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

SLP $2.30 — (NasdaqCM)

April 27, 2010

	2008 A	2009 A	*2010 E*	*2011 E*
Net sales (in millions)	$9.0	$9.1	***$11.1***	***$12.7***
Earnings per share	$0.10	$0.08	***$0.13***	***$0.16***

52-Week range	$2.05 – $0.79	Fiscal year ends:	August
Shares outstanding a/o 04/14/10	16.1 million	Revenue/shares (ttm)	$0.59
Approximate float	8.8 million	Price/Sales (ttm)	3.9X
Market Capitalization	$37 million	Price/Sales (2011)E	2.9X
Tangible Book value/shr	$0.71	Price/Earnings (ttm)	20.9X
Price/Book	3.2X	Price/Earnings (2011)E	14.4X

Simulations Plus, Inc., based in Lancaster, California, is a developer of drug discovery and development software, which is licensed to and used in drug research by major pharmaceutical and biotechnology companies worldwide. The company operates a wholly-owned subsidiary called Words+, Inc. that produces computer software and specialized hardware for use by people with disabilities. Web address: www.simulations-plus.com

Key Investment Considerations:

We are maintaining our Speculative Buy rating on Simulations Plus, Inc. (AMEX: SLP) and raising our twelve-month price target to $3.35 per share from $2.40. Our price target, which is based on a price-to-EBITDA valuation model, increased due to a $0.04 per share increase in our year-ahead EBITDA forecast and the expansion of the trailing 12-month EBITDA multiple to 20X from 17.3X three months ago.

More intensive marketing of pharmaceutical software offers, an increase in consulting services to pharmaceutical companies, and 2Q10 price increases should fuel growth through fiscal 2011.

On January 13, 2009, SLP reported 2Q10 sales growth of 20.1% to $3 million and a $0.4 million rise in net income to $1.1 million or $0.06 per share. The year-over-year increases were due to 25% growth in sales of higher margin pharmaceutical software and services. Results exceeded our sales forecast by $0.3 million and our earnings projection by $0.01 per share.

For FY10, we project sales of $11.1 million, EBITDA of $3.8 million, and EPS of $0.13 per share. We previously projected sales of $10.5 million, EBITDA of $3.3 million, and EPS of $0.11 per. Our increased forecast reflects the price increases for pharmaceutical software sales instituted in 2Q10.

We project FY11 sales of $12.7 million (prior was $11.9 million), EBITDA of $4.5 million (prior was $3.8 million), and EPS of $0.16 (prior EPS was $0.13). The growth we forecast is based on the 90%+ customer retention rate, a full year of software price increases, new customers attracted during the company's participation in conferences, and pharmaceutical companies efforts to reduce costs.

Please view our Disclosures pages 14 - 16

Recommendation

We are maintaining our Speculative Buy rating on Simulations Plus, Inc. (NasdaqCM: SLP), as we forecast positive growth trends (EBITDA growth in excess of 26%) for the five-year period through FY11.

We are increasing our twelve-month price target to $3.35 per share from $2.40 per share. The price increase is due to expansion of the trailing EBITDA multiple over the last three months to 20X from 17.3X and an 18% increase in our EBITDA forecast for the next twelve months.

Our price target is based on a price-to-EBITDA multiple of 20X, (the trailing twelve month multiple as of April 26, 2010) for the application and business software and services industry, applied to our EBITDA estimate of $0.26 per share for the next four quarters (which is an increase of $0.04 per share from our prior forecast). We discounted the result by 35% to account for microcap and company specific risks.

Simulations Plus shares are ideally suited for risk tolerant investors seeking exposure to a micro cap software and services company targeting research scientists in the pharmaceutical, biotechnology, and drug development sectors.

The Company

Simulations Plus, Inc. (NasdaqCM: SLP), based in Lancaster, California, has 40 employees including 13 Ph.D.s, one Ph.D. candidate, and four others with one or more Master's degrees. SLP continues to seek additional scientists to expand its Life Sciences team.

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 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 in predicting certain key potential drug dynamics and compound properties rapidly, thereby increasing the likelihood of eliminating multi-million dollar clinical trial failures and speeding up the time to market of effective new medications. SLP provides the following software offerings: ADMET Predictor™/ADMET Modeler™; ClassPharmer™; DDDPlus™; and its flagship offering GastroPlus™. Marketing intelligence (done by SLP) and a reorder history of over 90% indicate that GastroPlus has a dominant position in terms of the number of users worldwide (while not disclosed, we estimate site licensing in excess of 1,500). In addition to most major pharmaceutical companies, licensees 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.

