

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 November 30, 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.)

800 Park Offices Drive, Suite 401

Research Triangle Park , NC 27709

(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:

| <u>Title of Each Class</u> | <u>Trading Symbol</u> | <u>Name of Each Exchange on Which Registered</u> |
|---|-----------------------|--|
| Common Stock, par value \$0.001 per share | SLP | 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. ☐

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 December 23, 2024, was 20,092,435 .

Simulations Plus, Inc.
FORM 10-Q
For the Quarterly Period Ended November 30, 2024

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PART I. FINANCIAL INFORMATION

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| Item 1. Condensed Consolidated Financial Statements | |
|---|--|

SIMULATIONS PLUS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

| | (Unaudited) | (Audited) |
|---|-------------------|-------------------|
| | November 30, | August 31, 2024 |
| | 2024 | August 31, 2024 |
| (in thousands, except share and per share amounts) | | |
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 6,187 | \$ 10,311 |
| Accounts receivable, net of allowance for credit losses of \$ 145 and \$ 149 | 12,804 | 9,136 |
| Prepaid income taxes | 2,327 | 2,197 |
| Prepaid expenses and other current assets | 7,098 | 7,753 |
| Short-term investments | 11,983 | 9,944 |
| Total current assets | 40,399 | 39,341 |
| Long-term assets | | |
| Capitalized computer software development costs, net of accumulated amortization of \$ 19,500 and \$ 18,727 | 12,441 | 12,499 |
| Property and equipment, net | 819 | 812 |
| Operating lease right-of-use assets | 1,342 | 1,027 |
| Intellectual property, net of accumulated amortization of \$ 6,575 and \$ 5,490 | 22,045 | 23,130 |
| Other intangible assets, net of accumulated amortization of \$ 3,497 and \$ 3,177 | 23,076 | 23,210 |
| Goodwill | 96,305 | 96,078 |
| Other assets | 489 | 542 |
| Total assets | \$ 196,916 | \$ 196,639 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities | | |
| Accounts payable | \$ 1,120 | \$ 602 |
| Accrued compensation | 1,882 | 4,513 |
| Accrued expenses | 580 | 2,043 |
| Contracts payable - current portion | 2,440 | 2,440 |
| Operating lease liability - current portion | 485 | 475 |
| Deferred revenue | 3,231 | 1,996 |
| Total current liabilities | 9,738 | 12,069 |
| Long-term liabilities | | |
| Deferred income taxes, net | 1,648 | 1,608 |
| Operating lease liability - net of current portion | 835 | 531 |
| Total liabilities | 12,221 | 14,208 |
| 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; 20,085,014 and 20,051,134 shares issued and outstanding | 154,424 | 152,328 |
| Retained earnings | 30,560 | 30,354 |
| Accumulated other comprehensive loss | (289) | (251) |
| Total shareholders' equity | 184,695 | 182,431 |
| Total liabilities and shareholders' equity | \$ 196,916 | \$ 196,639 |

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

SIMULATIONS PLUS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

| | Three Months Ended | |
|--|----------------------|----------------------|
| | November 30, 2024 | November 30, 2023 |
| (in thousands, except per common share amounts) | | |
| Revenues | | |
| Software | \$ 10,715 | \$ 7,589 |
| Services | 8,209 | 6,911 |
| Total revenues | 18,924 | 14,500 |
| Cost of revenues | | |
| Software | 2,638 | 991 |
| Services | 6,068 | 3,661 |
| Total cost of revenues | 8,706 | 4,652 |
| Gross profit | 10,218 | 9,848 |
| Operating expenses | | |
| Research and development | 1,848 | 1,217 |
| Sales and marketing | 2,851 | 1,989 |
| General and administrative | 5,393 | 5,682 |
| Total operating expenses | 10,092 | 8,888 |
| Income from operations | 126 | 960 |
| Other income | 144 | 1,446 |
| Income before income taxes | 270 | 2,406 |
| Provision for income taxes | (64) | (461) |
| Net income | \$ 206 | \$ 1,945 |
| Earnings per share | | |
| Basic | \$ 0.01 | \$ 0.10 |
| Diluted | \$ 0.01 | \$ 0.10 |
| Weighted-average common shares outstanding | | |
| Basic | 20,068 | 19,947 |
| Diluted | 20,266 | 20,279 |
| Other comprehensive (loss) income, net of tax | | |
| Foreign currency translation adjustments | (42) | (54) |
| Unrealized gains on available-for-sale securities | 4 | — |
| Comprehensive income | \$ 168 | \$ 1,891 |

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

SIMULATIONS PLUS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

| | Three Months Ended | |
|--|----------------------|----------------------|
| | November 30, 2024 | November 30, 2023 |
| (in thousands, except per common share amounts) | | |
| Common stock and additional paid in capital | | |
| Balance, beginning of period | \$ 152,328 | \$ 144,974 |
| Exercise of stock options | 288 | 164 |
| Stock-based compensation | 1,673 | 1,303 |
| Shares issued to Directors for services | 135 | 150 |
| Balance, end of period | 154,424 | 146,591 |
| Retained earnings | | |
| Balance, beginning of period | 30,354 | 25,196 |
| Declaration of dividends | — | (1,196) |
| Net income | 206 | 1,945 |
| Balance, end of period | 30,560 | 25,945 |
| Accumulated other comprehensive loss | | |
| Balance, beginning of period | (251) | (141) |
| Other comprehensive loss | (38) | (54) |
| Balance, end of period | (289) | (195) |
| Total shareholders' equity | \$ 184,695 | \$ 172,341 |
| Cash dividends declared per common share | \$ — | \$ 0.06 |

