SIMULATIONS PLUS INC
Form 10KSB
November 26, 2008

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-KSB

[x] ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended August 31, 2008

or

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

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)	(I.R.S. Employer Identification No.)
42505 TENTH STREET WEST LANCASTER, CA 93534-7059	(661) 723-7723
(Address of principal executive offices including zip code)	(Issuer's telephone number, including area code)

SECURITIES REGISTERED UNDER SECTION 12(b) OF THE ACT:
COMMON STOCK, PAR VALUE $0.001 PER SHARE

SECURITIES REGISTERED UNDER SECTION 12(G) OF THE ACT: NONE

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act 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 [ ]

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of Exchange Act.) Yes [ ] No [X]

The issuer had revenues of approximately $8,968,000 for the fiscal year ended August 31, 2008.

As of November 25, 2008, the aggregate market value of the common equity held by non-affiliates of the issuer (9,034,500 shares) was approximately $9,395,880 based upon the November 25, 2008 closing price ($1.04) of one share on such date.

As of November 25, 2008, the issuer had outstanding 16,406,400 shares of common stock and no shares of preferred stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement relating to the 2008 Annual Meeting of Shareholders are incorporated herein by reference into Part III.

SIMULATIONS PLUS, INC.
FORM 10-KSB
FOR THE FISCAL YEAR ENDED AUGUST 31, 2008

Table of Contents

FORWARD-LOOKING STATEMENTS

CERTAIN STATEMENTS IN THIS ANNUAL REPORT ON FORM 10-KSB, 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 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 SHAREHOLDERS 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.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

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 independent studies have now been published that compare the predictive accuracy of software programs like ADMET Predictor. In each case, ADMET Predictor has been ranked first in accuracy (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(TM). 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 the 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 for each new model after cleaning the databases 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 integrated into ADMET Predictor, 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 in December 2007. Although our Phase I study clearly demonstrated that we were 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, the 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 was easily disproved, and we submitted our revised proposal in August 2008. We continued the work under our own funding and showed even greater improvements in predictive capability, which we subsequently incorporated in the latest release of ADMET Predictor (Version 3.0 - see below).

We recently received notification that our revised Phase II proposal received a favorable score; however, although we are optimistic, we have not yet been officially advised whether it will be funded. The Phase II proposal is for approximately $750,000 over two years.

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.

During this reporting period, we announced the release of Version 3.0, a major upgrade, on July 2, 2008. This version incorporates modifications that provide enhanced user convenience and data analysis capabilities in both ADMET Predictor and ADMET Modeler. A total of 14 new predictive models were also added, including five for intrinsic clearance by the five major metabolizing enzymes, eight for metabolic inhibition, and one new toxicity model. A powerful new graphics capability is included that allows users to visualize results in multiple dimensions (e.g., X, Y, Z, color, size, and shape can display 6-dimensional information). We added an improved genetic algorithm for automatically selecting the best molecular descriptors for modeling a particular molecular property. We have updated all of our models using the new partial charge descriptors developed under last year's SBIR grant from the NIH and further enhanced during the months since Phase I was completed. We have also obtained additional toxicity databases that will be used to extend the number of toxicity predictions in future versions. Tight integration with both GastroPlus and ClassPharmer has now been achieved. Licenses of smaller ADMET Predictor modules have already been purchased by users who want the combined capabilities of GastroPlus or ClassPharmer with predicted properties from ADMET Predictor, but who do not need the full capabilities of ADMET Predictor/ADMET Modeler. The U.S. Food and Drug Administration was one of the first organizations to order GastroPlus with the new ADMET Predictor Module.

CLASSPHARMER(TM)

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 new molecules) using different algorithms to ensure that the new molecules are both active against the target while also being acceptable in a variety of ADMET (Absorption, Distribution, Metabolism, Excretion and Toxicity) properties.

Improvements during the fourth 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. ClassPharmer 4.5 was released on June 2, 2008. This new version added an expanded molecule design 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 continue to 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, including 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 the next update of DDDPlus has included making the program match the user interface in our flagship GastroPlus product as closely as possible since many formulation scientists can use both programs. Additions to the programs capabilities and built-in databases for excipient ingredients and dissolution media have also been made. A new release of DDDPlus is planned before the end of 2008.

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. At an international conference in Shanghai, China, in May 2008, Pfizer scientists presented a scientific poster that described a two-year study in which all four commercially available PBPK (physiologically based pharmacokinetics) simulation programs on the market were compared for their ability to predict human pharmacokinetics from preclinical (animal and IN VITRO) data. The study was divided into two arms: intravenous and oral dosing. GastroPlus was ranked first in both arms. No other software was ranked consistently second or third, and one competitor was consistently last in both arms. This independent evaluation, which was accomplished via analysis of 21 Pfizer proprietary compounds with data all the way through human trials, provides the strongest possible validation of the utility of GastroPlus in pharmaceutical research and development.

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.

On May 19, 2008, we announced the release of GastroPlus version 6.0 - a major new release that includes several important improvements to the program. We improved the PKPlus(TM) Module to enable it to fit pharmacokinetic models to multiple data sets, including both intravenous and oral dosage forms. The feedback we have received from customers for that change has been enthusiastic. We made further improvements to the new sophisticated kidney model to simulate how drugs are cleared in urine. We added numerous 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 therapeutically active, while others can be toxic, so knowing how much is produced and where it goes is valuable information to assess the likelihood of both therapeutic and 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 government agencies in the U.S and abroad, a growing number of smaller pharmaceutical and biotech companies, generic drug companies, and drug delivery companies (companies that design the tablet or capsule for a drug compound that was developed by another company). Although these companies are smaller than the pharmaceutical giants, 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.

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. Long-term collaborations and shorter-term consulting contracts serve both to showcase our technologies and as a way to build and strengthen customer relationships.

For example, during both the 3rd and 4th quarters, 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. We announced an award with a top three pharmaceutical company for a one-year collaboration at a level of one full time equivalent (FTE) scientist to develop and validate the ocular delivery model.

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 revised Phase II proposal received a favorable score, and we are waiting for notification regarding whether it will be funded.

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) ADMET Predictor/ADMET Modeler Upgrades

As part of our Small Business Innovation Research grant with the National Institutes of Health, we have developed a method to very rapidly calculate charges on molecules. This has normally required extensive computer time (sometimes a day or more for one molecule), making such calculations impractical for rapid property predictions for new molecules. Charges are important in predicting a variety of properties, especially those involving chemical reactions such as metabolism. Our new methods have been demonstrated to provide the high throughput (>200,000 molecules per hour) needed to use charge-based molecular descriptors in property models, reducing calculations from about two CPU-years to a few minutes for a data set of thousands of charges.

We are also working on other improvements to ADMET Predictor/ADMET Modeler that will be announced in the coming months.

(2) DDDPlus

We have continued to improve DDDPlus by adding capabilities and features requested by our customers and potential customers who have been conducting beta testing, as well as capabilities and features identified in-house.

