

## Research Report – Update

*Investors should consider this report as only a single factor in making their investment decision.*

### Simulations Plus, Inc.

**Rating: Speculative Buy**

Howard Halpern

January 31, 2007

**SLP \$6.95 — (AMEX)**

	FY (08/05) A	FY (08/06) A	FY (08/07) E	FY (08/08) E
Net sales (in millions)	\$4.75	\$5.86	<b>\$7.24</b>	<b>\$8.95</b>
Earnings per share	\$0.03	\$0.08	<b>\$0.15</b>	<b>\$0.23</b>

52-Week range*	\$7.75 – \$1.73	Fiscal year ends:	August
Shares outstanding <small>a/o 11/06/06*</small>	7.45 million	Revenue/shares (ttm)*	\$0.78
Approximate float*	3.48 million	Price/Sales (ttm)*	8.9X
Market Capitalization	\$52 million	Price/Sales (2008)E*	6.7X
Tangible Book value/shr	\$0.77	Price/Earnings (ttm)*	57.9X
Price/Book*	9.0X	Price/Earnings (2008)E*	30.2X

\* All per share figures reflect the 2-1 stock split effective August 14, 2006.

*Simulations Plus, Inc., based in Lancaster, California, is a developer of drug discovery and development software, which is licensed to and used in the conduct of drug research by major pharmaceutical and biotechnology companies worldwide. The Company operates a wholly-owned subsidiary called Words+, Inc. that is focused on producing computer software and specialized hardware for use by people with disabilities. Web address: [www.simulations-plus.com](http://www.simulations-plus.com)*

#### Key Investment Considerations:

*We are maintaining coverage of Simulations Plus, Inc. (AMEX: SLP) with a Speculative Buy recommendation and increasing our twelve-month price target to \$8.15 per share from our prior price target of \$6.60 per share. The increase in our price target is due to the growth prospects we anticipate for fiscal 2007 and 2008.*

*The Company reported first quarter fiscal 2007 net sales of \$1.456 million versus \$0.819 million in the same period last year. Operating income for the quarter was \$0.075 million versus a loss of \$0.239 million. Net income was \$0.073 million or \$0.01 per diluted share versus a loss of \$0.199 million or (\$0.03) per share.*

*On January 9, 2007, the Company announced it received a purchase order from the U.S. Food and Drug Administration to license GastroPlus™ simulation software. Management believes that this license is an indication of the utility of the GastroPlus™ as one of the tools the FDA and companies use in various research projects within the pharmaceutical and biotechnology industries.*

*Based on first quarter results for fiscal 2007, current licensing trends and renewals, as well as Management's public statements, we are adjusting our forecasts for fiscal 2007. Our net sales and net income forecasts are \$7.241 million and \$1.311 million or \$0.15 per diluted share, respectively. Our prior forecasts called for net sales and net income of \$7.155 million and \$1.440 million or \$0.18 per diluted share, respectively.*

*We are introducing our estimates for fiscal 2008. Given current licensing trends, renewals, and potential for new customers, our initial net sales and net income forecasts are \$8.270 million and \$1.950 million or \$0.23 per diluted share.*

*\* Please view our disclaimer located on page 15.*

## ***The Company***

Simulations Plus, Inc. (AMEX: SLP), founded in 1996, went public during June of 1997 through a \$5.0 million initial public offering. The Company, which has 35 employees (33 full-time and 2 part-time), includes 15 professionals in research and development, 7 in production, and 1 in information technology/repairs. Nine employees have Ph.D.s and one is a Ph.D. candidate. In addition, four have one or more Master's degrees. SLP continues to seek additional scientists to expand its Life Sciences team. According to the first quarter earnings conference call, a Ph.D. was just hired and will be joining the Life Sciences team during March 2007.

SLP's net sales are derived from two distinct operations:

- Simulations Plus, Inc., develops and licenses software for pharmaceutical research and development, and performs contract studies for pharmaceutical and biotechnology companies. The Company's software offerings are in two major areas: simulation and cheminformatics (the use of computer and informational techniques, applied to a range of problems in the field of chemistry). The offerings focus on discovery chemistry, ADMET (absorption, distribution, metabolism, elimination, and toxicity) and on tools for discovery chemistry in the pharmaceutical and biotechnology industries. The Company's software assists pharmaceutical scientists to predict certain key potential drug dynamics and compounds rapidly, thereby increasing the likelihood of eliminating multi-million dollar clinical trial failures and speeding up the time to market of effective new medications.
- The Words+ Inc., subsidiary, which was founded in 1981, produces computer software and specialized hardware for use by people with severe disabilities, as well as a personal productivity software program called Abbreviate! for the retail market.

## ***Recent Developments***

**On December 14, 2006, the Company announced F. Hoffmann-LaRoche renewed and expanded its global licenses of GastroPlus™ for two additional years.** According to Management, this new contract is larger than before in both number of software licenses and sales per year. The Company's CFO stated that this new license is a renewal of a previous multi-year license for which the revenues had been booked up front (in fiscal 2003), so no recurring revenues were booked since August 2003 for this customer. As a result, the second quarter for fiscal 2007 will see improvement versus last year's record second quarter by the additional revenues from this order.

**On December 21, 2006, Simulations Plus announced it received a purchase order from a top five pharmaceutical company for renewed and expanded global licenses.** According to Management, this is a renewal of a global license that slipped from the first quarter of fiscal 2006 to the second quarter of fiscal 2006.

**On January 9, 2007, the Company announced it received a purchase order from the U.S. Food and Drug Administration to license GastroPlus™ simulation software.** According to Management, the FDA licensed GastroPlus™ for use in its internal research. Management also believes that this license is an indication of the utility of the GastroPlus™ as one of the tools the FDA and companies use in various research projects within the pharmaceutical and biotechnology industries.

## ***Simulations Plus***

### *Software Offerings*

The Company's software products are used by major pharmaceutical companies and a number of second and third-tier pharmaceutical and drug delivery companies in the United States, Europe, and Japan. The software offerings for pharmaceutical and drug delivery research are focused on drug discovery chemistry, preclinical development, early clinical trials, and formulation. Each of these stages present different risks in drug discovery and development that can be mitigated through the use of software models that enable researchers to identify important molecular characteristics that affect different properties, predict the effects of modifying molecular structures, predict optimum dosing levels and formulation variables, and analyze data from human and animal trials to gain an understanding of what is happening to a drug when it gets into the body. Through predictive

modeling, some laboratory experiments can be eliminated, including some animal studies, and the results of certain kinds of clinical trials in humans can be simulated to sometimes identify and avoid inevitable costly failures. According to public statements, Management believes that the Company's software has resulted in such savings.

SLP provides the following software offerings:

- **ADMET Predictor™/ADMET Modeler™** was released during September 2006, and accomplished the goal of merging ADMET Modeler™ into ADMET Predictor™ 2.0 for the creation of a more convenient package and enhance the competitive posture of ADMET Predictor™. The ADMET Predictor™ component is:
  - An advanced property prediction program that enables pharmaceutical researchers to rapidly estimate a number of ADMET properties of new chemical entities from their molecular structure. It takes as inputs the structures of molecules. It generates predictions for approximately 50 properties (including seven toxicity predictions), and provides estimates which can be used as inputs for GastroPlus. The capabilities of the program mean a chemist can draw a molecule diagram and get reasonable estimates of these properties, even though the molecule has never existed.