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

SIMULATIONS PLUS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

| (in thousands) | Three Months Ended | |
|--|--------------------|-------------------|
| | November 30, 2024 | November 30, 2023 |
| Cash flows from operating activities | | |
| Net income | \$ 206 | \$ 1,945 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation and amortization | 2,265 | 1,091 |
| Change in fair value of contingent consideration | — | (110) |
| Amortization of investment discounts | (39) | (395) |
| Stock-based compensation | 1,724 | 1,362 |
| Deferred income taxes | 40 | (388) |
| Unrealized gains (losses) on available-for-sale securities | 4 | — |
| Currency translation adjustments | (42) | (54) |
| (Increase) decrease in | | |
| Accounts receivable | (3,668) | (145) |
| Prepaid income taxes | (130) | 767 |
| Prepaid expenses and other assets | 708 | (1,515) |
| Increase (decrease) in | | |
| Accounts payable | 518 | 173 |
| Other liabilities | (4,095) | (2,129) |
| Deferred revenue | 1,235 | (440) |
| Net cash (used in) provided by operating activities | (1,274) | 162 |
| Cash flows from investing activities | | |
| Purchases of property and equipment | (86) | — |
| Purchase of short-term investments | (3,500) | (30,544) |
| Proceeds from maturities of short-term investments | 1,500 | 14,778 |
| Purchased intangibles | (186) | (247) |
| Net working capital & excess cash settlement - Pro-ficiency acquisition | (227) | — |
| Capitalized computer software development costs | (639) | (851) |
| Net cash used in investing activities | (3,138) | (16,864) |
| Cash flows from financing activities | | |
| Payment of dividends | — | (1,196) |
| Proceeds from the exercise of stock options | 288 | 164 |
| Net cash provided by (used in) financing activities | 288 | (1,032) |
| Net decrease in cash and cash equivalents | (4,124) | (17,734) |
| Cash and cash equivalents, beginning of period | \$ 10,311 | \$ 57,523 |
| Cash and cash equivalents, end of period | \$ 6,187 | \$ 39,789 |
| Supplemental disclosures of cash flow information | | |
| Income taxes paid | \$ 112 | \$ 96 |
| Non-Cash Investing and Financing Activities | | |
| Right of use assets capitalized | \$ 451 | \$ — |

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 Ended November 30, 2024

NOTE 1 – DESCRIPTION OF BUSINESS

Simulations Plus, Inc. (the “Company”) was incorporated in California on July 17, 1996. We are a global leader and premier provider in the biopharma sector, offering advanced software and consulting services that enhance drug discovery, development, research, clinical trial operations, regulatory submissions, and commercialization. With the June 2024 acquisition of Pro-ficiency Holdings, Inc. and its subsidiaries (collectively, “Pro-ficiency”), the Company extended its reach across the drug development value chain from the initial protocol stage through all phases of clinical research and development (“R&D”) to product commercialization. Simulations Plus now has a one-of-a-kind platform to serve its clients at every step in the drug development process. This optimizes efficiency, costs and time-to-market for our clients and enhances our competitive position.

Our clients face many challenges. Developing new therapies is time-consuming and expensive, requiring an average of 10 - 15 years and an average cost of approximately \$ 1.3 - 2.8 billion to develop a single drug. Drug sponsors must prioritize not only efficacy of the drug, but also issues like drug-drug interactions, inclusion of diverse populations, regulatory approvals, reduction of animal testing, safety and compliance during clinical trials, and commercial success.

Our model-informed drug development (“MIDD”) software and services allow clients to use modeling and simulation to accelerate the drug development timeline, reduce the costs of R&D, comply with regulatory guidance and best practices, and increase confidence in the safety and efficacy of their drugs. Our adaptive learning solutions support the success of clinical trials by increasing the diversity and retention of participants and driving competency and compliance with trial protocols, while our medical communications solutions provide support in obtaining regulatory approval and post regulatory commercialization of drugs.

Through these offerings, we fulfill our mission to create value for our customers by accelerating and reducing the costs of R&D through innovative science-based software and consulting solutions that optimize treatment options and improve patient lives.

At the beginning of fiscal year 2024, the Company reorganized its internal structure to create a more integrated and cohesive operating platform based on key product and services offerings rather than separate divisions based on its prior acquisitions. This business unit restructuring is engendering greater scientific collaboration and knowledge sharing within the Company that leads to identifying new opportunities that both advance the Company's business objectives and deepen client relationships. Continuing with our strategic plan of aligning our business units around products and services, the Pro-ficiency acquisition resulted in two new business units, Adaptive Learning & Insights and Medical Communications, giving the Company six business units that include:

- Cheminformatics (“CHEM”);
- Physiologically Based Pharmacokinetics (“PBPK”);
- Clinical Pharmacology and Pharmacometrics (“CPP”);
- Quantitative Systems Pharmacology (“QSP”);
- Adaptive Learning & Insights (“ALI”); and
- Medical Communications (“MC”).

The Company was previously headquartered in Southern California, however, in support of the Company's remote work culture and plan to reduce excess office space toward achieving its carbon footprint reduction targets, the Company fully exited four office locations in Lancaster, California; Raleigh, North Carolina; Buffalo, New York; and Pittsburgh, Pennsylvania. As a result, the company moved its headquarters from Lancaster, California to Research Triangle Park, North Carolina and also maintains a European office in 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.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates include, among other estimates, assumptions used in the allocation of the transaction price to separate performance obligations, estimates towards the measure of progress of completion on fixed-price service contracts, the determination of fair values and useful lives of both long-lived assets and intangible assets, goodwill, allowance for credit losses for accounts receivable, recoverability of deferred tax assets, recognition of deferred revenue, determination of fair value of equity-based awards, and assumptions used in testing for impairment of long-lived assets. Actual results could differ from those estimates, and such differences may be material to the consolidated financial statements.

Revenue Recognition

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

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.

Software Revenues:

Software revenues are generated primarily from sales of software licenses at the time the software is unlocked and the term commences. Most of the licenses are for one year or less. Along with the license, a *de minimis* amount of customer support is provided to assist the customer with the software. Should the customer need more than a *de minimis* 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 parameters that control numbers of users, modules, and expiration dates. 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.

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. 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.

Grant revenue:

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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. 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. The Company recognized \$ 0.2 million and \$ 0.4 million for the three months ended November 30, 2024 and 2023, respectively, within Services revenues on the Condensed Consolidated Statements of Operations and Comprehensive Income related to such assistance. Amounts that 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.

Remaining Performance Obligations

As of November 30, 2024, remaining performance obligations were \$ 11.2 million, 97 % of the remaining performance obligations are expected to be recognized over the next twelve months , with the remainder expected to be recognized thereafter.

Disaggregation of Revenues

The components of revenue for the three months ended November 30, 2024 and 2023, respectively were as follows:

| (in thousands) | Three Months Ended | |
|--------------------------|--------------------|-------------------|
| | November 30, 2024 | November 30, 2023 |
| Software licenses | | |
| Point in time | \$ 10,119 | \$ 7,321 |
| Over time | 596 | 268 |
| Services | | |
| Over time | 8,209 | 6,911 |
| Total revenues | \$ 18,924 | \$ 14,500 |

Contract Balances

Contract asset excluding accounts receivable balances as of November 30, 2024, and August 31, 2024, were \$ 5.6 million and \$ 5.9 million respectively.

During the three months ended November 30, 2024, the Company recognized \$ 1.5 million of revenue that was included in contract liabilities as of August 31, 2024, and during the three months ended November 30, 2023, the Company recognized \$ 2.2 million of revenue that was included in contract liabilities as of August 31, 2023.