(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. The simulation is currently 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 estimate 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 scientist responsible for MembranePlus, Dr. Viera Lukacova, was assigned to take over GastroPlus when the previous product manager left the company. She has done an outstanding job with GastroPlus, and has been promoted to Simulation Technologies Team leader. We are interviewing candidates to expand the Simulation Technologies Team, one of whom may work on MembranePlus under Dr. Lukacova's direction.

MARKETING AND DISTRIBUTION

We market our pharmaceutical software and consulting services through attendance and presentations at scientific meetings, exhibits at trade shows, seminars at pharmaceutical companies and government agencies, through our web pages on the Internet, and using various communication media to our compiled database of prospect and customer names. Our scientific team is also a key part of our sales and marketing team. We believe that this is more effective than a completely separate sales team for several reasons: (1) customers appreciate talking directly with developers who can answer a wide range of technical questions about methods and features, (2) our scientists benefit from direct customer contact through gaining an appreciation for the environment and problems of the customer, and (3) the relationships we build through scientist-to-scientist contact are stronger than through salesperson-to-scientist contacts. We also have one former scientist/programmer who moved into full-time marketing and sales about two years ago and has done an excellent job of bringing in new business.

We use our web pages on the Internet to provide product information, provide software updates, and as a forum for user feedback and information exchange. We have cultivated market share in North America, Europe, and in Japan, and Internet and e-mail technologies have had a strong positive influence on our ability to communicate with existing and potential customers worldwide.

PRODUCTION

Our pharmaceutical software products are designed and developed entirely by our development team, with locations in our Lancaster, Petaluma, and San Diego, California. The principal materials and components used in the manufacture of simulation software products include CD-ROMs and instruction manuals, which are also produced in-house. Robotic CD burner technology along with in-house graphic art and engineering talent enable us to accomplish this production in a cost-efficient manner.

COMPETITION

In our pharmaceutical software and services business, we compete against a number of established companies that provide screening, testing and research services, and products that are not based on simulation software. There are also software companies whose products do not compete directly, but are sometimes closely related. Our competitors in this field include companies with financial, personnel, research and marketing resources that are greater than ours. Management believes there is currently no significant competitive threat to GastroPlus or DDDPlus. ClassPharmer and ADMET Predictor/ADMET Modeler operate in a more competitive environment; however, independent product comparisons have

been very favorable toward our offerings, with ADMET Predictor consistently ranked first in predictive accuracy. Several other companies presently offer simulation or modeling software, or simulation-software-based services, to the pharmaceutical industry.

Major pharmaceutical companies conduct drug discovery and development efforts through their internal development staffs and through outsourcing some of this work. Smaller companies need to outsource a greater percentage of this research. Thus, we compete not only with other software suppliers, but also with the in-house development teams at some pharmaceutical companies.

We are not aware of any significant threat from competition in the area of gastrointestinal absorption simulation. Although competitive products exist, both new licenses and license renewals for GastroPlus have continued to grow in spite of this competition. We believe that we enjoy a dominant market share in this segment.

We believe the key factors in competing in this field are our ability to develop industry-leading simulation and modeling software and related products and services to effectively predict activities and ADMET-related behaviors of new drug-like compounds, to design new molecules with acceptable activity and ADMET properties, to develop and maintain a proprietary database of results of physical experiments that will serve as a basis for simulated studies and empirical models, to attract and retain a highly skilled scientific and engineering team, and to develop and maintain relationships with research and development departments of pharmaceutical companies, universities and government agencies.

We are actively seeking acquisitions to expand the pharmaceutical software and services business, and we are currently in discussions with several companies in this regard. Earlier attempts to acquire other companies were not successful. We believe the current discussions are with companies for which acceptable deal structures are more likely to be realized; however, there can be no assurances that any of these deals will take place.

WORDS+

PRODUCTS

Our wholly owned subsidiary, Words+, Inc., has been an industry pioneer and technology leader for over 27 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 acquired 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 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 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 fiscal year, after the introduction of the newest Say-it! SAM

version late in the first quarter, sales of our new PDA-based (personal-digital-assistant-based) Say-it! SAM augmentative communication device set new records, contributing nicely to the highest quarter in our history in the third quarter. Just before the end of the last quarter we introduced the Conversa(TM). This product offers the most human-sounding synthetic speech output available in the marketplace utilizing AT&T synthetic voices and our new custom

designed Sound Pack. To quote one young adult client who changed to the Conversa after using a variety of augmentative communication devices from our competitors for most of her life "I actually sound like a regular woman for the first time in my life!" We are adding the Sound Pack design to other products.

We have clients utilizing new access methods such as the Fiber Optic Switch that is a new part of our product line, a new EMG (muscle signal) switch called Libertas and eye gaze systems from a variety of manufacturers, and we are regularly evaluating and interfacing new access technology.

MARKETING AND DISTRIBUTION

We market augmentative and alternative communication products through a network of employee representatives and independent dealers and resellers.

At the present time we have 36 sales representatives worldwide: 1 salaried sales manager in California, 12 independent distributors and 6 independent resellers in the U.S., and 16 sales representatives overseas - 4 in Australia, and 1 each in New Zealand, Canada, England, Norway, Finland, The Netherlands, France, Italy, Israel, Japan, Korea, Mexico and Malaysia. We also have 2 inside support persons, who answer e-mails and telephone inquiries on our toll-free telephone line and who provide technical support. Additional outside sales persons and independent dealers and resellers are being actively recruited.

We direct our marketing efforts to speech pathologists, occupational therapists, rehabilitation engineers, special education teachers, disabled persons and relatives of disabled persons. We maintain a mailing list of over 10,000 people made up of these professionals, consumers and relatives, and we mail various marketing materials to this list. These materials include our catalog of products and announcements regarding new and enhanced products.

We participate in industry conferences held worldwide that are attended by speech pathologists, occupational and physical therapists, special education teachers, parents and consumers. We and others in the industry demonstrate our products at these conferences and present technical papers that describe the application of our technologies and research studies on the effectiveness of our products. We also advertise in selected publications of interest to persons in this market.

We estimate that for approximately 47% of our sales of augmentative and alternative communication ("AAC") software and hardware the purchases are funded primarily by third parties such as Medicaid, Medicare and private insurance. School special education budgets, vocational rehabilitation, other governmental programs, private purchases and charitable assistance account for most of the other purchases. Medicare provides coverage for augmentative communication devices.

Our personnel provide advice and assistance to customers and prospective

customers on obtaining third-party financial assistance for purchasing our products. Third party funding grew slowly for the first 20 years of operation; however, the addition of Medicare coverage for AAC devices in 2001 resulted in significant increases in third party funding in recent years. Our Medicare/Medicaid and other third-party-funded sales have grown, with the majority of total sales are now funded by a third party. Medicare/Medicaid sales are subject to funding caps that limit the amounts paid for our products, and payment by some agencies can be slow, making this market segment somewhat more difficult than others.

PRODUCTION

Disability software products are either loaded onto computer hard disk drives by our employees or copied to diskettes, CD-ROM, or memory cards, which is performed in-house. Most software customers also buy their notebook personal computers from us, which we purchase at wholesale prices and resell at a markup. We purchase microprocessors that are part of dedicated devices such as

MessageMates(TM). We design our cases, printed circuit boards, labels and other components of products such as Sam communicators, MessageMates,, MicroCommPacs(TM) and our new Conversa(TM) Sound Pack. We outsource the extrusion, machining and manufacturing of certain components. All final assembly and testing operations are done by our employees at our facility.

