, and into which tissues the metabolite is likely to partition. Some metabolites can be toxic, so knowing how much is produced and where it goes is valuable information to assess the likelihood of adverse effects.

Our marketing intelligence and reorder history indicate that GastroPlus continues to enjoy 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 many hundreds of companies, represents major growth potential for GastroPlus. Our experience has been that the number of new companies adopting GastroPlus has been growing steadily, adding to the base of annual licenses each year.

We are aware that other companies have developed competitive software; however, based on customer feedback, we believe that the competitive threat to GastroPlus is very limited. We also continue to improve GastroPlus under the two-year (one full-time equivalent) contract we announced on August 31, 2006, as well as through 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.

For example, during this reporting period we further improved our ability to simulate absorption through the eye. This new route of administration required a significant amount of scientific investigation, programming changes, and actual data to validate the model equations. Scientists who work in ocular delivery at several customer sites have told us that they had not seen such a sophisticated capability before.

GOVERNMENT-FUNDED RESEARCH

We completed our Phase I SBIR effort and our proposal for a Phase II follow-on grant on the order of $750,000. 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. As noted above, our Phase II proposal was returned unscored, and we are preparing to resubmit with information that proves that the one unfavorable reviewer based their opinion on incorrect assumptions.

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.

During this reporting period, sales of our new PDA-based (personal digital assistant based) Say-it! SAM augmentative communication device continued to be strong.

RESULTS OF OPERATIONS

COMPARISON OF THREE MONTHS ENDED FEBRUARY 29, 2008 AND FEBRUARY 28, 2007.

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			
	02/29/08		02/28/07	
Net sales	$ 2,180	100%	$ 2,534	100%
Cost of sales	456	20.9	557	22.0
Gross profit	1,724	79.1	1,977	78.0
Selling, general and administrative	832	38.2	936	36.9
Research and development	252	11.6	217	8.6
Total operating expenses	1,084	49.7	1,153	45.5
Income from operations	640	29.4	824	32.5
Other income	62	2.8	32	1.3
Net income before taxes	702	32.2	856	33.8
Provision for income taxes	(137)	(6.3)%	(188)	(7.4)
Net income (loss)	$ 565	25.9%	$ 668	26.4%

NET SALES

Consolidated net sales decreased $354,000, or 14.0%, to $2,180,000 in the second fiscal quarter of 2008 (2QFY08) from $2,534,000 in the second fiscal quarter of 2007 (2QFY07). Our sales from pharmaceutical and educational software decreased approximately $258,000, or 14.3%; and our Words+, Inc. subsidiary's sales decreased approximately $96,000, or 13.2%, for the quarter. We attribute the decrease in pharmaceutical software sales primarily to a large order in 2QFY07 last year that came in during the first quarter this year, and thus was reported in 1QFY08. If this large order had been received in the same fiscal quarter, then revenues in 2QFY08 would have been increased from the same period last year. In spite of the movement of this large pharmaceutical software order into the first quarter, new pharmaceutical software sales in the second quarter made up for a major portion of the difference.

We attribute the decrease in Words+ sales primarily to a decrease in "TuffTalker" and "Freedom" products with EZKeys software, which is based on Windows XP systems. Just recently, two major AAC manufacturers introduced XP-based software in the market, resulting in stiff competition for our products. Although revenues from our "Say-it! SAM" speech output device increased significantly, the increase could not offset the decrease in revenue from other products.

COST OF SALES

Consolidated cost of sales decreased $101,000, or 18.2%, to $456,000 in 2QFY08 from $557,000 in 2QFY07. The percentage of cost of sales in 2QFY08 decreased 1.1% to 20.9% from 22.0% in 2QFY07. For Simulations Plus, cost of sales

decreased $2,000, or 1.1%. However, as a percentage of revenue, cost of sales increased to 14.1% in 2QFY08 from 12.2% in 2QFY07. 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 $18,000, or 20.1%, in 2QFY08 compared with 2QFY07. However, royalty expense decreased approximately $51,000, or 31.8%, in 2QFY08 compared with 2QFY07.

For Words+, cost of sales decreased $99,000, or 29.4%. As a percentage, cost of sales also decreased by 8.7% between the second fiscal quarters of FY08 and FY07. We attribute the percentage decrease in cost of sales for Words+ primarily to the sales generated from products with higher margins as well as less revenue from products with high computer costs.