- The Words+ Inc., subsidiary, which was founded in 1981, produces computer software and specialized hardware for use by people with severe disabilities. This subsidiary's focus is on introducing and improving augmentative and alternative communication and computer access software and devices for disabled persons. In 2003, the Say-it! SAM technology was acquired as a small, light augmentative communication system based on Hewlett-Packard's iPAQ personal digital assistant. New functionality is constantly being added to the SAM software platform. In 2009 SLP introduced the Conversa™ product, which provides human-sounding synthetic speech output utilizing AT&T synthetic voices and a new custom designed Sound Pack. In 2010 the company reached a deal with an outside manufacturer to produce an eyegaze (system that allows the physical disabled do things with their eyes normally done with their hands) product. Enhancing sales and profitability were the key elements to reaching the manufacturing deal. Orders are being processed and product shipment should commence in April 2010.

Software Offerings

Software Offerings	Description	Updated Developments
ADMET Predictor™/ ADMET Modeler™	The predictor component is a molecular property prediction program that enables pharmaceutical researchers to rapidly estimate a number of ADMET properties of new chemical entities from their molecular structure. The modeler component allows researchers to build artificial neural network ensembles or support vector machine ensemble models from their own data.	A $525,000 SBIR Phase II grant will allow for the development of a rapid calculation of quantum level descriptors. In development are prediction of sites of metabolism and additional toxicity models.
ClassPharmer™	This offering is designed to enhance the hits-to-lead-to-clinic process which aids in finding drug leads with novel and unpatented structural motifs, reducing screening costs with more efficient follow-up screening strategies, and improving productivity with software that thinks like a medicinal chemist. Provides an extended data mining and molecule design capability to help medicinal and computational chemists to analyze results from high throughput screening experiments, and then design new molecules. Being used by customers in the US, Europe, Japan, and India including multiple licenses at the FDA.	By 4Q10, the next version of ClassPharma should be released. Work has begun to streamline the software code to make it faster and more compact, as well as increase the number of options available to the user for visualizing the output.
DDDPlus™	DDDPlus enables formulation scientists to predict how changes in formulation or changes in experimental setup can affect dissolution rate in laboratory experiments. DDDPlus is used by customers in the US, Europe, and Japan (with multiple licenses at the FDA).	Developments are limited to fine tuning.
GastroPlus™	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 aids researchers in dosage formulation by allowing the adjustment of formulation variables (solubility, particle density, dose, and radius) versus time, in order to achieve a target plasma concentration. This product is used by customers in the US, Europe, and Japan including multiple licenses at the FDA.	Version 7.0, to be released in 3Q10, contain new capabilities for: - Drug-to-drug interaction - Ocular drug delivery - Nasal/pulmonary drug delivery The new capabilities for Version 7.0 have been developed through funded collaborations with two top-five pharmaceutical companies.

Source: company reports and presentations

Competitive Environment

Major pharmaceutical companies conduct drug discovery and development efforts through their internal development staffs and by outsourcing some of this work. Smaller companies need to outsource a greater percentage of this research. This means that SLP also competes with the in-house development teams at some pharmaceutical companies.

According to IBISWorld, this is a mature industry, which in recent years has seen a number of mergers and acquisitions among the major players, including global players with operations in the US. The number of major pharmaceutical firms worldwide has fallen from about 80 in the 1980s to less than 30, with the top ten now accounting for over 50% of the global pharmaceutical market, compared with 28% a decade earlier.

IBISWorld has observed that the smaller biotechnology segment is consolidating more rapidly as companies struggle due to product failures. The US Pharmaceutical and Medicine Manufacturing industry report (published by IBISWorld in November 2009) states that the industry is expected to consolidate further through 2014.

As the industry consolidates there will be the greater use of new technologies and a rationalization in product portfolios as pharmaceutical companies adapt to the new realities of the global health market. That prediction supports our view that spending on software productivity tools should continue to grow (maybe at a slightly slower pace) because of the need for effective productivity tools (i.e., software), which have the highest productivity gain of any technology. We believe that a positive development is the fact that SLP's management has repeatedly indicated that it has not seen any significant impact, especially as it relates to SLP's relationship with Pfizer, Roche, and GlaxoSmithKline.

The company's pharmaceutical software and services business competes against companies that provide more expensive screening, testing, and research services, and products that are not based on simulation software. There are also software companies whose products do not compete directly, but are sometimes closely related.

We searched and were unable to find other companies that might currently pose a competitive threat to GastroPlus or DDDPlus. Those simulated software offerings appear to be unique. ClassPharmer and ADMET Predictor/ADMET Modeler operate in a more competitive environment; however, independently published product comparisons have been very favorable, with ADMET Predictor consistently ranked first in predictive accuracy.

Strategy

- **Expand pharmaceutical software offerings and services by:**

  - Continuing the pace of its expanded marketing and sales activities by attendance at conferences and meetings worldwide. The company has 15 scheduled conferences/meetings in 3Q10, highlighted by an April 2010 conference for the International Society for the Study of Xenobiotics (ISSX) Workshop on Genetic Polymorphisms in Drug Disposition at which SLP presented the following poster – "Simulations of the drug-drug interaction between atomoxetine and quinidine in poor and extensive CYP2D6 metabolizers".