Our products are shipped from our Lancaster, California facility either directly to the customer or to the salesperson, dealer or reseller. For major products, the outside salesperson, dealer or reseller either delivers the product or visits the customer after delivery to provide training.

COMPETITION

The AAC industry in which we operate is highly competitive and some of our competitors have greater financial and personnel resources than ours. The industry is made up of about six major competitors including Words+, and a number of smaller ones. Based on personal conversations with our outside dealers and customers, we believe that the other major competitors each have revenues ranging from $3 million to under $30 million, so that there are no large companies in this industry. We believe that acquisition of additional products that complement our current catalogue will provide faster growth than merely developing new products in-house, and we are actively working to complete such acquisitions.

We believe that the competition in this industry is based primarily on the quality of products, quality of customer training and technical support, and quality and size of sales forces. Price is a competitive factor but we believe price is not as important to the customer as obtaining the product most suited to the customer's needs, along with strong after-sale support. We believe that we are a leader in the industry in developing and producing some of the most technologically advanced products and in providing quality customer training and technical support. We believe that the potential exists for significant increases in the sales of our disability products; however, there are few barriers to entry in the form of proprietary or patented technology or trade secrets in this industry. While we believe that cost of product development and the need for specialized knowledge and experience in this industry would present some barrier to entry for new competition, other companies may enter this industry, including companies with substantially greater financial resources

than ours. Furthermore, companies already in this industry may increase their market share through increased technology development and marketing efforts.

TRAINING AND TECHNICAL SUPPORT

We believe customer training and technical support are important factors in customer satisfaction for both our pharmaceutical and disability products, and we believe we are an industry leader in providing customer training and technical support in both of our business areas. For pharmaceutical software, we provide in-house seminars at customers' sites. These seminars often serve as initial training in the event the potential customer decides to license or evaluate our software. Technical support is provided after the sale in the form of on-site training (at customer's expense), web meeting, telephone, fax, and e-mail assistance to users during the customer's license period. We have used Internet meetings extensively to provide demonstrations and customer assistance, resulting in rapid response to requests worldwide and reducing our travel time and expenses.

For Disability Products, our salesperson, dealer or reseller provides initial training to the customer for major systems -- typically two to four hours. This training is typically provided not only to the user of the product but also to speech pathologists, occupational therapists, rehabilitation engineers, teachers, parents and others who will assist the user. This initial training for the purchase of full systems is often provided as a part of the price of the product. Additional training and service calls are available for a fee.

Technical support for both pharmaceutical software and disability products is provided by our life sciences team and our inside sales and support staff based at our headquarters facilities in Lancaster, California. We provide free

telephone support offering unlimited toll-free numbers in the U.S. and Canada, and e-mail and web-based support for all of our pharmaceutical software and disability products worldwide. Technical support for pharmaceutical software products is minimal, averaging a few person-hours per month. Technical support for Words+ products varies from none for most customers to as much as several hours for others. Words+ dealers usually train new customers at the customer's location, which significantly reduces technical support demands on our staff.

RESEARCH AND DEVELOPMENT

We believe that our ability to grow and remain competitive in our markets is strongly dependent on significant investment into research and development ("R&D"). R&D activities include both enhancement of existing products and development of new products. Development of new products and adding functionality to existing products are capitalized in accordance with Financial Accounting Standards No. 86 and AICPA Statement of Position 98-1. R&D expenditures were approximately $1,719,000 during fiscal year 2008, of which $728,000 was capitalized. R&D expenditures during fiscal year 2007 were approximately $1,398,000, of which $583,000 was capitalized.

Our pharmaceutical business R&D activities during fiscal year 2008 were focused on improving our ADMET Predictor/ADMET Modeler, ClassPharmer, DDDPlus, and GastroPlus products.

Our R&D activities for our Words+ subsidiary were focused on improvement of our Say-it! SAM(TM) product line by developing a completely new Say-it! SAM PDA-based augmentative communication system, a new tablet-computer-based system called Conversa(TM), and by developing a set of pre-programmed vocabulary pages for all systems using the Say-it! SAM software based on vocabularies initially developed by our U.K. distributor.

EMPLOYEES

As of August 31, 2008, we employed 32 full-time and 2 part-time employees, including 17 in research and development, 5 in marketing and sales, 6 in administration and accounting and 6 in production. Currently 11 employees hold Ph.D.'s and 1 is a Ph.D. candidate in their respective science or engineering disciplines. Additionally, 5 employees hold one or more Master's degrees. Most of the senior management team and Board of Directors hold graduate degrees. We believe that our future success will depend, in part, on our ability to continue to attract, hire and retain qualified personnel. The competition for such personnel in the pharmaceutical industry and in the augmentative and alternative communication device and computer software industry is intense. None of our employees is represented by a labor union, and we have never experienced a work stoppage. We believe that our relations with our employees are good.

PATENTS

We own two patents that were acquired as part of our 2005 acquisition of certain assets of Bioreason, Inc. We primarily protect our intellectual property through copyrights and trade secrecy. Our intellectual property consists primarily of source code for computer programs and data files for various applications of those programs in both the pharmaceutical software and the disability products businesses. In the disability products business, electronic device schematics, mechanical drawings, and design details are also intellectual property. The expertise of our technical staff is a considerable asset closely related to intellectual property, and attracting and retaining highly qualified scientists and engineers is essential to our business.

EFFECT OF GOVERNMENT REGULATIONS

Our pharmaceutical software products are tools used in research and development and are neither approved nor approvable by the Food and Drug Administration or other government agency. Most of our products for the disabled are funded by Medicare or Medicaid, schools, the Veteran's Administration, and other insurance programs. Changes in government regulations regarding the allowability of augmentative communication aids and other assistive technology under such funding could affect our business.

ITEM 2. DESCRIPTION OF PROPERTY

We lease approximately 13,500 square feet of space under a five-year term with two (2), three-(3) year options to extend the lease in Lancaster, California. The base rent started at the rate of $18,445 per month plus common area maintenance fees. The base rental rate increases at 4% annually, and currently it is $19,950 plus Common Area Maintenance fee. We believe that this new facility is sufficient for our current needs and growth in the near future.

ITEM 3. 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 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 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. Both parties dropped all claims and we are not liable for any amounts.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of fiscal year 2008.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our Common Stock is currently traded on the NASDAQ Stock Market (NASDAQ) under the symbol "SLP". According to records of our transfer agent, we had about 57 shareholders of record and approximately 2,950 beneficial owners as of August 31, 2008. The following table sets forth the low and high sale prices for the Common Stock as listed on the AMEX for the last two fiscal years. The Board of directors declared a 2-for-1 stock split in August 2006 and another 2-for-1 split in October 2007, and our common stock has been trading at the post-split price since October 2, 2007. The prices in the table below reflect the post-split price. We have not paid cash dividends on our Common Stock. We currently intend to retain our earnings for future growth, and therefore do not anticipate paying cash dividends in the foreseeable future. Any further determination as to the payment of dividends will be at the discretion of our Board of Directors and will depend among other things, on our financial condition, results of operations, capital requirements and such other factors as the Board of Directors deems relevant.

