

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended February 29, 2024

OR

Transition Report Pursuant to 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 registrant as specified in its charter)

**California**

**95-4595609**

(State or other jurisdiction of Incorporation or Organization)

(I.R.S. Employer identification No.)

**42505 10th Street West**

**Lancaster, CA 93534-7059**

(Address of principal executive offices including zip code)

**( 661 ) 723-7723**

(Registrant's telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of Each Class

Common Stock, par value \$0.001 per share

Trading Symbol

SLP

Name of Each Exchange on Which Registered

**NASDAQ Stock Market LLC**

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 filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes  No

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

<input checked="" type="checkbox"/> Large accelerated Filer	<input type="checkbox"/> Accelerated Filer
<input type="checkbox"/> Non-accelerated Filer	<input type="checkbox"/> Smaller reporting company
<input type="checkbox"/> Emerging Growth Company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.  Yes  No

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 March 31, 2024, was 19,984,945.

**Simulations Plus, Inc.**

**FORM 10-Q**  
**For the Quarterly Period Ended February 29, 2024**

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**PART I. FINANCIAL INFORMATION**

Item 1. Condensed Consolidated Financial Statements
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**SIMULATIONS PLUS, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

	(Unaudited)	(Audited)
	February 29, 2024	August 31, 2023
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 37,031	\$ 57,523
Accounts receivable, net of allowance for credit losses of \$ 30 and \$ 46	13,114	10,201
Prepaid income taxes	1,364	804
Prepaid expenses and other current assets	4,975	3,904
Short-term investments	71,473	57,940
<b>Total current assets</b>	<b>127,957</b>	<b>130,372</b>
<b>Long-term assets</b>		
Capitalized computer software development costs, net of accumulated amortization of \$ 17,962 and \$ 17,199	12,333	11,335
Property and equipment, net	843	671
Operating lease right-of-use assets	1,062	1,247
Intellectual property, net of accumulated amortization of \$ 10,117 and \$ 9,301	7,873	8,689
Other intangible assets, net of accumulated amortization of \$ 2,606 and \$ 2,107	12,935	12,825
Goodwill	19,099	19,099
Long-term investments	9,024	—
Deferred tax assets	2,323	1,438
Other assets	524	425
<b>Total assets</b>	<b>\$ 193,973</b>	<b>\$ 186,101</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 360	\$ 144
Accrued compensation	3,184	4,392
Accrued expenses	2,992	659
Contracts payable	5,110	3,250
Operating lease liability - current portion	425	442
Deferred revenue	2,457	3,100
<b>Total current liabilities</b>	<b>14,528</b>	<b>11,987</b>
<b>Long-term liabilities</b>		
Operating lease liability	607	755
Contracts payable – net of current portion	1,800	3,330
<b>Total liabilities</b>	<b>16,935</b>	<b>16,072</b>
Commitments and contingencies		
Shareholders' equity		
Preferred stock, \$ 0.001 par value — 10,000,000 shares authorized; no shares issued and outstanding	\$ —	\$ —
Common stock, \$ 0.001 par value and additional paid-in capital — 50,000,000 shares authorized; 19,983,703 and 19,937,961 shares issued and outstanding	148,472	144,974
Retained earnings	28,776	25,196
Accumulated other comprehensive loss	( 210 )	( 141 )
<b>Total shareholders' equity</b>	<b>177,038</b>	<b>170,029</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 193,973</b>	<b>\$ 186,101</b>

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

**SIMULATIONS PLUS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**  
(Uaudited)

(in thousands, except per common share amounts)	Three Months Ended		Six Months Ended	
	February 29, 2024	February 28, 2023	February 29, 2024	February 28, 2023
<b>Revenues</b>				
Software	\$ 11,614	\$ 10,487	\$ 19,203	\$ 16,561
Services	6,691	5,263	13,602	11,153
<b>Total revenues</b>	18,305	15,750	32,805	27,714
<b>Cost of revenues</b>				
Software	1,348	843	2,339	1,728
Services	3,736	1,777	7,397	3,563
<b>Total cost of revenues</b>	5,084	2,620	9,736	5,291
<b>Gross profit</b>	13,221	13,130	23,069	22,423
<b>Operating expenses</b>				
Research and development	1,312	1,317	2,529	2,483
Sales and marketing	1,949	1,730	3,938	3,215
General and administrative	5,518	6,049	11,200	11,813
<b>Total operating expenses</b>	8,779	9,096	17,667	17,511
<b>Income from operations</b>	4,442	4,034	5,402	4,912
Other income	810	1,034	2,256	1,774
<b>Income before income taxes</b>	5,252	5,068	7,658	6,686
Provision for income taxes	( 1,223 )	( 894 )	( 1,684 )	( 1,267 )
<b>Net income</b>	<b>\$ 4,029</b>	<b>\$ 4,174</b>	<b>\$ 5,974</b>	<b>\$ 5,419</b>
<b>Earnings per share</b>				
Basic	\$ 0.20	\$ 0.21	\$ 0.30	\$ 0.27
Diluted	\$ 0.20	\$ 0.20	\$ 0.29	\$ 0.26
<b>Weighted-average common shares outstanding</b>				
Basic	19,975	20,112	19,961	20,200
Diluted	20,315	20,529	20,288	20,657
<b>Other comprehensive (loss) income, net of tax</b>				
Foreign currency translation adjustments	( 15 )	( 23 )	( 69 )	30
<b>Comprehensive income</b>	<b>\$ 4,014</b>	<b>\$ 4,151</b>	<b>\$ 5,905</b>	<b>\$ 5,449</b>

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

**SIMULATIONS PLUS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
(Uaudited)

(in thousands, except per common share amounts)	Three Months Ended		Six Months Ended	
	February 29, 2024	February 28, 2023	February 29, 2024	February 28, 2023
<b>Common stock and additional paid in capital</b>				
Balance, beginning of period	\$ 146,591	\$ 140,306	\$ 144,974	\$ 138,512
Exercise of stock options	146	205	310	963
Stock-based compensation	1,585	1,160	2,888	2,046
Shares issued to Directors for services	150	150	300	300
Repurchase and retirement of common shares	—	( 4,000 )	—	( 4,000 )
<b>Balance, end of period</b>	<b>148,472</b>	<b>137,821</b>	<b>148,472</b>	<b>137,821</b>
<b>Retained earnings</b>				
Balance, beginning of period	25,945	40,071	25,196	40,044
Declaration of dividends	( 1,198 )	( 1,195 )	( 2,394 )	( 2,413 )
Repurchase and retirement of common shares	—	( 16,000 )	—	( 16,000 )
Net income	4,029	4,174	5,974	5,419
<b>Balance, end of period</b>	<b>28,776</b>	<b>27,050</b>	<b>28,776</b>	<b>27,050</b>
<b>Accumulated other comprehensive (loss) income</b>				
Balance, beginning of period	( 195 )	( 255 )	( 141 )	( 308 )
Other comprehensive (loss) income	( 15 )	( 23 )	( 69 )	30
<b>Balance, end of period</b>	<b>( 210 )</b>	<b>( 278 )</b>	<b>( 210 )</b>	<b>( 278 )</b>
<b>Total shareholders' equity</b>	<b>\$ 177,038</b>	<b>\$ 164,593</b>	<b>\$ 177,038</b>	<b>\$ 164,593</b>
<b>Cash dividends declared per common share</b>	<b>\$ 0.06</b>	<b>\$ 0.06</b>	<b>\$ 0.12</b>	<b>\$ 0.12</b>

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

**SIMULATIONS PLUS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Uaudited)

(in thousands)	Six Months Ended	
	February 29, 2024	February 28, 2023
<b>Cash flows from operating activities</b>		
Net income	\$ 5,974	\$ 5,419
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	2,196	1,858
Change in fair value of contingent consideration	330	—
Amortization of investment (discounts) premiums	( 796 )	( 379 )
Stock-based compensation	3,147	2,300
Deferred income taxes	( 885 )	403
Currency translation adjustments	( 69 )	30
<b>(Increase) decrease in</b>		
Accounts receivable	( 2,913 )	2,389
Prepaid income taxes	( 560 )	994
Prepaid expenses and other assets	( 1,170 )	( 1,067 )
<b>Increase (decrease) in</b>		
Accounts payable	216	125
Other liabilities	1,145	( 1,010 )
Deferred revenue	( 643 )	( 814 )
<b>Net cash provided by operating activities</b>	5,972	10,248
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	( 433 )	( 316 )
Purchase of short-term investments	( 48,989 )	( 47,156 )
Proceeds from maturities of short-term investments	36,252	48,151
Purchase of long-term investments	( 9,024 )	—
Purchased intangibles	( 467 )	( 77 )
Capitalized computer software development costs	( 1,719 )	( 1,675 )
<b>Net cash used in investing activities</b>	( 24,380 )	( 1,073 )
<b>Cash flows from financing activities</b>		
Payment of dividends	( 2,394 )	( 2,413 )
Proceeds from the exercise of stock options	310	963
Repurchase and retirement of common shares	—	( 20,000 )
<b>Net cash used in financing activities</b>	( 2,084 )	( 21,450 )
<b>Net decrease in cash and cash equivalents</b>	( 20,492 )	( 12,275 )
<b>Cash and cash equivalents, beginning of period</b>	\$ 57,523	\$ 51,567
<b>Cash and cash equivalents, end of period</b>	<u>\$ 37,031</u>	<u>\$ 39,292</u>
<b>Supplemental disclosures of cash flow information</b>		
Income taxes paid	\$ 3,142	\$ 93

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

**Simulations Plus, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**For the three months and six months ended February 29, 2024 and February 28, 2023**  
(Unaudited)

**NOTE 1 – ORGANIZATION AND LINES OF BUSINESS**

Organization

Simulations Plus, Inc. ("Simulations Plus") was incorporated on July 17, 1996. In September 2014, Simulations Plus acquired all of the outstanding equity interests of Cognigen Corporation ("Cognigen") and Cognigen became a wholly owned subsidiary of Simulations Plus. In June 2017, Simulations Plus acquired DILIsym Services, Inc. ("DILIsym") as a wholly owned subsidiary. In April 2020, Simulations Plus acquired Lixoft, a French société par actions simplifiée ("Lixoft" or "SLP France"), as a wholly owned subsidiary pursuant to a stock purchase and contribution agreement. In June 2023, Simulations Plus acquired Immunetrics, Inc. ("Immunetrics") as a wholly owned subsidiary through a reverse triangular merger. (Simulations Plus together with its subsidiaries, collectively, the "Company," "we," "us," "our").

Effective September 1, 2021, the Company merged both Cognigen and DILIsym with and into Simulations Plus through short-form mergers (the "Mergers"). To effectuate the Mergers, the Company filed Certificates of Ownership with the Secretaries of State of the states of Delaware (Cognigen's and DILIsym's state of incorporation) and California (Simulations Plus' state of incorporation). Consummation of the Mergers was not subject to approval of the Company's stockholders and did not impact the rights of the Company's stockholders.

On December 20, 2022, Simulations Plus International, Inc. ("SLPI"), a Delaware corporation, was created as a wholly owned subsidiary of Simulations Plus in order to facilitate future international acquisitions, if any, and global integrations. In furtherance of this objective, the Company added the trade name "SLP France" to Lixoft, and on April 25, 2023, Simulations Plus transferred its ownership of SLP France to SLPI pursuant to a contribution and acceptance agreement, resulting in SLP France becoming a wholly owned subsidiary of SLPI. The transfer did not impact the rights of the Company's stockholders.

Effective September 1, 2023, the Company merged Immunetrics with and into Simulations Plus through a short-form merger (the "Merger"). To effectuate the Merger, the Company filed Certificates of Ownership with the Secretaries of State of the states of Delaware (Immunetrics' state of incorporation) and California (Simulations Plus' state of incorporation). Consummation of the Merger was not subject to approval of the Company's stockholders and did not impact the rights of the Company's stockholders.

At the beginning of fiscal year 2024, in order to create a more integrated and cohesive company, the Company reorganized its internal structure to move away from divisions based on its prior acquisitions and instead form business units organized around key product and service offerings that the Company provides, which include:

- Cheminformatics;
- Physiologically Based Pharmacokinetics ("PBPK");
- Quantitative Systems Pharmacology ("QSP");
- Clinical Pharmacology and Pharmacometrics ("CPP"); and
- Regulatory Strategies.

Lines of Business

For more than 25 years, Simulations Plus has been a leading provider in the biosimulation market, offering software and consulting services that support drug discovery, development, research, and regulatory submissions. Our solutions bridge artificial intelligence (AI)/machine learning, physiologically based pharmacokinetics, quantitative systems pharmacology/toxicology, and population PK/PD modeling approaches. Our technology is licensed and applied by major pharmaceutical and biotechnology companies, universities, and regulatory agencies worldwide.

**NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES**

Principles of Consolidation

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The condensed consolidated financial statements include the accounts of Simulations Plus and its wholly owned operating subsidiaries, SLPI and SLP France. All significant intercompany accounts and transactions are eliminated in consolidation.

