SIMULATIONS PLUS INC
Form 10QSB
April 12, 2006

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 28, 2006 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)

FORMER ADDRESS
1220 W. AVENUE J
LANCASTER, CA 93534-2902
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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 12, 2006, was 3,690,948.

SIMULATIONS PLUS, INC.
FORM 10-QSB
FOR THE QUARTERLY PERIOD ENDED FEBRUARY 28, 2006

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PART I. FINANCIAL INFORMATION

SIMULATIONS PLUS, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET

at February 28, 2006
(Unaudited)

ASSETS

CURRENT ASSETS	
Cash and cash equivalents (Note 3)	$1,067,672
Accounts receivable, net of allowance for doubtful accounts of $19,277 (Note 4)	992,469
Inventory (Note 5)	241,852
Prepaid expenses and other current assets	33,287
Current portion of deferred tax	50,489
Total current assets	2,385,769
CAPITALIZED COMPUTER SOFTWARE DEVELOPMENT COSTS, net of accumulated amortization of $2,260,088 (Note 4)	1,308,704
LONG TERM CONTRACTS RECEIVABLE, net of discounts of $9,571	339,589
PROPERTY AND EQUIPMENT, net (Note 6)	107,839
CUSTOMER RELATIONSHIPS (Note 13)	118,442
DEFERRED TAX	1,251,800
OTHER ASSETS	29,463
TOTAL ASSETS	$5,541,606

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

SIMULATIONS PLUS, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET
at February 28, 2006
(Unaudited)

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES	
Accounts payable	$ 184,467
Accrued payroll and other expenses	308,641
Accrued warranty and service costs	35,840
Current portion of deferred revenue	14,277
Other current liabilities	1,859
Total current liabilities	545,084
DEFERRED REVENUE	--

Total liabilities	545,084
COMMITMENTS AND CONTINGENCIES (Notes 7 and 12)	--
SHAREHOLDERS' EQUITY (Note 8)	
Preferred stock, $0.001 par value	
10,000,000 shares authorized	
no shares issued and outstanding	--
Common stock, $0.001 par value	
20,000,000 shares authorized	
3,690,948 shares issued and outstanding	3,734
Additional paid-in capital	5,228,274
Accumulated deficit	(235,486)
Total shareholders' equity	4,996,522
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 5,541,606

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

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	Three months ended		
	2006	2005	2
NET SALES	$ 1,481,791	$ 1,031,776	$ 2,
COST OF SALES	387,067	370,796	
GROSS PROFIT	1,094,724	660,980	1,
OPERATING EXPENSES			
Selling, general, and administrative	687,737	535,442	1,
Research and development	119,713	131,227	
Total operating expenses	807,450	666,669	1,

INCOME (LOSS) FROM OPERATIONS	287,274	(5,689)	
OTHER INCOME (EXPENSE)			
Interest income	5,621	14,525	
Miscellaneous income	--	--	
Interest expense	--	--	
Gain on sale of assets	3,126	--	
Gain on currency exchange	3,953	--	
Total other income (expense)	12,700	14,525	
INCOME BEFORE BENEFIT FROM (PROVISION FOR) INCOME TAXES	299,974	8,836	
BENEFIT FROM (PROVISION FOR) INCOME TAXES			
Provision for income tax	(51,511)	--	
Change in valuation allowance	--	--	
Total benefit from (provision for) income taxes	(51,511)	--	
NET INCOME	$ 248,463	$ 8,836	$
BASIC EARNINGS PER SHARE	$ 0.07	$ 0.00	$
Diluted earnings per share	$ 0.06	$ 0.00	$
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING			
BASIC	3,670,878	3,608,600	3,
DILUTED	4,090,225	4,114,872	4,

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 28
(Unaudited)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 49,932	$ 31,343

Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization of property and equipment	21,466	21,518
Amortization of customer relationships	9,600	--
Amortization of capitalized software development costs	119,718	77,810
(Gain) on sale of assets	(3,126)	(5,200)
(Increase) decrease in		
Accounts receivable	212,969	197,429
Inventory	39,548	108,158
Deferred tax	9,511	--
Other assets	29,404	12,557
Increase (decrease) in		
Accounts payable	93,426	29,469
Accrued payroll and other expenses	(88,157)	22,530
Accrued bonuses to officers	(38,680)	(77,626)
Accrued income taxes	(1,600)	(1,600)
Accrued warranty and service costs	8,101	(4,412)
Deferred revenue	(126,708)	(5,708)
Net cash provided by operating activities	335,404	406,268
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(41,075)	(27,401)
Purchasse of Bioreason's assets	(826,192)	--
Sale of property and equipment	7,215	8,735
Capitalized computer software development costs	(246,154)	(198,824)
Net cash used in investing activities	(1,106,206)	(217,490)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the exercise of stock options	84,432	86,287
Net cash provided by financing activities	84,432	86,287

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 28
(Unaudited)

Net increase (decrease) in cash and cash equivalents	$ (686,370)	$ 275,065

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,754,042	734,266
CASH AND CASH EQUIVALENTS, END OF QUARTER	$ 1,067,672	$ 1,009,331
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
INTEREST PAID	$ --	$ 284
INCOME TAXES PAID	$ 1,600	$ 1,600

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

SIMULATIONS PLUS, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
(Unaudited)

Note 1: GENERAL

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

Note 2: CRITICAL ACCOUNTING POLICIES

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. Critical accounting policies for us include revenue recognition, accounting for capitalized software development costs, and accounting for income taxes.