Deferred Commissions

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 are 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 | |
|------------------------------|--------------------|-------------------|
| | November 30, 2024 | November 30, 2023 |
| Balance, beginning of period | \$ 149 | \$ 46 |
| Provision for credit losses | 4 | (9) |
| Write-offs | (8) | — |
| Balance, end of period | <u>\$ 145</u> | <u>\$ 37</u> |

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 ("AFS")—Debt securities not classified as either securities held-to-maturity or trading securities are reported at fair value. For AFS 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). For AFS debt securities, the unrealized gains and losses are included in other comprehensive income until realized, at which time they are reported through net income.

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. As of November 30, 2024, all of our investments were classified as AFS. During the three months ended November 30, 2024 and for the year ended August 31, 2024, all of our investments were classified as AFS.

Research & Development and Capitalized Software Development Costs

Research and development ("R&D") activities include both enhancement of existing products and development of new products. Development of new products and adding functionality to existing products are capitalized in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 985-20, "Costs of Software to Be Sold, Leased, or Marketed." R&D expenditures, which primarily relate to both capitalized and expensed salaries, R&D supplies, and R&D consulting, were \$ 2.6 million during the three months ended November 30, 2024, of which \$ 0.7 million was capitalized. R&D expenditures during the three months ended November 30, 2023 were \$ 2.2 million, of which \$ 0.9 million was capitalized.

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 \$ 0.8 million and \$ 0.4 million for the three months ended November 30, 2024 and 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 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 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 information related to operating leases was as follows as of November 30, 2024:

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(in thousands)

| | | |
|---------------------------------------|----|------------|
| ROU assets | \$ | 1,342 |
| Lease liabilities, current | \$ | 485 |
| Lease liabilities, long-term | \$ | 835 |
| Operating lease costs | \$ | 147 |
| Weighted-average remaining lease term | | 4.52 years |
| Weighted-average discount rate | | 4.71 % |

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 of intangible assets 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.

Reconciliation of Goodwill for the three months ended November 30, 2024:

| (in thousands) | CPP | QSP | ALI | MC | Total |
|-----------------------------------|-----------------|------------------|------------------|------------------|------------------|
| Balance, August 31, 2024 | \$ 7,323 | \$ 11,776 | \$ 31,108 | \$ 45,871 | \$ 96,078 |
| Addition | — | — | — | — | — |
| Measurement period adjustment* | — | — | 92 | 135 | 227 |
| Impairments | — | — | — | — | — |
| Balance, November 30, 2024 | <u>\$ 7,323</u> | <u>\$ 11,776</u> | <u>\$ 31,200</u> | <u>\$ 46,006</u> | <u>\$ 96,305</u> |

*Adjustment for net working capital & excess cash settlement in association with Pro-ficiency acquisition

The following table summarizes other intangible assets as of November 30, 2024:

| (in thousands) | Amortization Period | Acquisition Value | Accumulated Amortization | Net Book Value |
|-----------------------------|-----------------------------|-------------------|--------------------------|------------------|
| Trade names | None | \$ 12,610 | \$ — | \$ 12,610 |
| Covenants not to compete | Straight line 2 to 3 years | 100 | 33 | 67 |
| Other internal use software | Straight line 3 to 13 years | 794 | 60 | 734 |
| Customer relationships | Straight line 8 to 14 years | 10,540 | 2,980 | 7,560 |
| ERP | Straight line 15 years | 2,529 | 424 | 2,105 |
| | | <u>\$ 26,573</u> | <u>\$ 3,497</u> | <u>\$ 23,076</u> |

The following table summarizes other intangible assets as of August 31, 2024:

| (in thousands) | Amortization Period | Acquisition Value | Accumulated Amortization | Net Book Value |
|-----------------------------|-----------------------------|----------------------|-----------------------------|------------------|
| Trade names | None | \$ 12,610 | \$ — | \$ 12,610 |
| Covenants not to compete | Straight line 2 to 3 years | 100 | 23 | 77 |
| Other internal use software | Straight line 3 to 13 years | 608 | 47 | 561 |
| Customer relationships | Straight line 8 to 14 years | 10,540 | 2,726 | 7,814 |
| ERP | Straight line 15 years | 2,529 | 381 | 2,148 |
| | | <u>\$ 26,387</u> | <u>\$ 3,177</u> | <u>\$ 23,210</u> |

Total amortization expense for the three months ended November 30, 2024 and 2023 was \$ 0.3 million and \$ 0.2 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 2025 | \$ 956 |
| | 2026 | \$ 1,264 |
| | 2027 | \$ 1,216 |
| | 2028 | \$ 1,052 |
| | 2029 | \$ 1,052 |

Fair Value of Financial Instruments

Assets and liabilities recorded at fair value in the 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:

| 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. Short-term debt securities investments as of November 30, 2024, and August 31, 2024, consisted of corporate bonds and term deposits with maturities remaining of less than 12 months. 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 November 30, 2024, all investments were classified as AFS securities. Unrealized gains on investments as of November 30, 2024, were insignificant and not indicative of a change in credit quality, thus no allowance for credit losses has been recorded. Unrealized losses on investments as of August 31, 2024, were primarily caused by rising interest rates rather than changes in credit quality, thus we did not record an allowance for credit losses.

The following tables summarize our short-term investments as of November 30, 2024, and August 31, 2024:

| (in thousands) | November 30, 2024 | | | |
|---|-------------------|------------------|-------------------|------------|
| | Amortized cost | Unrealized gains | Unrealized losses | Fair value |
| Level 1: | | | | |
| Term deposits (due within one year) | \$ 3,500 | \$ — | \$ — | \$ 3,500 |
| Corporate debt securities (due within one year) | 8,479 | 4 | — | 8,483 |
| Total Level 1 | 11,979 | 4 | — | 11,983 |
| Level 2: | — | — | — | — |
| Level 3: | — | — | — | — |
| Total available-for-sale securities | \$ 11,979 | \$ 4 | \$ — | \$ 11,983 |

| (in thousands) | August 31, 2024 | | | |
|---|-----------------|------------------|-------------------|------------|
| | Amortized cost | Unrealized gains | Unrealized losses | Fair value |
| Level 1: | | | | |
| Term deposits (due within one year) | \$ 1,500 | \$ — | \$ — | \$ 1,500 |
| Corporate debt securities (due within one year) | 8,448 | — | (4) | 8,444 |
| Total Level 1 | 9,948 | — | (4) | 9,944 |
| Level 2: | — | — | — | — |
| Level 3: | — | — | — | — |
| Total available-for-sale securities | \$ 9,948 | \$ — | \$ (4) | \$ 9,944 |

As of November 30, 2024 and August 31, 2024, 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 Statements of Operations and Comprehensive Income.

