

SIMULATIONS PLUS INC
Form 10-Q
July 12, 2012

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

S Quarterly Report Pursuant to Section 13 or 15(d) of the Security Exchange Act of 1934
For the quarterly period ended **May 31, 2012**

OR

£ Transmission Report Pursuant to Section 13 or 15(d) of the Security Exchange Act of 1937
For the transition period from _____ to _____

Commission file number: **001-32046**

Simulations Plus, Inc.

(Name of registrant as specified in its charter)

California

(State or other jurisdiction of

Incorporation or Organization)

95-4595609

(I.R.S. Employer

identification No.)

42505 10th Street West

Lancaster, CA 93534-7059

(Address of principal executive offices including zip code)

(661) 723-7723

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filings requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

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

The number of shares outstanding of the registrant's common stock, par value \$0.001 per share, as of July 09, 2012 was 15,923,019 and no shares of preferred stock were outstanding.

Simulations Plus, Inc.

FORM 10-Q Quarterly Report

For the Quarterly Period Ended May 31, 2012

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SIMULATIONS PLUS, INC.
CONDENSED BALANCE SHEETS

at May 31, 2012 (Unaudited) and August 31, 2011 (Audited)

ASSETS

	May 31, 2012	August 31, 2011
Current assets		
Cash and cash equivalents	\$12,889,180	\$10,181,049
Income tax refund receivable	259,434	259,434
Accounts receivable, net of allowance for doubtful accounts of \$0	2,210,710	1,170,861
Contracts receivable	86,962	185,816
Prepaid expenses and other current assets	113,484	123,954
Deferred income taxes	217,596	302,076
Current assets of discontinued operations	—	1,051,637
Total current assets	15,777,366	13,274,827
Long-term assets		
Capitalized computer software development costs, net of accumulated amortization of \$4,890,750 and \$4,416,669	2,434,180	2,188,982
Property and equipment, net (note 3)	109,097	43,010
Intellectual property, net of accumulated amortization of \$1,875	73,125	—
Customer relationships, net of accumulated amortization of \$128,042 and \$126,172	—	1,870
Other assets	18,445	18,445
Non-current assets of discontinued operations	—	340,204
Total assets	\$18,412,213	\$15,867,338

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities		
Accounts payable	\$301,432	\$176,136
Accrued payroll and other expenses	309,314	276,327
Accrued bonuses to officer	60,000	—
Accrued income taxes	1,131,918	168,897
Deferred revenue	132,610	141,191
Current liabilities of discontinued operations	—	378,567
Total current liabilities	1,935,274	1,141,118
Long-term liabilities		
Deferred income taxes	873,255	656,047
Non-current liabilities of discontinued operations	—	33,558
Total liabilities	2,808,529	1,830,723

Commitments and contingencies (note 4)

Shareholders' equity (note 5)

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Preferred stock, \$0.001 par value 10,000,000 shares authorized no shares issued and outstanding	—	—
Common stock, \$0.001 par value 50,000,000 shares authorized 15,923,019 and 15,572,943 shares issued and outstanding	4,394	4,044
Additional paid-in capital	4,642,281	4,167,650
Retained earnings	10,957,009	9,864,921
Total shareholders' equity	15,603,684	14,036,615
Total liabilities and shareholders' equity	\$18,412,213	\$15,867,338

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

SIMULATIONS PLUS, INC.**CONDENSED STATEMENTS OF OPERATIONS**

For the Three and Nine months ended May 31,

(Unaudited)

	Three months ended		Nine months ended	
	2012	2011	2012	2011
Net sales	\$2,771,500	\$2,639,508	\$7,808,682	\$7,311,628
Cost of sales	437,734	453,907	1,186,670	1,242,760
Gross profit	2,333,766	2,185,601	6,622,012	6,068,868
Operating expenses				
Selling, general, and administrative	891,131	778,085	2,547,569	2,213,330
Research and development	228,163	99,507	744,679	428,183
Total operating expenses	1,119,294	877,592	3,292,248	2,641,513
Income from operations	1,214,472	1,308,009	3,329,764	3,427,355
Other income (expense)				
Interest income	22,572	22,948	69,528	67,269
Interest expense	—	—	(3) (43
Miscellaneous income	25,011	—	47,667	—
Gain on currency exchange	29,802	34,663	168,690	43,004
Gain (loss) from sale of assets	—	—	(433) 240
Total other income (expense)	77,385	57,611	285,449	110,470
Income from continuing operations before provision for income taxes	1,291,857	1,365,620	3,615,213	3,537,825
Provision for income taxes	(422,524) (321,167) (1,152,204) (1,050,608
Income from continuing operations	869,333	1,044,453	2,463,009	2,487,217
Discontinued operations:				
Gain (loss) from discontinued operations, net of tax	—	9,690	(249,898) 41,899
Gain on sale of Words+, net of tax	—	—	465,820	—
Results of discontinued operations	—	9,690	215,922	41,899
Net Income	\$869,333	\$1,054,143	\$2,678,931	\$2,529,116
Basic earnings per share:				
Continuing operations	\$0.05	\$0.07	\$0.16	\$0.16
Discontinued operations	—	—	0.01	—
Net basic earning per share	\$0.05	\$0.07	\$0.17	\$0.16