The ADMET Modeler™ component:

- Allows researchers to build artificial neural network ensemble or support vector machine (sum) ensemble models from their own data. Automatically identifies the critical descriptors and trains ensemble artificial neural network and sum models. Through the automation provided in the proprietary software of ADMET Modeler, the time to build high quality structure-to-property prediction models has been reduced from months to hours or days. The most recent improvements to the Modeler component includes:
  - 1) A new, state-of-the-art modeling method known as Kernel Partial Least Squares (KPLS);
  - 2) An advanced method for selecting the best model among a matrix of models that each use different numbers of inputs and different model architectures;
  - 3) An improved methods for the sensitivity analysis that helps to select the most important inputs for particular model; and
  - 4) An integrated Model Editor that allows users to easily hide or display models, as well as to change the tooltips which appear when the mouse is paused over any model column.
- **ClassPharmer™** was acquired (during November 2005) by the Company through the acquisition of certain assets of Bioreason, Inc. from its former creditors. The acquisition also included two patents governing classification algorithms, a database of over 5,000 measurements of potential toxicity in a particular cell culture, and a database of over 1,800 pharmaceutical industry contacts. On March 16, 2006, the Company announced the release of ClassPharmer™ 4.0, which was developed by combining the ChemTK™ software the Company acquired from Sage Informatics, LLC in August 2005 with the ClassPharmer 3.5 software it acquired in November 2005. According to public statements made by Management, the 4.0 version was more than ten times faster than ClassPharmer 3.5, and added a number of valuable features from ChemTK™ that provide additional utility to discovery chemists. On November 27, 2006, the Company announced that version 4.2 was released. This new version offers additional technical features that improve its classification algorithms.
- **DDDPlus™** is an important new and unique tool for formulation scientists, which enables them to predict how changes in formulation or changes in experimental setup are likely to affect dissolution rate in laboratory experiments. Dissolution rate is a critical parameter in the development of new dosage forms, in the making generic versions of existing drugs, and in the quality control for production. On April 6, 2006, the Company announced the release of DDDPlus™ 2.0, which Management believes is a major revision of the original version released in early 2005. This new version includes suggested

changes from over 60 evaluators of the original version, as well as adding the ability to simulate new types of formulations and to optimize experimental designs to better match desired dissolution versus time profiles observed in human and animals. According to SEC filings, a number of additional suggestions were received and incorporated into version 2.1, which was released during the first quarter of fiscal 2007. Two licenses were sold during the first quarter of fiscal 2007, and approximately 35 companies have requested evaluation copies. One large pharmaceutical company did extensive testing and then licensed the software. Management believes that this is a very positive indication of the value of DDD Plus™ in formulation development.

- **GastroPlus™** simulates absorption, pharmacokinetics (PK) (the process by which a drug is absorbed, distributed, metabolized, and eliminated by the body), and pharmacodynamics (PD) (the combination of therapeutic and adverse effects on the body) for orally dosed and injected drugs. In the drug development phase, GastroPlus is designed to aid researchers in dosage formulation, the effects of various controlled release profiles, and evaluation of heterogeneous variations in physiology and transit times. On April 25, 2006, SLP announced the release of version 5.1, which adds the ability for formulation scientists to use a distribution of different particle sizes to represent a dose. This addition allows formulation scientists to simulate the dissolution of solid drug particles of various sizes, rather than using an average size to represent all particles. The advantage of simulating a distribution is that smaller particles dissolve faster than large particles, so the dissolution versus timer behavior is more accurately simulated with a distribution. Version 5.0 included the PBPKPlus™ Module (an extension module for GastroPlus that enables researchers to predict the amount of drug that reaches different body tissues and organs). Management believes this provides the best known method for predicting human pharmacokinetics from animal and in-vitro data. According to the Company's 10-K filing, its marketing intelligence indicates that GastroPlus enjoys a dominant position in the number of users worldwide. This is why Management believes this offering is the "gold standard" in the industry for its class of simulation software. During the first quarter of fiscal 2007, the Company announced the release of version 5.2, which adds a significant number of user convenience features, as well as expanded simulation. Some new features provide greater accuracy for certain types of simulations, while other new features allow users to generate and visualize simulation results in more convenient ways.

In addition to the software products described above, the Company offers contract research services to the pharmaceutical industry in the specific areas of gastrointestinal absorption, pharmacokinetics, structure-property model building, and related technologies. The purpose of offering contract research services is to generate additional revenue, as well as to introduce current software products to new customers. According to Management, the business of contracted studies is growing and could contribute significantly to future revenues and earnings. However, growth in the area will be controlled so that it does not adversely impact the Company's development stream. SLP is adding scientific staff to increase its ability to meet the growing demand for consulting services.

#### Under Development

The Company, under its research and development program, is striving to develop new simulation software products to add to its portfolio. Management publicly stated that SLP will continually add new molecular descriptors and new predicted ADMET properties to ADMET Predictor™.

Software that is being developed by the Company includes the development of MembranePlus™, a simulation program similar in many respects to DDDPlus in that it is a simulation of in-vitro experiments; however, in this case the experiments are those that are used to estimate the permeability of new compounds. The permeability of a molecule is a measure of its ability to be absorbed into tissues, either from the gastrointestinal tract or from the blood plasma into various tissues.

According to the Company's first quarter 10-Q filing, additional software development efforts are underway but have not been disclosed for competitive reasons.

However, during the Company's first quarter earnings conference call, Management discussed the submission of a proposal to the National Institutes for Health in December 2006 for a Small Business Innovation Research (SBIR) grant. If awarded, this Phase I effort would be funded at a level of \$0.1 million for six months. A

Phase II follow on proposal would then be submitted. According to Management, Phase II SBIR grants are typically funded up to \$0.750 million for a typical period of two years.

#### Competitive Environment

The Company competes for budget dollars versus the number of established companies that provide software-based research services to the pharmaceutical industry, and in addition, companies that provide screening, testing, and research services; however, most are not based on simulation software. Management believes there are software companies whose products compete directly, while others are closely related.

#### Market Drivers

The Company cites in its SEC filings, the following as drivers within the Pharmaceutical Industry:

- \$50 billion annual pharmaceutical industry R&D expenditures worldwide;
- The call for model-based drug development. At the last two annual R&D Leaders Forum conferences, several high-level speakers from the FDA and industry emphasized the need for this type of drug development; and
- Pressure to reduce the use of animals in pharmaceutical research.

Other key metrics include:

- Only one in 5,000 compounds tested in the laboratory becomes a new drug; and
- It takes as much as 16 years and \$1.6 billion to develop a safe and effective drug for humans.

#### **Words+, Inc. Subsidiary**

Since 1981, the Words+, Inc. subsidiary has been a technology leader in designing and developing augmentative and alternative communication (AAC) computer software and hardware devices for people that are unable to speak because of a physical disability. According to Management, a large percentage of the language strategies and methods accessed by disabled users that are used today were introduced in the 1980s by Words+. In addition, this subsidiary produces computer access products that enable severely physically disabled people to operate personal computers, as well as to communicate through synthesized voice, print, and e-mail, through movements as slight as the blink of an eye. The Company continues to enhance its major software products, E Z Keys and Say-it! SAM, as well as a growing line of hardware products.

The Company offers a Windows CE tablet-computer-based augmentative communication system, called the SAM Tablet, based on a version of the Say-it! SAM software for PDAs. The Company released a version of its SAM software for personal computers in March 2006, allowing SAM to be distributed on virtually any Windows XP desktop or laptop computer and according to the fourth quarter earnings conference call a migration to Microsoft's new operating system VISTA should occur during calendar 2007. It is Management's belief that the SAM offerings are in demand in the augmentative communication system market.

#### Marketing and Distribution

The Company has approximately 37 sales representatives that sell Words+ offerings worldwide including:

- One salary/commission salesperson based in California;
- Fourteen independent distributors;
- Six independent resellers in the U.S.;
- Sixteen sales representatives overseas that includes four in Australia, one each in New Zealand, Canada, England, Norway, Finland, The Netherlands, France, Italy, Israel, Japan, Korea, Mexico, and Malaysia; and
- Three inside sales/support persons, who answer e-mails and telephone inquiries on the Company's toll-free telephone line (including technical support).