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

| (in thousands) | Amount |
|--|--------|
| Contingent consideration at August 31, 2024 | \$ 640 |
| Contingent consideration payment | — |
| Change in fair value of contingent consideration | — |
| Contingent consideration at November 30, 2024 | \$ 640 |

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).

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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.

During the three months ended November 30, 2024 and 2023, the Company recognized mergers and acquisitions expense of \$ 0.3 million and \$ 0 , respectively. The Company records mergers and acquisition expenses in general and administrative expenses in the condensed consolidated statements of operations and comprehensive income.

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

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.

In June 2024, we purchased certain developed technology of Pro-ficiency. The cost of \$ 16.6 million is being amortized over 5 years under the straight-line method.

The following table summarizes intellectual property as of November 30, 2024:

| (in thousands) | Amortization Period | Acquisition Value | Accumulated Amortization | Net Book Value |
|---|------------------------|----------------------|-----------------------------|-------------------|
| Developed technologies–DILIsym acquisition | Straight line 9 years | \$ 2,850 | \$ 2,373 | \$ 477 |
| Intellectual rights of Entelos Holding Company | Straight line 10 years | 50 | 31 | 19 |
| Developed technologies–Lixoft acquisition | Straight line 16 years | 8,010 | 2,292 | 5,718 |
| Developed technologies–Immunetrics acquisition | Straight line 5 years | 1,080 | 315 | 765 |
| Developed technologies–Pro-ficiency acquisition | Straight line 5 years | 16,630 | 1,564 | 15,066 |
| | | <u>\$ 28,620</u> | <u>\$ 6,575</u> | <u>\$ 22,045</u> |

The following table summarizes intellectual property as of August 31, 2024:

| (in thousands) | Amortization Period | Acquisition Value | Accumulated Amortization | Net Book Value |
|---|------------------------|----------------------|-----------------------------|-------------------|
| Developed technologies–DILIsym acquisition | Straight line 9 years | \$ 2,850 | \$ 2,294 | \$ 556 |
| Intellectual rights of Entelos Holding Company | Straight line 10 years | 50 | 30 | 20 |
| Developed technologies–Lixoft acquisition | Straight line 16 years | 8,010 | 2,173 | 5,837 |
| Developed technologies–Immunetrics acquisition | Straight line 5 years | 1,080 | 261 | 819 |
| Developed technologies–Pro-ficiency acquisition | Straight line 5 years | 16,630 | 732 | 15,898 |
| | | <u>\$ 28,620</u> | <u>\$ 5,490</u> | <u>\$ 23,130</u> |

Total amortization expense for intellectual property agreements was \$ 1.1 million and \$ 0.4 million for the three months ended November 30, 2024 and 2023, respectively.

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

| (in thousands) | Years Ending August 31, | Amount |
|----------------|-------------------------|----------|
| | Remainder of 2025 | \$ 3,255 |
| | 2026 | \$ 4,264 |
| | 2027 | \$ 4,024 |
| | 2028 | \$ 3,979 |
| | 2029 | \$ 3,066 |

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 months ended November 30, 2024 and 2023 were as follows:

| (in thousands) | Three Months Ended | |
|---|--------------------|-------------------|
| | November 30, 2024 | November 30, 2023 |
| Numerator | | |
| Net income attributable to common shareholders | \$ 206 | \$ 1,945 |
| Denominator | | |
| Weighted-average number of common shares outstanding during the period | 20,068 | 19,947 |
| Dilutive effect of stock options | 198 | 332 |
| Common stock and common stock equivalents used for diluted earnings per share | 20,266 | 20,279 |

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 \$ 1.7 million and \$ 1.3 million for the three months ended November 30, 2024 and 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 for the three months ended November 30, 2024 and 2023, respectively.

Recently Issued Accounting Standards

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 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. The Company does not expect ASU 2023-07 to have a material effect on its consolidated financial statements.

In December 2023, the FASB issued a new standard to improve income tax disclosures. The guidance requires disclosure of disaggregated income taxes paid, prescribes standardized categories for the components of the effective tax rate reconciliation, and modifies other income tax-related disclosures. The amendments will be effective for annual periods beginning after December 15, 2024. Early adoption is permitted. The amendments should be applied on a prospective basis. Retrospective application is permitted. The Company is currently evaluating the ASU to determine its impact on the Company's disclosures.

In November 2024, the FASB issued ASU 2024-03, Income Statement-Reporting Comprehensive Income-Expense Disaggregation Disclosures (Topic 220): Disaggregation of Income Statement Expenses. The new guidance is intended to enhance transparency and disclosures by requiring public business entities to disclose additional information about specific expense categories in the notes to financial statements at interim and annual reporting periods. The ASU is effective for annual reporting periods after December 15, 2026, and for interim reporting periods beginning December 15, 2027, with early adoption permitted. The Company is in the process of evaluating the impact that the adoption of this ASU will have on its financial statements and related disclosures. The Company does not expect ASU 2024-03 to have a material effect on its consolidated financial statements.

NOTE 3 – OTHER INCOME

The components of other income for the three months ended November 30, 2024 and 2023 were as follows:

| (in thousands) | Three Months Ended | |
|--|--------------------|-------------------|
| | November 30, 2024 | November 30, 2023 |
| Interest income | \$ 159 | \$ 1,292 |
| Change in fair valuation of contingent consideration | — | 110 |
| (Loss) gain on currency exchange | (15) | 44 |
| Total other income | \$ 144 | \$ 1,446 |

NOTE 4 – COMMITMENTS AND CONTINGENCIES**Leases**

Rent expense, including common area maintenance fees, was \$ 0.2 million and \$ 0.1 million for the three months ended November 30, 2024 and 2023, respectively.

Lease liability maturities as of November 30, 2024, were as follows:

| (in thousands) | Years Ending August 31, | Amount |
|----------------|---|----------|
| | Remainder of 2025 | \$ 424 |
| | 2026 | 473 |
| | 2027 | 210 |
| | 2028 | 133 |
| | 2029 | 65 |
| | Thereafter | 278 |
| | Total undiscounted liabilities | 1,583 |
| | Less: imputed interest | (263) |
| | Total operating lease liabilities (including current portion) | \$ 1,320 |

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 2024 are open for audit, and our state tax returns for fiscal years 2019 through 2024 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.