On October 23, 2008, the board of directors authorized a share repurchase program enabling the buyback of up to $2.5 million in shares during a 12-month period beginning Monday, October 27, 2008. The Company has opened an account with Citigroup Smith Barney for the purchase of such securities. Funds for any stock purchases will be drawn from the Company's then-current cash reserves. As of November 25, 2008, we have not repurchased any shares.

All numbers in the table below have been adjusted for the split that was effective on October 1, 2007.

	LOW SALES PRICE	HIGH SALES PR

FY08:			
	Quarter ended August 31, 2008	1.40	2.18
	Quarter ended May 31, 2008	1.55	2.40
	Quarter ended February 28, 2008	2.75	4.97
	Quarter ended November 30, 2007	4.45	8.39
FY07:			
	Quarter ended August 31, 2007	4.55	6.85
	Quarter ended May 31, 2007	3.71	7.99
	Quarter ended February 28, 2007	1.52	4.67
	Quarter ended November 30, 2006	1.05	1.67

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

THE FOLLOWING DISCUSSION AND ANALYSIS SHOULD BE READ IN CONJUNCTION WITH THE CONSOLIDATED FINANCIAL STATEMENTS AND RELATED NOTES INCLUDED ELSEWHERE IN THIS REPORT.

RESULTS OF OPERATIONS

The following sets forth selected items from our statements of operations (in thousands) and the percentages that such items bear to net sales for the fiscal years ended August 31, 2008 ("FY08") and August 31, 2007 ("FY07").

	FY08		FY07	
Net sales	$ 8,968	100.0%	$ 8,858	100.0%
Cost of sales	2,100	23.4	2,082	23.5
Gross profit	6,868	76.6	6,776	76.5
Selling, general, and administrative	3,699	41.3	3,458	39.0
Research and development	991	11.1	815	9.2
Total operating expenses	4,690	52.3	4,273	48.2
Income from operations	2,178	24.3	2,503	28.3
Interest income	185	2.1	114	1.3
Miscellaneous Income	--	--	1	--
Gain on sale of assets	--	--	4	0.1
Gain on currency exchange	83	0.9	2	0.1
Total other income	268	3.0	121	1.4
Net income before taxes	2,446	27.3	2,624	29.6
Provision for income taxes	(721)	(8.0)	(1,158)	(13.1)

Net income	1,725	19.2%	1,466	16.6%

FY08 COMPARED WITH FY07

NET SALES

Consolidated net sales increased $110,000, or 1.2%, to $8,968,000 in fiscal year 2008 (FY08) from $8,858,000 in fiscal year 2007 (FY07). Sales from pharmaceutical software and services increased approximately $300,000, or 5.2%; however, our Words+, Inc. subsidiary's sales decreased approximately $190,000, or 6.1%, for the year. 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, which outweighed a few licenses not renewed by some customers. We attribute the decrease in Words+ sales primarily to decreases in sales of "Freedom" and "TuffTalker Plus" which was discontinued in FY08, and hardware products such as MessageMates and other input devices. Those declines in sales outweighed increased sales of our "Say-it SAM!" and "TuffTalker" products.

COST OF SALES

Consolidated cost of sales increased $18,000, or 0.9%, to $2,100,000 in FY08 from $2,082,000 in FY07; however, as a percentage of revenue, cost of sales decreased 0.1%. For pharmaceutical software and services, cost of sales increased $92,000, or 13.0%, and as a percentage of revenue, cost of sales increased to 13.2% in FY08 from 12.3% in 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 $61,000, or 17.0%, in FY08 compared with FY07; however, as a percentage of revenue, amortization cost increased only 0.7% in FY08 compared with FY07. Royalty expense, another significant portion of cost of sales, increased approximately $31,000, or 8.9%, in FY08 compared with FY07, while as a percentage of revenue, royalty expense increased only 0.2% in FY08 compared with

FY07. We pay a royalty on GastroPlus basic software sales but not on its modules or other software sales. We began to pay royalties on the newly released Enslein Metabolism Module in our ADMET Predictor software at the end of FY08 in accordance with our agreement with Enslein Research, Inc.

For Words+, cost of sales decreased $74,000, or 5.4%. As a percentage of revenue, cost of sales increased 0.3% to 44.7% in FY08 from 44.4% in FY07. Sales from "TuffTalker" products, with higher costs per unit, increased in FY08, resulting in the higher percentage of cost of sales. The decline in sales from the discontinued "TuffTalker Plus", which had higher unit costs, was not enough to offset the increase in costs incurred for the sales of the "TuffTalker" product.

GROSS PROFIT

Consolidated gross profit increased $92,000, or 1.4%, to $6,868,000 in FY 08 from $6,776,000 in FY07. We attribute this increase to the increase in sales of

pharmaceutical software and contract studies which outweighed increases in cost of goods sold and the decrease in Gross Profit from Words+ operations.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative ("SG&A") expenses for FY08 increased by $241,000, or 7.0%, to $3,699,000, compared to $3,458,000 for FY07. For Simulations Plus, SG&A expenses increased $141,000, or 6.9%. The major increases in expenses were travel expenses due to increased air fares and personal vehicle mileage allowance, professional fees, such as web site design fees, tax credit research fees, valuation service fees, and additional fees for an additional Board member. Investor relations fees, such as fees paid to the American Stock Exchange for stock splits, and increases in salaries and payroll-related expenses, such as health insurance, 401(K) and payroll taxes, also added to SG&A. Some of these are one-time fees. Major decreases in expenses were the elimination of the bonus previously paid to the Company's CEO, whose compensation is now a fixed amount with no bonus, as well as bad debts and legal costs that were expensed as part of the purchased assets of Bioreason Inc. in FY07, while no such expense was incurred in FY08. However, those decreases did not offset the increases in other expenses mentioned above.

For Words+, expenses increased by $100,000, or 2.9%. There was a shift in expense from one category to another from FY07 to FY08. In FY07, we hired a marketing consultant who became an employed sales manager of Words+ in March 08, increasing salaries and travel expenses while reducing consultant fees. The estimated allowance for bad debts was also increased. Those increases outweighed decreases in commissions, telephone expenses, and technical service costs.

RESEARCH AND DEVELOPMENT

We incurred approximately $1,719,000 of research and development ("R&D") costs for both companies during FY08. Of this amount, $728,000 was capitalized and $991,000 was expensed. During FY07 we incurred approximately $1,397,000 of research and development costs, of which approximately $583,000 was capitalized and approximately $815,000 was expensed. The 23.1% increase in research and development expenditure from FY07 to FY08 was due primarily to increases in salary expenses due to expanding the staff in the Life Sciences Department, as well as salary increases for existing staff in both companies.

