OptimumBank Holdings, Inc.
Form DEF 14A
April 09, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to §240.14a-12

OptimumBank Holdings, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

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1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

PROXY STATEMENT

2014 ANNUAL MEETING OF SHAREHOLDERS

April 29, 2014

PROXY VOTING OPTIONS

YOUR VOTE IS IMPORTANT!

Whether or not you expect to attend in person, we urge you to vote your shares by phone, via the Internet, or by signing, dating, and returning the enclosed proxy card at your earliest convenience. This will ensure the presence of a quorum at the meeting. Promptly voting your shares will save us the expense and extra work of additional solicitation. Submitting your proxy now will not prevent you from voting your stock at the meeting if you want to do so, as your vote by proxy is revocable at your option.

Voting by the **Internet** or **Telephone** is fast, convenient, and your vote is immediately confirmed and tabulated. Most important, by using the Internet or telephone, you help us reduce postage and proxy tabulation costs.

Or, if you prefer, you can return the enclosed Proxy Card in the envelope provided.

PLEASE DO NOT RETURN THE ENCLOSED PROXY CARD IF YOU ARE VOTING OVER THE INTERNET OR BY TELEPHONE.

VOTE BY INTERNET:	VOTE BY TELEPHONE:
http://www.cstproxyvote.com	**1-866-894-0537 via touchtone phone**
24 hours a day / 7 days a week	toll-free 24 hours a day / 7 days a week
INSTRUCTIONS:	**INSTRUCTIONS:**
Read the accompanying Proxy Statement.	Read the accompanying Proxy Statement.
Go to the following website:	**Call 1-866-894-0537**

http://www.optimumbank.com/stockholder-information/

Have your Proxy Card in hand and follow the instructions.

Have your Proxy Card in hand and follow the instructions.

April 8, 2014

Dear Shareholder:

It is with pleasure that I tell you that since our last annual shareholder letter, I can confidently state that the Bank continues to operate from a position of balance and strength. The Bank was profitable in the 1st Quarter of 2014. Management and the Board of Directors expect the Bank to continue to be profitable throughout 2014.

The Bank has made incredible progress subsequent to the downturn in the real estate market five years ago. It is encouraging that we have the resources and infrastructure needed to keep the Bank moving forward. We will achieve the Bank s goals with your help and continued support.

The Bank faced several unique challenges during 2013 which were successfully managed. We took the following affirmative steps which strengthened the Bank s operating and financial condition:

We acquired new management including seasoned executives, Timothy Terry as Chief Executive Officer and Jeff Wagner as Chief Financial Officer, each with over 30 years of banking experience.

We reduced the Bank s dependence on interest rate sensitive liabilities by liquidating troubled loans and bank owned real estate.

We have restructured long term debt to current interest rates, which generated significant savings in annual interest expense. These steps resulted in the improvement of our net interest margin to a percentage that exceeds 3.5%, which surpasses our peer group of banks.

We have increased our lending pipeline and continue to procure new loans.

We engaged technology and core processing vendors to streamline banking operations which will provide requisite infrastructure to increase our financial product offerings.

We implemented a vendor management program which to date has reduced expenses in excess of $200,000 annually with continued savings anticipated in 2014.

As our valued shareholder, be assured that our vigilance remains undimmed. Our principal challenge for the ensuing years will be to maximize profitability without sacrificing loan or credit quality while retaining our customer oriented banking culture.

We have identified strategic financial imperatives on which we will focus on in 2014. Our priority targets are aggressive but very realistic and provide for a real possibility of upside. Our strategy includes, but is not limited to the following:

We continue to offer competitive interest rates on deposits to attract new bank customers and funds for lending. The deposits provide the Bank with a very low cost of capital, enabling the Bank to provide new profitable loans to small business.

Management s efforts continue to focus on relationships rather than transactional banking with the goal of serving small business in Southern Florida and attracting core deposits.

Technology including remote deposit capture and mobile banking will be drivers for future growth.

Management is committed to unlocking the value in the Bank s balance sheet and moving to core profitability.

We continue to strengthen the Bank s liquidity though the purchase of pledgable securities, new lines of credit and other improved cash management processes.

Management has increased emphasis on talented associates. Attracting, retaining, retraining and developing them remain our biggest advantages and continuing challenges. Management continues to help our associates succeed and develop the skills needed to drive the company s growth.

In conclusion, on behalf of the Board of Directors, the Officers and staff of OptimumBank and OptimumBank Holdings, Inc., we thank you for your business and valued support. With your continued confidence, OptimumBank will progress with greater profitability that will unequivocally validate our mission to serve the community as a commercial bank and to increase our shareholder value.

If you have any questions concerning OptimumBank, please contact me either by telephone at 954-900-2813 or through email at mgubin@optimumbank.com.

Sincerely,

Moishe Gubin
Acting Chairman of the Board

OPTIMUMBANK HOLDINGS, INC.

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

April 29, 2014

To the Shareholders:

The annual meeting of the shareholders of OptimumBank Holdings, Inc. will be held at the executive offices of OptimumBank, 2477 East Commercial Boulevard, Fort Lauderdale, Florida 33308, on April 29, 2014, at 10:00 a.m. for the following purposes:

1. To elect three (3) directors;

2. To approve an Amendment to the Amended and Restated Stock Purchase Agreement between the Company and Mr. Gubin in order to extend the outside closing date to April 30, 2015;

3. To approve the issuance of up to 5,000,000 shares of the Company s common stock in a proposed private offering;

4. To ratify the selection of Hacker, Johnson & Smith PA as the Company s independent auditor for fiscal year 2014;

5. To consider an advisory vote on executive compensation;

6. To consider an advisory vote on the frequency of the advisory vote on executive compensation; and

7. To transact such other business as may properly come before the Annual Meeting.

Only shareholders of record at the close of business on March 28, 2014, are entitled to notice of, and to vote at, this meeting.

By order of the Board of Directors

Moishe Gubin
Acting Chairman of the Board

Fort Lauderdale, Florida

April 8, 2014

IMPORTANT

Whether or not you expect to attend in person, we urge you to vote your shares at your earliest convenience. This will ensure the presence of a quorum at the meeting. Promptly voting your shares by telephone, via the Internet, or by signing, dating, and returning the enclosed proxy card will save our company the expenses and extra work of additional solicitation. An addressed envelope for which no postage is required if mailed in the United States is enclosed if you wish to vote by mail. Submitting your proxy now will not prevent you from voting your shares at the meeting if you desire to do so, as your proxy is revocable at your option.

Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to be Held on April 29, 2014. Our Proxy Statement and Annual Report on Form 10-K for 2013 are available at http://www.optimumbank.com/stockholder-information/

OPTIMUMBANK HOLDINGS, INC.

2477 EAST COMMERCIAL BOULEVARD

FORT LAUDERDALE, FLORIDA 33308

PROXY STATEMENT

2014 ANNUAL MEETING OF SHAREHOLDERS

APRIL 29, 2014

This Proxy Statement will be first mailed to shareholders on or about April 8, 2014. It is furnished in connection with the solicitation of proxies by the Board of Directors of OptimumBank Holdings, Inc. (the Company) to be voted at the annual meeting of the shareholders of the Company, which will be held at 10:00 a.m. on Tuesday, April 29, 2014, at the executive offices of OptimumBank (the Bank), 2477 East Commercial Boulevard, Fort Lauderdale, Florida 33308, for the purposes set forth in the accompanying Notice of Annual Meeting of Shareholders. Shareholders who execute proxies retain the right to revoke them at any time before the shares are voted by proxy at the meeting. A shareholder may revoke a proxy by delivering a signed statement to the Secretary of the Company at or prior to the annual meeting or by executing and delivering another proxy dated as of a later date. The Company will pay the cost of solicitation of proxies.

Shareholders of record at the close of business on March 28, 2014 will be entitled to vote at the meeting on the basis of one vote for each share held. On the record date, there were 8,177,744 outstanding shares of common stock held of record by 901 shareholders.

QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING

When and where will the annual meeting take place?

The annual meeting will be held on April 29, 2014 at 10:00 a.m. (Eastern Daylight Time), at the executive offices of the Bank, 2477 East Commercial Boulevard, Fort Lauderdale, Florida 33308.

Why did I receive this proxy statement?

You received this proxy statement because you held shares of the Company s common stock on March 28, 2014 (the Record Date) and are entitled to vote at the annual meeting. The Board of Directors is soliciting your proxy to vote at the meeting.

What am I voting on?

You are being asked to vote on six items:

1. The election of three (3) Directors (see page 7);

2. The approval of an Amendment to the Amended and Restated Stock Purchase Agreement between the Company and Mr. Gubin in order to extend the outside closing date to April 30, 2015 (see page 12);

3. The approval of the issuance of up to 5,000,000 shares of the Company s common stock in a proposed private offering (see page 16);

4. The ratification of the appointment of Hacker, Johnson & Smith, PA as the Company s independent registered public accounting firm for the 2014 fiscal year (see page 20);

5. An advisory vote on executive compensation (see page 21); and

6. An advisory vote on the frequency of the advisory vote on executive compensation (see page 22).

How do I vote?

Shareholders of Record

If you are a shareholder of record, there are four ways to vote:

- By toll free telephone at 1-866-894-0537;
- By internet at http://www.cstproxyvote.com;
- If you request printed copies of the proxy materials, you may vote by proxy by completing and returning your proxy card in the postage-paid envelope provided by the Company; or
- By voting in person at the meeting.

Street Name Holders

Shares which are held in a brokerage account in the name of the broker are said to be held in street name.

If your shares are held in street name, you should follow the voting instructions provided by your broker. If you requested printed copies of the proxy materials, you may complete and return a voting instruction card to your broker, or, in many cases, your broker may also allow you to vote via the telephone or Internet. Check your notice from your broker for more information. If you hold your shares in street name and wish to vote at the meeting, you must obtain a legal proxy from your broker and bring that proxy to the meeting.

Regardless of how your shares are registered, if you request printed copies of the proxy materials, complete and properly sign the accompanying proxy card and return it to the address indicated, it will be voted as you direct.

What is the deadline for voting via Internet or telephone?

Internet and telephone voting is available through 11:59 p.m. (Eastern Daylight Time) on Monday, April 28, 2014 (the day before the annual meeting).

What are the voting recommendations of the Board of Directors?

The Board of Directors recommends that you vote in the following manner:

1. FOR each of the persons nominated by the Board of Directors to serve as Directors;

2. FOR the approval of the Amendment to the Amended and Restated Stock Purchase Agreement between the Company and Mr. Gubin in order to extend the outside closing date to April 30, 2015;

3. FOR the approval of the issuance of up to 5,000,000 shares of the Company s common stock in a proposed private offering;

4. FOR the ratification of the appointment of Hacker, Johnson & Smith, PA as independent registered public accounting firm for the 2014 fiscal year;

5. FOR the approval of the compensation of the Company s named executive officers as disclosed in the Executive Compensation section and accompanying compensation tables contained in this Proxy Statement; and

6. FOR the approval of a frequency of every THREE YEARS for future non-binding shareholder advisory votes on executive compensation.

Unless you give contrary instructions in your proxy, the persons named as proxies will vote your shares in accordance with the recommendations of the Board of Directors.

Will any other matters be voted on?