NOTE 5 – SHAREHOLDERS' EQUITY**Shares Outstanding**

Shares of Company's common stock outstanding for the three months ended November 30, 2024 and 2023 were as follows:

| (in thousands) | Three Months Ended | |
|--|--------------------|-------------------|
| | November 30, 2024 | November 30, 2023 |
| Common stock outstanding, beginning of period | 20,051 | 19,938 |
| Common stock issued during the period | 34 | 28 |
| Common stock outstanding, end of period | 20,085 | 19,966 |

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.

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 further 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 November 30, 2024, employees and directors of the Company held Qualified Incentive Stock Options ("ISOs") and Non-Qualified Stock Options ("NQSOs") to purchase an aggregate of 2.2 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 three months ended November 30, 2024 | Number of Options | Weighted-Average Exercise Price Per Share | Weighted-Average Remaining Contractual Life |
|---|-------------------|---|---|
| Outstanding, August 31, 2024 | 1,906 | \$ 37.64 | 6.91 years |
| Granted | 347 | 33.29 | |
| Exercised | (37) | 13.97 | |
| Canceled/Forfeited | (59) | 44.03 | |
| Outstanding, November 30, 2024 | 2,157 | \$ 37.17 | 7.22 years |
| Vested and Exercisable, November 30, 2024 | 995 | \$ 33.91 | 5.45 years |
| Vested and Expected to Vest, November 30, 2024 | 2,104 | \$ 37.08 | 7.18 years |

The total grant-date fair value of nonvested stock options as of November 30, 2024, was \$ 22.2 million and is amortizable over a weighted-average period of 3.42 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 three months ended November 30, 2024 and for the fiscal year ended August 31, 2024:

| (in thousands, except weighted-average amounts) | Three Months Ended November | | Fiscal Year 2024 | |
|---|-----------------------------|------------|------------------|------------|
| | 30, 2024 | | | |
| Estimated fair value of awards granted | \$ | 6,057 | \$ | 11,902 |
| Unvested forfeiture rate | | 6.25 % | | 5.53 % |
| Weighted-average grant price | \$ | 33.29 | \$ | 40.76 |
| Weighted-average market price | \$ | 33.29 | \$ | 40.76 |
| Weighted-average volatility | | 46.98 % | | 44.63 % |
| Weighted-average risk-free rate | | 3.93 % | | 4.77 % |
| Weighted-average dividend yield | | 0.00 % | | 0.59 % |
| Weighted-average expected life | | 6.61 years | | 6.59 years |

The exercise prices for the options outstanding at November 30, 2024, ranged from \$ 6.85 to \$ 66.14 per share, and the information relating to these options is as follows:

(in thousands except prices and weighted-average amounts)

| Exercise Price Per Share | | | 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 | 109 | 1.24 years | \$ 9.71 | 109 | 1.24 years | \$ 9.71 |
| \$ 9.78 | \$ 18.76 | 139 | 2.23 years | \$ 10.07 | 139 | 2.23 years | \$ 10.07 |
| \$ 18.77 | \$ 33.40 | 505 | 8.17 years | \$ 31.02 | 142 | 4.35 years | \$ 25.32 |
| \$ 33.41 | \$ 47.63 | 1,126 | 8.14 years | \$ 41.35 | 436 | 7.60 years | \$ 41.26 |
| \$ 47.64 | \$ 66.14 | 278 | 6.56 years | \$ 55.67 | 169 | 6.15 years | \$ 57.31 |
| | | <u>2,157</u> | 7.22 years | \$ 37.17 | <u>995</u> | 5.45 years | \$ 33.91 |

During the three months ended November 30, 2024, we issued 4,960 shares of stock valued at \$ 0.1 million to our nonmanagement directors as compensation for board-related duties.

The Company's par-value common stock and additional paid-in capital as of November 30, 2024, were \$ 11 thousand and \$ 154.4 million, respectively.

Share Repurchases

No share repurchases were made during the three months ended November 30, 2024.

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 24 % and 25 % of revenue for the three months ended November 30, 2024 and 2023, respectively. Our three largest customers in terms of revenue accounted for 7 %, 6 %, and 5 % of total revenues, respectively, for the three months ended November 30, 2024. Our three largest customers in terms of revenue accounted for 8 %, 8 %, and 5 % of revenue, respectively, for the three months ended November 30, 2023.

Accounts-receivable concentrations show that our three largest customers in terms of accounts receivable each comprised between 4 % and 14 % of accounts receivable as of November 30, 2024; our three largest customers in terms of accounts receivable comprised between 7 % and 9 % of accounts receivable as of November 30, 2023. As of December 18, 2024, the largest customer, which comprised 14 % of accounts receivable as of November 30, 2024, was current with respect to all open invoices within a *de minimis* amount.

We operate in biosimulation, simulation-enabled performance and intelligence solutions, and medical communications to the biopharma industry, which is highly competitive and changes rapidly. Our operating results could be significantly affected by our ability to develop new products and find new distribution channels for new and existing products.

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 November 30, 2024 and 2023, respectively:

| (in thousands) | Three Months Ended November 30, 2024 | | |
|------------------|--------------------------------------|----------|-----------|
| | Software | Services | Total |
| Revenues | \$ 10,715 | \$ 8,209 | \$ 18,924 |
| Cost of revenues | 2,638 | 6,068 | 8,706 |
| Gross profit | \$ 8,077 | \$ 2,141 | \$ 10,218 |
| Gross margin | 75 % | 26 % | 54 % |

Our software business and services business represented 57 % and 43 % of total revenue, respectively, for the three months ended November 30, 2024.

| (in thousands) | Three Months Ended November 30, 2023 | | |
|------------------|--------------------------------------|----------|-----------|
| | Software | Services | Total |
| Revenues | \$ 7,589 | \$ 6,911 | \$ 14,500 |
| Cost of revenues | 991 | 3,661 | 4,652 |
| Gross profit | \$ 6,598 | \$ 3,250 | \$ 9,848 |
| Gross margin | 87 % | 47 % | 68 % |

Our software business and services business represented 52 % and 48 % of total revenue, respectively, for the three months ended November 30, 2023.

The Company allocates revenues to geographic areas based on the locations of its customers. Geographical revenues for the three months ended November 30, 2024 and 2023 were as follows:

| (in thousands) | Three Months Ended | | | |
|----------------|--------------------|--------------|-------------------|--------------|
| | November 30, 2024 | | November 30, 2023 | |
| | \$ | % of total* | \$ | % of total |
| Americas | \$ 14,469 | 76 % | \$ 10,891 | 75 % |
| EMEA | 2,720 | 14 % | 2,302 | 16 % |
| Asia Pacific | 1,735 | 9 % | 1,307 | 9 % |
| Total | \$ 18,924 | 100 % | \$ 14,500 | 100 % |

*Percentages may not add due to rounding

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 \$ 0.1 million for the three months ended November 30, 2024 and 2023, respectively.