Marketing efforts are directed to speech pathologists, occupational therapists, rehabilitation engineers, special education teachers, disabled persons and relatives of disabled persons. The Company maintains a mailing list of over 10,000 people made up of these professionals, consumers, and relatives.

### Competition

The Augmentative and Alternative Communication Industry (AAC) in which the Company operates is highly competitive and some of the competitors have greater financial and personnel resources. The industry is made up of six major competitors (including Words+) and a number of smaller competitors. According to the Company, the other five major competitors each have revenues ranging from \$3.0 million to over \$30.0 million, which means there is no single large company that dominates the industry.

Management believes that the competition is based primarily on the quality of products, quality of customer training and technical support, and quality and size of the sales force. Investors should be aware that while price may be a consideration, it is unlikely to be as important to the customer as obtaining the product most suited to their particular needs, along with strong after-sale support.

### **Financial Results** *(All per share figures reflect the 2-1 stock split effective August 14, 2006)*

For the three-month period ended November 30, 2006, versus the three-months ended November 30, 2005:

- Net sales increased to \$1.456 million versus \$0.819 million. Taglich Brothers' estimate called for net sales of \$1.295 million;
- Gross margins increased to 69.69% versus 59.50%;
- SG&A expenses increased to \$0.757 million versus \$0.629 million. However, as a percentage of net sales SG&A expenses declined to 51.96% versus 76.79%;
- Research and development expenses increased to \$0.184 million versus \$0.097 million. Investors should note that the Company capitalized R&D costs in the amount of \$0.133 million versus \$0.363 million in the same period last year. The higher amount capitalized in the first quarter of fiscal 2006 was due to the allocation of appraised value of \$0.246 million on ClassPharmer software;
- Operating income improved to \$0.075 million versus a loss of \$0.239 million; and
- Net income of \$0.073 million or \$0.01 per diluted share versus a net loss of \$0.199 million or (\$0.03) per share. Taglich Brothers' estimate called for net income of \$0.139 million or \$0.02 per diluted share.

Management attributed the 77.8% growth in year-over-year net sales to a 314.1% (or \$0.824 million) increase from pharmaceutical and educational software. The growth was primarily attributable to increased licenses from new customers, as well as for new modules to existing customers, and expansion of additional licenses to renewal customers.

Also contributing to growth in net sales was a slight increase of 1.9% (or \$0.632 million) from the Company's Words+ subsidiary. The increase was primarily due to higher sales of Say-it-SAM!, MessageMates, and Freedom products, which offset lower software sales and TuffTalker Plus products.

Investors should be aware that the Company's sales cycle for its pharmaceutical software products tends to average about six months. The long sales cycle is because customers frequently need to obtain approvals from multiple decision makers prior to the purchase order being placed. Also, of note, the multi-year licenses that were sold during the quarter were only unlocked (allowed to be used) for the first year of the term with the second year of the license being placed in deferred revenue until it is unlocked at the same time next fiscal year.

Gross margins increased by 1,019 basis points primarily due to the growth in sales of its higher margin pharmaceutical and educational software, which outweighed a decrease in profit margin on Words+ products.

The overall \$0.128 million increase in SG&A expenses versus the same period last year was the result of commissions and trade shows, as well as printer rental, salaries, and payroll-related expenses (i.e., health insurance and payroll taxes), which outweighed decreases in professional fees. Investors should note that as a

percentage of net sales, SG&A expenses for the current period declined to 51.96% versus 76.79% in the same period last year.

For the first quarter of fiscal 2007, the Company experienced a \$0.087 million increase in research and development spending to \$0.184 million versus \$0.097 million in the same period last year. The increase was primarily attributable to staff additions in the Life Sciences department.

*Balance Sheet Snapshot as of November 30, 2006*

The Company had cash of \$2.103 million versus \$1.685 million as of its fiscal year ended August 31, 2006. According to the January 16, 2007, first quarter press release, with receivables due in the following weeks, the Company expected cash to exceed \$3.0 million. Working capital was \$3.267 million versus \$3.050 million as of August 31, 2006. Total assets, which stood at \$6.534 million, are primarily comprised of cash, inventory, accounts receivable (that totaled \$3.737 million) and a deferred tax asset of \$0.890 million.

Also, the Company had total liabilities of \$0.779 million, retained earnings of \$0.464 million, and total shareholders' equity of \$5.755 million. At the end of fiscal 2006, the Company had total liabilities of \$0.845 million with an accumulated deficit of \$0.390 million, and total shareholders' equity of \$5.669 million.

Management believes that existing capital and anticipated funds from operations will be sufficient to meet cash needs for working capital and capital expenditures for the foreseeable future.

**Outlook**

We believe the Company's primary simulation software products (GastroPlus™, ADMET Predictor™, ADMET Modeler™, DDDPlus™, and ClassPharmer™) need to gain exposure to a wider audience within the community of researchers in the Pharmaceutical, Biotechnology, and Drug Discovery Industries of the Healthcare Sector.

This should be accomplished through continued exposure at large conferences around the world and an increase in the Company's sales personnel. According to the Company's SEC filings, members of its staff have been speakers or presenters at over 40 prestigious scientific meeting worldwide over the past three years. In addition, Management has publicly stated that it will add to its scientific staff. According to the Company's 10-K filing, it increased the number of Ph.D.'s on its staff by four (nine at the end of fiscal 2006 versus five at the end of fiscal 2005). The increase in its professional staff is important since they all have the potential to bring in new customers due to their knowledge and interaction with scientists. According to the first quarter earnings conference call, an additional Ph.D. will be starting during March 2007.

Additionally, as a result of the established relationships with large pharmaceutical companies, other researchers within those companies are likely to be exposed to Simulations Plus product offerings. This could lead to increased activity related to its ADMET Partners global licensing program for large pharmaceutical companies.

Management has publicly stated that:

- The Company's customer base, which continues to grow, should build the base for future license renewals. During the Company's earnings conference calls and public presentations, Management reiterated that prior acquisitions not only added software offerings to its portfolio (the recently released ClassPharmer™ 4.2), but increased by approximately 30 its customer base, as well as adding approximately 1,800+ names to its database of potential customers;
- In fiscal 2006, the Company began selling multi-year licenses on an annual basis. Management believes this should eliminate the extreme lumpiness in reported top and bottom line results the Company experienced in the past;
- In fiscal 2007, year-over-year revenue is expected to increase by at least \$1.0 million, due to an increase in the Company's customer base. During the first quarter earnings press release, the

Company's CFO stated that it appears at this time (half way through the fiscal second quarter of 2007) that a year-over-year increase of \$1.0 million will be achieved before the end of the second quarter of fiscal 2007;

- On December 14, 2006, the Company announced F. Hoffmann-LaRoche renewed and expanded its global licenses of GastroPlus™ for two additional years. Based on SEC filings, the prior global licenses from this customer was approximately \$1.5 million (over a three year term) or approximately \$0.500 million per year;
- On December 21, 2006, Simulations Plus announced it received a purchase order from a top five pharmaceutical company for expanded global licenses. According to Management, this is a renewal of a global license that slipped from the first quarter of fiscal 2006 to the second quarter of fiscal 2006. Based on SEC filings, the prior revenue from this global license was approximately \$0.300 million;
- On January 9, 2007, the Company announced it received a purchase order from the U.S. Food and Drug Administration to license its GastroPlus™ simulation software;
- Increase in demand for consulting services due to a shortage of expertise in simulation and modeling personnel within pharmaceutical and biotechnology companies. The evidence of internal growth in this area is that in fiscal 2005, 2006, and so far in 2007, the Company had undertaken 2, 3, and 5 contract studies, respectively;
- Seek accretive acquisitions; and
- Continue in-house development of new offerings such as MembranePlus™, as well as enhancement to existing products that customers have requested. In addition, Management has stated that additional product developments are under way that can not be discussed for competitive reasons.