We do not know of any other matters that will be brought before the shareholders for a vote at the annual meeting. If any other matter is properly brought before the meeting, your proxy would authorize Moishe Gubin and Sam Borek of the Company to vote on such matters in their discretion.

Who is entitled to vote at the meeting?

Only shareholders of record at the close of business on the Record Date are entitled to receive notice of and to vote at the annual meeting. If you were a shareholder of record on that date, you will be entitled to vote all of the shares that you held on that date at the annual meeting, or any postponement or adjournment of the meeting.

How many votes do I have?

You will have one vote for each share of the Company s common stock that you owned on the Record Date.

How many votes can be cast by all shareholders?

The Company had 8,177,744 outstanding shares of common stock on the Record Date. Each of these shares is entitled to one vote. There is no cumulative voting.

How many votes must be present to hold the meeting?

The holders of a majority of the Company s common stock outstanding on the Record Date must be present at the meeting in person or by proxy in order to fulfill the quorum requirement necessary to hold the meeting. This means at least 4,088,873 shares must be present in person or by proxy.

If you vote, your shares will be part of the quorum. Abstentions and broker non-votes will also be counted in determining the quorum. A broker non-vote occurs when a bank or broker holding shares in street name submits a proxy that states that the broker does not vote for some or all of the proposals because the broker has not received instructions from the beneficial owners on how to vote on the proposals and does not have discretionary authority to vote in the absence of instructions.

We urge you to vote by proxy even if you plan to attend the meeting so that we will know as soon as possible that a quorum has been achieved.

What vote is required to approve each proposal?

For the election of Directors (Proposal No. 1), the affirmative vote of a plurality of the votes present in person or by proxy and entitled to vote at the meeting is required. A proxy that has properly withheld authority with respect to the election of one or more Directors will not be voted with respect to the Director or Directors indicated, although it will be counted for the purposes of determining whether there is a quorum.

For the approval of the Amendment to the Amended and Restated Stock Purchase Agreement between the Company and Mr. Gubin (Proposal No. 2), the affirmative vote of a majority of the shares represented in person or by proxy and entitled to vote at the meeting will be required for approval. An abstention with respect to this proposal will not be voted with respect to the amendment, although it will be counted for the purposes of determining whether there is a quorum.

For the approval of the issuance of up to 5,000,000 shares of the Company s common stock in a proposed private offering (Proposal No. 3), the affirmative vote of a majority of the shares represented in person or by proxy and entitled to vote at the meeting will be required for approval. An abstention with respect to this proposal will not be voted with respect to the proposal, although it will be counted for the purposes of determining whether there is a quorum.

For the ratification of the appointment of Hacker, Johnson & Smith, PA (Proposal No. 4), the affirmative vote of a majority of the shares represented in person or by proxy and entitled to vote at the meeting will be required for approval. An abstention with respect to this proposal will be counted for the purposes of determining the number of shares entitled to vote that are present in person or by proxy. Accordingly, an abstention will have the effect of a negative vote.

For the advisory vote on executive compensation (Proposal No. 5), the resolution will be approved if a majority of the shares represented in person or by proxy and entitled to vote at the meeting are cast in favor of the compensation. Because your vote is advisory, it will not be binding on the Board or the Company. However, the Board will review the voting results and take them into consideration when making future decisions regarding executive compensation.

For the advisory vote on the frequency of the advisory votes on executive compensation (Proposal No. 6), the frequency will be determined by a plurality of the votes cast. Because your vote is advisory, it will not be binding on the Board or the Company. However, the Board will review the voting results and take it into consideration when making future decisions regarding the frequency of the advisory vote on executive compensation.

Can I change my vote?

Yes. If you are a shareholder of record, you may change your vote at any time before your proxy is voted at the annual meeting. You can do this in one of three ways. First, you can send a written notice stating that you would like to revoke your proxy. Second, you can submit new proxy instructions either on a new proxy card, by telephone or via the Internet. Third, you can attend the meeting, and vote in person. Your attendance alone will not revoke your proxy. If you have instructed a broker to vote your shares, you must follow directions received from your broker to change those instructions.

Who can attend the annual meeting?

Any person who was a shareholder of the Company on March 28, 2014 may attend the meeting. If you own shares in street name, you should ask your broker or bank for a legal proxy to bring with you to the meeting. If you do not receive the legal proxy in time, bring your most recent brokerage statement so that we can verify your ownership of the Company s stock and admit you to the meeting. However, you will not be able to vote your shares at the meeting without a legal proxy.

What happens if I sign and return the proxy card but do not indicate how to vote on an issue?

If you return a proxy card without indicating your vote, your shares will be voted as follows:

FOR each of the nominees for Director named in this proxy statement;

FOR the approval of the Amendment to the Amended and Restated Stock Purchase Agreement between the Company and Mr. Gubin in order to extend the outside closing date to April 30, 2015;

FOR the approval of the issuance of up to 5,000,000 shares of the Company s common stock in a proposed private offering;

FOR ratification of the appointment of Hacker, Johnson & Smith, PA as the independent registered public accounting firm for the Company for the 2014 fiscal year;

FOR the approval of the compensation of the Company s named executive officers as disclosed in the Executive Compensation section and accompanying compensation tables contained in this Proxy Statement;

FOR the approval of a frequency of every THREE YEARS for future non-binding shareholder advisory votes on executive compensation.

Who can help answer my questions?

If you are a shareholder, and would like additional copies, without charge, of this proxy statement or if you have questions about the annual meeting, including the procedures for voting your shares, you should contact:

Anya Broadhurst

(954) 900-2805

PROPOSAL NO. 1

ELECTION OF DIRECTORS

NOMINEES

Our Board of Directors currently consists of three members and three directors are to be elected at the annual meeting to hold office until the next annual meeting of shareholders and until their successors are elected and qualified. All of the nominees are current directors. The Board of Directors has nominated all three of the current directors for election at the 2014 annual meeting, based on the recommendation of the Company s independent directors.

The accompanying proxy will be voted in favor of the following persons to serve as directors unless the shareholder indicates to the contrary on the proxy. The election of the Company s directors requires a plurality of the votes cast in person or by proxy at the meeting. Management expects that each of the nominees will be available for election, but if any of them is unable to serve at the time the election occurs, the proxy will be voted for the election of another nominee to be designated by the Board of Directors.

Moishe Gubin, age 37, has served as Acting Chairman of the Company since December 2011 and as a director of the Company and OptimumBank since March 2010. Mr. Gubin is the Chief Financial Officer of Infinity Healthcare Management of Illinois, LLC, a company which provides consulting services to thirty-one (31) skilled nursing facilities. Mr. Gubin is also Chief Executive Officer of Strawberry Fields, LLC, a real estate holding company, which owns properties in multiple states. Since 2009, he has served as the chief executive officer of United Rx, LLC, a long term care pharmacy, and since November 2003, his primary occupation has been the ownership and financial management of skilled nursing facilities located in Indiana and Illinois. Since 2005, he has served as the chief financial officer and principal of New York Boys Management, LLC, located in South Bend, Indiana, which provides consulting services for multiple skilled nursing facilities. From November 2003 to November 2006, Mr. Gubin graduated from Touro Liberal Arts and Science College, in New York, New York, with a BS in Accounting and Information Systems and a Minor in Jewish Studies. Mr. Gubin is the founder and president of the Midwest Torah Center Inc., a non-profit spiritual outreach center (www.midwesttorah.org). He also attended Yeshiva Bais Israel where he received a BA in Talmudic Literature. Mr. Gubin has been a licensed Certified Public Accountant in the State of New York since 2010.

Joel Klein, age 67, became a director of the Company and OptimumBank in February 2012. Mr. Klein has been retired since 2011. From 2006 until 2010, he served as Chief Financial Officer for Chicago-based Taxi Affiliation Services, LLC, a company that provides support services to transportation companies in five states and over twenty separate municipalities. Between 1994 and 2005, he was a vice president at The Stamford Group, Inc., a Connecticut based provider of investment and merchant banking services. Prior to his service with The Stamford Group, Mr. Klein served in various financial management capacities, including Chief Financial Officer, Controller, and Senior Accountant with various firms, including Equilease Corporation, Choice Drug Systems, Inc., The Leasing Equipment Group, Ltd., I.C. Herman & Co., Goldstein, Golub, Kessler & Co. CPA s, and Brout, Isaacs & Co. CPA s. Mr. Klein received a Bachelor of Science degree in Accounting from Brooklyn College in 1969. He has been licensed as a CPA in the State of New York since 1972.

Sam Borek, age 63, has served as a director of the Company since March 2004 and as a director of OptimumBank since August 2001. He also served as the Chairman of the Board of the

Company between December 2009 and December 2011, and currently serves as Vice-Chairman. Mr. Borek has served since 1977 as the managing partner of the law firm of Borek & Associates P.C. in Glenview, Illinois. From 1998 to 2006, Mr. Borek served as a director, and from 2004 to 2006, as Chairman of the Board, of NCB Holdings, Inc., a bank holding company located in Chicago, Illinois. Mr. Borek received a Bachelor of Arts degree from the University of Illinois Urbana in 1972 and a Juris Doctor from the DePaul University School of Law in 1975 and has practiced law in Illinois for the past 36 years. Mr. Borek is very involved in community activities, including prior service as President of the Niles Township School Board for High School District 219, member of the Executive Board of the Niles Township Legislative Coalition, and Director of the Midwest Friends of Israel Sport Center for the Disabled and Maccabi USA Sports for Israel.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR ALL DIRECTOR NOMINEES.

CORPORATE GOVERNANCE

Director Independence

The Board of Directors analyzed the independence of each director and determined that the following directors meet the standards of independence of the applicable listing standards of NASDAQ Stock Market (NASDAQ): Moishe Gubin, Sam Borek and Joel Klein.

The Board of Directors Meetings and Committees

OptimumBank Holdings Board of Directors met sixteen times during 2013. The independent directors did not meet in executive session without management during 2013. Each of the current members of the Board of Directors attended at least 75% of the meetings of the Board and committees on which he served. The Company s Board of Directors has established several standing committees, including the following:

Compensation Committee

The Compensation Committee currently consists of three directors: Moishe Gubin (Chairman), Sam Borek and Joel Klein, each of whom is independent under the NASDAQ listing standards. The Compensation Committee reviews and recommends to the Board of Directors the compensation arrangements for executive management and non-employee directors. The Compensation Committee met once during 2013 and operates under a written charter. A copy of the current Compensation Committee Charter can be viewed on the Company s website at www.optimumbank.com/information-center/corporate-governance.

In 2013, no executive officer had a role in determining or recommending the amount or form of outside director compensation. The Compensation Committee does not delegate its authority to any other persons. The Compensation Committee does not use consultants to determine or recommend the amount or form of compensation arrangements.

Nominating Committee

Prior to March 28, 2014, the Company had no formal nominating committee. Prior to that time, the independent directors of the Company performed the functions of a nominating committee. For 2013, these directors were Messrs. Gubin, Borek and Klein. The Company established a formal nominating committee and adopted a charter on March 28, 2014.

The new charter provides for the independent directors to evaluate new candidates and current directors, and recommend candidates to the Board to fill vacancies occurring between annual shareholder meetings. A copy of the charter for the Nominating Committee can be viewed on the Company s website at www.optimumbank.com/information-center/corporate-governance.