### Use of Estimates

Our 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.

### Reclassifications

Certain numbers in the prior year have been reclassified to conform to the current year's presentation.

### Revenue Recognition

We generate revenue primarily from the sale of software licenses and by providing consulting services to the pharmaceutical industry for drug development.

In accordance with ASC 606, we determine revenue recognition through the following steps:

- i. Identification of the contract, or contracts, with a customer
- ii. Identification of the performance obligations in the contract
- iii. Determination of the transaction price
- iv. Allocation of the transaction price to the performance obligations in the contract
- v. Recognition of revenue when, or as, we satisfy a performance obligation

### *Components of Revenue*

The following is a description of principal activities from which the Company generates revenue. As part of the accounting for these arrangements, the Company must develop assumptions that require judgment to determine the standalone selling price for each performance obligation identified in the contract. Standalone selling prices are determined based on the prices at which the Company separately sells its services or goods.

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Revenue Components	Typical Payment Terms
<p><b>Software Revenues:</b> Software revenues are generated primarily from sales of software licenses at the time the software is unlocked, and the term commences. The license period typically is one year or less. Along with the license, a <i>di minimis</i> amount of customer support is provided to assist the customer with the software. Should the customer need more than a <i>di minimis</i> amount of support, they can choose to enter into a separate contract for additional training. Most software is installed on our customers' servers and the Company has no control of the software once the sale is made except for the licensing software that controls number of users, modules, and expiration dates.</p>	<p>Payments are generally due upon invoicing on a net-30 basis, unless other payment terms are negotiated with the customer based on customer history. Typical industry standards apply.</p>

For certain software arrangements the Company hosts the licenses on servers maintained by the Company. Revenue for those arrangements is accounted as *Software as a Service* over the life of the contract. These arrangements account for a small portion of software revenues of the Company.

### **Consulting Contracts:**

Consulting services provided to our customers are generally recognized over time as the contracts are performed and the services are rendered. The Company measures its consulting revenue based on time expended compared to total estimated hours to complete a project. The Company believes the method chosen for its contract revenue best depicts the transfer of benefits to the customer under the contracts.

### **Consortium-Member Based Services:**

The performance obligation is recognized on a time-elapsed basis, by month for which the services are provided, as the Company transfers control evenly over the contractual period.

### **Remaining Performance Obligations**

Transaction price allocated to remaining performance obligations represents contracted revenue that has not yet been recognized, which includes deferred revenue and unbilled amounts that will be recognized as revenue in future periods. As of February 29, 2024, remaining performance obligations were \$ 10.8 million. Ninety-four percent of the remaining performance obligations are expected to be recognized over the next 12 months, with the remainder expected to be recognized thereafter. Remaining performance obligations estimates are subject to change and are affected by several factors, including contract terminations and changes in the scope of contracts.

### **Disaggregation of Revenues**

The components of disaggregation of revenue for the three and six months ended February 29, 2024, and February 28, 2023, were as follows:

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(in thousands)	Three Months Ended		Six Months Ended	
	February 29, 2024	February 28, 2023	February 29, 2024	February 28, 2023
<b>Software licenses</b>				
Point in time	\$ 11,354	\$ 10,191	\$ 18,675	\$ 15,993
Over time	260	296	528	568
<b>Services</b>				
Over time	6,691	5,263	13,602	11,153
<b>Total revenue</b>	<b>\$ 18,305</b>	<b>\$ 15,750</b>	<b>\$ 32,805</b>	<b>\$ 27,714</b>

In addition, the Company allocates revenues to geographic areas based on the locations of its customers. Geographical revenues for the three and six months ended February 29, 2024, and February 28, 2023, were as follows:

(in thousands)	Three Months Ended			
	February 29, 2024		February 28, 2023	
	\$	% of total	\$	% of total
Americas	\$ 12,461	68 %	\$ 10,589	67 %
EMEA	4,665	25 %	3,618	23 %
Asia Pacific	1,179	7 %	1,543	10 %
<b>Total</b>	<b>\$ 18,305</b>	<b>100 %</b>	<b>\$ 15,750</b>	<b>100 %</b>
 <b>Six Months Ended</b>				
(in thousands)	February 29, 2024			
	\$	% of total	\$	% of total
	\$ 23,352	71 %	\$ 19,089	69 %
Americas	6,967	21 %	5,748	21 %
EMEA	2,486	8 %	2,877	10 %
<b>Total</b>	<b>\$ 32,805</b>	<b>100 %</b>	<b>\$ 27,714</b>	<b>100 %</b>

*Contract Balances*

We receive payments from customers based upon contractual billing schedules, while we recognize revenue when, or as, we satisfy our performance obligations. This timing difference results in accounts receivable, contract assets, and contract liabilities. We record accounts receivable when the right to consideration becomes unconditional. We record a contract asset if the right to consideration is conditioned on something other than the passage of time, such as our future performance. Contract assets are included in prepaid expenses and other current assets on our condensed consolidated balance sheets. We record a contract liability when we have an obligation to transfer goods or services to a customer for which we have either received consideration or a payment is due from a customer. We refer to contract liabilities as deferred revenue on our condensed consolidated balance sheets.

Contract asset balances as of February 29, 2024, and August 31, 2023, were \$ 2.6 million and \$ 2.7 million, respectively.

During the three and six months ended February 29, 2024, the Company recognized \$ 0.4 million and \$ 2.5 million, respectively, of revenue that was included in contract liabilities as of August 31, 2023, and during the three and six months ended February 28, 2023, the Company recognized \$ 0.4 million and \$ 2.3 million, respectively, of revenue that was included in contract liabilities as of August 31, 2022.

*Deferred Commissions*

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Sales commissions earned by our sales force and our commissioned sales representatives are considered incremental and recoverable costs of obtaining a contract with a customer. We apply the practical expedient as described in ASC 340-40-25-4 to expense costs as incurred for sales commissions, since the amortization period of the asset that we otherwise would have recognized is one year or less. This expense is included in the condensed consolidated statements of operations and comprehensive income as sales and marketing expense.

### Cash and Cash Equivalents

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

### Accounts Receivable and Allowance for Credit Losses

The Company extends credit to its customers in the normal course of business. The Company evaluates its allowance for credit losses based on its estimate of the collectability of its trade accounts receivable. As part of this assessment, the Company considers various factors including the financial condition of the individual companies with which it does business, the aging of receivable balances, historical experience, changes in customer payment terms, current market conditions, and reasonable and supportable forecasts of future economic conditions. In times of economic turmoil, the Company's estimates and judgments with respect to the collectability of its receivables is subject to greater uncertainty than in more stable periods. Accounts receivable balances will be charged off against the allowance for credit losses after all means of collection have been exhausted and the potential for recovery is considered remote.

The activity in the allowance for credit losses related to our trade receivables is summarized as follows:

(in thousands)	Three Months Ended		Six Months Ended	
	February 29, 2024	February 28, 2023	February 29, 2024	February 28, 2023
Balance, beginning of period	\$ 37	\$ 12	\$ 46	\$ 12
Provision for credit losses	( 7 )	—	( 16 )	—
Balance, end of period	\$ 30	\$ 12	\$ 30	\$ 12

### Investments

The Company may invest excess cash balances in short-term and long-term marketable debt securities. Investments may consist of certificates of deposit, money market accounts, government-sponsored enterprise securities, corporate bonds, and/or commercial paper within the parameters of our Investment Policy and Guidelines. The Company accounts for its investments in marketable securities in accordance with ASC 320, Investments – Debt and Equity Securities. This statement requires debt securities to be classified into three categories:

**Held-to-maturity**—Debt securities that the entity has the positive intent and ability to hold to maturity are measured at amortized cost and are presented at the net amount expected to be collected. Any change in the allowance for credit losses during the period is reflected in earnings. Discounts and premiums to par value of the debt securities are amortized to interest income/expense over the term of the security.

**Trading Securities**—Debt securities that are bought and held primarily for the purpose of selling in the near term are reported at fair value, with unrealized gains and losses included in earnings.

**Available-for-Sale**—Debt securities not classified as either securities held-to-maturity or trading securities are reported at fair value. For available-for-sale debt securities in an unrealized-loss position, we evaluate as of the balance sheet date whether the unrealized losses are attributable to a credit loss or other factors. The portion of unrealized losses related to a credit loss is recognized in earnings, and the portion of unrealized loss not related to a credit loss is recognized in other comprehensive income (loss).

We classify our investments in marketable debt securities based on the facts and circumstances present at the time of purchase of the securities. We subsequently reassess the appropriateness of that classification at each reporting date. During the three and six months ended February 29, 2024, and for the year ended August 31, 2023, all of our investments were classified as held-to-maturity.

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### Capitalized Computer Software Development Costs

Software development costs are capitalized in accordance with ASC 985-20. Capitalization of software development costs begins upon the establishment of technological feasibility and is discontinued when the product is available for sale.

The establishment of technological feasibility and the ongoing assessment for recoverability of capitalized software development costs require considerable judgment by management with respect to certain external factors including, but not limited to, technological feasibility, anticipated future gross revenue, 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 calculated 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 \$ 0.4 million and \$ 0.4 million, for the three months ended February 29, 2024, and February 28, 2023, respectively, and \$ 0.8 million and \$ 0.8 million for the six months ended February 29, 2024, and February 28, 2023, respectively. We expect future amortization expense to vary due to increases in capitalized computer software development costs.

The Company assesses capitalized computer software development costs for impairment 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, or fair market value for property and equipment acquired in business combinations, less accumulated depreciation and amortization. Depreciation and amortization are calculated 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 the asset life or lease term

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

### Internal-use Software

We have capitalized certain internal-use software costs in accordance with ASC 350-40, which are included in intangible assets. The amortization of such costs is classified as general and administrative expenses on the condensed consolidated statements of operations. Maintenance of and minor upgrades to internal-use software are also classified as general and administrative expenses as incurred.

### Leases

We determine if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use ("ROU") assets and operating lease liabilities (current and long-term) in our condensed consolidated balance sheets.

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit rate, we generally use our incremental borrowing rate based on the estimated rate of interest for collateralized borrowing over a similar term of the lease payments at the commencement date. The operating lease ROU asset also includes any lease payments made at or before the commencement date and excludes lease incentives. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expense is recognized on a straight-line basis over the lease term.

Supplemental balance sheet information related to operating leases was as follows as of February 29, 2024:

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(in thousands)

Right of use assets	\$	1,062
Lease liabilities, current	\$	425
Lease liabilities, long-term	\$	607
Operating lease costs	\$	239
Weighted-average remaining lease term		2.91 years
Weighted-average discount rate		5.31 %

### Intangible Assets and Goodwill

We perform valuations of assets acquired and liabilities assumed on each acquisition accounted for as a business combination and recognize the assets acquired and liabilities assumed at their acquisition-date fair value. Acquired intangible assets include customer relationships, software, trade names, and noncompete agreements. We determine the appropriate useful life by performing an analysis of expected cash flows based on historical experience of the acquired businesses. Finite-lived intangible assets are amortized over their estimated useful lives using the straight-line method, which approximates the pattern in which the majority of the economic benefits are expected to be consumed. Finite-lived intangible assets subject to amortization are reviewed for impairment whenever events or circumstances indicate that the carrying amount of these assets may not be recoverable.

Goodwill represents the excess of the cost of an acquired entity over the fair value of the acquired net assets. Goodwill and indefinite-lived intangible assets are tested for impairment annually or when events or circumstances change that would indicate that they might be impaired. Events or circumstances that could trigger an impairment review include, but are not limited to, a significant adverse change in legal factors or in the business climate, an adverse action or assessment by a regulator, unanticipated competition, a loss of key personnel, significant changes in the manner of our use of the acquired assets or the strategy for our overall business, significant negative industry or economic trends, or significant underperformance relative to expected historical or projected future results of operations.

Goodwill and the other assets and liabilities acquired as part of the Immunetrics acquisition have been assigned to our QSP reporting unit.

Goodwill and intangible assets are tested for impairment at the reporting unit level, which is either one level below or the same level as an operating segment.

Consistent with the reorganization of our internal structuring to move away from divisions based on our prior acquisitions to business units organized around key product and service offerings, as of February 29, 2024, our reporting units now include the following business units:

- Cheminformatics;
- Physiologically Based Pharmacokinetics ("PBPK");
- Quantitative Systems Pharmacology ("QSP");
- Clinical Pharmacology and Pharmacometrics ("CPP"); and
- Regulatory Strategies.

As part of this reorganization, we also took the opportunity to evaluate our departmental structure with a focus on continuing to improve operational performance and profitability. Accordingly, we moved all services personnel into cost of revenues departments, all research and development ("R&D") personnel into R&D expense departments, all sales and marketing personnel into sales and marketing expense departments, and all overhead personnel into general and administrative expense departments. To provide investors improved visibility to our progress, we also decided to report separately our sales and marketing expenses from our general and administrative expenses.