We believe that the Words+ subsidiary will continue to be slightly profitable in fiscal 2007. Aiding Management's efforts in this subsidiary is expansion of platforms for SAM™ software and internationalization of the software into the French and German markets. Also, the addition of a new California sales representative and a marketing effort being conducted by the national sales consultant should benefit results in future periods.

### **Projections**

Based on first quarter results, our outlook, current licensing trends and renewals, as well as Management's public statements during the Company's first quarter conference call, we are adjusting our net sales forecast for fiscal 2007 to \$7.241 million versus our prior estimate of \$7.155 million. Our estimate incorporates the continued renewal of software licenses (i.e., F. Hoffmann-LaRoche renewal) and expansion of existing customers through new product offerings, as well as enhancements to existing products, and the hiring of additional professionals in its Life Sciences department. We anticipate net sales growth for simulations software products in fiscal 2007 of approximately 42.4% to \$4.537 million. Our net sales expectation for the Words+ subsidiary for fiscal 2007 is \$2.704 million, which is approximately a 1.3% increase versus fiscal 2006.

Our initial net sales forecast for fiscal 2008 is \$8.950 million, which would be a 23.6% increase versus our fiscal 2007 forecast. Our estimate is based on current licensing trends, renewals, and potential for new customers, as well as expansion of licenses with existing customers for additional sites and/or new products. We anticipate net sales growth for simulations software products in fiscal 2008 of approximately 34.7% to \$6.111 million. Our net sales expectation for the Words+ subsidiary for fiscal 2007 is \$2.839 million, which is approximately a 5.0% increase versus fiscal 2006.

The table on top of the next page illustrates the cost structure we anticipate for fiscal 2007 and 2008, versus actual results achieved in 2006.



**Cost Structure**

	<b>2005</b>	<b>2006</b>	<b>2007E</b>		<b>2008E</b>
	<b>Actual</b>	<b>Actual</b>	<b>Prior</b>	<b>Revised</b>	<b>Initial</b>
<b>Gross Margin</b>	68.27%	72.60%	76.52%	74.85%	75.70%
<b>SG&amp;A expenses (as a Percent of Net Sales)</b>	51.00%	50.76%	44.10%	43.25%	40.56%
<b>Research and Development (as a Percent of Net Sales)</b>	11.04%	7.60%	6.56%	9.38%	8.27%
<b>Operating Margin</b>	6.23%	14.23%	25.85%	22.23%	26.87%
<b>Pre-tax Margin</b>	7.32%	15.18%	26.49%	23.78%	28.66%

Source: Company filings and Taglich Brothers estimates

Based on our net sales and increased cost structure estimates, EBITDA should approach \$2.089 million in fiscal 2007 and \$2.885 million in fiscal 2008, versus EBITDA of \$1.196 million in fiscal 2006. Our revised net income forecast for fiscal 2007 is \$1.311 million or \$0.15 per diluted share in fiscal 2007. Our prior forecast called for net income of \$1.440 million or \$0.18 per diluted share. Our initial net income forecast for fiscal 2008 is \$1.950 million or \$0.23 per diluted share. Our EPS forecasts are based on average fully diluted shares of 8.553 million and 8.573 million, respectively. *(Investors need to be aware that all are per share number reflects the effect of the two-for-one stock split that becomes effective August 14, 2006.)*

Our net income estimate for fiscal 2007 and 2008 assumes that the Company will pay or record taxes at 23.85% and 23.98%, respectively. In fiscal 2005 and 2006, the Company recorded tax rates of 24.66% and 23.96%. We estimate that the Company has federal net operating loss (NOL) carryforwards of approximately \$2.6 million, which expire through 2024. Investors should be aware that the Company in future periods may reassess its deferred tax valuation, which could impact bottom line results. Since this involves the judgment of Management, we have not included any such changes to the deferred tax valuation in our estimates.

**Risks**

Growth Management

Investors need to be aware that as the Company becomes increasingly successful, it must meet the challenges associated with growth. If the Company is not successful in meeting these challenges, its business will be adversely impacted. Additionally, Management believes that future success will depend on the ability to attract, hire, and retain qualified personnel in order to expand the Company's overall intellectual knowledge base.

Sales Cycle

Investors should be aware that the Company's sales cycle for its pharmaceutical software products tends to average about six months. The long sales cycle is because customers frequently need to obtain approvals from multiple decision makers prior to the purchase order being placed.

Technology

The Company's strongest area of growth is its software products for pharmaceutical research. In general the software industry is highly competitive and changes rapidly. The Company's operating results could be significantly affected by its ability to maintain and increase acceptance of its current and future products by researchers in the industry.

Customer Concentration

International sales accounted for 29.0% and 24.0% of net sales for the first three months of fiscal 2007 and 2006, respectively. For simulation software sales, three customers accounted for 22.0% of net sales for the first quarter of fiscal 2007, and four customers represented approximately 75.0% of the net accounts receivable. For the Words+ subsidiary, one government agency accounted for 27.9% of net sales during the first quarter of fiscal 2007, and one customer represented approximately 30.0% of the net accounts receivable.

Revenue Recognition

Simulation Plus accounts for the licensing of software in accordance with American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 97-2 (Software Revenue Recognition). The application of

SOP 97-2 requires judgment, including whether a software arrangement includes multiple elements, and if so, whether vendor-specific objective evidence (VSOE) of fair value exists for those elements.

The end users receive certain elements of its products over a period of time. These elements include free post-delivery telephone and e-mail support and the right to receive unspecified upgrades/enhancements. In accordance with SOP 97-2, Management has evaluated these agreements and recognized the entire license fee on the date the software is delivered to and accepted by the customer. In order to recognize the fee in this manner, the Company must meet all the criteria required, including: 1) the post contract customer support (PCS) fee is included in the initial licensing fee; 2) the PCS included with the license is for one year or less; 3) the estimated cost of providing the PCS during the arrangement is insignificant; and 4) unspecified upgrades/enhancements during the PCS arrangements have been and are expected to continue to be minimal and infrequent.

Changes to the elements in a software arrangement, the ability to identify VSOE for those elements, the fair value of the respective elements, the costs associated with providing PCS, and changes to a product's estimated life cycle could materially impact the amount of earned and unearned revenue. Going forward, Management has stated that multi-year software licenses will be unlocked and invoiced at the beginning of each license year, which will require recognizing revenues one year at a time.

#### Accounting Pronouncements

In December 2004, the FASB issued Statement of Accounting Standard No. 123R, Share-Based Payment, a revision of SFAS No. 123, Accounting for Stock-Based Compensation. SFAS 123R requires all companies to measure compensation expense for all share-based payments (including employee stock options and options issued pursuant to employee stock purchase plans) based upon the fair value of the stock-based awards at the date of grant, and is effective for the Company for fiscal year beginning September 1, 2006.

As a result of adopting SFAS No. 123R on September 1, 2006, SLP's stock-based compensation was \$0.006 million for the three months ended November 30, 2006.

#### Seasonality

Historically, (the last year years), third and fourth fiscal quarters have generated higher revenues and bottom line results compared to the first and second fiscal quarters of the year (the Company's fiscal year ends August 31). Management believes that sales of its Words+ products to schools are slightly seasonal, with greater sales to schools during the March to May and June to August periods.

Management believes that sales of pharmaceutical simulations, which began in the first quarter of fiscal 1999, are not expected to show significant seasonal behavior, even though a significant portion of the pharmaceutical industry has extended summer holidays. However, since the Company is likely to generate revenue through large multi-year licenses for its pharmaceutical software, sales are likely to show quarterly spikes.

#### Intellectual Property Rights

Despite the Company's best efforts to protect its intellectual property rights, third parties may infringe or misappropriate those rights, or otherwise independently develop substantially equivalent products and/or services. The loss of intellectual property protection or the inability to secure or enforce intellectual property protection could harm its business and/or ability to compete.