INCOME FROM OPERATIONS

During FY08, we generated income from operations of $2,178,000, as compared to $2,503,000 for FY07, a decrease of 13.0%. We attribute this decrease to increases in SG&A expenses, including one-time fees, as well as R&D costs which outweighed the increase in gross profit generated by sales of pharmaceutical software and study contract services, in addition to a decrease in income from Words+ operations.

OTHER INCOME AND (EXPENSE)

The net of other income over other expense for FY08 increased by $147,000, or 121.5%, to $268,000, compared to $121,000 for FY07. This is due primarily to an increase in interest income on Money Market accounts and gain on currency exchange.

PROVISION OF INCOME TAXES

Provision for income taxes for FY08 decreased by $437,000, or 40.3%, to $721,000, compared to $1,158,000 for FY07. In FY07, because we had exhausted our net operating loss ("NOL") carry forward as well as the R&D tax credits that were known at the time, our tax accountants estimated our provisional income tax rate at 44%. In FY08, we hired a tax credit specialist company, Tax Projects Group, to identify potential unused tax credits. As a result of several months of research covering the previous 3 tax years (2006, 2005, and 2004), they discovered an additional $276,000 of unused R&D tax credits. This increase in R&D tax credits allowed us to reduce our income tax provision to as low as 29% in FY08. Please refer to the notes to the financial statements for the details. The additional R&D tax credit is subject to review by tax agencies.

NET INCOME

Net income for FY08 increased by $259,000, or 17.7%, to $1,725,000, compared to $1,466,000 for FY07. We attribute this increase in net income primarily to increased sales of pharmaceutical software licenses, other income, and decreased provision for income taxes, which outweighed increased cost of sales, and operating expenses, as well as a decrease in net income from Words+ operations. Shareholders' equity grew by 29%, from $7.7 million to $9.9 million during FY08.

SEASONALITY

Sales of our pharmaceutical products exhibit minimal seasonal fluctuation, with the first fiscal quarter almost always below average for all quarters. This trend has continued for 9 out of the last 10 years. This unaudited net sales information has been prepared on the same basis as the annual information presented elsewhere in this Annual Report on Form 10-KSB and, in the opinion of management, reflects all adjustments (consisting of normal recurring entries) necessary for a fair presentation of the information presented. Net sales for any quarter are not necessarily indicative of sales for any future period.

Net Simulations Plus Sales

FY	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
			(in thousands)		
2008	1,438	1,550	1,975	1,092	6,055
2007	824	1,808	1,659	1,465	5,756
2006	199	884	1,096	1,007	3,186
2005	524	410	662	473	2,069
2004	642	742	603	869	2,856
2003	507	582	614	1,403	3,106
2002	390	554	504	595	2,043
2001	221	373	305	282	1,181
2000	151	467	143	174	935
1999	87	93	117	164	461
1998	11	11	13	27	62

We believe that sales of Words+ products to schools were slightly seasonal, prior to FY06, with greater sales to schools during our third and fourth fiscal quarter (March-May and June-August), as shown in the table below.

Net Words+ Sales

FY	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
			(in thousands)		
2008	545	630	994	744	2,913
2007	632	726	972	772	3,102
2006	620	598	692	759	2,669
2005	543	622	762	757	2,684
2004	497	626	630	598	2,351
2003	571	538	646	624	2,379

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.

We currently hold 3 ARSs at $250,000 each (2 Iowa student loans and 1 Missouri higher education loan). On August 8, 2008, UBS announced a comprehensive settlement, in principle, to all who hold ARSs issued through UBS, that UBS will buy back each ARS at par from most of their clients during a two-year time period beginning January 1, 2009. Because of this settlement announcement, we believe that our investment in ARS is appropriately presented at its face value of $750,000 at August 31, 2008. The face value as of August 31, 2008 was confirmed by a prospectus UBS issued on October 7 informing us that we were being given an option either to keep the ARSs or to sell them to UBS at the face value plus accrued interest. We exercised the option of selling them to UBS. We received a letter from UBS dated November 5, 2008 stating that they had accepted our exercise and will buy back our ARSs at their full face value of $750,000 plus accrued interest. We have been advised by our UBS account manager that this buyback is expected to occur between January 2, 2009 and January 4, 2011.

INFLATION

We have not been affected materially by inflation during the periods presented, and no material effect is expected in the near future.

RECENTLY ISSUED ACCOUNTING STANDARDS

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. For financial assets and liabilities, SFAS 157 will be effective for the Company in the first fiscal quarter of 2009. As permitted by FSP-FAS 157-2, SFAS 157 is effective for nonfinancial assets and liabilities for the Company during the first fiscal quarter of 2010. Management believes the adoption of SFAS 157 for its financial assets and liabilities will not have a material impact on the Company's consolidated financial statements and continues to evaluate the potential impact of the adoption of SFAS 157 related to its nonfinancial assets and liabilities.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"). SFAS 159 permits companies to choose to measure many financial instruments and certain other items at fair value. SFAS 159 will be effective for the Company in the first fiscal quarter of 2009. The Company believes the adoption of SFAS 159 will not have a material impact on the Company's consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS 141R"), which replaces SFAS 141. SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any resulting goodwill, and any noncontrolling interest in the acquiree. SFAS 141R also provides for disclosures to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141R will be effective for the Company in first fiscal quarter of 2010 and must be applied prospectively to business combinations completed on or after that date.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements -- an amendment of Accounting Research Bulletin No. 51" ("SFAS 160"), which establishes accounting and reporting standards for noncontrolling interests ("minority interests") in subsidiaries. SFAS 160 clarifies that a noncontrolling interest in a subsidiary should be accounted for as a component of equity separate from the parent's equity. SFAS 160 will be effective for the Company in the first fiscal quarter of 2010 and must be applied prospectively, except for the presentation and disclosure requirements, which will apply retrospectively. The Company is currently evaluating the potential impact that adoption of SFAS 160 may have on its consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities -- an amendment of FASB Statement No. 133" ("SFAS 161"), which requires enhanced disclosures about an entity's derivative and hedging activities. SFAS 161 will be effective for The Company second fiscal quarter of 2009.

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 are effective for the Company on September 1, 2007, with the cumulative effect of the change in accounting principle, if any, recorded as an adjustment to opening retained earnings. We have reviewed all accounts that create a deferred tax asset or liability which may have the impact, and the balance in those account should not be deferred for tax purposes are included as income for tax purposes, thus increasing taxable income and creating a deferred tax benefit for the following year. We have also reviewed the matter of research and development credit ("R&D credit"). After evaluating the adoption of FIN 48, we believe that the adoption did not have a material impact on our consolidated financial

statements.

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

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

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 when the following conditions are met: 1) evidence of arrangement exists, such as signed Purchase Orders from customers or executed contracts, 2) delivery has been made, such as unlocking the software on the customer's computer(s), 3) the amount is fixed, and 4) it is collectible. 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 byproduct 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 unlock and invoice software one year at a time for multi-year licenses. Therefore, revenue is recognized one year at a time.

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 $466,735 and $429,867 for the fiscal years ended August 31, 2008 and 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.

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.