Reconciliation of Goodwill for the six months ended February 29, 2024:

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(in thousands)	CPP	QSP	Total
<b>Balance, August 31, 2023</b>	\$ 7,323	\$ 11,776	\$ 19,099
Addition	—	—	—
Impairments	—	—	—
<b>Balance, February 29, 2024</b>	<u>\$ 7,323</u>	<u>\$ 11,776</u>	<u>\$ 19,099</u>

The following table summarizes other intangible assets as of February 29, 2024:

(in thousands)	Amortization Period	Acquisition Value	Accumulated Amortization	Net Book Value
Trade names	None	\$ 4,210	\$ —	\$ 4,210
Covenants not to compete	Straight line 2 to 3 years	30	11	19
Other internal use software	Straight line 3 to 5 years	542	23	519
Customer relationships	Straight line 8 to 14 years	8,230	2,283	5,947
ERP	Straight line 15 years	2,529	289	2,240
		<u>\$ 15,541</u>	<u>\$ 2,606</u>	<u>\$ 12,935</u>

The following table summarizes other intangible assets as of August 31, 2023:

(in thousands)	Amortization Period	Acquisition Value	Accumulated Amortization	Net Book Value
Trade names	None	\$ 4,210	\$ —	\$ 4,210
Covenants not to compete	Straight line 3 years	30	3	27
Other internal use software	Straight line 3 to 5 years	350	10	340
Customer relationships	Straight line 8 to 14 years	8,230	1,887	6,343
ERP	Straight line 15 years	2,112	207	1,905
		<u>\$ 14,932</u>	<u>\$ 2,107</u>	<u>\$ 12,825</u>

Total amortization expense for the three months ended February 29, 2024, and February 28, 2023 was \$ 0.3 million and \$ 0.1 million, respectively, and amortization expense for the six months ended February 29, 2024, and February 28, 2023 was \$ 0.5 million and \$ 0.3 million, respectively.

Estimated future amortization of finite-lived intangible assets for the next five fiscal years are as follows:

(in thousands)	Years Ending August 31,	Amount
	Remainder of 2024	\$ 494
	2025	\$ 957
	2026	\$ 945
	2027	\$ 898
	2028	\$ 755

Fair Value of Financial Instruments

Assets and liabilities recorded at fair value in the condensed consolidated balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair value. The categories are as follows:

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Level Input:	Input Definition:
Level I	Inputs that are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date.
Level II	Inputs, other than quoted prices included in Level I, that are observable for the asset or liability through corroboration with market data at the measurement date.
Level III	Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date.

For certain of our financial instruments, including accounts receivable, accounts payable, and accrued compensation and other accrued expenses, the carrying amounts are representative of their fair values due to their short maturities.

We invest a portion of our excess cash balances in short-term debt securities and long-term debt securities. Short-term debt securities investments as of February 29, 2024 and August 31, 2023, consisted of corporate bonds and term deposits with maturities remaining of less than 12 months. Long-term debt securities investments consisted of investment grade corporate debt. In addition, under the fair-value hierarchy, the fair market values of the Company's cash equivalents and investments are Level I. We may also invest excess cash balances in certificates of deposit, money market accounts, government-sponsored enterprise securities, and/or commercial paper. We account for our investments in accordance with ASC 320, Investments – Debt and Equity Securities. As of February 29, 2024, all investments were classified as held-to-maturity securities, as we have the positive intent and ability to hold these securities until maturity. We believe unrealized losses on investments were primarily caused by rising interest rates rather than changes in credit quality, and, accordingly, we have not recorded an allowance for credit losses on our debt securities as of February 29, 2024 and August 31, 2023.

The following tables summarize our short-term investments as of February 29, 2024, and August 31, 2023:

(in thousands)	February 29, 2024			
	Amortized cost	Unrealized gains	Unrealized losses	Fair value
<b>Short-term investments:</b>				
Commercial notes (due within one year)	\$ 67,473	\$ —	\$ (177)	\$ 67,296
Term deposits (due within one year)	4,000	—	—	4,000
Total short-term investments	\$ 71,473	\$ —	\$ (177)	\$ 71,296
<b>Long-term investments:</b>				
Commercial notes (due within 15 months)	\$ 9,024	\$ 91	\$ —	\$ 9,115
Total investments	\$ 80,497	\$ 91	\$ (177)	\$ 80,411

(in thousands)	August 31, 2023			
	Amortized cost	Unrealized gains	Unrealized losses	Fair value
<b>Short-term investments:</b>				
Commercial notes (due within one year)	\$ 53,940	\$ —	\$ (115)	\$ 53,825
Term deposits (due within one year)	4,000	—	—	4,000
Total short-term investments	\$ 57,940	\$ —	\$ (115)	\$ 57,825

As of February 29, 2024 and August 31, 2023, the Company had a liability for contingent consideration related to its acquisition of Immunetrics. The fair value measurement of the contingent consideration obligations is determined using Level 3 inputs. The fair value of contingent consideration obligations is based on a discounted cash flow model using a probability-weighted income approach. These fair value measurements represent Level 3 measurements as they are based on significant inputs not observable in markets. Significant judgment is employed in determining the appropriateness of these assumptions as of the acquisition date and for each subsequent period. Accordingly, changes in assumptions could have a material impact on the amount of contingent consideration expense the Company records in any given period. Changes in the fair value of the contingent consideration obligations are recorded in the Company's Condensed Consolidated Statement of Operations.

The following is a reconciliation of contingent consideration at fair value:

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(in thousands)	Amount
Contingent consideration at August 31, 2023	\$ 4,780
Change in fair value of contingent consideration	330
Contingent consideration at February 29, 2024	<u>\$ 5,110</u>

Business Combination

The acquisition method of accounting for business combinations requires us to use significant estimates and assumptions, including fair value estimates, as of the business combination date and to refine those estimates as necessary during the measurement period (defined as the period, not to exceed one year, in which we may adjust the provisional amounts recognized for a business combination).

Under the acquisition method of accounting, we recognize separately from goodwill the identifiable assets acquired, the liabilities assumed, and any noncontrolling interests in an acquiree, generally at the acquisition-date fair value. We measure goodwill as of the acquisition-date as the excess of consideration transferred, which we also measure at fair value, over the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed. Costs that we incur to complete the business combination, such as investment banking, legal, and other professional fees, are not considered part of consideration, and we recognize such costs as general and administrative expenses as they are incurred. Under the acquisition method, we also account for acquired-company restructuring activities that we initiate separately from the business combination.

Should the initial accounting for a business combination be incomplete by the end of a reporting period that falls within the measurement period, we report provisional amounts in our financial statements. During the measurement period, we adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts recognized as of that date, and we record those adjustments to our financial statements. We apply those measurement-period adjustments that we determine to be material retrospectively to comparative information in our financial statements, including adjustments to depreciation and amortization expense.

Under the acquisition method of accounting for business combinations, if we identify changes to acquired deferred-tax asset valuation allowances or liabilities related to uncertain tax positions during the measurement period, and they relate to new information obtained about facts and circumstances that existed as of the acquisition date, those changes are considered a measurement period adjustment and we record the offset to goodwill. We record all other changes to deferred-tax asset valuation allowances and liabilities related to uncertain tax positions in current-period income tax expense. This accounting applies to all of our acquisitions regardless of acquisition date.

Research and Development Costs

Research and development costs are charged to expense as incurred until technological feasibility has been established. These costs include salaries, laboratory experiments, and purchased software that was developed by other companies and incorporated into, or used in the development of, our final products.

Income Taxes

We account for income taxes in accordance with ASC 740, 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.

Intellectual property

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In May 2014, we entered into a termination and non-assertion agreement with TSRL, Inc., pursuant to which the parties agreed to terminate an exclusive software licensing agreement entered into between the parties in 1997. As a result, the Company obtained a perpetual right to use certain source code and data, and TSRL relinquished any rights and claims to any GastroPlus products and to any claims, royalties, or other payments under that 1997 agreement. We agreed to pay TSRL total consideration of \$ 6.0 million, which is being amortized over 10 years under the straight-line method.

In June 2017, as part of the acquisition of DILIsym, the Company acquired certain developed technologies associated with drug-induced liver disease (DILI). These technologies were valued at \$ 2.9 million and are being amortized over 9 years under the straight-line method.

In September 2018, we purchased certain intellectual property rights of Entelos Holding Company. The cost of \$ 0.1 million is being amortized over 10 years under the straight-line method.

In April 2020, as part of the acquisition of Lixoft, the Company acquired certain developed technologies associated with the Lixoft scientific software. These technologies were valued at \$ 8.0 million and are being amortized over 16 years under the straight-line method.

In June 2023, we purchased certain developed technology of Immunetrics. The cost of \$ 1.1 million is being amortized over 5 years under the straight-line method.

The following table summarizes intellectual property as of February 29, 2024:

(in thousands)	Amortization Period	Acquisition Value	Accumulated Amortization	Net Book Value
Termination/nonassertion agreement-TSRL Inc.	Straight line 10 years	\$ 6,000	\$ 5,875	\$ 125
Developed technologies—DILIsym acquisition	Straight line 9 years	2,850	2,136	714
Intellectual rights of Entelos Holding Company	Straight line 10 years	50	27	23
Developed technologies—Lixoft acquisition	Straight line 16 years	8,010	1,926	6,084
Developed technologies—Immunetrics acquisition	Straight line 5 years	1,080	153	927
		<b>\$ 17,990</b>	<b>\$ 10,117</b>	<b>\$ 7,873</b>

The following table summarizes intellectual property as of August 31, 2023:

(in thousands)	Amortization Period	Acquisition Value	Accumulated Amortization	Net Book Value
Termination/nonassertion agreement-TSRL Inc.	Straight line 10 years	\$ 6,000	\$ 5,575	\$ 425
Developed technologies—DILIsym acquisition	Straight line 9 years	2,850	1,978	872
Intellectual rights of Entelos Holding Company	Straight line 10 years	50	25	25
Developed technologies—Lixoft acquisition	Straight line 16 years	8,010	1,678	6,332
Developed technologies—Immunetrics acquisition	Straight line 5 years	1,080	45	1,035
		<b>\$ 17,990</b>	<b>\$ 9,301</b>	<b>\$ 8,689</b>

Total amortization expense for intellectual property agreements for the three months ended February 29, 2024, and February 28, 2023 was \$ 0.4 million and \$ 0.4 million, respectively, and \$ 0.8 million and \$ 0.7 million for the six months ended February 29, 2024 and February 28, 2023, respectively.

Estimated future amortization of intellectual property for the next five fiscal years is as follows:

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(in thousands)

	Years Ending August 31,	Amount
	Remainder of 2024	\$ 618
	2025	\$ 1,009
	2026	\$ 933
	2027	\$ 693
	2028	\$ 648

Earnings per Share

We report earnings per share in accordance with ASC 260. Basic earnings per share is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding. Diluted earnings per share is computed similarly to basic earnings per share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. The components of basic and diluted earnings per share for the three and six months ended February 29, 2024, and February 28, 2023, were as follows:

(in thousands)	Three Months Ended		Six Months Ended	
	February 29, 2024	February 28, 2023	February 29, 2024	February 28, 2023
<b>Numerator</b>				
Net income attributable to common shareholders	\$ 4,029	\$ 4,174	\$ 5,974	\$ 5,419
<b>Denominator</b>				
Weighted-average number of common shares outstanding during the period	19,975	20,112	19,961	20,200
Dilutive effect of stock options	340	417	327	457
Common stock and common stock equivalents used for diluted earnings per share	<b>20,315</b>	<b>20,529</b>	<b>20,288</b>	<b>20,657</b>

Stock-Based Compensation

Compensation costs related to stock options are determined in accordance with ASC 718. Compensation cost is calculated based on the grant-date fair value estimated using the Black-Scholes pricing model and then amortized on a straight-line basis over the requisite service period. Stock-based compensation costs related to stock options, not including shares issued to directors for services, was \$ 1.6 million and \$ 1.2 million for the three months ended February 29, 2024, and February 28, 2023, respectively, and \$ 2.9 million and \$ 2.0 million for the six months ended February 29, 2024 and February 28, 2023, respectively.

Impairment of Long-lived Assets

We account for the impairment and disposition of long-lived assets in accordance with ASC 360. Long-lived assets to be held and used are reviewed for events or changes in circumstances that indicate that their carrying value may not be recoverable. We measure recoverability by comparing the carrying amount of an asset to the expected future undiscounted net cash flows generated by the asset. If we determine that the asset may not be recoverable, or if the carrying amount of an asset exceeds its estimated future undiscounted cash flows, we recognize an impairment charge to the extent of the difference between the fair value and the asset's carrying amount. No impairment losses were recorded during the three and six months ended February 29, 2024, and February 28, 2023, respectively.