Revenue Recognition

We recognize revenues related to software licenses and software maintenance in accordance with the American Institute of Certified Public Accountants ("AICPA") Statements of Position (SOP) No. 97-2, "Software Revenue Recognition." Product

revenue is recorded at the time of unlocking the software on the customer's computer(s), net of estimated allowances and returns. Post-contract customer support ("PCS") obligations are insignificant; therefore, revenue for PCS is recognized at the same time, and the costs of providing such support services are accrued and amortized over the obligation period.

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

Generally, we enter into one-year license agreements with our customers for the use of our software products. We recognize revenue on these contracts when all the criteria under SOP 97-2 are met.

From time to time, we enter into multi-year license agreements. We believe our history of collection with these customers is sufficient to overcome the presumption that revenue should be recognized in time with the expected cash collections, and we have therefore recognized the entire license fees, net of an applicable discount, at the time of the software's release and acceptance by the customer. Going forward, however, we have advised investors through our press releases and conference calls that we will unlock and invoice software one year at a time for future multi-year licenses. This will eliminate the extreme variability in our reported revenues and earnings that we've experienced in the past.

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 $119,718 and $77,810 for the six months ended February 28, 2006 and 2005, respectively.

Management periodically compares estimated net realizable value by product with the amount of software development costs capitalized for that product to ensure the amount capitalized is not in excess of the amount to be recovered through revenues. Any such excess of capitalized software development costs to expected net realizable value is expensed at that time.

Income Taxes

We utilize SFAS No. 109, "Accounting for Income Taxes," which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns.

The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity's financial statements or tax returns. Judgment is required in assessing the future tax consequences of events that have been recognized in our financial statements or tax returns. Fluctuations in the actual outcome of these future tax consequences could materially impact our financial position or our results of operations.

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.

Comprehensive Income

We utilize Statement of Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income." This statement establishes standards for reporting comprehensive income and its components in a financial statement. Comprehensive income as defined includes all changes in equity (net assets) during a period from non-owner sources. Examples of items to be included in comprehensive income, which are excluded from net income, include foreign currency translation adjustments and unrealized gains and losses on available-for-sale securities. Comprehensive income is not presented in our financial statements since we did not have any of the items of comprehensive income in any period presented.

Concentrations and Uncertainties

International sales accounted for 34% and 32% of net sales for the second quarter of fiscal year 2006 (FY06) and 2005 (FY05), respectively. For Simulations Plus, Inc., one customer accounted for 34% of net sales for the second quarter of FY06, and for Words+, Inc., one government agency accounted for 18% of net sales during the second quarter of FY06.

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 consolidated accounts receivable, one government agency accounted for 14%, and one customer comprised 12% of total receivables. For Simulations Plus, three customers comprised 29%, 15%, and 15% of accounts receivable at February 28, 2006. Three customers comprised 29%, 23% and 16% of accounts receivable at February 28, 2005. For Words+, one customer comprised 23% of accounts receivable at February 28, 2006. Two customers comprised 18% and 15% of accounts receivable at February 28, 2005.

Our subsidiary, Words+, Inc., purchases components for the main computer-based products from a single manufacturer. 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 December 2004, the FASB issued Statement of Accounting Standard No. 123R, "Share-Based Payment", a revision of SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS 123R supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS 123R requires all companies to measure compensation expense for all share-based payments (including employee stock options and options issued pursuant to employee stock purchase plans) based upon the fair value of the stock-based awards at the date of grant, and is effective for the Company for fiscal year beginning after December 15, 2005. The impact of adoption of Statement 123R cannot be predicted at this time because it will depend on levels of share-based payments granted in the future.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections." This statement applies to all voluntary changes in accounting principles and requires retrospective application to prior periods' financial statements of changes in accounting principles, unless this would be impracticable. This statement also makes a distinction between "retrospective application" of an accounting principle and the "restatement" of financial statements to reflect the correction of an error. This statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company is evaluating the effect the adoption of this interpretation will have on its financial position, cash flows and results of operations.

Note 3: 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.

Note 4: 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 condition of any of our customers deteriorated, whether due to customer-specific or general economic issues, an increase in the allowance may be made. Accounts receivable are written off when all collection attempts have failed.

Our long-term receivables are discounted at the present value. The discount is amortized over the life of the receivable and recognized as interest income. The balance as of February 28, 2006 represents receivables which we have purchased as a part of Bioreason's assets.

Note 5: 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.