The Company has adopted Financial Accounting Standards Board ("FASB") Interpretation No. 48 ("FIN 48"), - "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109". FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB statement 109, "Accounting for Income Taxes", and prescribes a recognition threshold of more likely than not and a measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. In making this assessment, a company must determine whether it is more likely than not that a tax position will be sustained upon examination, based solely on the technical merits of the position and must assume that the tax position will be examined by taxing authorities. Our review of prior year tax positions using the criteria and

provisions presented in FIN 48 did not result in a material impact on the Company's financial position or results of operations.

Stock-Based Compensation

Effective September 1, 2006, we adopted SFAS No. 123R using the modified prospective method. Under this method, compensation costs 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.

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.

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.

ITEM 7. FINANCIAL STATEMENTS

The responses to this item are included elsewhere in this Form 10-KSB (see pages F-1 - F-25) and incorporated herein by reference.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 8A. CONTROLS AND PROCEDURES

Please see the disclosure below in Item 8A(T) Controls and Procedures.

ITEM 8A(T). CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures designed to ensure that material information related to our company is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms.

As of the end of the period covered by this report, we carried out an evaluation under the supervision and with the participation of our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the design

and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, our CEO and CFO concluded, as of the date of such evaluation, that our disclosure controls and procedures were effective.

Management's Report on Internal Control over Financial Reporting

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

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal controls over financial reporting based on the framework established by the Committee of Sponsoring Organizations for the Treadway Commission. Based on our evaluation under the framework, including the completion and review of internal review assessment forms and the completion and review of financial reporting information systems and controls checklists in the framework, our management concluded that our internal control over financial reporting was effective as of August 31, 2008.

This annual report does not include an attestation report of our independent registered public accounting firm regarding internal controls over financial reporting. Our management's report was not subject to attestation by our independent registered public accounting firm pursuant to temporary rules of the SEC that permit us to provide only management's report in this annual report.

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

Our management, including our CEO and CFO, does not expect that our disclosure controls or internal controls over financial reporting will prevent all errors or all instances of fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and any design may not succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. Because of the inherent limitation of a cost-effective control system, misstatements due to error or fraud may occur and

not be detected.

ITEM 8B. OTHER INFORMATION.

Not applicable.

PART III

ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

The information required by Item 9 is incorporated by reference from the Company's definitive proxy statement (the "Proxy Statement") for its 2009 Annual Shareholders' Meeting.

ITEM 10. EXECUTIVE COMPENSATION

The information required by Item 10 is incorporated by reference from the Company's Proxy Statement for its 2009 Annual Shareholders' Meeting.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by Item 11 is incorporated by reference from the Company's Proxy Statement for its 2009 Annual Shareholders' Meeting.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by Item 12 is incorporated by reference from the Company's Proxy Statement for its 2009 Annual Shareholders' Meeting.

ITEM 13. EXHIBITS

(a) The following exhibits are filed as part of this report as required by Item 601 of Regulation S-B:

EXHIBIT NUMBER	DESCRIPTION
3.1	Articles of Incorporation of the Registrant (1)
3.2	Amended and Restated Bylaws of the Registrant (1)
4.1	Articles of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 hereof) and Bylaws of the Registrant (incorporated by reference to Exhibit 3.2 hereof)
4.2	Form of Common Stock Certificate (1)
4.3	Share Exchange Agreement (1)
10.1	Simulations Plus, Inc. 1996 Stock Option Plan (the "Option Plan") and terms of agreements relating thereto (1)+
10.2	Subscription Agreement with Patricia Ann O'Neil (1)
10.3	Security Agreement with Patricia Ann O'Neil (1)
10.4	Promissory Note made by the Registrant in favor of Patricia Ann O'Neil (1)
10.5	Warrants to purchase 150,000 shares of Common Stock of the Registrant issued to Patricia Ann O'Neil (1)
10.6	First Amendment to Agreement with Patricia Ann O'Neil (1)
10.7	Subscription Agreement with Fernando Zamudio (1)
10.8	Security Agreement with Fernando Zamudio (1)

10.9	Promissory Note made by the Registrant in favor of Fernando Zamudio (1)
10.10	Warrant to purchase 100,000 shares of Common Stock of the Registrant issued to Fernando Zamudio (1)
10.11	Employment Agreement by and between the Registrant and Walter S. Woltosz (1) +

10.12	Performance Warrant Agreement by and between the Registrant and Walter S. Woltosz + Virginia E. Woltosz (2) +
10.13	Software Acquisition Agreement by and Between the Registrant and Michael B. Bolger (1)
10.14	Sublease Agreement dated May 7, 1993 by and between the Registrant and Westholme Partners (along with Consent to Sublease and master lease agreement) (1)
10.15	Lease Agreements dated August 22, 1996 by and between Words+, Inc. and Abbey-Sierra LLC (1)
10.16	Form of 10% Amended and Restated Promissory Note issued in connection with the Registrant's Private Placement (2)
10.17	Form of Subscription Agreement relative to the Registrant's Private Placement (1)
10.18	Form of Lock-Up Agreement with Bridge Lenders (2)
10.19	Form of Indemnification Agreement (1)
10.20	Form of Lock-Up Agreement with the Woltosz' (2)
10.21	Letter of Intent by and between the Registrant and Therapeutic Systems Research Laboratories (1)
10.22	Form of Representative's Warrant to be issued by the Registrant in favor of the Representative (2)
10.23	Form of Warrant issued to Bridge Lenders (2)
10.24	License Agreement by and between the Registrant and Therapeutic Systems Research Laboratories (3)
10.25	Grant Award Letter from National Science Foundation (4)
10.26	Distribution Agreement with Teijin Systems Technology LTD. (4)
10.27	Lease Agreements by and between Simulations Plus, Inc. and Martin Properties, Inc. (4)
10.28	Software OEM Agreement for Assistive Market Developer by and between Words+, Inc. and Digital Equipment Corporation. (4)
10.29	Purchase Agreement by and between Words+, Inc. and Epson America, Inc. (4)
10.30	License Agreement with Absorption Systems, LP. (5)
10.31	Service contract with The Kriegsman Group. (5)
10.32	Letter of Engagement with Banchik & Associates. (5)
10.33	Letter of Intent for Cooperative Alliance with Absorption Systems, LP. (5)
10.34	OEM/Remarketing Agreement between Words+, Inc. and Eloquent Technology, Inc. (6)
10.35	Lease Option Agreement by and between Simulations Plus, Inc. and Martin Properties, Inc. (8)
10.36	Auto Rental Lease Agreement by and between Simulations Plus, Inc. and Walter and Virginia Woltosz (8)
10.37	Registration Statement - 1,250,000 shares of the Company's 1996 Stock Options. (9)
10.38	Employment Agreement by and between the Company and Walter S. Woltosz (10)
10.39	An addendum to Lease Agreement (11)

10.40	Business Lending Agreement with Wells Fargo Bank (11)
10.41	Technology Transfer Agreement with Sam Communications, LLC. (12)
10.42	Employment Agreement by and between the Company and Walter S. Woltosz (14)
10.43	Lease Agreement by and between Simulations Plus, Inc. and Venture Freeway, LLC. (15)
10.44	Employment Agreement by and between the Company and Walter S. Woltosz (16)
31.1	Section 302 - Certification of Chief Executive Officer (CEO). (17)
31.2	Section 302 - Certification of Chief Financial Officer (CFO). (17)
32	Section 906 - Certification of CEO and CFO. (17)

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

(2) Incorporated by reference to Pre-Effective Amendment No. 1 to the Registration Statement filed on May 27, 1997.