GROSS PROFIT

Consolidated gross profit decreased $253,000, or 12.8%, to $1,724,000 in 2QFY08 from $1,977,000 in 2QFY07. We attribute this decrease to the decrease in sales of pharmaceutical software and services due to the shift in the large order from 2QFY08 to 1QFY08, and decreases in sales of Words+ products which outweighed decreases in cost of goods sold.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Consolidated selling, general and administrative (SG&A) expenses decreased $104,000, or 11.1%, to $832,000 in 2QFY08 from $936,000 in 2QFY07. For Simulations Plus, SG&A decreased $44,000, or 7.5%. As a percentage of sales, SG&A increased to approximately 34.9% in 2QFY08 from approximately 32.3% in 2QFY07. The major decreases in SG&A expenses were travel expenses, accrued bonus to the Company's CEO, bad debts, and professional fees, which outweighed increases in commissions, investor relations, hiring expense, salaries, and payroll-related expenses such as health insurance, 401K and payroll taxes.

For Words+, SG&A expenses decreased $60,000, or 16.9%, due primarily to decreases in commissions, ads, catalogs, telephone and supply. These decreases outweighed increases in travel expenses, bad debts, marketing consulting, salaries, and 401K.

RESEARCH AND DEVELOPMENT

We incurred approximately $467,000 of research and development costs for both companies during 2QFY08. Of this amount, $215,000 was capitalized and $252,000 was expensed. In 2QFY07, we incurred $349,000 of research and development costs, of which $132,000 was capitalized and $217,000 was expensed. The increase of $118,000, or 33.8%, in total research and development expenditures from 2QFY07 to 2QFY08 was due primarily to salaries of new hires and salary increases to existing staff.

OTHER INCOME (EXPENSE)

Net other income (expense) in 2QFY08 increased by $30,000, or 93.5%, to $62,000 in 2QFY08 from $32,000 in 2QFY07. This is due primarily to increased interest revenue from Money Market accounts and gains on currency exchange.

PROVISION FOR INCOME TAXES

The provision for income taxes decreased by $51,000, or 27.1%, to $137,000 in 2QFY08 from $188,000 in 2QFY07 due primarily to a change in our estimated provision for income tax. We have recently hired a new firm to review and prepare our income tax provision as well as a tax credit specialist to investigate the Company's eligibility for various tax credits. Although the research is not yet finalized, we believe that we will be eligible for various tax credits and have reflected this eligibility in our estimated provision for income taxes.

NET INCOME

Consolidated net income decreased by $103,000, or 15.4%, to $565,000 in 2QFY08 from $668,000 in 2QFY07. We attribute this decrease in profit primarily to the decreases in revenue from both pharmaceutical software caused by the shift in revenue from 2QFY08 to 1QFY08, and lower sales of Words+ products which outweighed decreases in cost of sales, operating expenses, tax provision, and an increase in other income.

COMPARISON OF SIX MONTHS ENDED FEBRUARY 29, 2008 AND FEBRUARY 28, 2007.

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

	Six Months Ended		
	02/29/08		02/2
Net sales	$ 4,163	100%	$ 3,990
Cost of sales	941	22.6	998
Gross profit	3,222	77.4	2,992
Selling, general and administrative	1,763	42.4	1,693
Research and development	478	11.5	400
Total operating expenses	2,241	53.8	2,093
Income from operations	981	23.6	899
Other income	126	3.0	51
Net income before taxes	1,107	26.6	950
Provision for income taxes	(299)	(7.2)	(209)
Net income	$ 808	19.4%	$ 741

NET SALES

Consolidated net sales increased $173,000, or 4.3%, to $4,163,000 in the first six months of fiscal year 2008 (FY08) from $3,990,000 in the first six months of fiscal year 2007 (FY07). Our sales from pharmaceutical software and services

increased approximately $356,000, or 13.5%; however, our Words+, Inc. subsidiary's sales decreased approximately $183,000, or 13.4%, for the first six months of fiscal year 2008.

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 decrease in Words+ sales primarily to a decrease in "TuffTalker" and "Freedom" products with EZKeys software which is based on Windows XP systems. Just recently, two major AAC manufacturers introduced XP-based software to the market, resulting in stiff competition for our products. In spite of a delay in new "Say-it! SAM" PDA production through most of the first fiscal quarter of this year, the revenue from "Say-it! SAM" products increased overall during the first six months of FY08 compared with FY07; however, those increases were offset by the decline in Windows XP-based system revenues.

COST OF SALES

Consolidated cost of sales decreased $57,000, or 5.7%, to $941,000 in the first six months of FY08 from $998,000 in the first six months of FY07; however, as a percentage of revenues, cost of sales increased 1.4%. For Simulations Plus, cost of sales increased $68,000, or 20.3%, and as a percentage of revenue, cost of sales increased to 13.6% in the first six months of FY08 from 12.8% in the first six month of FY07. 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 $45,000, or 26.2%, in the first six months of FY08 compared with the same period in FY07. Royalty expense increased approximately $23,000, or 14.2%, in the first six months of FY08 compared with the same period in FY07.

For Words+, cost of sales decreased $125,000, or 19.0%. As a percentage of revenue, cost of sales decreased 3.1% between the first six months of FY08 and FY07. We attribute the percentage decrease in cost of sales for Words+ primarily to sales from products with higher margins and less revenue from products with high cost computers for Windows XP-based systems.