Note 6: PROPERTY AND EQUIPMENT

Furniture and equipment as of February 28, 2006 consisted of the following:

Equipment	$ 163,607
Computer equipment	302,961
Furniture and fixtures	57,705
Automobile	21,769
Leasehold improvements	55,639
Sub total	601,681
Less: Accumulated depreciation and amortization	(493,842)
Net Book Value	107,839

Note 7: COMMITMENTS AND CONTINGENCIES

Leases

We have signed a new lease and moved to a new building on February 3, 2006. The new lease has a five-year term with two (2), three (3) year options to extend. Future minimum lease payments under non-cancelable lease were as follows:

Fiscal Year	Lease Commitment
2006	$ 131,982
2007	269,864
2008	278,955
2009	288,410
2010	298,241

Employee Agreement

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

The agreement also provides that the Company may terminate the agreement upon 30 days' written notice if termination is without cause. The Company's only obligation would be to pay its President the greater of a) 12 months salary or b) the remainder of the term of the employment agreement from the date of notice of termination.

Litigation

On April 6, we received a notice from a liquidator for the former French subsidiary of Bioreason, Bioreason SARL, saying that the liquidator has 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 to aggressively pursue our rights and now to respond to their claims. Should the plaintiff prevail, it would generate a reallocation of the purchase price of Bioreason's secured assets. A portion of long term contracts receivable would be reallocated to software and intangible. Their claims may also have some effect on the future renewals from European customers.

Note 8: 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") pursuant to which a total of 250,000 shares of common stock were reserved for issuance. The shareholders approved an additional 250,000 shares that may be granted under the Option Plan in March 1999, 500,000 shares in February 2000, and 250,000 shares in December 2000. Thus, a total of 1,250,000 shares can be granted under the Option Plan. The Option Plan terminates in 2006, subject to earlier termination by the Board of Directors. Furthermore, on February 18, 2005 at an annual shareholders meeting, the shareholders approved an additional 250,000 shares to be reserved for issuance under the 1996 Stock Option Plan.

As of February 28, 2006, options to purchase 982,836 shares have been issued and were outstanding to various employees at an exercise price equal to the fair market value of our stock price at the date of each grant, with five-year vesting periods. The outstanding options reflect the cancellation of 60,345 shares, of which 28,945 shares were due to its term for forfeiture if they are not exercised within 8 years. Also, in accordance with the by-laws of the corporation, a total of 9,206 options to purchase shares have been issued to the Board of Directors at exercise prices ranging from $1.20 to $5.25, with a three-year vesting period. During the second quarter of FY06, 40,900 options were exercised by employees.

Note 9: EARNINGS PER SHARE

We report earnings per share in accordance with SFAS No. 128, "Earnings per Share." Basic earnings (loss) per share is computed by dividing income (loss) available to common shareholders by the weighted-average number of common shares available. Diluted earnings (loss) per share is computed similar to basic earnings (loss) 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. Common equivalent shares are excluded from the computation if their effect is anti-dilutive. Our common share equivalents consist of stock options.

Note 10: STOCK-BASED COMPENSATION

In December 2004, the FASB issued Statement of Accounting Standard No. 123R, "Share-Based Payment", a revision of SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS 123R supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees," and requires all companies to measure compensation expense for all share-based payments, including employee stock options, based upon the fair value of the stock-based awards at the date of grant. SFAS 123R will be effective for us for the year beginning September 1, 2006. For fiscal year 2006, we currently account for share-based payments to employees using APB 25's intrinsic value method as permitted; therefore we do not recognize any compensation cost for employee stock options. Entities electing to remain with the accounting method of APB 25 must make pro forma disclosures of net income and earnings per share, as if the fair value method of accounting defined in SFAS No. 123 had been applied. We have elected to account for our stock-based compensation to employees under APB 25.

The table below represents a reconciliation of our pro forma net income giving effect to the estimated compensation expense related to stock options that would have been reported if we had utilized the fair value method:

	Six Months FY 2006	Six Months FY 2005
Net income (loss)		
As reported	$ 49,932	$ 31,343
Stock based employee compensation cost, net of related tax effects, that would have been included in the determination of net income if the fair value method had been applied	(67,311)	(126,471)
PRO FORMA NET INCOME (LOSS)	$ (17,379)	$ (95,128)
Earnings (loss) per common share		
Basic - as reported	$ 0.01	$ 0.01
Basic - Pro forma	$ 0.00	$ (0.03)
Diluted - as reported	$ 0.01	$ 0.01
Diluted - Pro forma	$ 0.00	$ (0.02)

Note 11: 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 28, 2006 and February 28, 2005:

	February 28, 2006			
	Simulations Plus, Inc	Words +, Inc.	Eliminations	
Net Sales	1,082,788	1,217,818		
Income (loss) from operations	(20,410)	68,924		
Identifiable assets	5,748,165	1,579,578	(1,786,137)	
Capital expenditures	23,514	22,562		
Depreciation and Amortization	6,792	14,674		

	February 28, 2005			
	Simulations Plus, Inc	Words +, Inc.	Eliminations	
Net Sales	933,602	1,164,648		
Income (loss) from operations	(37,533)	30,553		
Identifiable assets	5,521,678	1,246,860	(1,724,324)	
Capital expenditures	5,053	22,348		
Depreciation and Amortization	7,102	14,416		