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

(4) Incorporated by reference to the Company's Form 10-KSB for the fiscal year ended August 31, 1998.

(5) Incorporated by reference to the Company's Form 10-KSB for the fiscal year ended August 31, 1999.

(6) Incorporated by reference to the Company's Form 10-KSB for the fiscal year ended August 31, 2000.

(7) Incorporated by reference to the Company's Form 8-K filed on March 1, 2001.

(8) Incorporated by reference to the Company's Form 10-KSB for the fiscal year ended August 31, 2001.

(9) Incorporated by reference to the Company's Registration Statement on Form S-8 (Registration No. 333-91592) filed on June 28, 2002 (the "Registration Statement").

(10) Incorporated by reference to the Company's Form 10-KSB for the fiscal year ended August 31, 2002.

(11) Incorporated by reference to the Company's Form 10-KSB for the fiscal year ended August 31, 2003.

(12) Incorporated by reference to the Company's Form 8-K filed on December 29, 2003.

(13) Incorporated by reference to the Company's Form 10-KSB for the fiscal year ended August 31, 2004.

(14) Incorporated by reference to the Company's Form 10-KSB for the fiscal year ended August 31, 2005.

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

(16) Incorporated by reference to the Company's Form 10-KSB for the fiscal year ended August 31, 2007

(17) Filed herewith.

(b) Reports on Form 8-K

None.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The Company incurred the following fees to Rose, Snyder & Jacobs for services rendered during the fiscal year ended August 31, 2008 and 2007:

Fee Category	FY08 Fees	FY07 Fees
Audit fees	$ 74,010	$ 67,845
Tax fees	15,880	10,030
All other fees	--	--
Total fees	$ 89,890	$ 77,875

AUDIT FEES - Consists of fees incurred for professional services rendered for the audit of Simulations Plus, Inc.'s consolidated financial statements and for reviews of the interim consolidated financial statements included in our quarterly reports on Form 10-QSB and consents for filings with the SEC.

TAX FEES - Consists of fees billed for professional services relating to tax compliance, tax reporting, and tax advice.

ALL OTHER FEES - Consists of fees billed for all other services.

SIGNATURES

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 November 26, 2008.

SIMULATIONS PLUS, INC.

By: /s/ MOMOKO A. BERAN

Momoko A. Beran
Chief Financial Officer

In accordance with Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on November 26, 2008.

SIGNATURE	TITLE
/s/ WALTER S. WOLTOSZ	Chairman of the Board of Directors

---------- and Chief Executive Officer
Walter S. Woltosz

/s/ VIRGINIA E. WOLTOSZ

Virginia E. Woltosz Secretary and Director of the Company

/s/ DR. DAVID Z. D'ARGENIO

Dr. David Z. D'Argenio Director

/s/ DR. RICHARD R. WEISS

Dr. Richard R. Weiss Director

/s/ HAROLD W. ROSENBERGER

Harold W. Rosenberger Director

/s/ MOMOKO A. BERAN

Momoko A. Beran Chief Financial Officer of the Company

SIMULATIONS PLUS, INC. AND SUBSIDIARY
CONTENTS
AUGUST 31, 2008

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Simulations Plus, Inc.
Lancaster, California

We have audited the accompanying consolidated balance sheet of Simulations Plus, Inc (a California corporation) and Subsidiary as of August 31, 2008 and the related consolidated statements of operations, shareholders' equity and cash flows for the years ended August 31, 2008 and 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards established by the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Simulation Plus, Inc. and Subsidiary as of August 31, 2008, and the consolidated results of their operations and their cash flows for the years ended August 31, 2008 and 2007 in conformity with accounting principles generally accepted in the United States of America.

Rose, Snyder & Jacobs
A Corporation of Certified Public Accountants

Encino, California

November 21, 2008

SIMULATIONS PLUS, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET
August 31, 2008

ASSETS

CURRENT ASSETS	
Cash and cash equivalents (note 3)	$ 5,889,601
Accounts receivable, net of allowance for doubtful accounts and estimated contractual discounts of $319,609 (note 4)	2,105,074
Inventory (note 5)	342,051
Prepaid expenses and other current assets	195,330
Deferred tax asset	318,400
Total current assets	8,850,456
INVESTMENT (note 6)	750,000
CAPITALIZED COMPUTER SOFTWARE DEVELOPMENT COSTS, net of accumulated amortization of $3,324,328	1,788,756
PROPERTY AND EQUIPMENT, net (note 7)	102,633
CUSTOMER RELATIONSHIPS, (note 14) net of accumulated amortization of $85,029	43,013
OTHER ASSETS	18,445
TOTAL ASSETS	$11,553,303

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

SIMULATIONS PLUS, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET
August 31, 2008

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES	
Accounts payable	$ 181,230
Accrued payroll and other expenses	537,363
Accrued bonuses to officers	60,000
Accrued warranty and service costs	33,899
Deferred revenue	83,333
Total current liabilities	895,825
LONG-TERM LIABILITIES	
Deferred tax liability	742,400

Total liabilities	1,638,225

COMMITMENTS AND CONTINGENCIES (note 8)	
SHAREHOLDERS' EQUITY (note 9)	
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	
16,297,400 shares issued and outstanding	4,769
Additional paid-in capital	6,328,185
Retained Earnings	3,582,124

Total shareholders' equity	9,915,078

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$11,553,303
	==========

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

SIMULATIONS PLUS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
For the Years Ended August 31,

	2008	2007
	----------	----------
NET SALES	$ 8,967,970	$ 8,857,810
COST OF SALES	2,100,055	2,082,291
	----------	----------
GROSS PROFIT	6,867,915	6,775,519
	----------	----------
OPERATING EXPENSES		
Selling, general, and administrative	3,699,273	3,457,766
Research and development	990,491	814,946
	----------	----------
Total operating expenses	4,689,764	4,272,712
	----------	----------
INCOME FROM OPERATIONS	2,178,151	2,502,807
	----------	----------

OTHER INCOME (EXPENSE)		
Interest income	185,399	114,371
Interest expense	(68)	(135)
Miscellaneous income	36	917
Gain on sale of assets	--	4,274
Gain on currency exchange	82,659	2,264
Total other income	268,026	121,691
INCOME BEFORE INCOME TAXES	2,446,177	2,624,498
BENEFIT FROM (PROVISION FOR) INCOME TAXES		
Deferred income tax	(437,400)	(1,087,100)
Income tax	(283,208)	(71,300)
Total provision for income taxes	(720,608)	(1,158,400)
NET INCOME	$ 1,725,569	$ 1,466,098
BASIC EARNINGS PER SHARE	$ 0.11	$ 0.10
Diluted earnings per share	$ 0.10	$ 0.08
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING*		
BASIC	16,133,822	15,275,429
DILUTED	18,141,287	17,956,796

* The numbers of shares at August 31, 2007 reflect the 2-for-1 stock split which occurred on October 1, 2007.