#### Government Regulation

The Company's pharmaceutical software products are tools used in research and development and do not need to obtain approval by the Food and Drug Administration or other government agency. Approximately 17.0% of the Company's products for the disabled are funded by Medicare or Medicaid programs. However, changes in government regulations regarding the use of augmentative communication aids and other assistive technology under such funding could affect the Company's operations of its Words+ subsidiary. On January 1, 2001, Medicare began funding augmentative communication devices for the first time and over the Company's 22-year history, the trend has been toward increasing funding from government agencies. There can be no assurance that

government funding for such devices will continue, or if it does continue, that the Company's products will continue to meet the requirements imposed for funding of such devices.

#### Vendor(s)

The Company's subsidiary purchases most of the notebook computers for its disability related computer products from a single vendor. In addition, it 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 its financial position, results of operations, and cash flows.

#### Legal Issues

While the Company may from time to time be involved in various claims, lawsuits or disputes with third parties, the Company is not a party to any significant litigation and is not aware of any significant pending or threatened litigation against the Company.

On April 6, 2006, the Company received notice from a liquidator for the former French subsidiary of Bioreason (Bioreason SARL), saying that the liquidator had initiated legal action against SLP in the French courts with respect to ClassPharmer distribution rights to European customers, and is claiming commissions and legal fees with respect to European customers. Management has been working through the Company's U.S. attorneys and a law firm in Paris. SLP filed a counterclaim for its rights and lost sales against Bioreason SARL's assets by sending a debt recovery declaration to the liquidator on June 15, 2006. Management believes the documentation from the purchase of certain secured assets of Bioreason clearly shows the rights to the disputed accounts. Although Management is pursuing the Company's rights aggressively, there can be no assurance that the outcome will be favorable. According to SEC filings, Management expects resolution of this issue in calendar 2007.

#### Foreign Exchange Risks

Even though most of the Company's transactions are in U.S. dollars, revenues are generated from overseas customers. Specifically, the Company is compensated in Japanese yen by most Japanese customers. During the first quarter of fiscal 2007, the Company experienced a small loss from currency exchange. If foreign currency transactions increase significantly, then SLP 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.

#### Federal Reserve

Investors should be aware that if the Federal Reserve were to resume increasing interest rates (during their August, September, October, and December 2006 meetings the Federal Reserve Board of Governors did not increase the federal funds target rate by 25 basis points as it did in its previous seventeen meetings), it is likely to have a negative impact on valuation multiples.

#### Miscellaneous Risk

The Company's financial results and equity values are subject to other risks and uncertainties known and unknown, including but not limited to competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

#### Trading Volume

Liquidity is a potential concern. Based on our calculations, the average daily-volume during calendar 2004 increased to approximately 8,340 shares from 7,685 shares in calendar 2003. During calendar 2005 average daily-volume decreased to 4,424 shares a day. During calendar 2006, average daily-volume increased to 21,398 shares a day. Since the July 20, 2006 announcement that the Company's Board of Directors approved a two-for-one stock split, average daily volume increased to 48,228 shares traded a day (for the period ended January 30, 2006). According to Yahoo Finance, as of January 30, 2007, average daily volume for the past three months was 76,800 shares. Investors need to be aware that by nature a thinly traded equity can have significant price volatility.

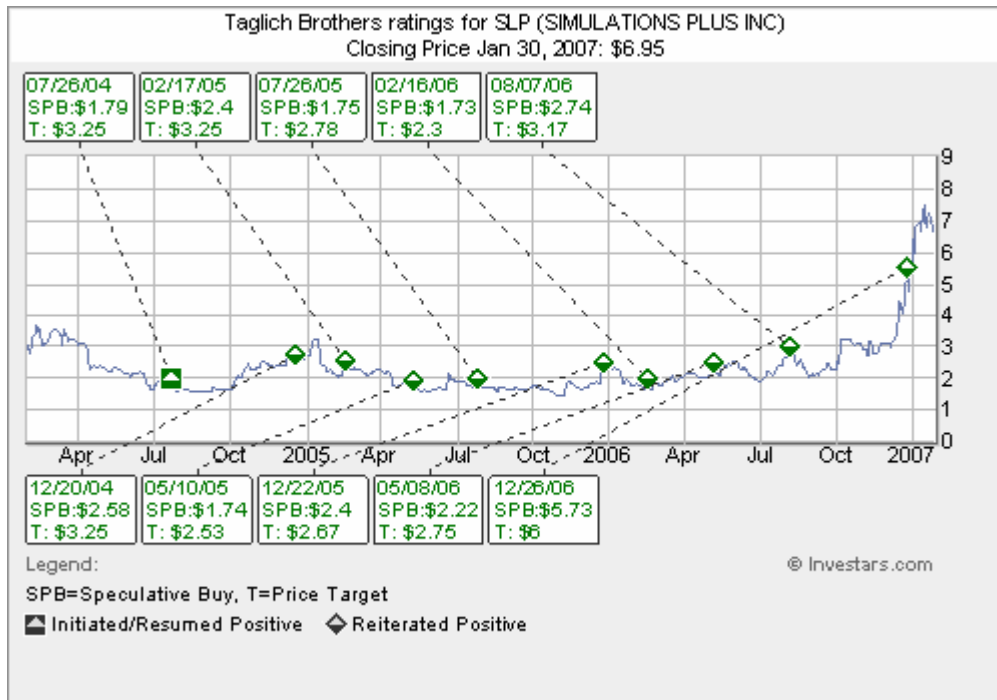
**Valuation**

**We are maintaining coverage of Simulations Plus, Inc. (AMEX: SLP) with a Speculative Buy recommendation and increasing our twelve-month price target at \$8.15 per share from our prior price target of \$6.60 per share.** The increase in our price target is primarily due to growth prospects we anticipate for fiscal 2007 and 2008.

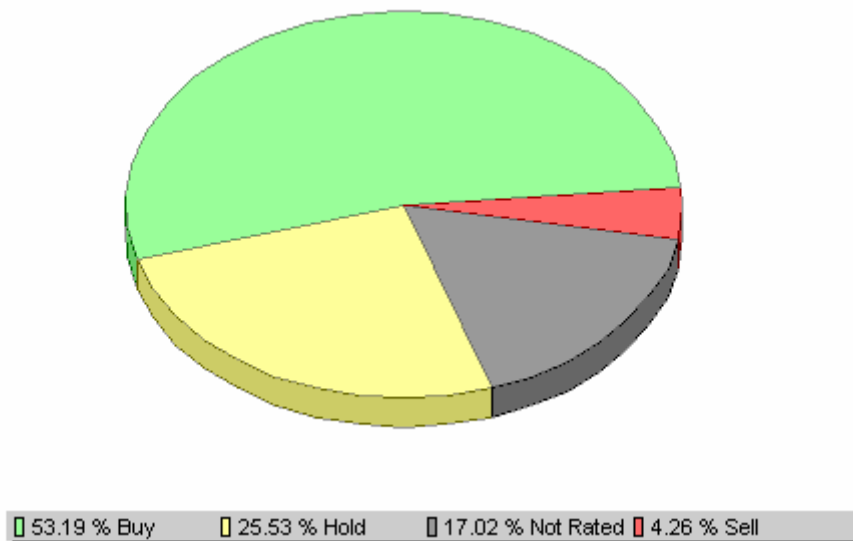
Our price target is based on the following valuation models discounted by 20% to account for microcap risk along with Company specific risks discussed earlier:

- A 8.9X, price-to-sales multiple, which is the Company’s current trailing-twelve month multiple, applied to our net sales estimate of \$1.04 per share for fiscal 2008; and
- A 48.7X, price-to-earnings multiple, which is the anticipated net income growth for fiscal 2008 versus fiscal 2007, applied to our EPS estimate of \$0.23 per share for fiscal 2008.