In addition, the Company allocates revenues to geographic areas based on the locations of its customers. Geographical revenues for the six months ended February 28, 2006 and February 28, 2005 were as follows (in thousands):

	February 28, 2006				
	North America	Europe	Asia	Oceania	South America
Simulations Plus, Inc.	526	316	241	-0-	-0-
Words+, Inc.	1,072	107	26	11	2
Total	1,598	423	267	11	2

February 28, 2005

	North America	Europe	Asia	Oceania	South America
Simulations Plus, Inc.	514	209	210	-0-	-0-
Words+, Inc.	1,009	111	33	12	-0-
Total	1,523	320	243	12	-0-

Note 12: SUBSEQUENT EVENT

Press Release
We announced the full release of ClassPharmer 4.0 in March 2006.

Litigation
On April 6, we received a notice from a liquidator for the former French subsidiary of Bioreason, Bioreason SARL, saying that the liquidator has 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 to aggressively pursue our rights and now to respond to their claims. Should the plaintiff prevail, it would generate a reallocation of the purchase price of Bioreason's secured assets. A portion of long term contracts receivable would be reallocated to software and intangible. Their claims may also have some effect on the future renewals from European customers.

Note 13: PURCHASE OF BIOREASON'S ASSETS

On November 4, 2005, we purchased certain secured assets of Bioreason, Inc., a technology company, for $826,192. Since the appraised value was greater than the actual purchase price, the remaining amount, after allocation to the contracts receivable, was allocated proportionally to the other assets purchased.

The purchase price was allocated as it follows.

Assets	Allocated amounts
Long-Term contracts receivable	$ 447,496
Property and equipment	5,001
Software	245,653
Customer relationships	128,042
Total	$ 826,192

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" or "us") and its wholly owned subsidiary, Words+, Inc. ("Words+") produce different types of products: (1) Simulations Plus, incorporated in 1996, develops and produces modeling and simulation 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 five software products for pharmaceutical research: ADMET

Modeler(TM), ADMET Predictor(TM), ClassPharmer(TM), DDDPlus(TM), and GastroPlus(TM).

ADMET MODELER

ADMET (Absorption, Distribution, Metabolism and Excretion and Toxicity) Modeler was first released in July of 2003. This powerful program is used to generate the predictive models used in ADMET Predictor in a small fraction of the time once required to build these models. For example, the new toxicity models were developed in a matter of a few hours once we completed the tedious effort of

"cleaning up" the databases (which seem to always contain a number of errors). Prior to the availability of ADMET Modeler, we would have needed as much as three months after cleaning the databases for each new model to obtain similar results.

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

At the end of the 2nd quarter, a beta version of a new release of ADMET Modeler was undergoing in-house testing. This version improves the support vector machine ensemble modeling to include classification models (e.g., high/medium/low classes for a predicted property) as well as regression models (i.e., models that predict a continuous numerical value for a property). Several other improvements have also been added. We expect release of this new version during the 3rd fiscal quarter.

ADMET PREDICTOR

ADMET Predictor consists of a library of statistically significant numerical models that predict a variety of properties of chemical compounds from just their molecular structures. This kind of predictive capability means a chemist can merely draw a molecule diagram and get reasonable estimates of these properties, even though the molecule has never existed. Drug companies search through millions of such molecular structures as they attempt to find new drugs. The vast majority of these molecules are not suitable as medicines. 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 the compounds 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.

During the 2nd quarter, improvements were made to the program to include a convenient model editor and to add an algorithm whereby scientists can now add

their own data and extend any of the predictive models into their own "chemical space" when it is significantly different from that of the data used to train the model. A sensitivity depiction was also added to allow scientists to see to which particular descriptors (molecular features) a property is most sensitive. This information is helpful to chemists to enable them to see how different molecular structural features affect various ADMET properties. This version is in final beta test and is expected to be released in the 3rd quarter.

CLASSPHARMER(TM)

In November 2005, we acquired certain secured assets of Bioreason, Inc. from its former creditors, including two patents governing classification algorithms and a software package called ClassPharmer. ClassPharmer is a molecule classification software program, similar in nature to ChemTK(TM), which we acquired from Sage Informatics in August 2005, but with more sophisticated proprietary classification algorithms and various additional convenience features. ClassPharmer was programmed in a combination of programming languages that make it run much more slowly than ChemTK, and certain elements of the ChemTK user interface are more user-friendly and visually pleasing than ClassPharmer.

Our strategy for acquiring ChemTK from Sage was to eventually integrate it with ClassPharmer and make a single package, which will become ClassPharmer 4.0 (our current version is ClassPharmer 3.5). This effort has progressed well during this reporting period, and we delivered beta versions of ClassPharmer 4.0 to a number of ClassPharmer 3.5 customers in Europe and Japan in February 2006. Note: in a subsequent event to this reporting period, we released ClassPharmer 4.0 in March 2006.