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

SIMULATIONS PLUS, INC. AND SUBSIDIA
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUI
For the Years Ended August 3

	Common Stock		Additional Paid-In	Accumulated Earnings	
	Shares*	Amount	Capital	(Deficit)	Total
BALANCE, AUGUST 31, 2006	14,882,992	$ 3,794	$5,274,314	$ 390,457	$5,668,5
SHARES ISSUED UPON EXERCISE OF STOCK					

OPTIONS	878,408	439	512,860		513,2
STOCK-BASED COMPENSATION			16,646		16,6
NET INCOME				1,466,098	1,466,0
BALANCE, AUGUST 31, 2007	15,761,400	4,233	5,803,820	1,856,555	7,664,6
SHARES ISSUED UPON EXERCISE OF STOCK OPTIONS	536,000	536	434,157		434,6
STOCK-BASED COMPENSATION			90,208		90,2
NET INCOME				1,725,569	1,725,5
BALANCE, AUGUST 31, 2008	16,297,400	$ 4,769	$6,328,185	$3,582,124	$9,915,0

* The numbers of shares at August 31, 2007 and 2006 reflect the 2-for-1 stock splits which occurred on both October 1, 2007 and August 14, 2006.

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

SIMULATIONS PLUS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended August 31,

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 1,725,569	$ 1,466,098
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization of property and equipment	50,997	50,913
Amortization of customer relationships	25,683	31,668
Amortization of capitalized software development cost	466,735	429,867
Bad debts write offs	62,947	62,947
Stock-based compensation	90,208	16,645
Contribution of equipments	--	774
(Gain) on sale of assets	--	(4,274)
Deferred income taxes	437,400	1,087,100
(Increase) decrease in assets		
Accounts receivable	(60,349)	(350,673)
Inventory	(92,924)	6,134
Other assets	(121,661)	7,627
Increase (decrease) in liabilities		

Accounts payable	(20,016)	(14,172)
Accrued payroll and other expenses	45,751	126,700
Accrued bonuses to officers	(141,289)	102,536
Accrued income taxes	(71,300)	69,700
Accrued warranty and service costs	(4,269)	3,416
Deferred revenue	83,333	(129,461)
Net cash provided by operating activities	2,476,815	2,963,545
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(81,940)	(47,507)
Investment on securities	(750,000)	--
Proceeds from sale of assets	--	6,575
Capitalized computer software development costs	(727,681)	(583,235)
Net cash used in investing activities	(1,559,621)	(624,167)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the exercise of stock options	434,693	513,300

SIMULATIONS PLUS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended August 31,
(CONTINUED)

Net cash provided by financing activities	434,693	513,300
Net increase in cash and cash equivalents	$ 1,351,887	$ 2,852,678
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	4,537,714	1,685,036
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 5,889,601	$ 4,537,714
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
INTEREST PAID	$ 68	$ 135
INCOME TAXES PAID	$ 450,000	$ 1,600

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

SIMULATIONS PLUS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2008

NOTE 1 - ORGANIZATION AND LINES OF BUSINESS

Organization

Simulations Plus, Inc. was incorporated on July 17, 1996. On August 29, 1996, the shareholders of Words+, Inc. exchanged their 2,000 shares of Words+, Inc. common stock for 2,200,000 (Pre-split) shares of Simulations Plus, Inc. common stock, and Words+, Inc. became a wholly owned subsidiary of Simulations Plus, Inc. (collectively, the "Company").

Lines of Business

The Company designs and develops pharmaceutical simulation software to promote cost-effective solutions to a number of problems in pharmaceutical research and in the education of pharmacy and medical students. The Company also develops and sells interactive, educational software programs that simulate science experiments conducted in middle school, high school, and junior college science classes. In addition, the Company's subsidiary designs and develops computer software and manufactures augmentative communication devices and computer access products that provide a voice for those who cannot speak and allow physically disabled persons to operate a standard computer, as well as Abbreviate!, a productivity software product for the commercial market.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of 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. Critical 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

The Company recognizes 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." Software products revenue is recorded when the following conditions are met: 1) evidence of arrangement exists, 2) delivery has been made, 3) the amount is fixed, and 4) collectibility is probable. Post-contract customer support ("PCS") obligations are insignificant; therefore, revenue for PCS is

recognized at the same time as the licensing fee, and the costs of providing such support services are accrued and amortized over the obligation period. For Words+ products, the revenue is recorded at the time of shipment, net of estimated allowances and returns.

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

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

Most license agreements have a term of one year; however, from time to time, we enter into multi-year license agreements. We generally unlock and invoice software one year at a time for multi-year licenses. Therefore, revenue is recognized one year at a time.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Company considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents.

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 the Company's 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 $466,735 and $429,867 for the years ended August 31, 2008 and 2007, respectively. We expect future amortization expense to vary due to increases in capitalized computer software development costs.

Management tests capitalized computer software development costs for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Property and Equipment

Property and equipment are recorded at cost, less accumulated depreciation and amortization. Depreciation and amortization are provided using the straight-line method over the estimated useful lives as follows:

Equipment	5 years
Computer equipment	3 to 7 years
Furniture and fixtures	5 to 7 years
Leasehold improvements	Shorter of life of asset or lease

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

Fair Value of Financial Instruments

For certain of the Company's 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.

Advertising

The Company expenses advertising costs as incurred. Advertising costs for the years ended August 31, 2008 and 2007 were $10,000 and $13,000, respectively.

Shipping and Handling

Shipping and handling costs are recorded as cost of sales and amounted to $107,000 and $99,000 for the years ended August 31, 2008 and 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 the expected future tax consequences of events that have been included in the financial statements or tax returns.

Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each year-end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized. The provision for income taxes represents the tax payable for the period and the change during the period in deferred tax assets and liabilities.

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 are effective for the Company on September 1, 2007, with the cumulative effect of the change in accounting principle,

if any, recorded as an adjustment to opening retained earnings. We have reviewed all accounts that create a deferred tax asset or liability which may have the impact, and the balance in those account should not be deferred for tax purposes are included as income for tax purposes, thus increasing taxable income and creating a deferred tax benefit for the following year. We have also reviewed the matter of research and development credit ("R&D credit"). After evaluating the adoption of FIN 48, we believe that the adoption did not have a material impact on our consolidated financial statements.

At the end of fiscal year 2007, we recorded $1,158,400 in deferred tax assets. For fiscal year 2008, we recorded a provision for deferred taxes in the amount of $720,608, resulting in a net deferred tax liability of $424,000 at August 31, 2008. 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. As of August 31, 2007 and 2008, we have determined that it is more likely than not that the deferred tax assets will be realized. As such, no valuation allowance was recorded against the deferred tax assets. 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.

Earnings per Share

The Company reports earnings per share in accordance with SFAS No. 128, "Loss per Share." Basic earnings per share is computed by dividing i