All of the director nominees of the Company set forth in the Proposal entitled Election of Directors were recommended by a majority of the independent directors of the Company. The independent directors in their capacity as the nominating committee held one meeting during 2014.

The Nominating Committee will initially look to nominating the Company s existing directors for re-election to the Board as appropriate or to other director nominees proposed, as appropriate, by the directors, and in doing so considers each director s independence, if required, share ownership, skills, performance and attendance at a minimum of 75% of the Board and

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respective committee meetings. In evaluating any candidates for potential director nomination, the Nominating Committee will consider candidates that are independent, if required, who possess personal and professional integrity, have good business judgment, relevant experience and skills, including banking, financial, real estate and/or legal expertise, who would be effective as a director in conjunction with the full Board, who would commit to attend Board and committee meetings, and whose interests are aligned with the long-term interests of the Company s shareholders.

The Nominating Committee will consider director candidates recommended by shareholders, provided the recommendation is in writing and delivered to the Corporate Secretary of the Company at the principal executive offices of the Company not later than the close of business on the 120th day prior to the first anniversary of the date on which the Company first mailed its proxy materials to shareholders for the preceding year s annual meeting of shareholders. For the 2015 annual meeting, recommendations must be received by December 5, 2014. The nomination and notification must contain the nominee s name, address, principal occupation, total number of shares owned, consent to serve as a director, and all information relating to the nominee and the nominating shareholder as would be required to be disclosed in solicitation of proxies for the election of such nominee as a director pursuant to the SEC s proxy rules.

Audit Committee

The Audit Committee of the Board of Directors is responsible for the oversight of the Company s financial and accounting reporting processes and the audits of the Company s financial statements. The Audit Committee is currently composed of three non-employee directors consisting of Joel Klein (Chairman), Moishe Gubin, and Sam Borek. The Audit Committee operates under a written charter adopted and approved by the Board of Directors. A copy of the current Audit Committee Charter can be viewed on the Company s website at www.optimumbank.com/information-center/corporate-governance.

The Board has determined that each member of the Audit Committee is financially literate and independent in accordance with the more stringent NASDAQ listing standards applicable to audit committee members. The Board also has determined that Joel Klein is an audit committee financial expert as defined by SEC rules. The Audit Committee met seventeen times during 2013. A Report from the Audit Committee is included on page 23.

Attendance by Directors at Annual Shareholders Meetings

The Company expects its directors to attend the annual meeting. All of the directors attended the 2013 annual meeting.

Shareholder Communications with the Board of Directors

The Board of Directors has adopted a formal process by which shareholders may communicate with the Board. Shareholders who wish to communicate with the Board may do so by sending written communications addressed to: Board of Directors, OptimumBank Holdings, Inc., at 2477 East Commercial Boulevard, Fort Lauderdale, Florida 33308, Attention: Anya Broadhurst. All communications will be compiled by the Corporate Secretary and submitted to the members of the Board. Concerns about accounting or auditing matters or possible violations of the Company s Senior Financial Officer Code of Ethics should be reported under the procedures outlined in the Company s Whistleblower Policy. Our Whistleblower Policy is available on the Company s website at www.optimumbank.com/information-center/corporate-governance.

Board Leadership Structure and Role in Risk Oversight

The roles of chairman and chief executive officer of the Company have been separate since December 2011. Mr. Gubin currently serves as Acting Chairman of the Board of the Company. Prior to February 2013, Richard Browdy served as the Company s chief executive officer. Mr. Browdy resigned in February 2013.

The Board believes that risk management is an important component of the Company s corporate strategy. While we assess specific risks at the Company s committee levels, the Board, as a whole, oversees the Company s risk management process, and discusses and reviews with management major policies with respect to risk assessment and risk management. The Board is regularly informed through committee reports about the Company s risks. The Audit Committee reviews and assesses the Company s processes to manage financial and financial reporting risk. It also reviews the Company s policies for risk assessment and assesses steps management has taken to control significant risks. The Compensation Committee oversees risks relating to compensation practices and policies.

PROPOSAL NO. 2

APPROVAL OF AMENDMENT TO THE AMENDED AND RESTATED STOCK PURCHASE AGREEMENT BETWEEN THE COMPANY AND MR. GUBIN IN ORDER TO EXTEND THE OUTSIDE CLOSING DATE TO APRIL 30, 2015

Summary of the Gubin Transaction

On March 22, 2013, the Company and Moishe Gubin entered into an amended and restated stock purchase agreement which provides for the issuance and sale of 1,833,333 shares of Company common stock, $0.01 par value, to Mr. Gubin at a price of $1.20 per share (the Amended Stock Purchase Agreement). Mr. Gubin currently serves as the Acting Chairman of the Company and the Bank.

The closing of the transactions contemplated by the Amended Stock Purchase Agreement (the Gubin Transaction) was subject to certain conditions, including approval of the transaction by the shareholders of the Company, the Federal Reserve and the State of Florida Office of Financial Regulation and the completion of the transaction by September 30, 2013.

If these conditions are fulfilled, the Company would receive proceeds from the transaction of $2,200,000.

The Company will also grant Mr. Gubin certain registration rights in connection with the purchase of the shares pursuant to the terms of a registration rights agreement to be entered into at the closing. Substantially all the proceeds from the Gubin Transaction will be utilized by the Company to increase the capital of the Bank.

As of March 28, 2014, the Company had 8,177,744 outstanding shares of common stock, including 662,446 shares that were owned by Mr. Gubin. Upon the issuance of 1,833,333 additional shares of Company s common stock to Gubin, and assuming no other issuance of shares of Company common stock, Gubin would own approximately 2,495,779 shares of the Company s common stock, or 24.9% of the total shares then outstanding.

Subsequent to the execution of the Amended Stock Purchase Agreement, Mr. Gubin submitted applications to the Federal Reserve and the State of Florida Office of Financial Regulation in order to obtain approval for his purchase of shares under the agreement. At the request of these agencies, the applications were withdrawn. Mr. Gubin plans to file amended applications later in 2014. There can be no assurance that such applications will be approved.

Why We Are Seeking Shareholder Approval

The Amendment to the Amended Stock Purchase Agreement is being submitted to the shareholders at the annual meeting to comply with the shareholder approval requirements of NASDAQ Rule 5635.

Under NASDAQ Rule 5635(b), companies that have securities listed on NASDAQ must obtain shareholder approval prior to the issuance of common stock when the issuance or potential issuance would result in a change of control as defined by NASDAQ (the Change of Control Rule). NASDAQ generally characterizes a transaction whereby an investor or group of investors acquires, or obtains the right to acquire, 20% or more of the voting power of an issuer on a post-transaction basis as a change of control for purposes of Rule 5635(b).

Under NASDAQ Rule 5635(d), companies that have securities listed on NASDAQ must obtain shareholder approval prior to the issuance of common stock in a private offering at a price less than the greater of the book and market value per share of such common stock, if the issuance amounts to twenty percent (20%) or more of the common stock or twenty percent (20%) or more of the voting power of a company outstanding before the issuance (the 20% Rule).

The Company s Board of Directors has submitted this Proposal No. 2 to the Company s shareholders for approval because the Change of Control Rule and the 20% Rule apply to issuance of the Company s common stock in the Gubin Transaction. The extension of the outside closing date represents a material amendment to the Gubin Transaction which requires additional shareholder approval.

The Change of Control Rule applies because the number of shares to be purchased by Mr. Gubin exceeds 20% of the outstanding shares of the Company.

The 20% Rule applies because the shares to be sold to Mr. Gubin exceed twenty percent (20%) of the common stock of the shares of the Company outstanding before the issuance and the current closing price of the Company s common stock is greater than the offering price of $1.20 per share in the Gubin Transaction.

The approval sought under this Proposal No. 2 will be effective to satisfy the shareholder approval required by the Change of Control Rule and the 20% Rule. Under the NASDAQ Rule 5635, the minimum vote which will constitute shareholder approval of this Proposal No. 2 is a majority of the total votes cast on the proposal in person or by proxy at the special meeting.

Background of the Transaction with Mr. Gubin

The principal reason for the issuance of shares under the Stock Purchase Agreement is to increase the capital of OptimumBank in order to assist it in meeting its regulatory capital requirements.

Starting in 2008 and continuing through 2013, the Bank has incurred substantial losses, primarily due to a high level of non-performing loans. The Company sustained net losses of $11.5 million in 2009, $8.5 million in 2010, $3.7 million in 2011, $4.7 million in 2012 and $7.1 million in 2013. These net losses have significantly reduced shareholders equity and the regulatory capital ratios for the Company and the Bank.

As a result of the losses incurred by the Bank and related operating issues, on April 14, 2010 the Bank consented to the issuance of an order (the Consent Order) by the Federal Deposit Insurance Corporation (the FDIC) and the State of Florida Office of Financial Regulation (the OFR). On February 28, 2014, the Bank agreed to the issuance of an Amended Consent Order by the FDIC and the OFR. On June 22, 2010 the Company entered into a written agreement with the Board of Governors of the Federal Reserve System (the Federal Reserve).

The Amended Consent Order requires, among other things, that the Bank achieve and maintain a tier 1 leverage capital ratio of at least 8.0% of the Bank s total average assets and a total risk-based capital ratio of at least 12.0% of its total risk-weighted assets. At December 31, 2013 the Bank s Tier 1 leverage and total risk-based capital ratios were 4.21% and 6.55%,

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respectively. At December 31, 2013, the Bank would have needed approximately $5.5 million in additional regulatory capital to meet the total risk-based capital ratio required by the Amended Consent Order.

On October 25, 2011, the Company and Mr. Gubin entered into a Stock Purchase Agreement for the purchase of 1,687,500 shares (calculated on a post split basis) for a price of $1.60 per share. On March 22, 2013, the Company and Gubin agreed to amend this agreement by entering into the Amended Stock Purchase Agreement. The Amended Stock Purchase Agreement reduced the purchase price from $1.60 per share to $1.20 per share, increased the number of shares to be purchased from 1,687,500 to 1,833,333, and to extend the outside closing date to September 30, 2013.

Reason for the Gubin Transaction

The Company is seeking to complete the Gubin Transaction in order to assist the Bank in meeting the capital requirements of the Consent Order and to increase its lending and investment portfolio.

If the $2.2 million proceeds of the Gubin Transaction had been contributed to the Bank as of December 31, 3013, the Bank s Tier 1 leverage and total risk-based capital ratios (on a pro forma basis) would have improved to 5.94% and 6.68%, respectively.

The actual improvement in the Bank s capital ratios after the Gubin Transaction is completed will depend on the closing date of the Gubin Transaction; the level of the Bank s assets and liabilities at that time, the amount of the Bank s losses between December 31, 2013 and the date of the closing, and the amount of any additional capital received from other sources.

The additional $2.2 million in capital from Mr. Gubin is expected to provide the Company and the Bank with additional working capital to implement the Bank s business plan, including addressing non-performing loans and funding expanded lending and investment activities.

Reason for the Amended Gubin Transaction

The Board has agreed to extend the outside closing date for the Gubin Transaction to April 30, 2015. The Company has agreed to this change because of the continuing losses incurred by the Company in 2013 and its continuing need for additional capital. The Company agreed to extension to provide Mr. Gubin with additional time in which to obtain the regulatory approvals required for hiss purchase.