DDDPLUS

DDDPlus (Dose Disintegration and Dissolution Plus) was first released in February 2005. DDDPlus simulates how different tablets and capsules disintegrate and dissolve during IN VITRO (laboratory) dissolution experiments. The program also simulates the effects of changing formulation excipients (additives that are not the active drug), and changing the experimental apparatus and fluids used in the experiment. We believe this tool will be a valuable asset for formulation scientists as they search for optimum formulations that provide desirable properties at minimum cost, as well as optimum experimental conditions under which to measure disintegration and dissolution to best predict what will happen in human. The market for this tool includes hundreds of drug delivery companies as well as all pharmaceutical and biotech companies.

Over 60 companies evaluated Version 1.0 of DDDPlus. This is an indication of the strong interest and business potential in this area. However to date, few licenses have been sold. Through the evaluation process, we received valuable feedback about what would be required for various customers to license the software, and we have now incorporated those improvements. We have also added significant new functionality by enabling formulation scientists to optimize experimental conditions to achieve a desired dissolution-time profile, and to handle polymer matrix formulations that are often used in controlled release formulations. These features are in final beta test and a full release of version 2.0 is expected in the 3rd quarter. Demonstrations of the beta version over the last two months have resulted in keen interest at customer sites.

We remain confident that significant sales of DDDPlus licenses will take place. The initial release served us well to stimulate interest in this first-of-its-kind software and to get formulation scientists thinking about how to use such a capability in their work.

GASTROPLUS

GastroPlus simulates the absorption and pharmacokinetics of drugs in the human gastrointestinal tract as well as in a number of standard laboratory animals. This sophisticated simulation has equations for the movement of the drug through the gastrointestinal tract, how fast it dissolves or precipitates along the way, whether it is converted to a different molecular form (i.e., degraded) in the gastrointestinal tract prior to absorption, and how fast it is absorbed through various regions of the intestinal wall into the blood stream. With additional inputs, it also simulates the concentration of drug in the blood plasma versus time. With the optional PBPKPlus(TM) Module, released during this reporting period, concentrations in a variety of tissues and organs can now also be predicted. With the optional PDPlus(TM) module, the program can also simulate how a drug affects the body, such as reducing pain, reducing blood pressure, reducing depression, and causing adverse side effects.

GastroPlus is used from early drug discovery through development and into early clinical trials. The information provided through these simulations guides project decisions in various ways. Among the kinds of knowledge gained through such simulations are: (1) 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, (2) whether the absorption process is affected by certain transporter proteins in the intestinal tract that may cause absorption to be very different from one region to another, (3) when certain properties of

a new compound can be adequately estimated through computer ("in silico") predictions or simple experiments rather than through more expensive and time-consuming experiments, (4) what the likely variations in blood and tissue concentration levels would be in a large population, in different age groups or in different ethnic groups, and (5) whether a new generic formulation for an existing approved drug is likely to demonstrate "bioequivalence" (equivalent blood concentration versus time) to the currently marketed dosage form in a human trial.

Our marketing intelligence indicates that GastroPlus is the industry "gold standard" for this type of simulation, enjoying a dominant position in the number of users worldwide. In addition to virtually every major pharmaceutical company, licenses include a growing number of 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 considerably smaller than the pharmaceutical giants, they can also save considerable time and money through simulation. We believe this part of the industry, which includes hundreds of companies, represents major growth potential for GastroPlus. Our experience has been that the number of new companies adopting GastroPlus shows steady growth, adding to the base of annual licenses each year.

We are aware that other companies have developed competitive software; however,

based on customer feedback, we believe that the competitive threat to GastroPlus is limited. Version 5.0 with the new PBPKPlus(TM) module, released during this reporting period, further extends the utility of GastroPlus. 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 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.

CONTRACT RESEARCH SERVICES

In addition to our software products, we also offer contract research services to the pharmaceutical industry in the area of gastrointestinal absorption, pharmacokinetics, structure-property model building, and related technologies. These studies provide us an additional source of revenue, as well as a means to introduce our software products to new customers. Such studies are also beneficial to us to validate and enhance our products by studying actual data in the pharmaceutical industry. The business of contracted studies is growing, and we believe it could contribute significantly to our revenues and earnings; however, we plan to control growth in this area such that it does not adversely impact our product development stream.

PHARMACEUTICAL SIMULATIONS SOFTWARE PRODUCT DEVELOPMENT

Although all of our development work cannot be disclosed for competitive reasons, some of our development efforts during this reporting period included:

(1) MULTIPLE PARTICLE SIZE DISSOLUTION MODEL

The current dissolution model in GastroPlus uses a single "effective" particle size. While this has adequately represented the dissolution of most tablets, capsules, and suspensions to date, formulation researchers know that real dosage forms do not consist of particles that are all one size. Instead, there is a distribution of particle sizes from smaller than average to larger than average. Smaller particles dissolve faster than larger particles. For some drugs, this results in dissolution behavior that is not well-modeled with a single effective particle size. This new model will allow formulation researchers to assess the effects of different particle size distributions on dissolution and absorption. The multiple particle size model has already been incorporated into a beta version of GastroPlus that is undergoing testing both in-house and at selected customer sites. We expect full release of this version in the 3rd quarter.