NOTE 9 - SUBSEQUENT EVENTS

In support of the Company's remote work culture and plan to reduce excess office space toward achieving its carbon footprint reduction targets, the Company fully exited four office locations in Lancaster, California; Raleigh, North Carolina; Buffalo, New York; and Pittsburgh, Pennsylvania. As a result, the company moved its headquarters from Lancaster, California to Research Triangle Park, North Carolina and also maintains a European office in Paris, France.

The Company has settled the final payment of \$ 1.6 million related to the holdback liability from 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, 2024, filed with the Securities and Exchange Commission ("SEC") on October 30, 2024, 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.

Management Overview

First Quarter Financial Highlights:

- Consolidated revenues increased by \$4.4 million, or 31%, to \$18.9 million for the three months ended November 30, 2024, compared to \$14.5 million for the three months ended November 30, 2023.
- Consolidated gross profit increased by \$0.4 million, or 4%, to \$10.2 million for the three months ended November 30, 2024, compared to \$9.8 million for the three months ended November 30, 2023.
- Income from operations decreased by \$0.8 million, or 87%, to \$0.1 million for the three months ended November 30, 2024, from \$1.0 million for the three months ended November 30, 2023.
- Net income decreased by \$1.7 million, or 89% to \$0.2 million for the three months ended November 30, 2024, compared to \$1.9 million for the three months ended November 30, 2023.
- Diluted earnings per share decreased by \$0.09 or 90% to \$0.01 for the three months ended November 30, 2024, compared to \$0.10 for the three months ended November 30, 2023.

Results of Operations

Comparison of Three Months Ended November 30, 2024 and 2023

| (in thousands) | Three Months Ended | | % of Revenue | | | | \$ Change | % Change | |
|----------------------------|--------------------|-------------------|-------------------|---|-------------------|---|------------|----------|---|
| | November 30, 2024 | November 30, 2023 | November 30, 2024 | | November 30, 2023 | | | | |
| Revenue | \$ 18,924 | \$ 14,500 | 100 | % | 100 | % | \$ 4,424 | 31 | % |
| Cost of revenue | 8,706 | 4,652 | 46 | % | 32 | % | 4,054 | 87 | % |
| Gross profit | 10,218 | 9,848 | 54 | % | 68 | % | 370 | 4 | % |
| Research and development | 1,848 | 1,217 | 10 | % | 8 | % | 631 | 52 | % |
| Sales and marketing | 2,851 | 1,989 | 15 | % | 14 | % | 862 | 43 | % |
| General and administrative | 5,393 | 5,682 | 28 | % | 39 | % | (289) | (5) | % |
| Total operating expenses | 10,092 | 8,888 | 53 | % | 61 | % | 1,204 | 14 | % |
| Income from operations | 126 | 960 | 1 | % | 7 | % | (834) | (87) | % |
| Other income, net | 144 | 1,446 | 1 | % | 10 | % | (1,302) | (90) | % |
| Income before income taxes | 270 | 2,406 | 1 | % | 17 | % | (2,136) | (89) | % |
| Provision for income taxes | (64) | (461) | — | % | (3) | % | 397 | 86 | % |
| Net income | \$ 206 | \$ 1,945 | 1 | % | 13 | % | \$ (1,739) | (89) | % |

Revenues

Revenues increased by \$4.4 million, or 31%, to \$18.9 million for the three months ended November 30, 2024, compared to \$14.5 million for the three months ended November 30, 2023. This increase is primarily due to a \$3.1 million, or 41%, increase in software-related revenue and a \$1.3 million, or 19%, increase in service-related revenue when compared to the three months ended November 30, 2023. The software-related revenue increase of \$3.1 million, or 41%, compared to the three months ended November 30, 2023, was primarily due to additional revenue from ALI of \$1.7 million, higher revenues from CPP-software of \$0.7 million, and higher revenues from QSP-software \$0.4 million. The service-related revenue increase of \$1.3 million, or 19%, compared to the three months ended November 30, 2023, was primarily due to additional revenue from MC of \$1.9 million, offset by lower revenue from QSP-services of \$0.3 million and lower revenue from CPP-services of \$0.2 million.

Cost of revenues

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Cost of revenues increased by \$4.1 million, or 87%, for the three months ended November 30, 2024, compared to the three months ended November 30, 2023. This increase is primarily due to a \$1.6 million or 166%, increase in software-related cost and a \$2.4 million or 66%, increase in service-related costs. The software-related costs increase of \$1.6 million or 166%, compared to the three months ended November 30, 2023, was primarily due to additional costs from ALI of \$1.0 million, \$0.4 million of higher amortization of capitalized software cost, \$0.3 million of costs due to increased revenues, offset by a decrease of \$0.2 million of fully amortized TSRL in the third quarter of fiscal year 2024. The service-related costs increase of \$2.4 million or 66%, compared to the three months ended November 30, 2023, was primarily due to additional costs from MC of \$1.5 million, and \$0.8 million shift from G&A expense to cost of revenues, due to the reorganization of our internal structure from divisions to business units. The \$0.8 million increase in cost of revenues corresponds to the \$0.8 million decrease in general and administrative expenses discussed below.

Gross profit

Gross profit increased by \$0.4 million or 4%, to \$10.2 million for the three months ended November 30, 2024, compared to \$9.8 million for the three months ended November 30, 2023. The gross profit increased in our software business by \$1.5 million, or 22%, and decreased for our services business by \$1.1 million, or 34%.

Overall gross margin percentage was 54% and 68% for the three months ended November 30, 2024 and 2023, respectively.

Research and development

We incurred \$2.6 million of research and development costs during the three months ended November 30, 2024. Of this amount, \$0.7 million was capitalized as a part of capitalized software development costs and \$1.8 million was expensed. We incurred \$2.2 million of research and development costs during the three months ended November 30, 2023. Of this amount, \$0.9 million was capitalized and \$1.2 million was expensed. Research and development spend increased by \$0.4 million, or 19%, for the three months ended November 30, 2024, compared to the three months ended November 30, 2023, primarily due to an increase of \$0.4 million from the acquisition of Pro-ficiency. This corresponds to a 2% increase in research and development expense as a percentage of revenue.

Sales and marketing expenses

Sales and marketing expenses increased by \$0.9 million, or 43%, to \$2.9 million for the three months ended November 30, 2024, compared to \$2.0 million for the three months ended November 30, 2023. This corresponds to a 1% increase in sales and marketing expense as a percentage of revenue. The increase was primarily due to an increase of \$0.6 million from the acquisition of Pro-ficiency.