Transaction Documents

Amended Stock Purchase Agreement. The consummation of the Gubin Transaction is subject to the fulfillment of a number of conditions, including:

Gubin obtaining the requisite regulatory approval of the Federal Reserve and the State of Florida Office of Financial Regulation; and

The Company obtaining shareholder approval of the Gubin Transaction.

The Amended Stock Purchase Agreement may be terminated by the Company or Gubin if the closing does not occur by April 30, 2015, but not by any party whose failure to perform any obligations under the agreement required to be performed on or prior to such date has been the cause of, or results in, the failure of the transaction to close on or before such date. The Stock Purchase Agreement contains customary representation and warranties.

Registration Rights Agreement. Under the terms of the Stock Purchase Agreement, the Company has agreed to provide Gubin with certain limited registration rights. The Company has agreed to file a registration statement on Form S-3 as soon as practicable after the closing with respect to the shares sold to Mr. Gubin, and to use reasonable best efforts to make such registration statement become effective. The Company is required to maintain this registration statement continuously in effect until all such shares have been sold or become eligible for sale without restrictions under Rule 144 promulgated under the Securities Act of 1933, as amended. The registration rights are subject to the right of the Company to delay registration to avoid disclosure of material nonpublic information. The holder of registrable securities must comply with certain standard provisions facilitating the filing and effectiveness of the registration statement as well.

Purchase Price of the Gubin Transaction

In approving the Amendment to the Stock Purchase Agreement, the Board considered the fairness, from a financial point of view, regarding the decrease in the price from $1.60 to $1.20 per share. The Board determined that the price was fair in light of the following factors:

- The book value of the Company s common stock at December 31, 2013, which was ($.03) per share;
- The Company s losses of $7.1 million in 2013;
- The Company s need to raise capital to allow the Bank to meet the requirements of the Consent Order and implement its business plan; and
- The limited ability of the Company to obtain additional capital from other sources.

The Board did not engage any third parties to assist the Board in its determination of the offering price due to the Company s limited resources.

Vote Required and Recommendation of Board of Directors

Assuming the existence of a quorum, this proposal will be approved if the number of shares voted in favor of this Proposal No. 2 exceeds the number of shares voted against the proposal. As such, abstentions and broker non-votes will not affect the outcome of the vote, but will be counted for determining the existence of a quorum.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE APPROVAL OF THE AMENDMENT TO THE AMENDED AND RESTATED STOCK PURCHASE AGREEMENT BETWEEN THE COMPANY AND MR. GUBIN IN ORDER TO EXTEND THE OUTSIDE CLOSING DATE TO APRIL 30, 2015.

PROPOSAL NO. 3

APPROVAL FOR PURPOSES OF THE NASDAQ RULE 5635 OF THE ISSUANCE OF UP TO 5,000,000 SHARES OF THE COMPANY S COMMON STOCK IN A PROPOSED PRIVATE OFFERING

The Company is seeking shareholder approval for the issuance of up to 5,000,000 shares of Company s common stock in a proposed private offering (the Offering).

On March 31, 2014, the Company s Board of Directors approved the proposed Offering of up to 5,000,000 shares at a price equal to no less than 85% of the weighted average closing price of the Company s common stock for the 30 trading days preceding the commencement of the Offering.

The Offering will not be contingent upon the sale of any minimum number of shares.

Based on the weighted average closing price of the Company s common stock for the 30 trading days preceding the date of this proxy statement, the price would have been no lower than $1.09 per share. If the Company had sold all 5,000,000 shares in the Offering at this price, the company would have received proceeds of $5,450,000.

Why We Are Seeking Shareholder Approval

The issuance of shares in the Offering is being submitted to the shareholders at the special meeting to comply with the shareholder approval requirements of NASDAQ Rule 5635.

Under NASDAQ Rule 5635(d), companies that have securities listed on NASDAQ must obtain shareholder approval prior to the issuance of common stock in a private offering at a price less than the greater of the book and market value per share of such common stock, if the issuance amounts to twenty percent (20%) or more of the common stock or twenty percent (20%) or more of the voting power of a company outstanding before the issuance (the 20% Rule).

The Company s Board of Directors has submitted this Proposal No. 3 to the Company s shareholders for approval because the 20% Rule may apply to issuance of the Company s common stock in the Offering.

As of the date of this proxy statement, the Company had issued and outstanding 8,177,744 shares of common stock. If the Company were to sell all 5,000,000 shares in the Offering, the investors in the Offering would acquire shares representing approximately 37.9% of the outstanding shares of the Company.

The executive officers and directors of the Company and the Bank will not purchase any shares in the Offering.

The approval sought under this Proposal No. 3 will be effective to satisfy the shareholder approval required by the 20% Rule. Under the NASDAQ Rule 5635, the minimum vote which will constitute shareholder approval of this Proposal No. 3 for the purposes of the 20% Rule is a majority of the total votes cast on the proposal in person or by proxy at the special meeting.

Background and Reasons for the Offering

The reason for the Offering is to raise the capital for the Company s bank subsidiary, Optimum Bank (the Bank).

Starting in 2008 and continuing through 2013, the Bank has incurred substantial losses, primarily due to a high level of non-performing loans. The Company sustained net losses of $11.5 million in 2009, $8.5 million in 2010, $3.7 million in 2011, $4.7 million in 2012 and $7.1 million in 2013. These net losses have significantly reduced shareholders equity and the regulatory capital ratios for the Company and the Bank.

The Company s financial condition and results of operations are discussed in detail in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

As a result of the losses incurred by the Bank and related operating issues, on April 14, 2010 the Bank consented to the issuance of an order (the Consent Order) by the Federal Deposit Insurance Corporation (the FDIC) and the State of Florida Office of Financial Regulation (the OFR). On February 28, 2014, the Bank agreed to the issuance of an Amended Consent Order by the FDIC and the OFR. On June 22, 2010 the Company entered into a written agreement with the Board of Governors of the Federal Reserve System (the Federal Reserve).

The Amended Consent Order requires, among other things, that the Bank to achieve and maintain a Tier 1 leverage capital ratio of at least 8.0% of the Bank s total average assets and a total risk-based capital ratio of at least 12.0% of its total risk-weighted assets. At December 31, 2013 the Bank s tier 1 leverage and total risk-based capital ratios were 4.21% and 6.55%, respectively. At December 31, 2013, the Bank would have needed approximately $5.5 million in additional regulatory capital to meet the total risk-based capital ratio required by the Amended Consent Order.

The failure of the Bank to comply with the Amended Consent Order could result in the initiation of further enforcement actions by the FDIC or OFR, including the imposition of civil monetary penalties, the imposition of further operating restrictions and, ultimately, the closing of the Bank.

During the last two years, the Company has taken a number of actions to strengthen the Company s balance sheet, including the sale of assets and the reduction of certain operating expenses. These efforts have been partially successful in reducing the level of the Bank s losses, but the Bank still requires additional capital in order to meet the capital requirements of the Consent Order and to return to profitability.

On March 31, 2014, the Board of Directors of the Company determined that the proposed Offering through direct sales to non-affiliates and non-directors, was the most viable alternative to increase the capital of the Bank.

If the Offering is successfully completed, the Company will receive approximately $5,450,000 in gross proceeds (assuming the price is $1.09 per share). If all of these proceeds had been contributed to the Bank as of December 31, 2013, the Bank s Tier 1 leverage and total risk-based capital ratios (on a pro forma basis) would have been 8.48% and 11.79%, respectively.

The actual improvement in the capital ratios will depend on the actual price for the shares to be sold in the offering, the actual number of shares sold in the Offering, the closing date of the

Offering and the level of the Bank s losses between December 31, 2013 and the date of the closing, if any. In any case, the completion of the Offering is expected to provide the Bank with enough capital to continue in operation for at least the next twelve months, assuming that the level of the Bank s losses does not increase. This should provide the Company and the Bank with the opportunity to implement additional actions to improve the capital and profitably of the Bank, such as raising additional capital and modifying the Bank s business plan.

The Board of Directors therefore believes that it is crucial for the Company to complete the Offering.

Purchase Price of the Offering

The purchase price in the Offering will be equal to not less than 85% of the weighted average closing price of the Company s common stock for the 30 trading days preceding the commencement of the Offering, or the previous day s closing price. The Board of Directors established this pricing formula based the following factors:

The Company s urgent need for the proceeds of the offering.

The ongoing losses and deteriorating financial condition of the Company and the Bank.

The limited trading volume of the Company s common stock.

After considering these factors, the Board concluded that the pricing formula for the shares was fair and in the best interests of the Company and its shareholders.

Maximum Purchase

None of the investors will be permitted to purchase shares that would result in such shareholder owning more than 9.9% of the Company s common stock after the Offering.

Plan of Distribution

The Shares will be offered on behalf of the Company by the officers, directors and employees of the Company and the Bank.

Investors

The Company currently plans to sell the shares in the Offering exclusively to investors who are accredited investors under Rule 501 of Regulation D promulgated by the SEC under the Securities Act. This proxy statement does not constitute an offer to sell or a solicitation to buy any of the shares.

Use of Proceeds

The Company will use the proceeds of the Offering for the following purposes:

to make capital contributions to the Bank to increase the capital of the Bank.

to establish a capital reserve at the Company to support the future operation and growth of the Company and the Bank.

The Bank will utilize the amounts received from the Company to make loans and purchase investment securities.

Impact of the Issuance of Common Stock on Existing Shareholders

If this Proposal No. 3 is approved and the Company sells all of the shares in the Offering, these shares would represent 37.9% of the shares of the Company s common stock then outstanding. If this occurred, the Company s existing shareholders would hold 62.1% of the Company s outstanding capital stock and would have relatively little influence over the Company s affairs.

The issuance of the shares may result in a change in ownership as defined by Section 382 of the Internal Revenue Code of 1986, as amended (the Code). Pursuant to Sections 382 and 383 of the Code, the annual use of the Company s net operating losses (NOLs) will be limited if there is a cumulative change of ownership (as that term is defined in Section 382(g) of the Code) of greater than 50% in the past three years. If a Section 382 ownership change occurs, there would be a substantial limitation on the Company s ability to utilize its NOLs to offset future taxable income. At December 31, 2013, the Company had approximately $24.2 million of NOL carryforwards for federal income tax purposes, and approximately $35.1 million of NOL carryforwards for Florida state income tax purposes. Currently, approximately $14.2 million and $25.1 of the above net operating loss carryforwards are subject to a Section 382 limitation as a result of the capital raised during 2011. There is no assurance, however, that the Company will generate taxable income in the future against which the NOLs could be applied.