(2) ADMET PREDICTOR UPGRADES

The initial toxicity predictions in ADMET Predictor were released during fiscal year 2005, and we have continued to add new toxicity models steadily. At this time, we are working on additional such models, but we are not revealing their nature for competitive reasons.

(3) MEMBRANEPLUS(TM)

MembranePlus is a computer program that simulates IN VITRO experiments that measure the permeability of new drug-like molecules through a layer of living cells or through an artificial membrane. These experiments are conducted in

order to estimate the permeability of new drug compounds through the human intestinal wall and into the blood. However, such experiments do not produce results that are easily translated into human permeabilities. We believe that a detailed mechanistic simulation of these IN VITRO experiments will provide the insight and understanding needed to provide reasonably accurate estimates of permeability in different regions of the human intestinal tract from IN VITRO data.

This development effort accelerated during fiscal year 2005 with the hiring of a new Ph.D. scientist who focused on this program. We have now progressed to the point where the simulation is predicting the movement of drug molecules through the bulk fluid, into the membranes at the surface of a cell layer, through the surface membrane, through the interior of the cell, into the opposite surface membrane, and through it to the bulk fluid on the opposite side of the cell layer. Although a few technical issues remain to be resolved, we are optimistic that the simulation will become a unique tool for the analysis of data from these experiments, and will enable researchers to more accurately human intestinal permeability from these IN VITRO experiments. We are not aware of any other effort to produce a product of this nature.

This project was put on hold in September 2005 because the previous product manager for GastroPlus took a position with another company, and the scientist responsible for MembranePlus was assigned to take over GastroPlus. She has done an excellent job with GastroPlus, completing the PBPKPlus Module and all of the many associated changes that accompanied it during this reporting period. She will continue to work on GastroPlus as needed, but will also work on MembranePlus again as GastroPlus activities allow. We are currently interviewing several candidates to expand our life sciences team, with at least in this area to provide her with assistance on these two projects.

WORDS+

PRODUCTS

Our wholly owned subsidiary, Words+, Inc. has been an industry pioneer and technology leader for over 24 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 and Say-it! SAM, as well as our growing line of hardware products. We will also consider 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. At the CSUN conference in March 2005, we introduced the SAM Tablet XP1, our Windows XP-based tablet. At the Closing the Gap conference in October 2005, we announced the expected December release of our SAM for PC version, allowing SAM to be distributed on virtually any Windows XP desktop or laptop computer. All received enthusiastic responses from both potential customers and Words+ dealers alike.

RESULTS OF OPERATIONS

COMPARISON OF THREE MONTHS ENDED FEBRUARY 28, 2006 AND 2005.

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		
	02/28/06		02/2
Net sales	$ 1,482	100%	$ 1,032
Cost of sales	387	26.1	371
Gross profit	1,095	73.9	661
Selling, general and administrative	690	46.5	535
Research and development	118	8.0	131
Total operating expenses	808	54.5	666
Income (loss) from operations	287	19.4	(5)
Other income	13	0.9	14
Net income before taxes	300	20.2	9
Provision for income taxes	52	3.5%	-
Net income	$ 248	16.7%	$ 9

NET SALES

Consolidated net sales increased $450,000, or 43.6%, to $1,482,000 in the second fiscal quarter of 2006 (2Q FY06) from $1,032,000 in the second fiscal quarter of 2005 (2Q FY05). Our sales from pharmaceutical and educational software increased approximately $474,000, or 115.5%; and our Words+, Inc. subsidiary's sales experienced a slight decrease of approximately $24,000, or 3.8%, for the quarter. We attribute $300,000 of the increase in pharmaceutical software sales to a global renewal order from a large customer, which we had received in the first quarter of FY05, but was received just after the start of the second quarter in FY06. The additional $174,000 was from new business, including some revenues from the ClassPharmer software which we acquired in November 2005.

We attribute the decrease in Words+ sales primarily a decrease in sales of "TuffTalker" and "Freedom" products which outweighed increases in Software sales, "TuffTalker Plus" products and decreases in insurance discounts.

COST OF SALES

Consolidated cost of sales increased $16,000, or 4.3%, to $387,000 in the 2Q FY06 from $371,000 in the 2Q FY05. The percentage of cost of sales in the 2Q FY06 decreased 9.8% from the 2Q FY05. For Simulations Plus, absolute cost of sales increased $79,000, or 140.8%. As a percentage of sales, cost of sales increased to 15.3% in FY06 from 13.7% in FY05. A significant portion of cost of sales is the systematic amortization of capitalized software development costs, which is an independent fixed cost rather than variable cost relates to sales. The amortization cost increased approximately $30,000, or 157.9%, in the 2Q FY06 comparing with the same period in FY05.

For Words+, cost of sales decreased $63,000, or 19.9%. As a percentage of sales, cost of sales decreased 8.5% between the 2Q FY06 and 2Q FY05. We attribute the percentage decrease in cost of sales for Words+ primarily to the ability to obtain purchase discounts by volume purchases of computers and PDAs, which are main parts for the systems we sell.