Recently Issued Accounting Standards

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In October 2023, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2023-06 - Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative ("ASU 2023-06"). ASU 2023-06 incorporates 14 of the 27 disclosure requirements published in SEC Release No. 33-10532 - Disclosure Update and Simplification into various topics within the Accounting Standards Codification ("ASC"). ASU 2023-06's amendments represent clarifications to, or technical corrections of, current requirements. For SEC registrants, the effective date for each amendment will be the date on which the SEC removes that related disclosure from its rules. Early adoption is prohibited. The Company does not expect ASU 2023-06 to have a material effect on its condensed consolidated financial statements.

In November 2023, the FASB issued ASU 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures, which updates reportable segment disclosure requirements primarily through enhanced disclosures about significant segment expenses. The amendments are effective for fiscal years beginning after December 15, 2023, and for interim periods within fiscal years beginning after December 15, 2024, with early adoption permitted. The amendments should be applied retrospectively to all prior periods presented in the financial statements. The Company is currently evaluating the ASU to determine its impact on the Company's disclosures.

### Recently Adopted Accounting Standards

In October 2021, the FASB issued ASU 2021-08, Business Combinations - Accounting for contract assets and contract liabilities from contracts with customers (Topic 805), which requires contract assets and contract liabilities acquired in a business combination to be recognized and measured by the acquirer on the acquisition date in accordance with Revenues from Contracts with Customers (Topic 606). For public companies, the guidance is effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. The Company adopted the guidance during fiscal year 2023. The adoption of this guidance did not have a material impact on the Company's condensed consolidated financial statements.

In November 2021, the FASB issued ASU 2021-10, Government Assistance (Topic 832), which requires business entities to disclose information about transactions with a government that are accounted for by applying a grant or contribution model by analogy (for example, IFRS guidance in IAS 20 or guidance on contributions for not-for-profit entities in ASC 958-605). For transactions within scope, the new standard requires the disclosure of information about the nature of the transaction, including significant terms and conditions, as well as the amounts and specific financial-statement line items affected by the transaction. The new guidance is effective for annual reporting periods beginning after December 15, 2021. The Company adopted the guidance during fiscal year 2023. The adoption of this guidance did not have a material impact on the Company's condensed consolidated financial statements.

### **NOTE 3 – OTHER INCOME**

The components of other income for the three and six months ended February 29, 2024, and February 28, 2023, were as follows:

(in thousands)	Three Months Ended		Six Months Ended	
	February 29, 2024	February 28, 2023	February 29, 2024	February 28, 2023
Interest income	\$ 1,348	\$ 985	\$ 2,640	\$ 1,756
Change in fair valuation of contingent consideration	( 440 )	—	( 330 )	—
(Loss) gain on currency exchange	( 98 )	49	( 54 )	18
<b>Total other income</b>	<b>\$ 810</b>	<b>\$ 1,034</b>	<b>\$ 2,256</b>	<b>\$ 1,774</b>

### **NOTE 4 – COMMITMENTS AND CONTINGENCIES**

#### Leases

We lease 4,200 square feet of office space in Lancaster, California, where our corporate headquarters are located. The lease term extends to April 30, 2028, and the base rent is \$ 8 thousand per month with an annual increase of 3 %. The lease agreement gives the Company the right, upon 180 days prior notice, to opt out of all or part of the last three years of the lease term with no penalty.

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We lease 1,510 square feet of office space in Durham, North Carolina. The lease term extends to September 30, 2026, and the base rent is \$ 4 thousand per month with an annual increase of 3 %. The amended lease agreement gives the Company the right, upon 9 months prior notice, to extend the lease for 60 months.

We lease 4,317 square feet of office space in Buffalo, New York. The lease term extends to November 30, 2026, and the base rent is \$ 7 thousand per month with an annual 2 % increase. The lease agreement provides the Company with two five-year renewal options and the right to terminate the lease with one year 's prior written notice with certain penalties.

We lease 2,300 square feet of office space in Paris, France. The lease term extends to November 30, 2024, and the rent is \$ 5 thousand per month, which amount is subject to adjustment each December based on a consumer price index.

We lease 7,141 square feet of office space in Pittsburgh, Pennsylvania. The lease term extends to May 31, 2025, and the base rent is \$ 10 thousand per month. The lease agreement provides the Company with one five-year renewal option.

We have a data center colocation space in Buffalo, New York, with a lease term through November 30, 2026, and rent of \$ 6 thousand per month with an annual 3 % increase.

Rent expense, including common area maintenance fees, for the three months ended February 29, 2024, and February 28, 2023, was \$ 0.1 million and \$ 0.1 million respectively, and \$ 0.3 million and \$ 0.3 million for the six months ended February 29, 2024, and February 28, 2023, respectively.

Lease liability maturities as of February 29, 2024, were as follows:

(in thousands)	Years Ending August 31,	Amount
	Remainder of 2024	\$ 237
	2025	411
	2026	313
	2027	145
	2028	68
	Total undiscounted liabilities	1,174
	Less: imputed interest	( 142 )
	Total operating lease liabilities (including current portion)	\$ 1,032

## Employment Agreements

In the normal course of business, the Company has entered into employment agreements with certain of its executive officers that may require compensation payments upon termination.

## Income Taxes

We follow guidance issued by the FASB with regard to our accounting for uncertainty in income taxes recognized in the financial statements. Such guidance 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 policy is to include interest and penalties related to income tax expense. We file income tax returns with the IRS and various state jurisdictions as well as with the countries of India and France. Our federal income tax returns for fiscal years 2020 through 2023 are open for audit, and our state tax returns for fiscal years 2019 through 2023 remain open for audit.

Our review of prior-year tax positions using the criteria and provisions presented in guidance issued by FASB did not result in a material impact on our financial position or results of operations.

## Litigation

We are not a party to any legal proceedings and are not aware of any pending or threatened legal proceedings of any kind.

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**NOTE 5 – SHAREHOLDERS' EQUITY**

Shares Outstanding

Shares of Company's common stock outstanding for the three and six months ended February 29, 2024 and February 28, 2023 were as follows:

(in thousands)	Three Months Ended February 29,		Six Months Ended February 29,	
	February 29, 2024	February 28, 2023	February 29, 2024	February 28, 2023
Common stock outstanding, beginning of period	19,966	20,314	19,938	20,260
Common stock repurchased during the period	—	( 409 )	—	( 409 )
Common stock issued during the period	18	26	46	79
<b>Common stock outstanding, end of period</b>	<b>19,984</b>	<b>19,931</b>	<b>19,984</b>	<b>19,931</b>

Dividends

The Company's Board of Directors declared cash dividends during the six months ended February 29, 2024 and fiscal year 2023. The details of dividends paid are in the following tables:

(in thousands, except dividend per share)	Six Months Ended February 29, 2024				
	Record Date	Distribution Date	Number of Shares Outstanding on Record Date	Dividend per Share	Total Amount
	10/30/2023	11/06/2023	19,939	\$ 0.06	\$ 1,196
	1/29/2024	2/05/2024	19,973	\$ 0.06	1,198
	<b>Total</b>				<b>\$ 2,394</b>

  

(in thousands, except dividend per share)	Fiscal Year 2023				
	Record Date	Distribution Date	Number of Shares Outstanding on Record Date	Dividend per Share	Total Amount
	10/31/2022	11/07/2022	20,299	\$ 0.06	\$ 1,218
	1/30/2023	2/06/2023	19,924	\$ 0.06	1,195
	4/24/2023	5/01/2023	19,999	\$ 0.06	1,200
	7/31/2023	8/07/2023	19,931	\$ 0.06	1,196
	<b>Total</b>				<b>\$ 4,809</b>

Stock Option Plans

On December 23, 2016, the Company's Board of Directors adopted, and on February 23, 2017, its shareholders approved, the Company's 2017 Equity Incentive Plan (the "2017 Plan"), under which a total of 1.0 million shares of common stock were initially reserved for issuance. The 2017 plan would have terminated pursuant to its terms in December 2026; however, the 2017 Plan was replaced by the Company's 2021 Plan (as defined below), and as a result, no further issuances of shares may be made under the 2017 Plan.

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On April 9, 2021, the Company's Board of Directors adopted, and on June 23, 2021, its shareholders approved, the Company's 2021 Equity Incentive Plan (the "2021 Plan," and together with the 2017 Plan, the "Plans"), under which a total of 1.3 million shares of common stock were initially reserved for issuance. On October 20, 2022, the Company's Board of Directors approved, and on February 9, 2023, its shareholders approved, an amendment to the 2021 Plan to increase the number of shares of common stock authorized for issuance thereunder from 1.3 million shares to 1.55 million shares of common stock of the Company. Thereafter, on October 19, 2023, the Company's Board of Directors approved, and on February 8, 2024, its shareholders approved, an amendment to the 2021 Plan to increase the number of shares of common stock authorized for issuance thereunder from 1.55 million to 2.5 million shares of common stock of the Company. The 2021 Plan will terminate in 2031.

As of February 29, 2024, employees and directors of the Company held Qualified Incentive Stock Options ("ISOs") and Non-Qualified Stock Options ("NQSOs") to purchase an aggregate of 1.9 million shares of common stock at exercise prices ranging from \$ 6.85 to \$ 66.14 per share.

The following table summarizes information about stock options:

(in thousands, except per share and weighted-average amounts)

Activity for the six months ended February 29, 2024	Number of Options	Exercise Price Per Share	Weighted-Average	Weighted-Average Remaining Contractual Life
			Remaining Contractual Life	
Outstanding, August 31, 2023	1,478	\$ 34.62		6.62 years
Granted	515	40.34		
Exercised	( 49 )	14.47		
Canceled/Forfeited	( 11 )	45.38		
Outstanding, February 29, 2024	<u>1,933</u>	\$ 36.58		7.13 years
Vested and Exercisable, February 29, 2024	861	\$ 29.14		4.95 years
Vested and Expected to Vest, February 29, 2024	1,852	\$ 36.40		7.02 years

The total grant-date fair value of nonvested stock options as of February 29, 2024, was \$ 21.7 million and is amortizable over a weighted-average period of 3.5 years.

The fair value of these options was estimated at the date of grant using the Black-Scholes option-pricing model. The Black-Scholes option-valuation model was developed for use in estimating the fair value of traded options, which do not have vesting restrictions and are fully transferable. In addition, option-valuation models require the input of highly subjective assumptions, including the expected stock price volatility.

The following table summarizes the fair value of the options, including both ISOs and NQSOs, granted during the six-month period ended February 29, 2024 and fiscal year 2023:

(in thousands, except weighted-average amounts)	Six Months Ended February		Fiscal Year 2023
	29, 2024		
Estimated fair value of awards granted	\$ 10,256	\$	10,067
Unvested Forfeiture Rate		6.38 %	0.22 %
Weighted-average grant price	\$ 40.34	\$	43.78
Weighted-average market price	\$ 40.34	\$	43.78
Weighted-average volatility		44.70 %	46.14 %
Weighted-average risk-free rate		4.86 %	4.29 %
Weighted-average dividend yield		0.60 %	0.55 %
Weighted-average expected life	6.59 years		6.55 years

The exercise prices for the options outstanding at February 29, 2024, ranged from \$ 6.85 to \$ 66.14 , and the information relating to these options are as follows:

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(in thousands except prices and weighted-average amounts)

Exercise Price			Awards Outstanding			Awards Exercisable		
Low	High	Quantity	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Quantity	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	
\$ 6.85	\$ 9.77	180	1.56 years	\$ 8.88	180	1.56 years	\$ 8.88	
\$ 9.78	\$ 18.76	146	2.99 years	\$ 10.08	146	2.99 years	\$ 10.08	
\$ 18.77	\$ 33.40	182	5.16 years	\$ 25.72	163	5.09 years	\$ 25.01	
\$ 33.41	\$ 47.63	1,154	8.84 years	\$ 41.34	213	7.66 years	\$ 40.92	
\$ 47.64	\$ 66.14	271	7.07 years	\$ 56.32	159	6.80 years	\$ 57.87	
		<u>1,933</u>	<u>7.13 years</u>	<u>\$ 36.58</u>	<u>861</u>	<u>4.95 years</u>	<u>\$ 29.14</u>	

During the three and six months ended February 29, 2024, we issued 3,960 and 8,215 shares of stock valued at \$ 0.2 million and \$ 0.3 million, respectively, to our nonmanagement directors as compensation for board-related duties.

The Company's par-value common stock and additional paid-in capital as of February 29, 2024, were \$ 11 thousand and \$ 148.5 million, respectively.

Share Repurchases

No share repurchases were made during the six months ended February 29, 2024.

On December 29, 2022, our Board of Directors authorized and approved a share repurchase program for up to \$ 50 million of the outstanding shares of our common stock, and on January 11, 2023, we entered into an accelerated share repurchase agreement (the "ASR Agreement") with Morgan Stanley & Co. LLC ("Morgan Stanley") to repurchase an aggregate of \$ 20 million of our outstanding shares of common stock as part of the share repurchase program, which was settled in full in May 2023. The share repurchase program has no expiration date but may be terminated at any time at our Board of Directors' discretion.