Dissenters Rights

2,437,052 $2,133,250

Cost of sales
606,889 558,726
Gross profit
1,830,163 1,574,524
Operating expenses

Selling, general, and administrative
1,004,273 903,690
Research and development
261,325 269,085
Total operating expenses
1,265,598 1,172,775
Income from operations
564,565 401,749
Other income (expense)

Interest income
22,486 33,387
Interest expense
(302) -
Miscellaneous income
231 43
Gain on sales of property and equipment
1,024 -
Gain on currency exchange
73,232 17,876

Total other income (expense)	96,671	51,306
Income before provision for income taxes	661,236	453,055
Provision for income taxes	(231,433)	(141,333)
Net income	$429,803	$311,722
Basic earnings per share	$0.03	$0.02
Diluted earnings per share	$0.03	$0.02
Weighted-average common shares outstanding		
Basic	15,648,630	16,348,818
Diluted	16,775,287	17,516,583

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

SIMULATIONS PLUS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Three Months Ended November 30,
(Unaudited)

	2009	2008
Cash flows from operating activities		
Net income	$429,803	$311,722
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization of property and equipment	6,377	12,383
Amortization of customer relationships	3,989	5,486
Amortization of capitalized computer software development costs	150,396	123,831
Bad debts	(12,901)	56,418
Stock-based compensation	52,450	39,398
Gain on sales of property and equipment	(1,024)	
Deferred income taxes	-	12,700
(Increase) decrease in		
Accounts receivable	(2,619)	(425,799)
Inventory	(44,765)	8,017
Other assets	99,868	69,996
Increase (decrease) in		
Accounts payable	100,284	(15,776)
Accrued payroll and other expenses	24,443	26,244
Accrued bonuses to officers	63,749	23,845
Accrued income taxes	36,591	128,633
Accrued warranty and service costs	(8,135)	7,246
Deferred revenue	67,620	(50,000)
Net cash provided by operating activities	966,126	334,344
Cash flows from investing activities		
Purchases of property and equipment	(24,353)	(7,348)
Capitalized computer software development costs	(200,538)	(201,649)
Net cash used in investing activities	(224,891)	(208,997)
Cash flows from financing activities		
Repurchase of common stock	(285,123)	-
Proceeds from the exercise of stock options	43,743	48,806
Net cash provided by (used in) financing activities	(241,380)	48,806
Net increase in cash and cash equivalents	$499,855	$174,153
Cash and cash equivalents, beginning of year	7,473,485	5,889,601
Cash and cash equivalents, end of period	$7,973,340	$6,063,754

Supplemental disclosures of cash flow information		
Interest paid	$302	$-
Income taxes paid	$130,232	$-

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

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Simulations Plus, Inc. and Subsidiary

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
November 30, 2009 and 2008
(Unaudited)

Note 1: GENERAL

This report on Form 10-Q for the quarter ended November 30, 2009, should be read in conjunction with the Company's annual report on Form 10-K for the year ended August 31, 2009, filed with the SEC on November 30, 2009. As contemplated by the Securities and Exchange Commission under Article 8 of Regulation S-X, the accompanying financial statements and footnotes have been condensed and therefore do not contain all disclosures required by generally accepted accounting principles. The interim financial data are unaudited; however, in the opinion of Simulations Plus, Inc. ("we", "our", "us"), the interim data includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the interim periods. Results for interim periods are not necessarily indicative of those to be expected for the full year.

Note 2: SIGNIFICANT ACCOUNTING POLICIES

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

Principles of Consolidation
The consolidated financial statements include the accounts of Simulations Plus, Inc. and its wholly owned subsidiary, Words+, Inc. All significant intercompany accounts and transactions are eliminated in consolidation.

Revenue Recognition
The Company recognizes revenues related to software licenses and software maintenance in accordance with guidance issued by the Financial Accounting Standards Board ("FASB"). Software products revenue is recorded when the following conditions are met: 1) evidence of arrangement exists, 2) delivery has been made, 3) the amount is fixed, and 4) collectability is probable. Post-contract customer support ("PCS") obligations are insignificant; therefore, revenue for PCS is recognized at the same time as the licensing fee, and the costs of providing such support services are accrued and amortized over the obligation period. For Words+ products, the revenue is recorded at the time of shipment, net of estimated allowances and returns.

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

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

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

We recognize contract study revenue either equally over the term of the contract or using the percentage of completion method, depending upon how the contract studies are engaged, in accordance with guidance issued by the FASB. To recognize revenue using the percentage of completion method, we must determine whether we meet the following criteria: 1) there is a long-term, legally enforceable contract, 2) it is possible to reasonably estimate the total project costs, and 3) it is possible to reasonably estimate the extent of progress toward completion.

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
The Company maintains an allowance for doubtful accounts for estimated losses that may arise if any of its customers are unable to make required payments. Management specifically analyzes the age of customer balances, historical bad debt experience, customer credit-worthiness, and changes in customer payment terms when making estimates of the collectability of the Company's trade accounts receivable balances. If the Company determines that the financial conditions of any of its customers deteriorated, whether due to customer-specific or general economic issues, an increase in the allowance may be made. Accounts receivable are written off when all collection attempts have failed. The Company also estimates the contractual discount obligation for third party funding such as Medicare, Medicaid, and private insurance companies. Those estimated discounts are reflected in the allowance for doubtful accounts and contractual discounts.

Inventory
Inventory is stated at the lower of cost (first-in, first-out basis) or market and consists primarily of computers and peripheral computer equipment.

Capitalized Computer Software Development Costs
Software development costs are capitalized in accordance with guidance issued by the FASB. Capitalization of software development costs begins upon the establishment of technological feasibility and is discontinued when the product is available for sale.

The establishment of technological feasibility and the ongoing assessment for recoverability of capitalized software development costs require considerable judgment by management with respect to certain external factors including, but not limited to, technological feasibility, anticipated future gross revenues, estimated economic life, and changes in software and hardware technologies. Capitalized software development costs are comprised primarily of salaries and direct payroll-related costs and the purchase of existing software to be used in our software products.

Amortization of capitalized software development costs is provided on a product-by-product basis on the straight-line method over the estimated economic life of the products (not to exceed five years). Amortization of software development costs amounted to $150,366 and $123,831 for the three months ended November 30, 2009 and 2008, 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.

Property and Equipment

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

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

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

Fair Value of Financial Instruments

For certain of the Company's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, accrued payroll and other expenses, accrued bonuses to officers, and accrued warranty and service costs, the carrying amounts approximate fair value due to their short maturities.

Effective September 1, 2008, we adopted a new standard issued by the FASB. This standard does not require any new fair value measurements; rather, it defines fair value, establishes a framework for measuring fair value in accordance with existing GAAP and expands disclosures about fair value measurements. In February 2008, FASB guidance was issued, which delayed the effective date of this standard to fiscal years and interim periods within those fiscal years beginning after November 15, 2008 for non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). We elected to defer the adoption of the Standard for these non-financial assets and liabilities and are currently evaluating the impact, if any, that the deferred provisions of the Standard will have on our consolidated financial statements. In October 2008, additional guidance was issued by the FASB which clarifies the application of SFAS 157 in an inactive market and provides an example to demonstrate how the fair value of a financial asset is determined when the market for that financial asset is inactive. This guidance was effective upon issuance, including prior periods for which financial statements had not been issued. The adoption of this guidance did not have an impact on our financial position or operating results. Beginning September 1, 2008, 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, as defined by the standard are as follows:

Level Input:	Input Definition:
Level I	Inputs 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.

The following table summarizes fair value measurements by level at November 30, 2009 for assets and liabilities measured at fair value on a recurring basis:

	Level I	Level II	Level III	Total
Cash and cash equivalents	$ 7,973,340	$ -	$ -	$ 7,973,340
Total assets	$ 7,973,340	$ -	$ -	$ 7,973,340

Shipping and Handling
Shipping and handling costs, recorded as cost of sales, amounted to $28,293 and $26,241 for the three months ended November 30, 2009 and 2008, respectively.

Research and Development Costs
Research and development costs are charged to expense as incurred until technological feasibility has been established. These costs consist primarily of salaries and direct payroll-related costs. It also includes purchased software which was developed by other companies and incorporated into, or used in the development of, our final products.

Income Taxes
The Company utilizes guidance issued by the FASB 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.

The difference between income tax expense attributable to continuing operations and the amount of income tax expenses that would result from applying domestic federal statutory rates to pre-tax income is mainly related to state income taxes, offset by the utilization of research and development credits for federal and state purposes. Our policy is to include interest and penalties related to unrecognized tax benefits in income tax expense.

Customer relationships
The Company purchased customer relationships as a part of the acquisition of certain assets of Bioreason, Inc. in November 2005. Customer relationships was recorded at a cost of $128,042, and is being amortized over 78 months

under the sum-of-the-years'-digits method. Amortization expense for the three months ended November 30, 2009 and 2008 amounted to $3,990 and $5,486, respectively. Accumulated amortization as of November 30, 2009 and 2008 was $108,717 and $90,515, respectively.

Earnings per Share

The Company reports earnings per share in accordance with guidance issued by the FASB. Basic earnings per share is computed by dividing income available to common shareholders by the weighted-average number of common shares available. Diluted earnings per share is computed similar 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, 2009 and 2008 were as follows:

	11/30/2009	11/30/2008
Numerator		
Net income attributable to common shareholders	$462,865	$311,722
Denominator		
Weighted-average number of common shares outstanding during the year	15,648,630	16,348,818
Dilutive effect of stock options	1,126,657	1,167,765
Common stock and common stock equivalents used for diluted earning per share	16,775,287	17,516,583

Stock-Based Compensation

Compensation costs related to stock options are determined in accordance with guidance issued by the FASB using the modified prospective method. Under this method, compensation cost includes: (1) compensation cost for all share-based payments granted prior to, but not yet vested as of September 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123 amortized over the options' vesting period, and (2) compensation cost for all share-based payments granted subsequent to September 1, 2006, based on the grant-date fair value estimated in accordance with guidance issued by the FASB, amortized on a straight-line basis over the options' vesting period. Stock-based compensation was $52,450 and $39,398 for the three months ended November 30, 2009 and 2008, respectively, and is included in the consolidated statements of operations as Consulting, and Research and Development expense.

Concentrations and Uncertainties

International sales accounted for 31% and 22% of net sales for the three months ended November 30, 2009 and 2008, respectively. For Simulations Plus, Inc., four customers accounted for 40%, 9%, 8%, and 8% of net sales during the three months ended November 30, 2009, compared with three customers accounting for 41%, 10%, and 7% of net sales during the three months ended November 30, 2008. For Words+, Inc., the third party billing, which includes various government agencies, accounted for 72% of net sales during the three months ended November 30, 2009, compared with 58% of net sales during the three months ended November 30, 2008.

The Company operates in the computer software industry, which is highly competitive and changes rapidly. The Company's operating results could be significantly affected by its ability to develop new products and find new distribution channels for new and existing products.

For Simulations Plus, four customers comprised 20% (a dealer account representing various customers), 19%, 17%, and 11% of its accounts receivable at November 30, 2009, and three customers comprised 48%, 15% (a dealer account representing various customers), and 8% of accounts receivable at November 30, 2008. For Words+, the third party billing which includes various government agencies comprised 92% of its accounts receivable at November 30, 2009, and 87% of its accounts receivable at November 30, 2008.

The Company's subsidiary, Words+, Inc., purchases components for its main computer products from four manufacturers. Words+, Inc. also uses a number of pictographic symbols that are used in its software products which are licensed from a third party. The inability of the Company to obtain computers used in its products or to renew its licensing agreement to use pictographic symbols could negatively impact the Company's financial position, results of operations, and cash flows.