**We believe these shares are most suitable for investors that can withstand the risks associated with a growth company. A shortfall and/or a slowing in growth could cause SLP’s valuation multiples to contract, which would most likely result in a reduction in the share price.**



Taglich Brothers Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months		
Rating	#	%
Buy	1	3.33%
Hold	1	7.14%
Sell	0	0
Not Rated	0	0

### Meaning of Ratings

#### Buy

We believe the Company is undervalued relative to its market and peers. We believe its risk reward ratio strongly advocates purchase of the stock relative to other stocks in the marketplace. Remember, with all equities there is always downside risk.

#### Speculative Buy

We believe that the long run prospects of the Company are positive. We believe its risk reward ratio advocates purchase of the stock. We feel the investment risk is higher than our typical “buy” recommendation. In the short run, the stock may be subject to high volatility and continue to trade at a discount to its market.

#### Neutral

We will remain neutral pending certain developments.

#### Underperform

We believe that the Company may be fairly valued based on its current status. Upside potential is limited relative to investment risk.

#### Sell

We believe that the Company is significantly overvalued based on its current status. The future of the Company's operations may be questionable and there is an extreme level of investment risk relative to reward.

### **Some notable Risks within the Microcap Market**

**Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company-specific risks that contribute to lower valuations. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.**

---

From time to time our analysts may choose to withhold or suspend a rating on a company. We continue to publish informational reports on such companies; however, they have no ratings or price targets. In general, we will not rate any company that has too much business or financial uncertainty for our analysts to form an investment conclusion, or that is currently in the process of being acquired.

**Public Companies mentioned in this report:**

Abbott Laboratories	(NYSE: ABT)
Eli Lilly	(NYSE: LLY)
GlaxoSmithKline PLC	(NYSE: GSK)
Pfizer Inc.	(NYSE: PFE)

\* The information and statistical data contained herein have been obtained from sources, which we believe to be reliable but in no way are warranted by us as to accuracy or completeness. We do not undertake to advise you as to changes in figures or our views. This is not a solicitation of any order to buy or sell. Taglich Brothers, Inc. is fully disclosed with its clearing firm, Pershing, LLC, is not a market maker and does not sell to or buy from customers on a principal basis. The above statement is the opinion of Taglich Brothers, Inc. and is not a guarantee that the target price for the stock will be met or that predicted business results for the company will occur. There may be instances when fundamental, technical and quantitative opinions contained in this report are not in concert. We, our affiliates, any officer, director or stockholder or any member of their families may from time to time purchase or sell any of the above-mentioned or related securities. Analysts and members of the Research Department are prohibited from buying or selling securities issued by the companies that Taglich Brothers, Inc. has a research relationship with, except if ownership of such securities was prior to the start of such relationship, then an Analyst or member of the Research Department may sell such securities after obtaining expressed written permission from the Director of Research. As of the date of this report, we, our affiliates, any officer, director or stockholder, or any member of their families do not have a position in the stock of the company mentioned in this report. All research issued by Taglich Brothers, Inc. is based on public information. Taglich Brothers, Inc. does not currently have an Investment Banking relationship with the company mentioned in this report and was not a manager or co-manager of any offering for the company with in the last three years. The company paid for the first year of distribution a fee of \$21,000 (USD) on May 2004, and since August 2005 pays a monthly monetary fee of \$1,750 (USD) to Taglich Brothers, Inc. for the creation and dissemination of research reports.

**I, Howard Halpern, the research analyst of this report, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers; and that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this report.**

Simulations Plus, Inc.  
Consolidated Balance Sheets  
(in thousands)

	August 2004 Fiscal Year End	August 2005 Fiscal Year End	August 2006 Fiscal Year End	Nov. 2006 1st Qtr End
<b>ASSETS</b>				
Current assets:				
Cash	\$ 734	\$ 1,754	\$ 1,685	\$ 2,103
Accounts receivable, net	1,705	1,098	1,589	1,214
Contracts receivable, net	-	-	194	186
Inventory	359	281	237	234
Deferred tax	186	60	109	190
Prepaid expense and other current assets	116	81	81	57
<b>Total current assets</b>	<b>3,100</b>	<b>3,274</b>	<b>3,895</b>	<b>3,984</b>
Long term receivables, net of present value discount	-	-	-	-
Capitalized computer software development costs, net	576	937	1,374	1,400
Property and Equipment, net	66	87	96	102
Contracts receivable	-	-	37	47
Customer relationships	-	-	100	92
Deferred tax	1,210	1,252	991	890
Other assets	11	11	18	18
<b>Total assets</b>	<b>\$ 4,964</b>	<b>\$ 5,561</b>	<b>\$ 6,513</b>	<b>\$ 6,534</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
Current liabilities:				
Accounts payable	153	91	215	141
Accrued payroll and other expenses	219	399	364	374
Accrued bonuses to officers	78	39	99	10
Accrued income taxes	2	2	2	-
Accrued warranty and service costs	32	28	35	35
Current portion of deferred revenue	11	132	129	157
Other current liabilities	-	-	0	-
Current portion of capitalized lease obligations	-	-	-	-
<b>Total current liabilities</b>	<b>495</b>	<b>690</b>	<b>845</b>	<b>717</b>
Capital lease obligations, net of current portion	3	-	-	-
Deferred Revenue	20	9	-	63
<b>Stockholders' equity:</b>				
Common stock, no par value; authorized 20,000,000 shares;	4	4	4	4
Additional paid-in capital	4,990	5,144	5,274	5,287
Accumulated deficit	(548)	(285)	390	464
<b>Total stockholders' equity</b>	<b>4,446</b>	<b>4,862</b>	<b>5,669</b>	<b>5,755</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 4,964</b>	<b>\$ 5,561</b>	<b>\$ 6,513</b>	<b>\$ 6,534</b>
SHARES OUT	7,129	7,298	7,441	7,449



Simulations Plus, Inc.  
Annual Income Statement Model  
For the Years Ended August 31,  
(in thousands)

	<u>FY2004A</u>	<u>FY2005A</u>	<u>FY2006A</u>	<u>FY2007E</u>	<u>FY2008E</u>
Net sales	5,207	4,753	5,855	<b>7,241</b>	<b>8,950</b>
Cost of sales	<u>1,557</u>	<u>1,508</u>	<u>1,605</u>	<u><b>1,821</b></u>	<u><b>2,175</b></u>
<b>Gross Profit</b>	<u>3,650</u>	<u>3,244</u>	<u>4,250</u>	<u><b>5,420</b></u>	<u><b>6,775</b></u>
<i>Gross Margins</i>	70.09%	68.27%	72.60%	<b>74.85%</b>	<b>75.70%</b>
<b>Operating Expenses:</b>					
Selling, general, and administrative	2,508	2,424	2,972	<b>3,132</b>	<b>3,630</b>
Research and development	515	525	445	<b>679</b>	<b>740</b>
Total Operating Expenses	<u>3,023</u>	<u>2,948</u>	<u>3,417</u>	<u><b>3,811</b></u>	<u><b>4,370</b></u>
EBITDA	850	503	1,196	<b>2,089</b>	<b>2,885</b>
<b>Operating Income (loss)</b>	626	296	833	<b>1,610</b>	<b>2,405</b>
<i>Operating Margin</i>	12.03%	6.23%	14.23%	<b>22.23%</b>	<b>26.87%</b>
Other income (expense)					
Interest income	73	43	21	<b>109</b>	<b>160</b>
Interest expense	(1)	(1)	(0)	-	-
Gain (Loss) on exchange of currency	-	(7)	23	<b>3</b>	-
Loss on sale of assets	<u>-</u>	<u>15</u>	<u>11</u>	<u><b>0</b></u>	<u>-</u>
Total Other Income (expense)	<u>72</u>	<u>52</u>	<u>56</u>	<u><b>112</b></u>	<u><b>160</b></u>
<b>Pre-Tax Income (loss)</b>	699	348	889	<b>1,722</b>	<b>2,565</b>
<i>Pre-Tax Margins</i>	13.42%	7.32%	15.18%	<b>23.78%</b>	<b>28.66%</b>
Income Tax Expense (Benefit)	(138)	86	213	<b>411</b>	<b>615</b>
Release of valuation allowance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Tax Rate</i>	-19.73%	24.66%	23.96%	<b>23.85%</b>	<b>23.98%</b>
Net income (loss)	\$ 836	\$ 262	\$ 676	\$ <b>1,311</b>	\$ <b>1,950</b>
<b>Earnings per share -- Diluted</b>	<u>\$ 0.11</u>	<u>\$ 0.03</u>	<u>\$ 0.08</u>	<u><b>\$ 0.15</b></u>	<u><b>\$ 0.23</b></u>
Avg Shares Outstanding	7,790	7,961	8,144	<b>8,553</b>	<b>8,573</b>
Percent of Revenue					
Selling, general, and administrative	48.17%	51.00%	50.76%	43.25%	40.56%
Research and development	9.89%	11.04%	7.60%	9.38%	8.27%
<b>YEAR / YEAR GROWTH</b>					
Total Revenues	-5.07%	-8.72%	23.19%	23.68%	23.59%
Earnings per share	-67.95%	-69.33%	152.01%	84.75%	48.36%