In January 2023, we received an initial delivery of an aggregate of 408,685 shares of our common stock from Morgan Stanley pursuant to the ASR Agreement, in exchange for which we made an initial payment of \$ 20 million to Morgan Stanley. These 408,685 shares were retired and are treated as authorized, unissued shares. At final settlement on May 20, 2023, based on the volume-weighted average price of our common stock during the term of the ASR Agreement, Morgan Stanley delivered an additional 83,356 shares of Company common stock to us, which shares were also retired and treated as authorized, unissued shares.

After completion of the repurchases under the ASR Agreement, \$ 30 million remains available for additional repurchases under our authorized repurchase program.

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### **NOTE 6 – CONCENTRATIONS AND UNCERTAINTIES**

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of cash, cash equivalents, trade accounts receivable, and short-term investments. The Company holds cash and cash equivalents with balances that exceed FDIC-insured limits. Cash maintained in excess of these limits is on deposit with a large, national bank. Accordingly, the Company does not have depository exposure to regional banks. In addition, the Company holds cash at a bank in France that is not FDIC-insured. Historically, the Company has not experienced any losses in such accounts, and management believes that the financial institutions at which its cash is held are stable; however, no assurances can be provided. While the Company may be exposed to credit losses due to the nonperformance of its counterparties, the Company does not expect the settlement of these transactions to have a material effect on its results of operations, cash flows, or financial condition.

Revenue concentration shows that international sales accounted for 29 % and 31 % of revenue for the six months ended February 29, 2024 and February 28, 2023, respectively. Our three largest customers in terms of revenue accounted for 11 %, 4 %, and 3 % of revenue, respectively, for the six months ended February 29, 2024. Our four largest customers in terms of revenue accounted for 6 %, 5 %, 3 %, and 3 % of revenue, respectively, for the six months ended February 28, 2023.

Accounts-receivable concentrations show that our five largest customers in terms of accounts receivable each comprised between 4 % and 19 % of accounts receivable as of February 29, 2024; our six largest customers in terms of accounts receivable comprised between 5 % and 13 % of accounts receivable as of February 28, 2023. The largest customer, which comprised 19 % of accounts receivable as of February 29, 2024, was current with respect to all open invoices within a de minimis amount. Of the \$ 2.4 million of open accounts receivable from this customer as of February 29, 2024, \$ 1.8 million was received from the customer by March 22, 2024.

We operate in the biosimulation market, which is highly competitive and changes rapidly. Our operating results could be significantly affected by our ability to develop new products and find new distribution channels for new and existing products.

### **NOTE 7 – SEGMENT REPORTING**

The Company applies ASC 280, Segment Reporting, in determining reportable segments. The Company has two reportable segments: Software and Services. Segment information is presented in the same manner that the chief operating decision maker (“CODM”) reviews certain financial information based on these reportable segments. The CODM reviews revenue and gross profit for both of the reportable segments. Gross profit is defined as revenue less cost of revenue incurred by the segment.

No operating segments have been aggregated to form the reportable segments. The Company does not allocate assets at the reportable segment level, as these are managed on an entity-wide group basis and, accordingly, the Company does not report asset information by segment. The Company does not allocate operating expenses that are managed on an entity-wide group basis and, accordingly, the Company does not allocate and report operating expenses at a segment level. There are no internal revenue transactions between the Company's segments.

The following tables summarize the results for each segment for the three months ended February 29, 2024, and February 28, 2023:

(in thousands)	Three Months Ended February 29, 2024		
	Software	Services	Total
Revenues	\$ 11,614	\$ 6,691	\$ 18,305
Cost of revenues	1,348	3,736	5,084
Gross profit	\$ 10,266	\$ 2,955	\$ 13,221
Gross margin	88 %	44 %	72 %

Our software business and services business represented 63 % and 37 % of total revenue, respectively, for the three months ended February 29, 2024.

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(in thousands)

**Three Months Ended February 28, 2023**

	<b>Software</b>	<b>Services</b>	<b>Total</b>
Revenues	\$ 10,487	\$ 5,263	\$ 15,750
Cost of revenues	843	1,777	2,620
Gross profit	<u>\$ 9,644</u>	<u>\$ 3,486</u>	<u>\$ 13,130</u>
Gross margin	92 %	66 %	83 %

Our software business and services business represented 67 % and 33 % of total revenue, respectively, for the three months ended February 28, 2023.

**Software Business**

For the three months ended February 29, 2024, the revenue increase of \$ 1.1 million, or 11 %, compared to the three months ended February 28, 2023, was primarily due to higher revenues from Monolix™ of \$ 0.8 million, and higher revenues from ADMET Predictor® of \$ 0.3 million. Cost of revenues increased \$ 0.5 million, or 60 %, primarily due to \$ 0.2 million from the acquisition of Immunetrics, and gross profit increased by \$ 0.6 million, or 6 %, primarily due to the increase in revenues.

**Services Business**

For the three months ended February 29, 2024, the revenue increase of \$ 1.4 million, or 27 %, compared to the three months ended February 28, 2023, was primarily due to higher revenues from QSP services of \$ 0.8 million, PBPK services of \$ 0.5 million, higher revenues from PKPD services of \$ 0.3 million, offset by lower revenues from REG services of \$ 0.1 million. Cost of revenues increased by \$ 2.0 million, or 110 % primarily driven by \$ 1.3 million from the reorganization of our internal structure from divisions based on prior acquisitions to business units organized around key product and service offerings and \$ 0.4 million from the acquisition of Immunetrics, which contributed to our services headcount. Our new business unit structure is designed to optimize the utilization of our scientific talent in support of our revenue growth objectives. Gross profit decreased by \$ 0.5 million, or 15 %, for the same periods.

The following tables summarize the results for each segment for the six months ended February 29, 2024 and February 28, 2023:

(in thousands)

**Six Months Ended February 29, 2024**

	<b>Software</b>	<b>Services</b>	<b>Total</b>
Revenues	\$ 19,203	\$ 13,602	\$ 32,805
Cost of revenues	2,339	7,397	9,736
Gross profit	<u>\$ 16,864</u>	<u>\$ 6,205</u>	<u>\$ 23,069</u>
Gross margin	88 %	46 %	70 %

Our software business and services business represented 59 % and 41 % of total revenue, respectively, for the six months ended February 29, 2024.

(in thousands)

**Six Months Ended February 28, 2023**

	<b>Software</b>	<b>Services</b>	<b>Total</b>
Revenues	\$ 16,561	\$ 11,153	\$ 27,714
Cost of revenues	1,728	3,563	5,291
Gross profit	<u>\$ 14,833</u>	<u>\$ 7,590</u>	<u>\$ 22,423</u>
Gross margin	90 %	68 %	81 %

Our software business and services business represented 60 % and 40 % of total revenue, respectively, for the six months ended February 28, 2023.

**Software Business**

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For the six months ended February 29, 2024, the revenue increase of \$ 2.6 million, or 16 %, compared to the six months ended February 28, 2023, was primarily due to higher revenues from GastroPlus® of \$ 1.0 million, higher revenues from Monolix™ of \$ 0.8 million, higher revenues from QSP of \$ 0.6 million, and higher revenues from ADMET Predictor® of \$ 0.3 million. Cost of revenues increased by \$ 0.6 million, or 35 %, primarily due to \$ 0.4 million from the acquisition of Immunetrics, and gross profit increased by \$ 2.0 million, or 14 %, primarily due to increase in revenues, for the six months ended February 29, 2024, compared to the six months ended February 28, 2023.

### Services Business

For the six months ended February 29, 2024, the revenue increase of \$ 2.4 million, or 22 %, compared to the six months ended February 28, 2023, was primarily due to higher revenues from QSP services of \$ 1.9 million, due to the addition of Immunetrics services revenues of \$ 1.1 million, higher revenues of \$ 0.8 million of the remaining QSP services, and higher revenues from PBPK services of \$ 0.3 million, offset by lower revenues from REG services of \$ 0.3 million. Cost of revenues increased by \$ 3.8 million, or 108 %, primarily driven by \$ 1.9 million from the reorganization of our internal structure from divisions based on prior acquisitions to business units organized around key product and service offerings, \$ 1.3 million from compensation costs due to expanding our scientific headcount as well as general annual salary adjustments, and \$ 0.7 million from the acquisition of Immunetrics, which contributed to our services headcount. Our new business unit structure is designed to optimize the utilization of our scientific talent in support of our revenue growth objectives. Gross profit decreased accordingly by \$ 1.4 million, or 18 %, for the same periods.

### **NOTE 8 – EMPLOYEE BENEFIT PLAN**

We maintain a 401(k) Plan for eligible employees. We make matching contributions equal to 100 % of the employee's elective deferral, not to exceed 4 % of the employee's gross salary. We contributed \$ 0.2 million and \$ 0.2 million for the three months ended February 29, 2024 and February 28, 2023, respectively, and \$ 0.4 million and \$ 0.3 million for the six months ended February 29, 2024, and February 28, 2023, respectively.

### **NOTE 9 - GOVERNMENT ASSISTANCE**

The Company receives government assistance in the form of cash grants which vary in size, duration, and conditions from domestic governmental agencies. Accounting for the grant revenue does not fall under ASC 606, Revenue from Contracts with Customers, as the Government will not benefit directly from our offerings. For government assistance in which no specific US GAAP applies, the Company accounts for such transactions as revenue and by analogy to a grant model. The grant revenue is recognized on a gross basis. The grant revenue is recognized over the duration of the program when the conditions attached to the grant are achieved. If conditions are not satisfied, the grants are often subject to reduction, repayment, or termination. The Company classifies the impact of government assistance on the accompanying Condensed Consolidated Statements of Operations and Comprehensive Income as services revenue.

The Company received assistance from domestic governmental agencies to provide reimbursement for various costs incurred for research and development. These include direct grant awards and subawards. The grants awarded are currently set to expire at various dates through 2025. During the three months ended February 29, 2024, and February 28, 2023, the Company recognized \$ 0.4 million and \$ 0.4 million, respectively, and \$ 0.7 million and \$ 0.6 million for the six months ended February 29, 2024, and February 28, 2023, respectively, within Services revenues on the Condensed Consolidated Statements of Operations and Comprehensive Income related to such assistance. To the extent amounts have been earned but not yet funded are included in Accounts Receivable. Computer equipment allowable by the grants are classified under Fixed Assets. Subawards due to unrelated entities are classified under Accrued Expenses.

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## **NOTE 10 - SUBSEQUENT EVENTS**

### Dividend Declared

On Thursday, April 3, 2024, our Board of Directors declared a quarterly cash dividend of \$ 0.06 per share to our shareholders. The dividend in the amount of approximately \$ 1.2 million will be distributed on Monday, May 6, 2024, for shareholders of record as of Monday, April 29, 2024.

### Earnout payment

In March 2024, the Company made cash earnout payments in the aggregate amount of \$ 2.5 million to the former equity holders and employees of Immunetrics, pursuant to the terms of that Earnout Agreement, dated June 16, 2023, entered into by and among the Company, Immunetrics and certain other parties in connection with the Immunetrics acquisition.

## **ITEM 2 – MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

### **Forward-Looking Statements**

This document and the documents incorporated in this document by reference contain forward-looking statements that are subject to risks and uncertainties. All statements other than statements of historical fact contained in this document and the materials accompanying this document are forward-looking statements.

The forward-looking statements are based on the beliefs of our management, as well as assumptions made by and information currently available to our management. Frequently, but not always, forward-looking statements are identified by the use of the future tense and by words such as "believes," "expects," "anticipates," "intends," "will," "may," "could," "would," "projects," "continues," "estimates" or similar expressions. Forward-looking statements are not guarantees of future performance and actual results could differ materially from those indicated by the forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause our or our industry's actual results, levels of activity, performance, or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by the forward-looking statements.

The forward-looking statements contained or incorporated by reference in this document are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended ("Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended ("Exchange Act"), and are subject to the safe harbor created by the Private Securities Litigation Reform Act of 1995. These statements include declarations regarding our plans, intentions, beliefs, or current expectations.

Among the important factors that could cause actual results to differ materially from those indicated by forward-looking statements are the risks and uncertainties described under "Risk Factors" in our Annual Report on Form 10-K for the year ended August 31, 2023, filed with the Securities and Exchange Commission ("SEC") on October 27, 2023, and elsewhere in this document and in our other filings with the SEC.

Forward-looking statements are expressly qualified in their entirety by this cautionary statement. The forward-looking statements included in this document are made as of the date of this document and we do not undertake any obligation to update forward-looking statements to reflect new information, subsequent events, or otherwise.

Our historical results are not necessarily indicative of the results that may be expected for any period in the future.