Recently Issued Accounting Pronouncements

In September 2009, the FASB issued guidance that amends Statement of Position ("SOP") 97-2, "Software Revenue Recognition", to exclude tangible products containing software components and non-software components that function together to deliver the product's essential functionality. This guidance applies to revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early application permitted. The company expects to adopt this standard in the first quarter of fiscal 2011. The company is currently evaluating the impact this guidance will have on the consolidated financial statements.

In September 2009, the FASB issued guidance that requires an entity to use an estimated selling price when vendor-specific objective evidence or acceptable third-party evidence does not exist for any products or services included in a multiple element arrangement. The arrangement consideration should be allocated among the products and services based upon their relative selling prices, thus eliminating the use of the residual method of allocation. This guidance also requires expanded qualitative and quantitative disclosures regarding significant judgments made and changes in applying the guidance. This guidance applies to fiscal years beginning after June 15, 2010, with early application permitted. The company expects to adopt the standard in the first quarter of fiscal 2011. The company is currently evaluating the impact this guidance will have on the consolidated financial statements.

In June 2009, the FASB issued guidance that provides for the FASB Accounting Standards Codification to become the single official source of authoritative, nongovernmental generally accepted accounting principles in the United States. This guidance does not change GAAP but reorganizes the literature. This statement is effective for interim and annual periods ending after September 15, 2009.

In May 2009, the FASB issued guidance which provides guidance on events that occur after the balance sheet date but prior to the issuance of the financial statements. This guidance distinguishes events requiring recognition in the financial statements and those that may require disclosure in the financial statements. Furthermore, this standard requires disclosure of the date through which subsequent events were evaluated. this standard was effective for interim and annual periods after June 15, 2009. The Company adopted this standard for the annual reporting period ended August 31, 2009.

In April 2008, the FASB issued guidance that amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. The objective of the Staff Position is to improve the consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset. This guidance is effective for fiscal years beginning after December 15, 2008. The Company believes the adoption of this guidance is not expected to have a material impact on the consolidated financial statements.

In December 2008, the FASB issued guidance that establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any resulting goodwill, and any noncontrolling interest in the acquiree. This guidance also provides for disclosures to enable users of the financial statements to evaluate the nature and financial effects of the business combination. This guidance is effective for the Company in the current fiscal quarter of 2010 and must be applied prospectively to business combinations completed on or after this fiscal quarter of 2010. The Company believes that the adoption of this guidance will not have a material effect on the consolidated financial statements.

In December 2008, the FASB issued guidance which establishes accounting and reporting standards for noncontrolling interests ("minority interests") in subsidiaries. This guidance clarifies that a noncontrolling interest in a subsidiary should be accounted for as a component of equity separate from the parent's equity. This guidance is effective for the Company in the first fiscal quarter of 2010 and must be applied prospectively, except for the presentation and disclosure requirements, which will apply retrospectively. The Company believes that the adoption of the standard will not have a material effect on the consolidated financial statements.

Note 3: INVESTMENT

The Company owned Auction Rated Securities ("ARS") through UBS Financial Services Inc. On August 8, 2008, UBS announced a comprehensive settlement, in principle, to all who hold ARS, that they will buy back ARS, at par, from most clients during a two-year time period beginning January 2, 2009. On January 2, 2009, UBS bought back all of our ARS, and we no longer hold such an investment.

Note 4: PROPERTY AND EQUIPMENT

Property and equipment as of November 30, 2009 consisted of the following:

Equipment	$80,830
Computer equipment	376,457
Furniture and fixtures	61,498
Automobile	21,769
Leasehold improvements	53,898
Sub total	594,452
Less: Accumulated depreciation and amortization	(546,808)
Net Book Value	$47,644

Note 5: COMMITMENTS AND CONTINGENCIES

Employment Agreement
On August 31, 2009, the Company entered into an employment agreement with its President/Chief Executive Officer that expires in August 2011. The employment agreement provides for an annual base salary of $275,000 per year, and a performance bonus in an amount not to exceed 10% of Employee's salary, or $27,500 per year, at the end of each fiscal year. The specific amount of the bonus to be awarded will be determined by the Compensation Committee of the Board of Directors, based on the financial performance and achievements of the Company for the previous fiscal year. The agreement also provides Employee stock options, exercisable for five years, to purchase fifty (50) shares of Common Stock for each one thousand dollars ($1,000) of net income before taxes at the end of each fiscal year up to a maximum of 120,000 options over the term of the agreement. The Company may terminate the agreement upon 30 days' written notice if termination is without cause. The Company's only obligation would be to pay its President the greater of a) 12 months salary or b) the remainder of the term of the employment agreement from the date of notice of termination.

Litigation
The Company is not a party to any litigation at this time and is not aware of any pending litigation of any kind.

Note 6: SHAREHOLDERS' EQUITY

Stock Repurchase
On October 23, 2008, the board of directors authorized a share repurchase program enabling the buyback of up to $2.5 million in shares during a 12-month period beginning Monday, October 27, 2008. The actual repurchase started on December 2, 2008; therefore the board of directors extended it through December 1, 2009 in order to have a full 12-month period. The Company has opened an account with Morgan Stanley Smith Barney for the purchase of such securities. Funds for any stock purchases will be drawn from the Company's cash reserves.

The details of repurchases made during the three months ended November 30, 2009 are listed in the following table:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Remaining Funds Available Under the Share Repurchase Plan (including broker's fees)
As of 08/31/09	846,842	$ 1.2569	$ 1,416,564
09/01/09 to 09/30/09	82,630	$ 1.6989	$ 1,274,155
10/01/09 to 10/31/09	52,364	$ 1.5685	$ 1,190,386
11/01/09 to 11/30/09	42,061	$ 1.4884	$ 1,126,560
As of 11/30/09	1,023,897	$ 1.3181	

Stock Option Plan
In September 1996, the Board of Directors adopted, and the shareholders approved, the 1996 Stock Option Plan (the "Option Plan") under which a total of 1,000,000 shares of common stock had been reserved for issuance. In March 1999, the shareholders approved an increase in the number of shares that may be granted under the Option Plan to 2,000,000. In February 2000, the shareholders approved an increase in the number of shares that may be granted under the Option Plan to 4,000,000. In December 2000, the shareholders approved an increase in the number of shares that may be granted under the Option Plan to 5,000,000. Furthermore, in February 2005, the shareholders approved an additional 1,000,000 shares, resulting in the total number of shares that may be granted under the Option Plan to 6,000,000. The 1996 Stock Option Plan terminated in September 2006 by its term.

On February 23, 2007, the Board of Directors adopted and the shareholders approved the 2007 Stock Option Plan under which a total of 1,000,000 shares of common stock had been reserved for issuance.

TRANSACTIONS IN FY 2010

	Number of Options		Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Life
Outstanding, August 31, 2009	2,862,536	$	0.97	
Exercised	(223,500)	$	0.61	
Expired	(172,000)	$	0.56	
Granted	-	$	0.00	
Outstanding, November 30, 2009	2,467,036	$	1.03	4.176
Exercisable, November 30, 2009	1,814,636	$	0.78	2.553

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. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

The weighted-average remaining contractual life of options outstanding issued under the Plan was 4.18 years at November 30, 2009. The exercise prices for the options outstanding at November 30, 2009 ranged from $0.26 to $3.03, and the information relating to these options is as follows:

Exercise Price		Awards Outstanding			Awards Exercisable		
Low	High	Quantity	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Quantity	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
$0.26	$0.50	771,436	1.2 years	$0.37	771,436	1.2 years	$0.37
$0.51	$0.75	433,500	0.4 years	$0.75	433,500	0.4 years	$0.75
$0.76	$1.25	929,100	6.9 years	$1.07	543,100	5.5 years	$1.14
$1.26	$3.03	333,000	8.3 years	$2.83	66,600	8.3 years	$2.83
		2,467,036	4.2 years	$1.03	1,814,636	2.6 years	$0.78

Other Stock Options
As of November 30, 2009, the Board of Directors holds options to purchase 63,000 shares of common stock at exercise prices ranging from $0.30 to $6.68, which were granted prior to August 31, 2009.

Transactions in FY10	Number of Options		Weighted-Average Exercise Price Per Share
Outstanding, August 31, 2009	51,000	$	1.89
Granted	12,000	$	1.67
Exercised	-	$	-
Expired	-	$	-
Outstanding, November 30, 2009	63,000	$	1.85

Exercisable, November 30, 2009	42,000	$	1.63

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Note 7: RELATED PARTY TRANSACTIONS

As of November 30, 2009, included in accrued bonuses to officers was $60,000, which represented 5% of the Company's FY09 net income before bonuses and taxes, not exceeding $60,000, given to the Corporate Secretary, Virginia Woltosz, as an annual bonus. This last fiscal year's bonus was paid in December 2009.

The accrued bonuses to officers at November 30, 2009 also include the bonus accrued for the first fiscal quarter of FY10 in the amount of $63,749. This amount represents 5% of the net income before bonuses and taxes, not exceeding $60,000, given to the Corporate Secretary, and 10% of the net income before bonuses and taxes, not exceeding $27,500, given to the Company's CEO.

Note 8: SEGMENT AND GEOGRAPHIC REPORTING

We account for segments and geographic revenues in accordance with guidance issued by FASB. Our reportable segments are strategic business units that offer different products and services. Results for each segment and consolidated results are as follows for the three months ended November 30, 2009 and 2008 (in thousands):

November 30, 2009	Simulations Plus, Inc	Words +, Inc.	Eliminations	Total
Net Sales	$1,735	$702		$2,437
Income (loss) from operations	578	(13)		565
Identifiable assets	12,435	2,032	$ (1,639)	12,828
Capital expenditures	14	10		24
Depreciation and Amortization	147	14		161

November 30, 2008	Simulations Plus, Inc	Words +, Inc.	Eliminations	Total
Net Sales	$1,430	$703		$2,133
Income (loss) from operations	423	(21)		402
Identifiable assets	11,657	1,862	$ (1,433)	12,086
Capital expenditures	-	7		7
Depreciation and Amortization	122	20		142

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In addition, the Company allocates revenues to geographic areas based on the locations of its customers. Geographical revenues for the three months ended November 30, 2009 and 2008 were as follows (in thousands):

November 30, 2009

	North America	Europe	Asia	Oceania	South America	Total
Simulations Plus, Inc.	$995	$425	$315	$-	$-	$1,735
Words+, Inc.	686	9	-	7	-	702
Total	$1,681	$434	$315	$7	$-	$2,437

November 30, 2008

	North America	Europe	Asia	Oceania	South America	Total
Simulations Plus, Inc.	$987	$240	$203	$-	$-	$1,430
Words+, Inc.	678	7	5	13	-	703
Total	$1,665	$247	$208	$13	$-	$2,133

Note 9: EMPLOYEE BENEFIT PLAN

The Company maintains a 401(K) Plan for all eligible employees, and makes matching contributions equal to 100% of the employee's elective deferral, not to exceed 4% of total employee compensation. We can also elect to make a profit-sharing contribution. Contributions by the Company to this Plan amounted to $21,208 and $19,376 for the three months ended November 30, 2009 and 2008, respectively.