Simulations Plus, Inc.  
Income Statement Model  
For the Year Ended August 31, 2005  
(in thousands)

	<u>Q1(11/04)A</u>	<u>Q2 (02/05)A</u>	<u>Q3 (05/05)A</u>	<u>Q4 (08/05)A</u>	<u>FY2005A</u>
Net sales	1,066	1,032	1,424	1,230	<b>4,753</b>
Cost of sales	<u>322</u>	<u>371</u>	<u>428</u>	<u>387</u>	<b>1,508</b>
<b>Gross Profit</b>	<u>744</u>	<u>661</u>	<u>996</u>	<u>843</u>	<b>3,244</b>
<i>Gross Margins</i>	69.80%	64.06%	69.93%	68.54%	<b>68.27%</b>
<b>Operating Expenses:</b>					
Selling, general, and administrative	632	535	645	612	<b>2,424</b>
Research and development	114	131	134	146	<b>525</b>
Total Operating Expenses	<u>746</u>	<u>667</u>	<u>779</u>	<u>757</u>	<b>2,948</b>
EBITDA	41	51	272	139	<b>503</b>
<b>Operating Income (loss)</b>	(1)	(6)	218	86	<b>296</b>
<i>Operating Margin</i>	-0.12%	-0.55%	15.28%	6.96%	<b>6.23%</b>
Other income (expense)					
Interest income	17	15	7	5	<b>43</b>
Interest expense	(0)	-	(0)	(0)	<b>(1)</b>
Gain (Loss) on exchange of currency	2	-	(5)	(4)	<b>(7)</b>
Loss on sale of assets	<u>5</u>	<u>-</u>	<u>3</u>	<u>7</u>	<b>15</b>
Total Other Income (expense)	<u>24</u>	<u>15</u>	<u>6</u>	<u>8</u>	<b>52</b>
<b>Pre-Tax Income (loss)</b>	23	9	223	93	<b>348</b>
<i>Pre-Tax Margins</i>	2.11%	0.86%	15.67%	7.59%	<b>7.32%</b>
Income Tax Expense (Benefit)	-	-	50	36	<b>86</b>
Release of valuation allowance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<b>-</b>
<i>Tax Rate</i>	0.00%	0.00%	22.40%	38.35%	<b>24.66%</b>
Net income (loss)	\$ 23	\$ 9	\$ 173	\$ 58	<b>\$ 262</b>
<b>Earnings per share -- Diluted</b>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.02</u>	<u>\$ 0.01</u>	<u>\$ 0.03</u>
Avg Shares Outstanding	8,287	8,230	7,916	7,411	<b>7,961</b>
Percent of Revenue					
Selling, general, and administrative	59.26%	51.90%	45.25%	49.74%	51.00%
Research and development	10.66%	12.72%	9.41%	11.84%	11.04%
<b>YEAR / YEAR GROWTH</b>					
Total Revenues	-6.35%	-24.62%	15.51%	-16.10%	-8.72%

Simulations Plus, Inc.  
Income Statement Model  
For the Year Ended August 31, 2006  
(in thousands)

	<u>Q1(11/05)A</u>	<u>Q2 (02/06)A</u>	<u>Q3 (05/06)A</u>	<u>Q4 (08/06)A</u>	<u>FY2006A</u>
Net sales	819	1,482	1,788	1,766	<b>5,855</b>
Cost of sales	<u>332</u>	<u>387</u>	<u>433</u>	<u>452</u>	<u><b>1,605</b></u>
<b>Gross Profit</b>	<u>487</u>	<u>1,095</u>	<u>1,355</u>	<u>1,314</u>	<u><b>4,250</b></u>
<i>Gross Margins</i>	59.50%	73.88%	75.76%	74.39%	<b>72.60%</b>
<b>Operating Expenses:</b>					
Selling, general, and administrative	629	688	796	860	<b>2,972</b>
Research and development	97	120	119	110	<b>445</b>
Total Operating Expenses	<u>726</u>	<u>807</u>	<u>914</u>	<u>970</u>	<u><b>3,417</b></u>
EBITDA	(181)	380	544	452	<b>1,196</b>
<b>Operating Income (loss)</b>	(239)	287	441	344	<b>833</b>
<i>Operating Margin</i>	-29.16%	19.39%	24.64%	19.48%	<b>14.23%</b>
Other income (expense)					
Interest income	3	6	4	8	<b>21</b>
Gain (Loss) on exchange of currency	(5)	4	10	14	<b>23</b>
Loss on sale of assets	<u>0</u>	<u>3</u>	<u>5</u>	<u>3</u>	<u><b>11</b></u>
Total Other Income (expense)	<u>(2)</u>	<u>13</u>	<u>19</u>	<u>26</u>	<u><b>56</b></u>
<b>Pre-Tax Income (loss)</b>	(241)	300	460	370	<b>889</b>
<i>Pre-Tax Margins</i>	-29.38%	20.24%	25.71%	20.93%	<b>15.18%</b>
Income Tax Expense (Benefit)	(42)	52	74	130	<b>213</b>
Release of valuation allowance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Tax Rate</i>	17.46%	17.17%	16.00%	35.13%	<b>23.96%</b>
Net income (loss)	\$ (199)	\$ 248	\$ 386	\$ 240	\$ <b>676</b>
<b>Earnings per share -- Diluted</b>	<u>\$ (0.03)</u>	<u>\$ 0.03</u>	<u>\$ 0.05</u>	<u>\$ 0.03</u>	<u>\$ 0.08</u>
Avg Shares Outstanding	7,299	8,180	8,226	8,200	<b>8,144</b>
Percent of Revenue				48.70%	
Selling, general, and administrative	76.79%	46.41%	44.48%	48.70%	50.76%
Research and development	11.87%	8.08%	6.64%	6.80%	7.60%
<b>YEAR / YEAR GROWTH</b>					
Total Revenues	-23.22%	43.62%	25.54%	43.58%	23.19%
Earnings per share	-1101.59%	2728.81%	114.50%	276.49%	152.01%

Simulations Plus, Inc.  
Income Statement Model  
For the Year Ended August 31, 2008  
(in thousands)