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Diluted earnings per share				
Continuing operations	\$0.05	\$0.07	\$0.15	\$0.16
Discontinued operations	—	—	0.01	—
Net basic earning per share	\$0.05	\$0.07	\$0.16	\$0.16
Weighted-average common shares outstanding				
Basic	15,918,905	15,447,273	15,710,014	15,535,581
Diluted	16,340,765	16,039,951	16,070,478	16,114,138

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

SIMULATIONS PLUS, INC.**CONDENSED STATEMENTS OF CASH FLOWS**

For the nine months ended May 31,

(Unaudited)

	2012	2011
Cash flows from operating activities		
Net income	\$2,678,931	\$2,529,116
Adjustments to reconcile net income to net cash provided by operating activities		
(Income)/Loss from Discontinued Operations	(215,922)	(41,899)
Depreciation and amortization of property and equipment	30,442	16,842
Amortization of customer relationships	1,871	6,358
Amortization of capitalized computer software development costs	474,081	498,128
Amortization of Intellectual property	1,875	—
Excess tax benefits from share-based arrangement	—	(24,081)
Stock-based compensation	97,195	113,313
(Gain)/Loss from sale of assets	433	(240)
Deferred income taxes	268,131	331,562
(Increase) decrease in		
Accounts receivable and Contracts receivable	(940,995)	(1,183,235)
Income tax refundable	—	(33,924)
Prepaid expenses and other assets	10,470	(41,144)
Increase (decrease) in		
Accounts payable	125,294	140,061
Accrued payroll and other expenses	25,200	(4,121)
Accrued Bonus	60,000	—
Accrued income taxes	985,382	432,738
Deferred revenue	(8,581)	21,488
Net cash provided by operating activities of continuing operations	3,593,807	2,760,962
Net cash provided by (used in) operating activities of discontinued operations	(688,862)	231,551
Net cash provided by operating activities	2,904,945	2,992,513
Cash flows from investing activities		
Proceeds from sale of Words+, Inc.	1,973,096	—
Proceeds from sale of assets	200	240
Purchases of property and equipment	(97,161)	(7,806)
Purchase of royalty	(75,000)	—
Capitalized computer software development costs	(719,279)	(617,529)
Net cash provided by (used in) investing activities of continuing operations	1,081,856	(625,095)

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Net cash provided by (used in) investing activities of discontinued operations	6,532	(225,250)
Net cash provided by (used in) investing activities	1,088,388	(850,345)
Cash flows from financing activities		
Repurchase of common stock	—	(2,048,172)
Excess tax benefits from share-based arrangement	—	24,081
Dividends	(1,586,843)	—
Proceeds from the exercise of stock options	301,641	143,761
Net cash provided by (used in) financing activities of continuing operations	(1,285,202)	(1,880,330)
Net increase (decrease) in cash and cash equivalents from continuing operations	3,390,461	255,537
Net increase (decrease) in cash and cash equivalents from discontinued operations	(682,330)	6,301
Net increase (decrease) in cash and cash equivalents	2,708,131	261,838
Cash and cash equivalents, beginning of year	10,181,049	9,631,762
Cash and cash equivalents, end of period	\$ 12,889,180	\$ 9,893,600
Supplemental disclosures of cash flow information		
Interest paid	\$ 3	\$ 43
Income taxes paid	\$ 170,000	\$ 320,232

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

Simulations Plus, Inc.

NOTES TO CONDENSED FINANCIAL STATEMENTS

(Unaudited)

Note 1: GENERAL

This report on Form 10-Q for the quarter ended May 31, 2012, should be read in conjunction with the Company's annual report on Form 10-K for the year ended August 31, 2011, filed with the Securities and Exchange Commission ("SEC") on November 29, 2011. As contemplated by the SEC under Article 8 of Regulation S-X, the accompanying financial statements and footnotes have been condensed and therefore do not contain all disclosures required by generally accepted accounting principles. The interim financial data are unaudited; however, in the opinion of Simulations Plus, Inc. ("we", "our", "us", "Company"), the interim data includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the interim periods. Results for interim periods are not necessarily indicative of those to be expected for the full year.

As further discussed in note 9 below, on November 30, 2011 we sold all interest and common stock of our former wholly owned subsidiary, Words+, Inc. ("Words+"), which is now treated as discontinued operations, but was operated during the first quarter of this fiscal year from September 1, 2011 through November 30, 2011.

Note 2: SIGNIFICANT ACCOUNTING POLICIES

Estimates

Our condensed consolidated financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. These estimates and assumptions are affected by management's application of accounting policies. Actual results could differ from those estimates. Significant accounting policies for us include revenue recognition, accounting for capitalized computer software development costs, valuation of stock options, and accounting for income taxes.

Revenue Recognition

We recognize revenues related to software licenses and software maintenance in accordance with the Financial Accounting Standard Board ("FASB") Accounting Standard Codification ("ASC") 985-605. Software product revenue is recorded when the following conditions are met: 1) evidence of arrangement exists, 2) delivery has been made, 3) the amount is fixed, and 4) collectability is probable. 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.

As a byproduct of ongoing improvements and upgrades for the new programs and new modules of software, some modifications are provided at no additional charge to customers who have already purchased software. 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.