Note 10: SUBSEQUENT EVENT

Since December 2008, the Company has been buying back its own shares, and planned to continue its share repurchase in accordance with its share repurchase plan, which authorizes up to $2.5 million for the repurchase program through December 1, 2009. The details of shares repurchased are listed in the following table:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Remaining Funds Available Under the Share Repurchase Plan
12/01/2009 (End of program)	2,586	$ 1.3823	$ 1,122,985
Total Repurchased During Program Period	1,026,483	$ 1.3182	

The Company has evaluated subsequent events through January 13, 2010, which is the date the condensed consolidated financial statements were issued.

Item 2. Management's Discussion and Analysis or Plan of Operations

Forward-Looking Statements

Certain statements in this Quarterly Report on Form 10-Q, or the "Report," are "forward-looking statements." These forward-looking statements include, but are not limited to, statements about the plans, objectives, expectations and intentions of Simulations Plus, Inc., a California corporation (referred to in this Report as the "Company") and other statements contained in this Report that are not historical facts. Forward-looking statements in this Report or hereafter included in other publicly available documents filed with the Securities and Exchange Commission, or the "Commission," reports to our stockholders and other publicly available statements issued or released by us involve known and unknown risks, uncertainties and other factors which could cause our actual results, performance (financial or operating) or achievements to differ from the future results, performance (financial or operating) or achievements expressed or implied by such forward-looking statements. Such future results are based upon management's best estimates based upon current conditions and the most recent results of operations. When used in this Report, the words "expect," "anticipate," "intend," "plan," "believe," "seek," "estimate" and similar expressions are generally intended to identify forward-looking statements, because these forward-looking statements involve risks and uncertainties. There are important factors that could cause actual results to differ materially from those expressed or implied by these forward-looking statements, including our plans, objectives, expectations and intentions and other factors.

General

BUSINESS

Simulations Plus, Inc. (together with its subsidiary referred to as the “Company,” “us,” “we,” or “our”) and its wholly owned subsidiary, Words+, Inc. (“Words+”) produce different types of products: (1) Simulations Plus, incorporated in 1996, develops and produces software for use in pharmaceutical research and for education, as well as provides contract research services to the pharmaceutical industry. Simulations Plus has also taken over responsibility for producing a personal productivity software program called Abbreviate! originally spun out of products for the disabled by Words+ for the retail market, and (2) Words+, founded in 1981, produces computer software and specialized hardware for use by persons with disabilities. For the purposes of this document, we sometimes refer to the two businesses as “Simulations Plus” when referring to the business that is pharmaceutical software and services, educational software, and Abbreviate!, and “Words+” when referring to the business that is focused on assistive technologies for persons with disabilities.

SIMULATIONS PLUS

PRODUCTS

We currently offer four software products for pharmaceutical research: ADMET Predictor™, ClassPharmer™, DDDPlus™, and GastroPlus™. In addition to pharmaceutical research products, we offer a personal productivity software, “Abbreviate!” through the on-line Apple store as well as a Windows XP version through our website.

ADMET Predictor

Every drug molecule that fails in clinical trials, and every approved drug that gets withdrawn from the market, was bad from the time its structure was first drawn by a chemist or generated by a computer. They don’t become bad later. Thus, the ability to predict unsuitable characteristics of new molecules as early as possible offers the promise of avoiding costly programs that end up in late-stage failures. Although not every failure mode can be predicted in this manner, those that can provide a means to reduce the number of failures that frequently occur after years of work and millions of dollars (sometimes over $1.5 billion) have been spent.

ADMET (Absorption, Distribution, Metabolism, Excretion and Toxicity) Predictor provides a collection of highly sophisticated and statistically significant numerical models that predict various properties of chemical compounds from just their molecular structures. Our models are built using machine learning approaches that are based primarily on artificial neural network ensembles (groups of artificial neural networks) that have been demonstrated to provide the most accurate prediction capabilities in any commercially available software today.

This capability means a chemist can merely draw a molecule diagram and get estimates of these properties, even though the molecule has never existed. Drug companies continually search through millions of such “virtual” molecular structures as they attempt to find new drugs. It has been estimated that there are somewhere on the order of 1062 possible drug-like molecular structures. That is such a huge number that it is difficult to comprehend. If we could evaluate a trillion molecules (1012) per second (we cannot), it would still take 1050 seconds to evaluate them all -- that’s about 1042 years. The age of the universe is said to be less than 1010 years. Clearly, we will never be able to make and test all of them, so computerized methods are the only hope to even scratch the surface of the total “chemical space” for potential pharmaceutical products.

The vast majority of drug-like molecules are not suitable as medicines for various reasons. Some have such low solubility that they will not dissolve well, some have such low permeability through cell walls that they will not be absorbed well, some degrade so quickly that they are not stable enough to have a useful shelf life, some bind to proteins (such as albumin) in blood to such a high extent that little unbound drug is available to reach the target, and many will produce a variety of adverse effects. Identification of such properties in the computer (“in silico”) enables researchers to eliminate poor compounds quickly and early before spending time and money to make them and run experiments to identify their weaknesses. Today, many molecules can be eliminated on the basis of the properties predicted by ADMET Predictor.

Several independent studies have been published that compare the accuracy of software programs like ADMET Predictor. In almost every case, ADMET Predictor has been ranked first in accuracy. The specific set of molecules used in such studies, as well as the statistics used for comparison, may favor one program over others; however, across all published studies, ADMET Predictor has been top-ranked far more than any other program. This is a remarkable accomplishment, considering the greater size and resources of many of our competitors.

ADMET Predictor includes ADMET Modeler™. ADMET Modeler was first released in July of 2003 as a separate product, and was integrated into ADMET Predictor in 2006. This powerful program automates the training of the predictive models used in ADMET Predictor, so they are produced in a small fraction of the time once required. For example, new toxicity models were developed in a matter of a few hours once we completed the tedious effort of “cleaning up” the databases (which often contain a significant number of errors). Prior to the availability of ADMET Modeler, we would have needed as much as three months for each new model after cleaning the databases to obtain similar results.

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

ADMET Predictor is compatible with the popular Pipeline Pilot™ software offered by SciTegic, a subsidiary of Accelrys. This software serves as a tool to allow chemists to run several different software programs in series to accomplish a set workflow for large numbers of molecules. In early discovery, chemists often work with hundreds of thousands or millions of “virtual” molecules – molecules that exist only in computer files. The chemist needs to decide which few molecules from these large “libraries” should be made and tested. Using Pipeline Pilot with ADMET

Predictor (and ClassPharmer™ – see below), perhaps in conjunction with other software products, the chemist can create and screen very large libraries faster and more efficiently than by running each program by itself.

During the first quarter, efforts on our Small Business Innovation Research (SBIR) grant with the National Institutes of Health (NIH) have continued with excellent progress. One technical issue relates to training classification models with highly unbalanced data sets, i.e., data sets where most of the molecules do not have a particular attribute (such as a toxicity) and only a small number do. This has always been a challenging mathematical problem for modelers, and we have been working on new approaches to ensure that the predictive models generated provide the greatest possible utility from such unbalanced data sets. Also during the first quarter, we have worked on the ability to predict which atoms in a molecule are most likely to be affected by metabolism by certain enzymes. This is an exciting new capability that is a part of our SBIR grant effort, and we expect it will add an important new capability to ADMET Predictor when it is completed.

ClassPharmer™

ClassPharmer continues to evolve into an ever more powerful tool for medicinal and computational chemists. Coupled with ADMET Predictor, the two programs provide an unmatched capability for chemists to search through huge libraries of compounds to find the most interesting classes and molecules that are active against a particular target. In addition, ClassPharmer with ADMET Predictor can take an interesting (but not acceptable) molecule and generate high quality analogs (i.e., similar new molecules) using several different algorithms to generate new molecules that are both active against a target while also being acceptable in a variety of ADMET (Absorption, Distribution, Metabolism, Excretion and Toxicity) properties.

ClassPharmer's molecule design capabilities provide ways for chemists to rapidly generate large numbers of novel chemical structures based on intelligence from compounds that have already been synthesized and tested, or from basic chemical reactions selected by the user. Export of results is available in Microsoft Excel™ format as well as other convenient file formats requested by users.

During the first quarter, considerable work has gone into "refactoring" the ClassPharmer code to make it faster and more compact, as well as to improve the options available to the user for visualizing various types of information generated by the program.

DDDPlus

DDDPlus sales have continued to grow as more and more formulation scientists recognize the value of this one-of–a–kind simulation software in their work. During 2009, improvements were added to further enhance the value of this product, including numerous user convenience features, as well as more sophisticated handling of dosage forms that incorporate multiple polymers for controlled release formulations. A major new release of DDDPlus was released in late April 2009, which included making the program match the user interface in our flagship GastroPlus product as closely as possible since many formulation scientists can use both programs. Additions to the programs capabilities and built-in databases for excipient ingredients and dissolution media have also been made.

Development efforts on DDDPlus were minimal during the first quarter because of a heavy load of contract consulting studies that required staff time to complete on schedule.

GastroPlus

GastroPlus continues to enjoy its "gold standard" status in the industry for its class of simulation software. At the recent annual conference of the American Association of Pharmaceutical Scientists in Los Angeles in November 2009, GastroPlus was mentioned by every speaker in several different sessions. No other competitive product received such recognition. GastroPlus is used industry-wide from early drug discovery through preclinical development and into early clinical trials.

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

The insight gained through GastroPlus simulations can guide project decisions in various ways. Among the kinds of knowledge gained through such simulations are: (1) the best estimate for “first dose in human” for a new drug prior to Phase I trials, (2) whether a potential new drug compound is likely to be absorbed at high enough levels to achieve the desired blood concentrations needed for effective therapy, (3) whether the absorption process is affected by certain enzymes and transporter proteins in the intestinal tract that may cause the amount of drug reaching the blood to be very different after absorption from one region of the intestine to another, (4) when certain properties of a new compound are probably adequately estimated through computer (“in silico”) predictions (such as from ADMET Predictor) or simple experiments rather than through more expensive and time-consuming in vitro or animal experiments, (5) what the likely variations in blood and tissue concentration levels of a new drug would be in a large population, in different age groups or in different ethnic groups, and (6) whether a new formulation for an existing approved drug is likely to demonstrate “bioequivalence” (equivalent blood concentration versus time) to the currently marketed dosage form in a human trial.

In November 2009 we released the current version of GastroPlus (version 6.1). This release provides new capabilities for dosing to the oral cavity via lingual (on the tongue), sublingual (under the tongue), and buccal (inside the cheek) dosage forms. We also added better prediction of the dissolution and absorption of certain low-solubility drugs by incorporating the distribution of bile salts in the intestinal tract for both fasted and fed conditions, and a separate improvement that better handles the dissolution and absorption of nanoparticle formulations.

Work on Version 7.0 was also initiated during the first quarter. This will be a very important new release that will incorporate the drug-drug interaction simulation capability that we’ve been developing under our funded collaboration with Roche. Beta versions of the drug-drug interaction module have been in testing at Roche for several months with excellent results. This new version will also include the ocular drug delivery model from our funded collaboration with Pfizer and the pulmonary drug delivery model we developed under our funded collaboration with GlaxoSmithKline. We believe this combination of capabilities will put GastroPlus further in front of the limited competition we see in this market niche.