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[Table of Contents](#)**General****BUSINESS****OVERVIEW**

Since its incorporation in 1996, Simulations Plus, Inc. has been a leading provider in the biosimulation market, offering software and consulting services that support drug discovery, development, research, and regulatory submissions. Our solutions bridge artificial intelligence (AI)/machine learning, physiologically based pharmacokinetics, quantitative systems pharmacology/toxicology, and population PK/PD modeling approaches. Our technology is licensed and applied by major pharmaceutical and biotechnology companies, universities, and regulatory agencies worldwide. The Company is headquartered in Southern California, with offices in Buffalo, NY; Research Triangle Park, NC; Pittsburgh, PA; and Paris, France. Our common stock has traded on the Nasdaq Global Select Market under the symbol "SLP" since May 13, 2021, prior to which it traded on the Nasdaq Capital Market under the same symbol.

We are a global leader in modeling and simulation, delivering powerful software and insightful consulting services. Pharmaceutical and biotechnology companies and hospitals use our software platforms and scientific consulting services to guide early drug discovery (molecule design, screening, and lead optimization), preclinical and clinical development programs, and the development of generic medicines after patent expiration. Our software and services are also used to enhance clients' understanding of the properties of potential new therapies and to use emerging data to improve formulations, select and justify dosing regimens, support the generic pharmaceutical product development industry, optimize clinical trial designs, and simulate outcomes in special populations, such as in elderly and pediatric patients.

**Environmental, Social, and Governmental (ESG) Update**

In December 2023, we reorganized our information technology server infrastructure by consolidating 10 racks previously located in Pittsburgh, PA to 1 rack located in Buffalo, NY. This led to a 90% reduction in our leased space, thereby reducing our carbon footprint and contributing towards our ESG efforts.

**Results of Operations****Comparison of Three Months Ended February 29, 2024, and February 28, 2023**

(in thousands)	Three Months Ended		% of Revenue		
	February 29, 2024	February 28, 2023	February 29, 2024	February 28, 2023	\$ Change
Revenue	\$ 18,305	\$ 15,750	100 %	100 %	\$ 2,555 16 %
Cost of revenue	5,084	2,620	28 %	17 %	2,464 94 %
Gross profit	13,221	13,130	72 %	83 %	91 1 %
Research and development	1,312	1,317	7 %	8 %	(5) — %
Sales and marketing	1,949	1,730	11 %	11 %	219 13 %
General and administrative	5,518	6,049	30 %	38 %	(531) (9) %
Total operating expenses	8,779	9,096	48 %	58 %	(317) (3) %
Income from operations	4,442	4,034	24 %	26 %	408 10 %
Other income, net	810	1,034	4 %	7 %	(224) (22) %
Income before income taxes	5,252	5,068	29 %	32 %	184 4 %
Provision for income taxes	(1,223)	(894)	7 %	6 %	(329) (37) %
Net income	\$ 4,029	\$ 4,174	22 %	27 %	\$ (145) (3) %

**Revenues**

Revenues increased by \$2.6 million, or 16%, to \$18.3 million for the three months ended February 29, 2024, compared to \$15.8 million for the three months ended February 28, 2023. This increase is primarily due to a \$1.1 million, or 11%, increase in software-related revenue and a \$1.4 million, or 27%, increase in service-related revenue when compared to the three months ended February 28, 2023.

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### Cost of revenues

Cost of revenues increased by \$2.5 million, or 94%, for the three months ended February 29, 2024, compared to the three months ended February 28, 2023. \$1.3 million of the increase in cost of revenues is due to the reorganization of our internal structure from divisions based on prior acquisitions to business units organized around key product and service offerings. As part of this reorganization, we evaluated our departmental structure with a focus on continuing to improve operational performance and profitability while providing our investors improved visibility to our progress. Accordingly, we moved all services personnel into cost of revenues departments, moved all research and development personnel into research and development expense departments, moved all sales and marketing personnel into sales and marketing expense departments, and moved all overhead personnel into general and administrative expense departments. These movements completed the final step toward consolidating the company from the various acquired company divisions to a company-wide business unit structure. The \$1.3 million increase in cost of revenues corresponds to the \$1.3 million decrease in general and administrative expenses discussed below. \$0.6 million of the increase in cost of revenues is due to the acquisition of Immunetrics. \$0.6 million of the increase is due to compensation related increases, primarily attributable to the addition of scientific headcount as well as general annual salary adjustments for existing employees.

### Gross profit

Gross profit remained mostly consistent at \$13.2 million for the three months ended February 29, 2024, compared to \$13.1 million for the three months ended February 28, 2023. Although, the gross profit remained mostly consistent, gross profit increased in our software business by \$0.6 million, or 6%, and decreased for our services business by \$0.5 million, or 15%.

Overall gross margin percentage was 72% and 83% for the three months ended February 29, 2024, and February 28, 2023, respectively.

### Research and development

We incurred \$2.1 million of research and development costs during the three months ended February 29, 2024. Of this amount, \$0.8 million was capitalized as a part of capitalized software development costs and \$1.3 million was expensed. We incurred \$2.0 million of research and development costs during the three months ended February 28, 2023. Of this amount, \$0.7 million was capitalized and \$1.3 million was expensed. Research and development spend remained relatively consistent with a slight increase of \$0.1 million, or 7%, for the three months ended February 29, 2024, compared to the three months ended February 28, 2023.

### Sales and marketing expenses

Sales and marketing expenses increased by \$0.2 million, or 13%, to \$1.9 million for the three months ended February 29, 2024, compared to \$1.7 million for the three months ended February 28, 2023. The increase was primarily due to the acquisition of Immunetrics which had an impact of \$0.1 million, and an increase in stock compensation of \$0.1 million.

### General, and administrative expenses

General, and administrative ("G&A") expenses decreased by \$0.5 million, or 9%, to \$5.5 million for the three months ended February 29, 2024, compared to \$6.0 million for the three months ended February 28, 2023. The decrease is primarily driven by a \$1.3 million shift from general and administrative expense to cost of revenues, as referenced above, due to the reorganization of our internal structure from divisions based on prior acquisitions to business units organized around key product and service offerings, partially offset by an increase of \$0.2 million from the acquisition of Immunetrics and an increase of \$0.1 million in compensation costs due to general annual salary adjustments for existing employees.

### Other income

Total other income was \$0.8 million for the three months ended February 29, 2024, compared to total other income of \$1.0 million for the three months ended February 28, 2023. The decrease is primarily due to an increase in the fair value adjustment of the earnout liability of \$0.4 million in the current period and a foreign currency loss of \$0.1 million, partially offset by an increase in interest income of \$0.4 million driven by an increase in interest rates on investment in debt securities. The increase in the fair value of the earnout liability is attributable to favorable developments to our revenue projections for Immunetrics and corresponds to a higher likelihood of achieving the earnout targets.

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### Provision for income taxes

The provision for income taxes was \$1.2 million for the three months ended February 29, 2024, compared to \$0.9 million for the three months ended February 28, 2023. Our effective tax rate increased to 23% for the three months ended February 29, 2024, from 18% for the three months ended February 28, 2023. The 18% effective tax rate for the three months ended February 28, 2023 was favorably affected by increased disqualifying dispositions of incentive stock options, which caused the effective tax rate to have increased comparatively for the three months ended February 29, 2024.

### **Results of Operations**

#### Comparison of Six Months Ended February 29, 2024, and February 28, 2023

(in thousands)	Six Months Ended		% of Revenue			
	February 29, 2024	February 28, 2023	February 29, 2024	February 28, 2023	\$ Change	% Change
Revenue	\$ 32,805	\$ 27,714	100 %	100 %	\$ 5,091	18 %
Cost of revenue	9,736	5,291	28 %	17 %	4,445	84 %
Gross profit	23,069	22,423	72 %	83 %	646	3 %
Research and development	2,529	2,483	7 %	8 %	46	2 %
Sales and marketing	3,938	3,215	12 %	12 %	723	22 %
General and administrative	11,200	11,813	30 %	38 %	(613)	(5) %
Total operating expenses	17,667	17,511	48 %	58 %	156	1 %
Income from operations	5,402	4,912	24 %	26 %	490	10 %
Other income, net	2,256	1,774	4 %	7 %	482	27 %
Income before income taxes	7,658	6,686	29 %	32 %	972	15 %
Provision for income taxes	(1,684)	(1,267)	7 %	6 %	(417)	33 %
Net income	\$ 5,974	\$ 5,419	22 %	27 %	\$ 555	10 %

#### Revenues

Revenues increased by \$5.1 million, or 18%, to \$32.8 million for the six months ended February 29, 2024, compared to \$27.7 million for the six months ended February 28, 2023. This increase is primarily due to an increase of \$2.6 million, or 16%, in software-related revenue primarily driven by higher revenues from GastroPlus® of \$1.0 million, higher revenues from Monolix™ of \$0.8 million, higher revenues from quantitative systems pharmacology ("QSP") of \$0.6 million, and higher revenues from ADMET Predictor® of \$0.3 million. \$2.4 million, or 22%, of the overall increase in revenues is due to an increase in service-related revenues, primarily driven by higher revenues from QSP services of \$1.9 million, of which the Immunetrics services revenues contributed \$1.1 million. Additionally, the increase in services revenue is due to higher revenues from clinical pharmacology & pharmacometrics ("CPP") services of \$0.6 million, and higher revenues from physiologically based pharmacokinetics ("PBPK") services of \$0.3 million, offset by lower revenues from regulatory strategies ("REG") services of \$0.3 million.

#### Cost of revenues

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Cost of revenues increased by \$4.4 million, or 84%, for the six months ended February 29, 2024, compared to the six months ended February 28, 2023. \$1.9 million of the increase in cost of revenues is due to the reorganization of our internal structure from divisions based on prior acquisitions to business units organized around key product and service offerings. As part of this reorganization, we evaluated our departmental structure with a focus on continuing to improve operational performance and profitability while providing our investors improved visibility to our progress. Accordingly, we moved all services personnel into cost of revenues departments, moved all research and development personnel into research and development expense departments, moved all sales and marketing personnel into sales and marketing expense departments, and moved all general and administrative personnel into general and administrative expense departments. These movements completed the final step toward consolidating the company from the various acquired company divisions to a company-wide business unit structure. The \$1.9 million increase in cost of revenues corresponds to the \$1.9 million decrease in general and administrative expenses discussed below. \$1.1 million of the increase in cost of revenues is due to the acquisition of Immunetrics. \$1.3 million of the increase is due to compensation related increases, primarily attributable to the addition of scientific headcount as well as general annual salary adjustments for existing employees.

### Gross profit

Gross profit increased by \$0.6 million, or 3%, to \$23.1 million for the six months ended February 29, 2024, compared to \$22.4 million, for the six months ended February 28, 2023. The increase in gross profit is primarily due to an increase in gross profit for our software business of \$2.0 million, or 14%, reflecting the strong revenue growth and operating leverage of our software business, partially offset by a decrease in gross profit for our services business of \$1.4 million, or 18%, resulting from the reorganization of our internal structure as well as additional services headcount from the Immunetrics acquisition.

Overall gross margin percentage was 70% and 81% for the six months ended February 29, 2024 and February 28, 2023, respectively.

### Research and development

We incurred \$4.3 million of research and development costs during the six months ended February 29, 2024. Of this amount, \$1.8 million was capitalized as a part of capitalized software development costs and \$2.5 million was expensed. We incurred \$4.0 million of research and development costs during the six months ended February 28, 2023. Of this amount, \$1.6 million was capitalized and \$2.5 million was expensed. Research and development spend remained relatively consistent with a slight increase of \$0.2 million, or 6%, for the six months ended February 29, 2024, compared to the six months ended February 28, 2023.

### Sales and marketing expenses

Sales and marketing expenses increased by \$0.7 million, or 22%, to \$3.9 million for the six months ended February 29, 2024, compared to \$3.2 million for the six months ended February 28, 2023. The increase was primarily due to additional compensation costs of \$0.4 million as well as the acquisition of Immunetrics, which had an impact of \$0.2 million.

### General, and administrative expenses

G&A expenses remained relatively consistent with a slight decrease of \$0.6 million, or 5%, to \$11.2 million for the six months ended February 29, 2024, compared to \$11.8 million for the six months ended February 28, 2023. The decrease is primarily driven by a \$1.9 million shift from general and administrative expense to cost of revenues, as referenced above, due to the reorganization of our internal structure from divisions based on prior acquisitions to business units organized around key product and service offerings, partially offset by an increase of \$0.4 million from the acquisition of Immunetrics and an increase of \$0.3 million in compensation costs due to general annual salary adjustments for existing employees.

### Other income

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Total other income was \$2.3 million for the six months ended February 29, 2024, compared to total other income of \$1.8 million for the six months ended February 28, 2023. The increase is primarily due to an increase in interest income of \$0.9 million driven by an increase in interest rates from investment in debt securities as well as a decrease in the fair value of contingent consideration of \$0.3 million related to the Immunetrics earnout liability. The decrease in the fair value of the earnout liability is attributable to a partial earnout attainment for the first earnout measurement period. The earnout target for the first measurement period was \$4.0 million, however, based on revenue attainment, we only paid \$2.5 million in March 2024 for the first earnout measurement period. As a result of the partial attainment, there is a catch-up opportunity for the second measurement period's earnout payment to increase from the target of \$4.0 million to \$5.5 million.