GROSS PROFIT

Consolidated gross profit increased $434,000, or 64.9%, to $1,095,000 in the 2Q FY 06 from $661,000 in the 2Q FY05. We attribute this increase to the increase in sales of pharmaceutical software in addition to an increase in profit margin on Words+ products.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Consolidated selling, general and administrative expenses increased $155,000, or 29.0%, to $690,000 in the 2Q FY06 from $535,000 in the 2Q FY05. For Simulations Plus, selling, general and administrative expenses increased $131,000, or 44.1%. One of the major increases in expenses was legal fees which were incurred to communicate with an attorney in France, who represented an employee at the former French subsidiary of Bioreason, and who was contesting our ClassPharmer distribution rights in Europe. Other increases were in an accounting fee which was incurred for a value assessment of the Bioreason assets provided by an independent firm, selling expenses, such as commissions to dealers and travel expenses, salary and payroll-related expenses such as health insurance and payroll taxes, rent, moving expense, and recruiting costs, which outweighed decreases in investor relations, dues and subscriptions, and supplies.

For Words+, expenses increased $24,000, or 9.8%, due primarily to increases in salaries, payroll taxes, selling expenses, such as commission and travel expenses, technical service costs and supplies. These increases outweighed decreases in depreciation, repairs, and insurance.

RESEARCH AND DEVELOPMENT

We incurred approximately $223,000 of research and development costs for both companies during the 2Q FY06. Of this amount, $103,000 was capitalized and $120,000 was expensed. In the 2Q FY05, we incurred $210,000 of research and development costs, of which $79,000 was capitalized and $131,000 was expensed. The increase of $13,000, or 6.2%, in research and development expenditures from the 2Q FY05 to the 2Q FY06 was due primarily to salary increases to existing

staff.

OTHER INCOME

Net other income in the 2Q FY06 decreased by $1,000, from net income of $14,000 to net income of $13,000. This is due primarily to the decrease in the amortization of present value discounts on long-term receivables which we fully amortized by May 2005. We incurred other long-term receivables from a part of the Bioreason assets purchase, however, their amortized interest was $4,000 in the 2Q FY06, while the amortized interest income we had in the 2Q FY05 was $12,000. Although there were gains of $7,000 from currency exchange and sale of assets, they did not overcome the decrease in amortized interest income.

PROVISION FOR INCOME TAX

We estimated income taxes of $10,000 at the end of February 28, 2006. At the end of the first fiscal quarter of FY06, we estimated an income tax benefit of $42,000 (because of the loss during that quarter). To consolidate these amounts, we recorded an estimated income tax for $52,000 in the 2Q FY06, while there was no income tax benefit (or provision) in the 2Q FY05.

NET INCOME

Consolidated net income for the three months' operations increased by $239,000, or 2,655.6%, to $248,000 in the 2Q FY06 compared to $9,000 in the 2Q FY05. We attribute this increase in profit primarily to the increases in pharmaceutical software and other income along with the improvement in gross margin. Although there were increases in Selling, general and administrative expense, research and development expenditure, a provision for income taxes, the increase in revenues combined with improved profit margins outweighed the increased expenses.

COMPARISON OF SIX MONTHS ENDED FEBRUARY 28, 2006 AND 2005.

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		
	02/28/06		02/2
Net sales	$ 2,301	100%	$ 2,098
Cost of sales	719	31.3	693
Gross profit	1,582	68.8	1,405
Selling, general and administrative	1,316	57.2	1,167
Research and development	217	9.4	245
Total operating expenses	1,533	66.6	1,412

Income (loss) from operations	49	2.1	(7)
Other income	11	0.5	38
Net income before taxes	60	2.6	31
Provision for income taxes	10	1.4	-
Net income	$ 50	2.2%	$ 31

NET SALES

Consolidated net sales increased $203,000, or 9.7%, to $2,301,000 in the first six months of fiscal year 2006 (FY06) from $2,098,000 in the first six months of fiscal year 2005 (FY05). Our sales from pharmaceutical and educational software increased approximately $150,000, or 16.0%; and our Words+, Inc. subsidiary's sales increased approximately $53,000, or 4.6%, for the six months ended at February 28, 2006. We attribute the increase in pharmaceutical software sales primarily to the revenue from ClassPharmer sales which we purchased in November 2005 to make a new ClassPharmer combined with ChemTK, another purchased product in August 2005.

We attribute the increase in Words+ sales primarily an increase in sales of our "Say-it! SAM" product. Some declines in "TuffTalker" and "Freedom" product sales were offset by the increases in sales of "TuffTalker Plus" and a mix of other products.

COST OF SALES

Consolidated cost of sales increased $26,000, or 3.8%, to $719,000 in the first six months of FY06 from $693,000 in the first six months of FY05. The percentage of cost of sales in the first six months of FY06 decreased 1.7% from the first six months of FY05. For Simulations Plus, absolute cost of sales increased $62,000, or 59.6%. As a percentage, cost of sales increased to 15.3% in FY06 from 11.1% in FY05. A significant portion of cost of sales is the systematic amortization of capitalized software development costs, which is an independent fixed cost rather than a variable cost related to sales. The amortization cost increased approximately $44,000, or 168.6%, in the first six months of FY06 compared with the same period in FY05.