Our marketing intelligence and reorder history indicate that GastroPlus continues to dominate its market niche in the number of users worldwide. In addition to virtually every major pharmaceutical company, licenses include government agencies in the U.S and abroad, a growing number of smaller pharmaceutical and biotech companies, generic drug companies, and drug delivery companies (companies that design the tablet or capsule for a drug compound that was developed by another company). Although these companies are smaller than the pharmaceutical giants, they can also save considerable time and money through simulation. We believe this part of the industry, which includes many hundreds of companies, represents major growth potential for GastroPlus. Our experience has been that the number of new companies adopting GastroPlus has been growing steadily, adding to the base of annual licenses each year. In addition, consolidation by larger companies has not affected our sales to date. In fact, those companies have adopted in silico tools at ever-greater levels, and our licenses have increased at renewal time even in the face of such consolidation. As an example, our largest renewal this quarter was for one of the top-five pharmaceutical companies for an annual license for GastroPlus, for a total of just over $990,000, up approximately 29% from just over $770,000 last year.

Contract Research and Consulting Services

Our recognized world-class expertise in oral absorption and pharmacokinetics is evidenced by the fact that our staff members have been speakers or presenters at over 50 prestigious scientific meetings worldwide in the past five years. We frequently conduct contracted studies for customers who prefer to have studies run by our scientists rather than to license our software and train someone to use it. The demand for our consulting services has been increasing steadily, and we expect this trend to continue. Long-term collaborations and shorter-term consulting contracts serve both to showcase our technologies and as a way to build and strengthen customer relationships. Revenues recognized from consulting services (not included funded collaborations – only consulting for specific drug projects) during the first quarter of FY10 were approximately $207,000 compared with just over $171,000 in the first quarter of FY09, and we estimate approximately $250,000 of study income for the second quarter based on work in progress, compared with approximately $140,000 in the second quarter of FY09.

Government-Funded Research

We are well along in our $525,000 Phase II SBIR (Small Business Innovation Research) grant awarded by the NIH (National Institutes of Health). This SBIR grant provides funds that allow us to expand staff and grow the product line without adversely affecting earnings, because the expenses associated with the efforts in the grant study are funded largely through the grant with some company support.

WORDS+ SUBSIDIARY

PRODUCTS

Our wholly owned subsidiary, Words+, Inc., has been an industry pioneer and technology leader for over 28 years in introducing and improving augmentative and alternative communication and computer access software and devices for disabled persons. We intend to continue to be at the forefront of the development of new products. We will continue to enhance our major software products, E Z Keys™ and Say-it! SAM™, as well as our growing line of hardware products. We have also been pursuing acquisitions and other strategic alliances that are complementary to our existing augmentative and alternative communication and computer access business lines. In keeping with this strategy we will begin processing orders for four new additions to our product line on December 1, 2009. The introduction of NetTalk, DuraSAM, Allora, and Mind Express were featured at two national conferences and three regional conferences recently. The Allora (A type-and-talk device) and Mind Express (Augmentative Communication Software) are manufactured by Jabbla, Inc. in Belgium, and are in stock at the time of this writing, and demo units are out to distributors and orders are processing. NetTalk (an in-house-designed communication device based on small, light NetBook computers) and DuraSAM (a smaller, more durable, handheld communication device) are in the production phase, and are expected to be ready for delivery by December 7, 2009. Both of these products continue to expand the Say-it! SAM technologies acquired from SAM Communications, LLC of San Diego in December 2003. SAM-based products continue to account for a significant share of Words+ revenues. Allora and Mind Express broaden our product line immediately at low development cost so we can dedicate internal resources to other growth-oriented products and projects.

Results of Operations

Comparison of Three Months Ended November 30, 2009 and 2008.

The following table sets forth our consolidated statements of operations (in thousands) and the percentages that such items bear to net sales:

	Three Months Ended			
	11/30/09		11/30/08	
Net sales	$2,437	100%	$2,133	100%
Cost of sales	607	24.9	559	26.2
Gross profit	1,830	75.1	1,574	73.8
Selling, general and administrative	1,004	41.2	904	42.4
Research and development	261	10.7	269	12.6
Total operating expenses	1,265	51.9	1,173	55.0
Income from operations	565	23.2	402	18.8
Other income	96	3.9	51	2.4
Net income before taxes	661	27.1	453	21.2
(Provision for) income taxes	(231)	(9.5)	(141)	(6.6)
Net income	$430	17.6%	$312	14.6%

Net Sales
Our consolidated net sales increased $304,000, or 14.2%, to $2,437,000 in the first fiscal quarter of Fiscal Year 2010 ("1QFY10") from $2,133,000 in the first fiscal quarter of Fiscal Year 2009 ("1QFY09)". Sales from pharmaceutical software and services increased approximately $305,000, or 21.3%, while our Words+, Inc. subsidiary's sales between 1QFY10 and 1QFY09 were almost the same with a marginal decrease of $1,000, or 0.1%. We attribute the increase in pharmaceutical software and services revenues due to an approximately $252,000 increase for license renewals, with the majority from new customers and orders for additional module licenses from existing customers, and an increase of approximately $52,000 in study contracts and a Grant.

For Words+ sales, revenues from "Say-it! SAM" and Conversa™ increased: however this increase was offset by the decrease in revenue from Freedom products, resulting in only a 0.1% difference in revenues between 1QFY10 and 1QFY09.

Cost of Sales
Consolidated cost of sales increased $48,000, or 8.6%, to $607,000 in Q1FY10 from $559,000 in Q1FY09, and as a percentage of revenue, cost of sales decreased 1.3%. For pharmaceutical software and services, cost of sales increased $67,000, or 30.4%, and as a percentage of revenue, cost of sales increased to 16.7% in Q1FY10 from 15.5% in Q1FY09. A significant portion of cost of sales for pharmaceutical software products is the systematic amortization of capitalized software development costs, which is an independent fixed cost rather than a variable cost related to sales. This amortization cost increased approximately $27,000, or 23.67%, in 1QFY10 compared with 1QFY09. Royalty expense, another significant portion of cost of sales, increased approximately $18,000, or 23.2%, in 1QFY10 compared with 1QFY09. We pay a royalty on GastroPlus basic software sales but not on its modules or other software sales. We also pay royalties on the Enslein Metabolism Module in our ADMET Predictor software in accordance with our agreement with Enslein Research, Inc., which provides 50% of revenues received from licenses of the Enslein Metabolism Module to Enslein Research, Inc. The cost of sales for contract studies, which consists mainly of salaries for scientists, increased approximately $22,000 as our revenue from study contracts increased, because these activities are not capitalizable software development activities.

For Words+, cost of sales decreased $19,000, or 5.7%, and as a percentage of revenue, cost of sales also decreased to 45.2% in 1QFY10 from 47.9% in 1QFY09.

Gross Profit

Consolidated gross profit increased $256,000, or 16.2%, to $1,830,000 in 1QFY10 from $1,574,000 in 1QFY09. We attribute this increase to the increased revenues from pharmaceutical software and services, and the increase in Words+ gross profit.

Selling, General and Administrative Expenses

Consolidated selling, general and administrative (SG&A) expenses increased $100,000, or 11.1%, to $1,004,000 in 1QFY10 from $904,000 in 1QFY09. As a percent of sales, SG&A decreased to 41.2% from 42.4% in 1QFY09. For Simulations Plus, SG&A increased $79,000, or 14.6%. The major increases in SG&A expense were travel, advertisement, commissions, bonuses to officers, recruiting, and telephone. This increase outweighed decreases in expenses for trade shows, salaries, and payroll taxes.

For Words+, SG&A expenses increased $21,000, or 5.9%, due to increases in commission expenses, increases in salaries and payroll-related expenses, equipment repairs, and legal fees. These increases outweighed bad debts, decreases in technical service costs, and depreciation.

Research and Development

We incurred approximately $462,000 of research and development costs for both companies during 1QFY10. Of this amount, $201,000 was capitalized and $261,000 was expensed. In 1QFY09, we incurred $471,000 of research and development costs, of which $202,000 was capitalized and $269,000 was expensed. The decrease of $9,000, or 1.9%, in total research and development expenditures from 1QFY09 to 1QFY10 was due to more R&D salaries being recorded as cost of sales for contract studies during 1QFY10 than in 1QFY09.

Other income (expense)

Net other income (expense) in 1QFY10 increased by $45,000, or 89.0%, to $96,000 in 1QFY10 from $51,000 in 1QFY09. This is due primarily to increase in gain from currency exchange which outweighed lower interest rates on our Money Market accounts.

Provision for Income Taxes

The provision for income taxes increased by $90,000 or 63.7%, to $231,000 in 1QFY10 from $141,000 in 1QFY09 due to an increase in net income; however the tax rate increased to 35% in 1QFY10 from 31.2% in 1QFY09.

Net Income

Consolidated net income increased by $151,000, or 48.6%, to $463,000 in 1QFY10 from $312,000 in 1QFY09. We attribute this increase in profit due to the increases in revenue from pharmaceutical software and services and other income which outweighed an increase in expenses.

Liquidity and Capital Resources

Our principal sources of capital have been cash flows from our operations. We have achieved continuous positive operating cash flow in the last six fiscal years. We believe that our existing capital and anticipated funds from operations will be sufficient to meet our anticipated cash needs for working capital and capital expenditures for the foreseeable future. Thereafter, if cash generated from operations is insufficient to satisfy our capital requirements, we may open a revolving line of credit with a bank, or we may have to sell additional equity or debt securities or obtain expanded credit facilities. In the event such financing is needed in the future, there can be no assurance that such financing will be available to us, or, if available, that it will be in amounts and on terms acceptable to us. If cash flows from operations became insufficient to continue operations at the current level, and if no additional financing was obtained, then management would restructure the Company in a way to preserve its pharmaceutical and disability businesses while maintaining expenses within operating cash flows.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our risk from exposure to financial markets is limited to foreign exchange variances and fluctuations in interest rates. We may be subject to some foreign exchange risks. Most of our business transactions are in U.S. dollars, although we generate significant revenues from customers overseas. The exception is that we were compensated in Japanese yen by some Japanese customers and one European customer. As a result, we experienced a larger gain in Q1FY10 than Q1FY09 from currency exchange. In the future, if foreign currency transactions increase significantly, then we may mitigate this effect through foreign currency forward contracts whose market-to-market gains or losses are recorded in "Other Income or expense" at the time of the transaction. To date, exchange rate exposure has not resulted in a material impact.

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company required to be included in the Company's periodic SEC filings.

(b) Changes in internal controls over financial reporting.

There were no changes in the Company's internal controls over financial reporting during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

The Company is not a party to any legal proceedings and is not aware of any pending legal proceedings of any kind.

Item 2. Changes in Securities

None.

Item 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on form 8-K

(a) Exhibits:

31.1–2 Certification of Chief Executive Officer and Chief Financial Officer
32 Certification pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002
10.46 Simulations Plus, Inc. 2007 Stock Option Plan (the “2007 Option Plan”).

SIGNATURE

In accordance with Section 13 or 15 (d) of the Securities Exchange Act of 1934, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Lancaster, State of California, on January 13, 2009.

Simulations Plus, Inc.

Date: January 12, 2010	By:	/s/ MOMOKO BERAN Momoko Beran Chief Financial Officer

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