General, and administrative expenses

General, and administrative ("G&A") expenses decreased by \$0.3 million, or 5%, to \$5.4 million for the three months ended November 30, 2024, compared to \$5.7 million for the three months ended November 30, 2023. This corresponds to an 11% decrease in G&A expense as a percentage of revenue. The decrease is primarily driven by a \$0.8 million shift from G&A expense to cost of revenues, as referenced above, due to the reorganization of our internal structure from divisions to business units, offset by an increase of \$0.4 million from the acquisition of Pro-ficiency.

Other income

Total other income was \$0.1 million for the three months ended November 30, 2024, compared to total other income of \$1.4 million for the three months ended November 30, 2023. \$1.1 million of the decrease in interest income is attributable to the usage of cash from investment in debt securities to acquire Pro-ficiency.

Provision for income taxes

The provision for income taxes was \$0.1 million for the three months ended November 30, 2024, compared to \$0.5 million for the three months ended November 30, 2023. Our effective tax rate was at 24% for the three months ended November 30, 2024, compared to 19% for the three months ended November 30, 2023.

Liquidity and Capital Resources

Our principal sources of capital have been cash flows from our operations. We expect existing cash, cash equivalents, short-term investments, cash generated by ongoing operations, and working capital, will be sufficient to fund our operating activities and cash commitments for investing and financing activities, and material capital expenditures, for the next 12 months and beyond.

We continue to seek opportunities for strategic acquisitions, investments, and partnerships. If one or more strategic opportunities are identified, a substantial portion of our cash reserves may be required to complete it. 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 may consider financing options to complete the transaction, including obtaining loans or selling our securities. Additionally, our quest for strategic opportunities could result in a significant change to our liquidity position and/or our results of operations if any such opportunities are completed.

Except as discussed elsewhere in this Quarterly 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.

Cash, Cash Equivalents, and Investments

At November 30, 2024, the Company had \$6.2 million in cash and cash equivalents, \$12.0 million in short-term investments, and working capital of \$30.7 million. Short-term investments consist of highly liquid investment-grade fixed-income securities, diversified among industries and issuers. The investments are U.S.-dollar-denominated securities. Our fixed-income investments are exposed to interest rate risk and credit risk. The settlement risk related to these investments is insignificant, given that the short-term investments held are primarily highly liquid investment-grade fixed-income securities and can readily be converted to cash when needed.

Cash Flows

Operating Activities

Net cash used in operating activities was \$1.3 million for the three months ended November 30, 2024. Our operating cash flows resulted in part from our net income of \$0.2 million, offset by cash payments we made to third parties for their services and employee compensation. The changes in liabilities balances were primarily driven by annual bonus payments of \$1.8 million, \$1.1 million payments of accrued expenses, and one-time severance payments of \$0.3 million. The changes in balances of accounts receivable of \$3.7 million was primarily due to invoicing that occurred closer to the end of the current quarter.

Net cash provided by operating activities was \$0.2 million for the three months ended November 30, 2023. Our operating cash flows resulted primarily from our net income of \$1.9 million. In addition, \$3.3 million related to changes in balances of operating assets and liabilities was added to net income and \$1.5 million related to noncash charges was added to net income to reconcile to cash flow from operations. The changes in balances of other liabilities of \$2.1 million were primarily driven by annual bonus payments of \$3.1 million offset by bonus accrual of \$1.0 million. The changes in balances of prepaid expenses and other current assets is primarily due to increase in prepaid expenses of \$1.1 million.

Net cash used in operating activities decreased by \$1.4 million during the three months ended November 30, 2024, compared to the three months ended November 30, 2023. This decrease was driven by working capital changes as explained above for both comparative periods.

Investing Activities

Net cash used in investing activities during the three months ended November 30, 2024, was \$3.1 million, primarily due to purchase of short-term investments of \$3.5 million and computer software development costs of \$0.6 million, offset by proceeds from maturities of short-term investments of \$1.5 million.

Net cash used in investing activities during the three months ended November 30, 2023, was \$16.9 million, primarily due to purchase of short-term investments of \$30.5 million and computer software development costs of \$0.9 million, offset by the proceeds from maturities of short-term investments of \$14.8 million.

Financing Activities

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Net cash provided by financing activities during the three months ended November 30, 2024, was \$0.3 million, primarily due to proceeds from the exercise of stock options totaling \$0.3 million.

Net cash used in financing activities during three months ended November 30, 2023, was \$1.0 million, primarily due to dividend payments totaling \$1.2 million, offset by proceeds from the exercise of stock options totaling \$0.2 million.

Pro-ficiency Acquisition

On June 11, 2024, the Company entered into a Stock Purchase Agreement, by and among the Company, Pro-ficiency, each of the stockholders of Pro-ficiency (collectively, the "Sellers") and WRYP Stockholders Services, LLC, solely in its capacity as the Sellers' Representative (the "Purchase Agreement"). Pursuant to the Purchase Agreement, at closing on June 11, 2024, (the "Closing"), the Company purchased 100% of the issued and outstanding capital stock of Pro-ficiency (the "Acquisition") from the Sellers for an aggregate purchase price of \$100 million in cash, subject to post-closing adjustments for net working capital, closing cash, indebtedness, and transaction expenses (collectively, the "Purchase Price"). An aggregate of \$1 million of the Purchase Price was placed in escrow to fund payment obligations of the Sellers with respect to post-Closing Purchase Price adjustments and post-Closing indemnification obligations of the Sellers, and another portion of the Purchase Price was deposited into an account to reimburse the Seller Representative for any fees and expenses incurred by the Seller Representative in performing its duties under the Purchase Agreement as the representative of the Sellers. As a result of the Acquisition, at Closing, Pro-ficiency became a wholly-owned subsidiary of the Company.

The Purchase Agreement contains standard representations, warranties and covenants, and other terms customary in similar transactions. Subject to the provisions of the Purchase Agreement, the Sellers have agreed to indemnify the Company and its affiliates for losses resulting from breaches of representations, warranties, and covenants of the Sellers and Pro-ficiency in the Purchase Agreement and for certain other specified matters. The Sellers' indemnification obligations are subject to various limitations, including, among other things, a deductible, caps, and time limitations.

In connection with the Acquisition, the Company obtained a customary buyer's representation and warranty insurance policy (the "R&W Insurance Policy") providing for up to \$10 million in coverage in the case of breaches of representations and warranties of the Sellers and Pro-ficiency contained in the Purchase Agreement, subject to certain exclusions and an initial \$0.5 million retention. The Company, on the one hand, and the Sellers, on the other hand, each bore one-half of the cost of obtaining the R&W Insurance Policy.