*[Provision for income taxes](#)*

The provision for income taxes was \$1.7 million for the six months ended February 29, 2024, compared to \$1.3 million for the six months ended February 28, 2023. Our effective tax rate increased to 22% mainly due to disqualifying dispositions of incentive stock options for the six months ended February 29, 2024, when compared to 19% for the six months ended February 28, 2023. The 19% effective tax rate for the six months ended February 28, 2023 was favorably affected by increased disqualifying dispositions of incentive stock options, which caused the effective tax rate to have increased comparatively for the six months ended February 29, 2024.

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## Liquidity and Capital Resources

At February 29, 2024, the Company had \$37.0 million in cash and cash equivalents, \$71.5 million in short-term investments, and working capital of \$113.4 million. The Company also has \$9.0 million in long-term investments that do not exceed eighteen months and can readily be converted to cash when needed. Our principal sources of capital have been a follow-on public offering in August 2020 for \$107.7 million and cash flows from our operations. We have achieved continuous positive operating cash flow over the last fourteen fiscal years.

On December 29, 2022, our Board of Directors authorized and approved a share repurchase program for up to \$50 million of the outstanding shares of our common stock, including the repurchase of up to \$20 million of our outstanding shares through an accelerated share repurchase transaction. Under the repurchase program, shares may be repurchased at our discretion based on ongoing assessment of the capital needs of our business, the market price of shares of our common stock, and general market conditions. Repurchases may be made pursuant to certain SEC regulations, which permit shares of our common stock to be repurchased when we would otherwise be prohibited from doing so under insider-trading laws. There is no time limit in place for the completion of our share repurchase program, and the program may be suspended or discontinued at any time. Except as was required by the ASR Agreement (as defined below), we are not obligated to repurchase any shares under the repurchase program. We have funded share repurchases to date, and will fund future repurchases, if any, through cash on hand and cash generated from operations.

On January 11, 2023, the Company entered into an accelerated share repurchase agreement (the "ASR Agreement") with Morgan Stanley & Co. LLC ("Morgan Stanley") to repurchase an aggregate of \$20 million of our outstanding shares of common stock. The ASR Agreement was executed as part of our existing \$50 million share repurchase program. Pursuant to the terms of the ASR Agreement, we made an initial payment, using available cash balances, of \$20 million to Morgan Stanley and received an initial delivery of 408,685 shares of Company common stock from Morgan Stanley. These 408,685 shares were retired and are treated as authorized, unissued shares. At final settlement on May 20, 2023, based on the volume-weighted average price of our common stock during the term of the ASR Agreement, Morgan Stanley delivered an additional 83,356 shares of Company common stock to us, which shares were also retired and treated as authorized, unissued shares. After completion of the repurchases under the ASR Agreement, \$30 million remains available for additional repurchases under our authorized repurchase program.

On June 16, 2023, the Company acquired Immunetrics through a reverse triangular merger, pursuant to which Immunetrics became a wholly owned subsidiary of the Company. As consideration for the acquisition, at closing, the Company paid the equity holders of Immunetrics a cash payment in the aggregate amount of approximately \$13.7 million, and also paid the representative of the Immunetrics stockholders \$250,000 as an expense fund to cover expenses that it incurs in its role as such (collectively, the "Closing Payments"). In addition to the Closing Payments, the Company held back \$1.8 million to cover any negative working capital adjustments and Immunetrics' indemnification obligations under the Merger Agreement (the "Holdback Amount"), the balance of which, less any deductions, if any, will be distributed to the Immunetrics stockholders after expiration of the applicable hold back period. Furthermore, the Company agreed to pay the Immunetrics equity holders an aggregate amount of up to \$8.0 million in earnout payments, consisting of two payouts of up to \$4.0 million each, if Immunetrics achieves certain revenue milestones for the calendar years 2023 and 2024 (the "Earnout Payments," and together with the Closing Payments and Holdback Amount, the "Merger Consideration"). In March 2024, the Company made the first cash earnout payments in the aggregate amount of \$2.5 million to the former equity holders and employees of Immunetrics. As a result of the partial attainment, there is a catch-up opportunity for the second measurement period's earnout payment to increase from the target of \$4.0 million to \$5.5 million.

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, including to complete the remaining \$30 million of repurchases available under our \$50 million share repurchase program, if we so choose. Thereafter, if cash generated from operations is insufficient to satisfy our capital requirements, we may have to sell additional equity or debt securities. In the event that additional 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.

We continue to seek opportunities for strategic acquisitions, investments, and partnerships. If one or more such strategic opportunities are identified, a substantial portion of our cash reserves may be required to complete it; however, we intend to maintain sufficient cash reserves to provide reasonable assurance that outside financing will not be necessary to continue operations. If we identify an attractive strategic opportunity that would require more cash to complete than we are willing or able to use from our cash reserves, we will consider financing options to complete the transaction, including obtaining loans and issuing additional securities.

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Except as discussed elsewhere in this Quarterly Report on Form 10-Q (this "Report"), we are not aware of any trends or demands, commitments, events, or uncertainties that are reasonably likely to result in a decrease in liquidity of our assets. The trend over the last ten years has been increasing cash deposits from our operating cash flows, and we expect that trend to continue for the foreseeable future.

### **Cash Flows**

#### *Operating Activities*

Net cash provided by operating activities was \$6.0 million for the six months ended February 29, 2024. Our operating cash flows resulted in part from our net income of \$6.0 million, which was generated by cash received from our customers, offset by cash payments we made to third parties for their services and employee compensation. In addition, \$3.9 million related to changes in balances of operating assets and liabilities was subtracted from net income and \$3.9 million related to non-cash charges was added to net income to reconcile to cash flow from operations.

Net cash provided by operating activities was \$10.2 million for the six months ended February 28, 2023. Our operating cash flows resulted primarily from our net income of \$5.4 million. In addition, \$0.6 million related to changes in balances of operating assets and liabilities was added to net income and \$4.2 million related to noncash charges was added to net income to reconcile to cash flow from operations.

Net cash provided by operating activities decreased by \$4.3 million during the six months ended February 29, 2024, compared to the six months ended February 28, 2023. \$2.9 million of this change relates to accounts receivable, as the Company experienced strong cash collections from customers on older balances during the six months ended February 28, 2023, and increased revenues for the period ending February 29, 2024.

Net cash used in investing activities during the six months ended February 29, 2024, was \$24.4 million, primarily due to the purchase of short-term investments of \$49.0 million and computer software development costs of \$1.7 million, offset by proceeds from maturities of short-term investments of \$36.3 million.

Net cash used in investing activities during the six months ended February 28, 2023, was \$1.1 million, primarily due to the purchase of short-term investments of \$47.2 million and computer software development costs of \$1.7 million, offset by proceeds from maturities of short-term investments of \$48.2 million.

#### *Financing Activities*

Net cash used in financing activities during the six months ended February 29, 2024, was \$2.1 million, primarily due to dividend payments totaling \$2.4 million, partially offset by proceeds from the exercise of stock options totaling \$0.3 million.

Net cash used in financing activities during the six months ended February 28, 2023, was \$21.5 million, primarily due to share repurchases of \$20.0 million and dividend payments totaling \$2.4 million, partially offset by proceeds from the exercise of stock options totaling \$1.0 million.

### **Dividends**

Refer to Note 5 – Shareholders' Equity of the Notes to Financial Statements (Part I, Item 1 of this Report) for details regarding dividends.

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## Known Trends or Uncertainties

We have seen some consolidation in the pharmaceutical industry during economic downturns, although these consolidations have not had a negative effect on our total revenues. Should customer delays, holds, program cancellations, or consolidations and downsizing in the industry continue to occur, those events could adversely impact our revenues and earnings going forward.

We believe that the need for improved productivity in the research and development activities directed toward developing new medicines will continue to result in increasing adoption of simulation and modeling tools and consulting services such as those we provide. New product developments in our pharmaceutical business segments could result in increased revenues and earnings if they are accepted by our markets; however, there can be no assurances that new products will result in significant improvements to revenues or earnings. For competitive reasons, we do not disclose all of our new product development activities.

While inflation has recently been moderated following the Federal Reserve's interest rate increases over the past two years, the Federal Reserve has been cautious to cut interest rates and economic uncertainty remains. A decrease in interest rates too quickly may lead to a resurgence of inflation, while holding rates too high for too long may lead the economy into recession. Either scenario may negatively affect our operations.

Historically, we have paid cash dividends of \$0.06 per share to holders of shares of our common stock on a quarterly basis. The declaration of any future dividends will be determined by our Board of Directors each quarter and will depend on earnings, financial condition, capital requirements, and other factors.

Our continued quest for strategic acquisitions could result in a significant change to revenues and earnings if one or more such acquisitions are completed.

The potential for growth in new markets (e.g., healthcare) is uncertain. We will continue to explore these opportunities until such time as we either generate revenues in these new markets or determine that resources would be more efficiently used elsewhere.

## Contractual Obligations

The following table provides aggregate information regarding our contractual obligations as of February 29, 2024:

(in thousands)	Payments due by period				
Contractual obligations:	Total	1 year	2–3 years	4–5 years	More than 5 years
Contracts payable <sup>(1)</sup>	\$ 6,910	\$ 5,110	\$ 1,800	\$ —	\$ —

<sup>(1)</sup> Contracts payable are related to the Merger Agreement that the Company entered into with Immunetrics and certain other parties on June 16, 2023. Under the terms of the agreement, we agreed to pay the former equityholders of Immunetrics earnout payments up to \$8.0 million, consisting of two payouts of up to \$4.0 million each, subject to a potential catch-up increase in certain circumstances. In March 2024, the Company made the first cash earnout payments in the aggregate amount of \$2.5 million to the former equity holders and employees of Immunetrics. Additionally, a portion of the consideration for the acquisition, in an amount equal to \$1.8 million, was held-back by the Company at closing to cover any negative net working capital adjustments (if any) and Immunetrics' indemnification obligations under the Merger Agreement.

## Critical Accounting Estimates

### Estimates

Our financial statements and accompanying notes are prepared in accordance with GAAP. 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, valuation of stock options, and accounting for income taxes.

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### Revenue Recognition

We generate revenue primarily from the sale of software licenses and providing consulting services to the pharmaceutical industry for drug development.

The Company determines revenue recognition through the following steps:

- i. Identification of the contract, or contracts, with a customer
- ii. Identification of the performance obligations in the contract
- iii. Determination of the transaction price
- iv. Allocation of the transaction price to the performance obligations in the contract
- v. Recognition of revenue when, or as, the Company satisfies a performance obligation

The Company accounts for a contract when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance, and collectability of consideration is probable. Contracts generally have fixed pricing terms and are not subject to variable pricing. The Company considers the nature and significance of each specific performance obligation under a contract when allocating the proceeds under each contract. Accounting for contracts includes significant judgement in the estimation of estimated hours/cost to be incurred on consulting contracts, and the *di minimis* nature of the post-sales costs associated with software sales.

### Capitalized Computer Software Development Costs

Software development costs are capitalized in accordance with ASC 985-20, "Costs of Software to Be Sold, Leased, or 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 computer 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. Total capitalized computer software development costs were \$0.8 million and \$0.7 million for the three months ended February 29, 2024 and February 28, 2023, respectively, and \$1.8 million and \$1.6 million for the six months ended February 29, 2024 and February 28, 2023, respectively.

Amortization of capitalized computer software development costs is calculated 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 \$0.4 million and \$0.4 million for the three months ended February 29, 2024, and February 28, 2023, respectively, and \$0.8 million and \$0.8 million for the fiscal six months ended February 29, 2024, and February 28, 2023, respectively. We expect future amortization expense to vary due to increases in capitalized computer software development costs.

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

### Intangible Assets and Goodwill

The Company performs valuations of assets acquired and liabilities assumed on each acquisition accounted for as a business combination and recognizes the assets acquired and liabilities assumed at their acquisition date fair value. Acquired intangible assets include customer relationships, software, trade name, and noncompete agreements. The Company determines the appropriate useful life by performing an analysis of expected cash flows based on historical experience of the acquired businesses. Intangible assets are amortized over their estimated useful lives using the straight-line method, which approximates the pattern in which the majority of the economic benefits are expected to be consumed.

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Goodwill represents the excess of the cost of an acquired entity over the fair value of the acquired net assets. Goodwill is not amortized, instead it is tested for impairment annually or when events or circumstances change that would indicate that goodwill might be impaired. Events or circumstances that could trigger an impairment review include, but are not limited to, a significant adverse change in legal factors or in the business climate, an adverse action or assessment by a regulator, unanticipated competition, a loss of key personnel, significant changes in the manner of the Company's use of the acquired assets or the strategy for the Company's overall business, significant negative industry or economic trends, or significant under-performance relative to expected historical or projected future results of operations.

Goodwill is tested for impairment at the reporting unit level, which is one level below or the same as an operating segment. As of February 29, 2024, after completion of the Company's internal reorganization, the Company determined that it had five reporting units: CPP, QSP, PBPK, Cheminformatics, and REG.