For Words+, cost of sales decreased $36,000, or 6.1%. As a percentage, cost of sales decreased 5.2% between the first six months of FY06 and FY05. We attribute the percentage decrease in cost of sales for Words+ primarily to the ability to obtain purchase discounts through volume purchases of computers and PDAs, which are main parts for the systems we sell.

GROSS PROFIT

Consolidated gross profit increased $177,000, or 12.6%, to $1,582,000 in the first six months of FY06 from $1,405,000 in the first six months of FY05. We attribute this increase to the increase in sales of pharmaceutical software in

addition to an increase in profit margin on Words+ products.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Consolidated selling, general and administrative expenses increased $149,000, or 12.8%, to $1,316,000 in the first six months of FY06 from $1,167,000 in the first six months of FY05. For Simulations Plus, selling, general and administrative expenses increased $130,000, or 20.1%. The major increases in expenses were selling expenses, such as trade shows and travel, legal fees which were incurred for the acquisition of assets from Sage Informatics and Bioreason, and by legal communications with a former employee of the former French subsidiary of Bioreason regarding ClassPharmer distribution rights in Europe, as well as salary and payroll-related expenses such as health insurance and payroll taxes, rent, and recruiting costs, which outweighed decreases in investor relations, equipment rental, and dues and subscriptions.

For Words+, expenses increased $19,000, or 1.6%, due primarily to increases in commissions, advertising, salaries, payroll tax, technical service costs, and supplies. These increases outweighed decreases in trade shows, contract labor, Contribution, and equipment repair.

RESEARCH AND DEVELOPMENT

We incurred approximately $709,000 of research and development costs for both companies during the first six months of FY06. Of this amount, $492,000, including allocation of the appraised value of $245,653 on the ClassPharmer software, was capitalized and $217,000 was expensed. In the first six months of FY05, we incurred $444,000 of research and development costs, of which $199,000 was capitalized and $245,000 was expensed. The increase of $265,000, or 59.7%, in research and development expenditures from the first six months of FY05 to the first six months of FY06 was due primarily to our acquisition of the ClassPharmer software and salary increases to existing staff.

OTHER INCOME (EXPENSE)

Net other income in the first six months of FY06 decreased by $27,000, from net income of $38,000 to $11,000. This is due primarily to the decrease in the amortization of present value discounts on long-term receivables which we had fully amortized by May 2005. We incurred other long-term receivables from a part of the Bioreason assets purchase; however, their amortized interest was $4,000 in the first six months of FY06, while the amortized interest revenue we had in the same period of FY05 was $28,000. There were also decreases in gains from currency exchange and sales of assets in the first six months of FY06 compared with the same period of FY05.

PROVISION FOR INCOME TAX

We estimated an income tax of $10,000 for the first six months of FY 06, while there was no income tax benefit or provision in the first six months of FY05.

NET INCOME

Consolidated net income for the first six months of FY06 increased by $19,000, or 61.3%, to $50,000 compared to $31,000 in the first six months of FY05. We

attribute this increase in profit primarily to the increases in sales from both pharmaceutical software licenses and Words+ products, which outweighed increases in operating expenses and income tax, and the decrease in other income.

LIQUIDITY AND CAPITAL RESOURCES

The Company's principal sources of capital have been cash flows from its operations and a bank line of credit. The Company did not renew a revolving line of credit for $500,000 from a bank in May 2005 because the Company did not use it during the prior year and did not expect to need it in the near future. The Company will consider re-applying for the line of credit when there is a need for it.

The Company believes that existing capital and anticipated funds from operations will be sufficient to meet its anticipated cash needs for working capital and capital expenditures for the foreseeable future. Thereafter, if cash generated from operations is insufficient to satisfy the Company's capital requirements, the Company may apply for a loan from a bank and 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 the Company, or, if available, that it will be in amounts and on terms acceptable to the Company. 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 loss from currency exchange in the first six months of FY06. 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 was no change in Company's internal control over financial reporting during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's Internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On April 6, we received a notice from a liquidator for the former French subsidiary of Bioreason, Bioreason SARL, saying that the liquidator has 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 to aggressively pursue our rights and now to respond to their claims. Should the plaintiff prevail, it would generate a reallocation of the purchase price of Bioreason's secured assets. A portion of long term contracts receivable would be reallocated to software and intangible. Their claims may also have some effect on the future renewals from European customers.

Item 2. Changes in Securities

None.

Item 3. Defaults Upon Senior Securities

None.

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

On February 24, 2006, the Registrant held its annual meeting of shareholders. The following proposals were submitted to a vote of security holders at the meeting.

1. Election of directors

Walter Woltosz
Virginia Woltosz
Dr. David Z. D'Argenio
Dr. Richard Weiss

2. Ratification of the selection of Rose, Snyder, and Jacobs as the Company's independent accountants.

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)	3,143,313	--	--	5,101
(2)	3,148,147	--	267	--

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 12, 2006.

Simulations Plus, Inc.

Date: April 12, 2006 By: /s/ MOMOKO BERAN

Momoko Beran
Chief Financial Officer