Immunetrics Acquisition

The Company has a remaining obligation for the Immunetrics acquisition for up to \$5.5 million which is expected to be paid out and released, to the extent earned and less any applicable deductions, in early calendar year 2025. The Company has settled the final payment of \$1.6 million related to holdback liability from the Immunetrics acquisition.

Share Repurchases

For the three months ended November 30, 2024 and 2023, respectively, we did not repurchase any shares of Company stock. As of November 30, 2024, \$30 million remains available for additional repurchases under our authorized repurchase program. However, we are not obligated to repurchase any additional shares, and the timing, manner, price, and actual amount of further share repurchases will depend on a variety of factors, including stock price, market conditions, other capital management needs and opportunities, and corporate and regulatory considerations. The share repurchase program has no expiration date but may be terminated at any time at our Board of Directors' discretion.

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.

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 *de 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 \$0.7 million and \$0.9 million for the three months ended November 30, 2024 and 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 \$0.8 million and \$0.4 million, respectively for the three months ended November 30, 2024 and 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 names, 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.

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 underperformance 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 November 30, 2024, after completion of the Company's internal reorganization, the Company determined that it had six reporting units: CHEM, PBPBK, QSP, CPP, MC, and ALI.

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As of November 30, 2024, the entire balance of goodwill was attributed to four of the Company's reporting units, CPP, QSP, ALI, and MC. 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 months ended November 30, 2024 and 2023, respectively.

Business Acquisitions

The Company accounted for the acquisitions 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 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 and benefits, 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

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 \$1.7 million and \$1.3 million, for the three months ending November 30, 2024 and 2023, respectively.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

As of November 30, 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 November 30, 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 November 30, 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 Quarterly Report.

Item 1A. Risk Factors

Please carefully consider the information set forth in this Quarterly 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, 2024, 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. Except as set forth below, there have been no material updates or changes to the risk factors previously disclosed in our Annual Report; provided, however, additional risks not currently known or currently material to us may also harm our business.

Cash expenditures associated with the acquisition of Pro-ficiency may create certain liquidity and cash flow risks for us.

As consideration for the acquisition of Pro-ficiency, at closing on June 11, 2024 we paid approximately \$100 million in cash to the previous equity holders of Pro-ficiency, which constituted a significant portion of our cash reserves as of the closing date. In addition to the acquisition consideration, we incurred significant transaction costs and expect to incur additional integration costs in connection with the acquisition. While we anticipated that the closing consideration and transactions costs would be incurred, there are many factors beyond our control that could affect the total amount of the integration expenses associated with the acquisition. Moreover, many of the expenses that will be incurred are, by their nature, difficult to estimate accurately. To the extent the integration expenses are higher than anticipated, we may experience liquidity or cash flow issues.

Pro-ficiency and its operating subsidiaries may not perform as we or the market expects, which could have an adverse effect on the price of our common stock.

Pro-ficiency, which is now a wholly owned subsidiary of the Company, and its operating subsidiaries may not perform as we or the market expects. Risks associated with the Pro-ficiency acquisition include, without limitation:

- integrating businesses is a difficult, expensive, and time-consuming process, and the failure to successfully integrate our businesses with the business of Pro-ficiency in the expected time frame could adversely affect our financial condition and results of operation;
- the addition of Pro-ficiency has increased the size of our operations, and, if we are not able to manage our expanded operations effectively, our common stock price may be adversely affected;
- the extent to which we may realize the expected synergies and cost savings is uncertain at this time; and
- the success of the Pro-ficiency acquisition will also depend upon relationships with third parties and Pro-ficiency's and our pre-existing customers, which relationships may be affected by customer preferences or public attitudes about the Pro-ficiency acquisition. Any adverse changes in these relationships could adversely affect our business, financial condition, and results of operations.

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

Unregistered Sales of Equity Securities

None.

Issuer Purchases of Equity Securities

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Rule 10b5-1 Trading Plans

During the three months ended November 30, 2024, none of our directors or officers adopted or terminated any contract, instruction, or written plan for the purchase or sale of Company securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) or any “non-Rule 10b5-1 trading arrangement,” in each case as defined in Item 408 of Regulation S-K.

Item 6. EXHIBITS

| EXHIBIT NUMBER | DESCRIPTION |
|-------------------|---|
| 2.1 [^] | 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 Exhibit 2.1 to the Company's Form 8-K/A filed November 18, 2014. |
| 2.2 [^] | Stock Purchase Agreement by and among Simulations 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. |
| 2.3 [^] | 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. |
| 2.4 [^] | 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 Exhibit 2.1 to the Company's Form 8-K filed June 20, 2023. |
| 2.5 ^{^+} | Stock Purchase Agreement, by and among the Company, Pro-ficiency Holdings, Inc. ("Pro-ficiency"), each of the stockholders of Pro-ficiency (collectively, the "Sellers") and WRYP Stockholders Services, LLC, solely in its capacity as the Sellers' Representative, dated June 11, 2024, incorporated by reference to Exhibit 2.1 to the Company's Form 8-K filed June 12, 2024. |
| 3.1 | 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. |
| 3.2 | Amended and Restated Bylaws of the Company, incorporated by reference to an exhibit to the Company's Form 10-K filed November 29, 2010. |
| 3.3 | 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. |
| 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. |
| 31.1 * | 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. |
| 31.2 * | 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. |
| 32.1 ** | 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. |
| 101.INS*** | Inline XBRL Instance Document |
| 101.SCH*** | Inline XBRL Taxonomy Extension Schema With Embedded Linkbase Documents |
| 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.

[^] Schedules, exhibits, and similar supporting attachments or agreements are omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company agrees to furnish a supplemental copy of any omitted schedule or similar attachment to the Securities and Exchange Commission upon request.

[†] Refers to management contracts or compensatory plans or arrangements.

⁺ Portions of the exhibit, marked by brackets, have been omitted because the omitted information (i) is not material and (ii) would likely cause competitive harm if publicly disclosed.

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 Research Triangle Park, State of North Carolina, on January 8, 2025.

SIMULATIONS PLUS, INC.

Date: January 8, 2025

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: January 8, 2025

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: January 8, 2025

By: /s/ Will Frederick

Will Frederick
Chief Financial Officer and Chief Operating Officer
(Principal Financial 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 November 30, 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

Shawn O'Connor

Chief Executive Officer

(Principal Executive Officer)

January 8, 2025

/s/ Will Frederick

Will Frederick

Chief Financial Officer and Chief Operating Officer

(Principal Financial Officer)

January 8, 2025

(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.)