GROSS PROFIT

Consolidated gross profit increased $230,000, or 7.7%, to $3,222,000 in the first six months of FY08 from $2,992,000 in the first six months of FY07. We attribute this increase to increased sales of pharmaceutical software and services and decreased cost of goods sold for Words+ products.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Consolidated selling, general and administrative (SG&A) expenses increased $70,000, or 4.1%, to $1,763,000 in the first six months of FY08 from $1,693,000 in the first six months of FY07. For Simulations Plus, SG&A increased $70,000, or 6.8%; however, as a percentage of sales, SG&A decreased from approximately 38.9% in the first six months of FY07 to approximately 36.6% in the first six months of FY08. The major increases in SG&A expenses were consultant fees, investor relations, professional fees, salaries, bonuses and payroll-related expenses such as health insurance, 401K, and payroll taxes which outweighed a decrease in bad debts from one receivable from the purchased assets of Bioreason, and lower trade show expenses.

For Words+, SG&A expenses were the same in the first six months of FY08 and

FY07. Increased expenses for bad debts and salaries were offset by decreases in commissions, telephones, and supplies.

RESEARCH AND DEVELOPMENT

We incurred approximately $867,000 of research and development costs for both companies during the first six months of FY08. Of this amount, $389,000 was capitalized and $478,000 was expensed. In the first six months of FY07, we incurred $666,000 of research and development costs, of which $266,000 was capitalized and $400,000 was expensed. The increase of $201,000, or 30.2%, in total research and development expenditures from the first six months of FY07 to the first six months of FY08 was due primarily to salaries for new hires and salary increases and bonuses to existing staff.

OTHER INCOME

Net other income in the first six months of FY08 increased by $75,000, or 145.3%, from $51,000 to $126,000. This is due primarily to increased interest revenue from Money Market accounts and a gain on currency exchange from the billing in foreign currencies by the request from our customers.

PROVISION FOR INCOME TAXES

The provision for income taxes increased by $90,000, or 43.1%, to $299,000 in the first six months of FY08 from $209,000 in the first six months of FY07. This increase is due primarily to a change in estimated tax rate as discussed in the result of 3 months operation as well as increase in net income before tax.

NET INCOME (LOSS)

Consolidated net income decreased by $77,000, or 10.4%, to $664,000 in the first six months of FY08 from $741,000 in the first six months of FY07. We attribute this decrease in profit primarily to increases in operating expenses and the increased provision for income taxes, which outweighed increases in revenue and 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. As a result, we experienced a small gain from currency exchange in the first six months of FY08. 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 we signed the agreement which was submitted to the French court.

On July 13, 2007, we received another e-mail from our French Lawyer that the agent in charge of the liquidation of Bioreason SARL requested the hearing to be postponed until October 11, 2007, and her request was accepted by the French supervisory judge.

On October 31, our French Lawyer informed us that the hearing was again postponed until November 2007.

On April 9, 2008, we received the approval of the settlement agreement from the commercial division of French Ordinary Court. This means that the settlement agreement is now in force, and this case is finally closed.

Item 2. Changes in Securities

On February 29, 2008, the Registrant held its annual meeting of shareholders. One of the proposals was to increase the number of authorized shares of common stock from 20,000,000 shares to 50,000,000 shares, and this proposal was approved.

Item 3. Defaults Upon Senior Securities

None.

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

On February 29, 2008, the Registrant held its annual meeting of shareholders. The following proposals were submitted to a vote of security holders at the meeting.

1. To elect to the Board of Director five (5) directors
   Walter Woltosz
   Virginia Woltosz
   Dr. David Z. D'Argenio
   Dr. Richard Weiss H.
   Wayne Rosenberger

2. To ratify the appointment of Rose, Snyder, and Jacobs as the Company's independent public accountants for the fiscal year ending August 31, 2008.

3. To amend and restate the Company's certificate of incorporation to increase the number of authorized shares of common stock from 20,000,000 shares to 50,000,000 shares.

The above proposals were approved and the results of the balloting at the meeting are summarized in the following table.

Proposal	Yes	No	Abstain	Withheld
(1) Walter Woltosz	13,018,648	--	--	1,571,676
(1) Virginia Woltosz	13,178,611	--	--	1,410,713
(1) Dr. David Z. D'Argenio	13,419,439	--	--	100,577
(1) Dr. Richard Weiss	13,412,743	--	--	107,273
(1) H. Wayne Rosenberger	13,450,562	--	--	69,454
(2)	13,422,342	91,905	5,769	--
(3)	13,168,499	343,420	8,097	--

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 April 14, 2008.

Simulations Plus, Inc.

Date: April 14, 2008

By: /s/ MOMOKO BERAN

Momoko Beran
Chief Financial Officer