As of February 29, 2024, the entire balance of goodwill was attributed to two of the Company's reporting units, CPP and QSP. Intangible assets subject to amortization are reviewed for impairment whenever events or circumstances indicate that the carrying amount of these assets may not be recoverable. No impairment losses were recorded during the three and six months ended February 29, 2024, and February 28, 2023, respectively.

### Business Acquisitions

The Company accounted for the acquisitions of Cognigen, DILIsym, Lixoft, and Immunetrics using the acquisition method of accounting where the assets acquired and liabilities assumed are recognized based on their respective estimated fair values. The excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill. Determining the fair value of certain acquired assets and liabilities is subjective in nature and often involves the use of significant estimates and assumptions, including, but not limited to, the selection of appropriate valuation methodology, projected revenue, expenses, and cash flows, weighted-average cost of capital, discount rates, and estimates of terminal values. Business acquisitions are included in the Company's condensed consolidated financial statements as of the date of the acquisition.

### Research and Development Costs

Research and development costs are charged to expense as incurred until technological feasibility has been established, or when the costs are for maintenance and minor modification of existing software products that do not add significant new capabilities to the products. These costs include salaries, laboratory experiment, and purchased software that was developed by other companies and incorporated into, or used in the development of, our final products.

### Income Taxes

The Company accounts for income taxes in accordance with ASC 740-10, "Income Taxes," which requires the recognition of deferred tax assets and liabilities for expected future tax consequences of events that have been included in the financial statements or tax returns.

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

### Stock-Based Compensation

The Company accounts for stock options in accordance with ASC 718-10, "Compensation-Stock Compensation." Under this method, compensation costs include the estimated grant-date fair value of awards amortized over the options' vesting period. Stock-based compensation costs, not including shares issued to directors for services, was \$1.6 million and \$1.2 million for the three months ended February 29, 2024, and February 28, 2023, respectively, and \$2.9 million and \$2.0 million for the six months ended February 29, 2024, and February 28, 2023, respectively.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

As of February 29, 2024, there has been no material change in our exposure to market risk from that described in Item 7A of our Annual Report.

**Item 4. Controls and Procedures**

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of February 29, 2024. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well-designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on this evaluation, management concluded as of February 29, 2024 that our disclosure controls and procedures were effective.

**Changes in Internal Controls over Financial Reporting**

No change in our internal controls over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act) occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

For a description of our material pending legal proceedings, please see Note 4, Commitments and Contingencies, to our condensed consolidated financial statements included in Part I, Item 1 of this Report.

**Item 1A. Risk Factors**

Please carefully consider the information set forth in this Report and the risk factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended August 31, 2023, which could materially affect our business, financial condition, or future results. The risks described in our Annual Report, as well as other risks and uncertainties, could materially and adversely affect our business, results of operations, and financial condition, which in turn could materially and adversely affect the trading price of shares of our common stock. There have been no material updates or changes to the risk factors previously disclosed in our Annual Report; however, additional risks not currently known or currently material to us may also harm our business.

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**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

**Unregistered Sales of Equity Securities**

During the quarter ended February 29, 2024, there were no unregistered sales of our securities that were not reported in a Current Report on Form 8-K.

**Issuer Purchases of Equity Securities**

As discussed elsewhere in this Quarterly Report on Form 10-Q, on December 29, 2022, our Board of Directors authorized and approved a share repurchase program for up to \$50 million of the outstanding shares of our common stock, and on January 11, 2023, we entered into the ASR Agreement with Morgan Stanley to repurchase an aggregate of \$20 million of our outstanding shares of common stock as part of the share repurchase program, which was settled in full in May 2023. The program has no expiration date but may be terminated at any time at our Board of Directors' discretion.

In January 2023, we received an initial delivery of an aggregate of 408,685 shares of our common stock from Morgan Stanley pursuant to the ASR Agreement, in exchange for which we made an initial payment of \$20 million to Morgan Stanley. These 408,685 shares were retired and are treated as authorized, unissued shares. At final settlement on May 20, 2023, based on the volume-weighted average price of our common stock during the term of the ASR Agreement, Morgan Stanley delivered an additional 83,356 shares of Company common stock to us, which shares were also retired and treated as authorized, unissued shares.

After completion of the repurchases under the ASR Agreement, \$30 million remains available for additional repurchases under our authorized repurchase program.

We did not repurchase any shares or other equity securities of the Company during the three and six months ended February 29, 2024.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

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**Item 5. Other Information**

Rule 10b5-1 Trading Plans

The adoption or termination of contracts, instructions or written plans for the purchase or sale of our securities by our Section 16 officers and directors for the quarter ended February 29, 2024, each of which is intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) under the Exchange Act ("Rule 10b5-1 Plan"), were as follows:

Name	Title	Action	Date Adopted	Expiration Date	Aggregate # of Securities to be Purchased/Sold
Dr. Lisa LaVange <sup>(1)</sup>	Director	Termination	01/11/2023	01/20/2024	5,340
John DiBella <sup>(2)</sup>	Business Unit President	Termination	01/31/2023	02/27/2024	41,505
Dr. Lisa LaVange <sup>(1)</sup>	Director	Adoption	02/06/2024	02/08/2025	4,600
Dr. Daniel Wiener <sup>(3)</sup>	Director	Termination	01/17/2023	02/06/2024	9,874
Dr. Daniel Wiener <sup>(3)</sup>	Director	Adoption	02/06/2024	02/08/2025	12,000

<sup>(1)</sup> On January 20, 2024, the pre-arranged stock trading plan pursuant to Rule 10b5-1, adopted by Dr. Lisa LaVange on January 11, 2023, automatically terminated pursuant to its terms. The expired plan provided for (i) the potential exercise of vested stock options and the associated sale of up to 4,000 shares of Company common stock underlying such options, and (ii) the potential sale of up to an additional 1,340 shares of Company common stock until January 20, 2024. On February 6, 2024, Dr. LaVange entered into a new pre-arranged stock trading plan pursuant to Rule 10b5-1, which provides for (i) the potential exercise of vested stock options and the associated sale of up to 1,000 shares of Company common stock underlying such options, and (ii) the potential sale of up to an additional 3,600 shares of Company common stock. The new plan expires on February 8, 2025, or upon the earlier completion of all authorized transactions under the new plan.

<sup>(2)</sup> On February 27, 2024, the pre-arranged stock trading plan pursuant to Rule 10b5-1, adopted by John DiBella on January 31, 2023, automatically terminated pursuant to its terms. The expired plan provided for the potential sale of up to 41,505 shares of Company common stock until February 27, 2024.

<sup>(3)</sup> On February 6, 2024, Dr. Daniel Weiner materially amended that pre-arranged stock trading plan pursuant to Rule 10b5-1 adopted by Dr. Weiner on January 17, 2023, resulting in an effective termination of such plan and adoption of a new pre-arranged stock trading plan pursuant to Rule 10b5-1. Prior to the amendment (and effective termination), the plan provided for (i) the potential exercise of vested stock options and the associated sale of up to 6,000 shares of Company common stock underlying such options, and (ii) the potential sale of up to an additional 3,874 shares of Company common stock until January 27, 2025. As amended, the plan provides for (i) the potential exercise of vested stock options and the associated sale of up to 6,000 shares of Company common stock underlying such options, and (ii) the potential sale of up to an additional 6,000 shares of Company common stock. The plan, as amended, expires on February 8, 2025, or upon the earlier completion of all authorized transactions under the plan.

The Rule 10b5-1 trading arrangements described above were adopted and precleared in accordance with the Company's Insider Trading Policy and actual sale transactions made pursuant to such trading arrangements will be disclosed publicly in future Section 16 filings with the SEC.

Other than those disclosed above, none of our directors or officers adopted or terminated a "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," in each case as defined in Item 408 of Regulation S-K.

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**Item 6. Exhibits**

EXHIBIT NUMBER	DESCRIPTION
2.1^	<a href="#">Agreement and Plan of Merger, dated July 23, 2014, by and among the Company, Cognigen Corporation and the other parties thereto, incorporated by reference to an Exhibit 2.1 to the Company's Form 8-K/A filed November 18, 2014.</a>
2.2^	<a href="#">Stock Purchase Agreement by and among Simulation Plus, Inc., DILIsym Services, Inc., the Shareholders' Representative and the Shareholders of DILIsym Services, Inc., incorporated by reference to Exhibit 10.13 to the Company's Form 10-Q filed July 10, 2017.</a>
2.3^	<a href="#">Share Purchase and Contribution Agreement Relating to Lixoft, dated March 31, 2020, incorporated by reference to Exhibit 2.1 to the Company's Form 8-K filed April 2, 2020.</a>
2.4^	<a href="#">Agreement and Plan of Merger, dated June 16, 2023, by and among Simulations Plus, Inc., Insight Merger Sub, Inc., Immunetrics, Inc. and LaunchCyte LLC, incorporated by reference to an Exhibit 2.1 to the Company's Form 8-K filed June 20, 2023.</a>
3.1	<a href="#">Articles of Incorporation of the Company, incorporated by reference to an Exhibit 3.1 to the Company's Form 10-K filed November 29, 2010.</a>
3.2	<a href="#">Amended and Restated Bylaws of the Company, incorporated by reference to an exhibit to the Company's Form 10-K filed November 29, 2010.</a>
3.3	<a href="#">Certificate of Amendment to the Amended and Restated Bylaws of Simulations Plus, Inc., incorporated by reference to Appendix A to the Company's Definitive Schedule 14A Proxy Statement filed December 31, 2018.</a>
4.1	Form of Common Stock Certificate, incorporated by reference to the Company's Registration Statement on Form SB-2 (Registration No. 333-6680) filed March 25, 1997.
4.2	Share Exchange Agreement, incorporated by reference to the Company's Registration Statement on Form SB-2 (Registration No. 333-6680) filed March 25, 1997.
10.1(†)	<a href="#">Second Amendment to 2021 Equity Incentive Plan, of Simulations Plus, Inc., dated February 8, 2024.</a>
31.1 *	<a href="#">Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
31.2 *	<a href="#">Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
32.1 **	<a href="#">Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
101.INS***	Inline XBRL Instance Document
101.SCH***	Inline XBRL Taxonomy Extension Schema Document
101.CAL***	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF***	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB***	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE***	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104***	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101 attachments).

\* Filed herewith.

\*\* Furnished herewith.

\*\*\* The XBRL related information in Exhibit 101 shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability of that section and shall not be incorporated by reference into any filing or other document pursuant to the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing or document.

(†) Refers to management contracts or compensatory plans or arrangements.

**SIGNATURE**

In accordance with Section 13 or 15 (d) of the Securities Exchange Act of 1934, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Lancaster, State of California, on April 5, 2024.

**SIMULATIONS PLUS, INC.**

Date: April 5, 2024

By: /s/ Will Frederick

Will Fredrick

Chief Financial Officer (Principal financial officer) and Chief Operating Officer

**CERTIFICATION OF THE PRINCIPAL EXECUTIVE OFFICER  
PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

SIMULATIONS PLUS, INC.  
a California corporation

I, Shawn O'Connor, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q (this "Report") of Simulations Plus, Inc., a California corporation;
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Report;
3. Based on my knowledge, the financial statements and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this Report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its condensed subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation; and
  - (d) disclosed in this Report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: April 5, 2024

By: /s/ Shawn O'Connor

Shawn O'Connor  
Chief Executive Officer  
(Principal Executive Officer)

**CERTIFICATION OF THE PRINCIPAL FINANCIAL OFFICER  
PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

SIMULATIONS PLUS, INC.  
a California corporation

I, Will Frederick, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q (this "Report") of Simulations Plus, Inc., a California corporation;
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Report;
3. Based on my knowledge, the financial statements and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this Report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its condensed subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation; and
  - (d) disclosed in this Report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: April 5, 2024

By: /s/ Will Frederick

Will Frederick  
Chief Financial Officer  
(Principal Financial Officer) and Chief Operating Officer

**CERTIFICATIONS OF THE CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER  
PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002  
(18 U.S.C. SECTION 1350)**

In connection with the Quarterly Report on Form 10-Q of Simulations Plus, Inc., a California corporation (the "Company"), for the quarter ended February 29, 2024, as filed with the Securities and Exchange Commission, Shawn O'Connor, Chief Executive Officer of the Company, and Will Frederick, Chief Financial and Operating Officer of the Company, do each hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his/her knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the report fairly presents, in all material respects, the financial condition and result of operations of the Company.

*/s/* Shawn O'Connor

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Shawn O'Connor

Chief Executive Officer

(Principal Executive Officer)

April 5, 2024

*/s/* Will Frederick

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Will Frederick

Chief Financial Officer

(Principal Financial Officer) and Chief Operating Officer

April 5, 2024

(A signed original of this written statement required by Section 906 has been provided to Simulations Plus, Inc. and will be retained by Simulations Plus, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.)