	<u>Q1(11/06)A</u>	<u>Q2 (02/07)E</u>	<u>Q3 (05/07)E</u>	<u>Q4 (08/07)E</u>	<u>FY2007E</u>
Net sales	1,456	1,875	2,015	1,895	<b>7,241</b>
Cost of sales	<u>441</u>	<u>450</u>	<u>465</u>	<u>465</u>	<b>1,821</b>
<b>Gross Profit</b>	<u>1,015</u>	<u>1,425</u>	<u>1,550</u>	<u>1,430</u>	<b>5,420</b>
<i>Gross Margins</i>	69.69%	76.00%	76.94%	75.46%	<b>74.85%</b>
<b>Operating Expenses:</b>					
Selling, general, and administrative	757	760	790	825	<b>3,132</b>
Research and development	184	175	170	150	<b>679</b>
Total Operating Expenses	<u>940</u>	<u>935</u>	<u>960</u>	<u>975</u>	<b>3,811</b>
EBITDA	194	610	710	575	<b>2,089</b>
<b>Operating Income (loss)</b>	75	490	590	455	<b>1,610</b>
<i>Operating Margin</i>	5.12%	26.13%	29.29%	24.01%	<b>22.23%</b>
Other income (expense)					
Interest income	16	20	35	38	<b>109</b>
Gain (Loss) on exchange of currency	3	-	-	-	<b>3</b>
Loss on sale of assets	<u>0</u>	<u>-</u>	<u>-</u>	<u>-</u>	<b>0</b>
Total Other Income (expense)	<u>19</u>	<u>20</u>	<u>35</u>	<u>38</u>	<b>112</b>
<b>Pre-Tax Income (loss)</b>	94	510	625	493	<b>1,722</b>
<i>Pre-Tax Margins</i>	6.44%	27.20%	31.03%	26.02%	<b>23.78%</b>
Income Tax Expense (Benefit)	21	115	140	135	<b>411</b>
Release of valuation allowance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<b>-</b>
<i>Tax Rate</i>	22.00%	22.55%	22.40%	27.38%	<b>23.85%</b>
Net income (loss)	\$ 73	\$ 395	\$ 485	\$ 358	<b>\$ 1,311</b>
<b>Earnings per share -- Diluted</b>	<u>\$ 0.01</u>	<u>\$ 0.05</u>	<u>\$ 0.06</u>	<u>\$ 0.04</u>	<u>\$ 0.15</u>
Avg Shares Outstanding	8,549	8,550	8,555	8,560	<b>8,553</b>
Percent of Revenue					
Selling, general, and administrative	51.96%	40.52%	39.20%	43.55%	43.25%
Research and development	12.61%	9.35%	8.45%	7.90%	9.38%
<b>YEAR / YEAR GROWTH</b>					
Total Revenues	77.87%	26.57%	12.65%	7.30%	23.68%
Earnings per share	NMF	52.13%	20.78%	43.05%	84.75%

Simulations Plus, Inc.  
Income Statement Model  
For the Year Ended August 31, 2008  
(in thousands)

	<u>Q1(11/07)E</u>	<u>Q2 (02/08)E</u>	<u>Q3 (05/08)E</u>	<u>Q4 (08/08)E</u>	<u>FY2008E</u>
Net sales	1,780	2,320	2,510	2,340	<b>8,950</b>
Cost of sales	<u>505</u>	<u>545</u>	<u>570</u>	<u>555</u>	<u><b>2,175</b></u>
<b>Gross Profit</b>	<u>1,275</u>	<u>1,775</u>	<u>1,940</u>	<u>1,785</u>	<u><b>6,775</b></u>
<i>Gross Margins</i>	71.63%	76.50%	77.30%	76.28%	<b>75.70%</b>
<b>Operating Expenses:</b>					
Selling, general, and administrative	850	885	935	960	<b>3,630</b>
Research and development	185	185	185	185	<b>740</b>
Total Operating Expenses	<u>1,035</u>	<u>1,070</u>	<u>1,120</u>	<u>1,145</u>	<u><b>4,370</b></u>
EBITDA	360	825	940	760	<b>2,885</b>
<b>Operating Income (loss)</b>	240	705	820	640	<b>2,405</b>
<i>Operating Margin</i>	13.46%	30.38%	32.68%	27.36%	<b>26.87%</b>
Other income (expense)					
Interest income	<u>40</u>	<u>40</u>	<u>40</u>	<u>40</u>	<u><b>160</b></u>
Total Other Income (expense)	<u>40</u>	<u>40</u>	<u>40</u>	<u>40</u>	<u><b>160</b></u>
<b>Pre-Tax Income (loss)</b>	280	745	860	680	<b>2,565</b>
<i>Pre-Tax Margins</i>	15.71%	32.10%	34.27%	29.07%	<b>28.66%</b>
Income Tax Expense (Benefit)	75	170	215	155	<b>615</b>
Release of valuation allowance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u><b>-</b></u>
<i>Tax Rate</i>	26.83%	22.83%	24.99%	22.79%	<b>23.98%</b>
Net income (loss)	\$ 205	\$ 575	\$ 645	\$ 525	<b>\$ 1,950</b>
<b>Earnings per share -- Diluted</b>	<u>\$ 0.02</u>	<u>\$ 0.07</u>	<u>\$ 0.08</u>	<u>\$ 0.06</u>	<u><b>\$ 0.23</b></u>
Avg Shares Outstanding	8,565	8,570	8,575	8,580	<b>8,573</b>
<b>Percent of Revenue</b>					
Selling, general, and administrative	47.77%	38.15%	37.25%	41.02%	40.56%
Research and development	10.40%	7.97%	7.37%	7.90%	8.27%
<b>YEAR / YEAR GROWTH</b>					
Total Revenues	22.21%	23.70%	24.59%	23.48%	23.59%
Earnings per share	178.88%	45.16%	32.72%	46.37%	48.36%

Simulations Plus, Inc.  
Cash Flow Statement  
(in thousands)

	<u>FY2004A</u>	<u>FY2005A</u>	<u>FY2006A</u>	<u>Q1 2007A</u>
<i>Cash Flows from Operating Activities</i>				
Net Income (loss)	\$ 836	\$ 262	\$ 676	\$ 73
Depreciation and amortization of property and equipment	43	43	48	12
Amortization of capitalized software development	181	164	287	107
Amortization of customer relationships	-	-	28	8
Stock-based compensation	-	-	-	6
Contribution of equipment at book value	-	-	-	1
Loss on sale of assets	-	(15)	(11)	-
	<u>1,060</u>	<u>454</u>	<u>1,028</u>	<u>208</u>
<i>Changes In:</i>				
Accounts receivable	(12)	608	(275)	372
Inventory	(152)	77	44	3
Deferred tax	(105)	84	211	21
Other assets	(50)	35	(8)	24
Accounts payable	(22)	(62)	124	(75)
Accrued payroll and other expenses	(20)	177	(34)	9
Accrued bonuses to officers	(56)	(39)	60	(88)
Income taxes	(41)	-	-	(2)
Accrued warranty and service costs	(12)	(5)	7	0
Deferred revenue	(15)	110	(12)	90
Net Changes in Working Capital	<u>(485)</u>	<u>985</u>	<u>119</u>	<u>355</u>
<b>Net cash Provided by Operations</b>	<u>575</u>	<u>1,438</u>	<u>1,148</u>	<u>563</u>
<i>Cash Flows from Investing Activities</i>				
Purchase of property and equipment	(44)	(71)	(62)	(18)
Purchases of Bioreason's assets	-	-	(826)	-
Capitalized computer software development costs	(221)	(475)	(480)	(133)
Proceeds from sale of assets	-	23	21	-
<b>Cash Flows from Investing Activities</b>	<u>(265)</u>	<u>(522)</u>	<u>(1,347)</u>	<u>(151)</u>
<i>Cash Flows from Financing Activities</i>				
Payments on capitalized lease obligations	(4)	-	-	-
Proceeds from the exercise of stock options	168	104	131	6
<b>Net cash provided by Financing</b>	<u>164</u>	<u>104</u>	<u>131</u>	<u>6</u>
Net change in Cash	474	1,020	(69)	418
Cash Beginning of Period	<u>261</u>	<u>734</u>	<u>1,754</u>	<u>1,685</u>