    In addition to leads generated at those meetings, the company plans to leverage pharmaceutical companies' statements (or posters) related to SLP software portfolio. Late in 2009 at the American Association of Pharmaceutical Scientists meeting, SLP's GastroPlus offering was mentioned by every speaker in at least three different sessions as the tool used to run the analyses being presented. A Novartis presentation also noted that GastroPlus simulation results submitted to the FDA (which owns a number of GastroPlus licenses) resulted in the FDA agreeing to eliminate a clinical trial that would have otherwise been required.

  - Expanding contract research and consulting services. The demand for consulting services has increased steadily (approximately four to six projects in progress at any one time) due to clinical scientists' requests for studies from their pre-clinical colleagues who do not have the time to conduct the requested study. Management stated that sometimes once a contract is completed, one or two new consulting contracts are signed. Consulting studies serve as a marketing tool and help build and strengthen customer relationships. Further evidence of strategic growth is the company's revenue pipeline of consulting studies and services reached $301,000 in 2Q10 (we estimated 2Q10 consulting revenue of $250,000). In 2Q09, consulting services revenue was $62,000.

  - Hiring additional professionals. Each new hire has the potential to bring in new customers due to their knowledge and interaction with scientists, assist in product development, and increase the capacity to conduct consulting studies and funded collaborations.

  - Expanding its simulation software offering outside of the pharmaceutical industry. The Environmental Protection Agency has licensed one of the company's software offerings, suggesting that the environmental toxicology area may be a large potential new market.

  - Seeking to complete strategic accretive acquisitions in order to enhance and expand the product portfolio, as well as new collaborations.

  - Examining additional Small Business Innovation Research (SBIR) opportunities. The 2009 stimulus package of the U.S. has the potential to provide monies to fund additional grant opportunities.

- **Words+ subsidiary:**
  - Continuing product improvement and intensify marketing and sales efforts.
  - Utilizing added staff to process prior authorizations and accounts receivables more quickly in order to collect old receivables from state Medicaid agencies.
  - Leveraging the work this subsidiary has done over the years. The company announced that an eyegaze product is under production and sales will commence by the end of April 2010.
  - Looking for potential SBIR funding opportunities that fit the subsidiary's expertise.

Outlook

We believe the company's primary simulation software products (GastroPlus™, ADMET Predictor/Modeler™, DDDPlus™, and ClassPharmer™) will continue 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 and small conferences around the world and an increase in the company's sales personnel. Company staffers have been speakers or presenters at over 50 scientific meetings worldwide during the past five years. During calendar 2009 SLP attended and spoke at two to three times as many conferences, shows, and meetings as compared to the prior year. This marketing push has driven its sales lead pipeline well above what was accomplished last year. The company's plan for calendar 2010 is to maintain a level of visibility as high as it was in 2009. This means that sales growth should continue into FY2011. The plan for the third quarter 2010 is to attend at least 15 conferences, twice the number attended in the year earlier quarter.

The company's sales cycle for its pharmaceutical software products tends to average about six months. Customers frequently need to evaluate software and then obtain approvals from multiple decision makers prior to the purchase order being placed. In the current economic environment the sales cycle tends to be longer then the six-month average, as budget tightening at pharmaceutical companies has resulted in software usage audits as a condition to purchase of a software license. The company indicated that once a customer purchases a license, the renewal rate in the following year is in excess of 90%.

In January 2010, SLP launched a solubility database (a new product for license) that assists pharmaceutical scientists in estimating the effects of physiological fluids on the solubility of drug-like molecules. SLP is likely to conduct additional experiments in other areas in order to build more databases for license. While no sales occurred in 2Q10, SLP began receiving company and government agency inquiries that are typically a prelude to generating sales.

Projections

Operations

We project sales for fiscal 2010 to grow by 21.4% to $11.1 million (prior was $10.5 million). The increase of $0.6 million in our forecast is due to 1H10 results exceeding our forecast and the anticipated effects of price increases implemented in 2Q10 for the company's pharmaceutical software products. Our sales projection reflects an improving economic environment, successful conversion to licenses of leads garnered over the last nine months, increased budgets for pharmaceutical and biotechnology companies in 2010, and a 30% increase in consulting services revenue that should result from pharmaceutical companies outsourcing the analysis of clinical data.

For FY10, we project sales growth for simulations software products and services of 29.6% (to approximately $8.2 million). We project a sales increase of approximately 3.3% for Words+ to $2.9 million; comparisons will be easier, as SLP is past the year-earlier date of the large order obtained in fiscal 2008 from a U.K. distributor.

We project FY2011 sales of $12.7 million (prior was $11.9 million), which should be supported by a 19% gain in simulations software products and services to $9.7 million. We project a sales increase of approximately 1.9% (to $3 million) for the Words+ subsidiary. The growth we forecast is based on a 90%+ customer retention rate, a full year of software price increases, increased usage of the company's consulting services, and new customers resulting from the increased marketing efforts at more conferences and meetings worldwide.

The table below illustrates the cost structure (which incorporates higher aggregate marketing expenses) we anticipate for fiscal 2010 and fiscal 2011, versus actual results achieved in fiscal 2009.

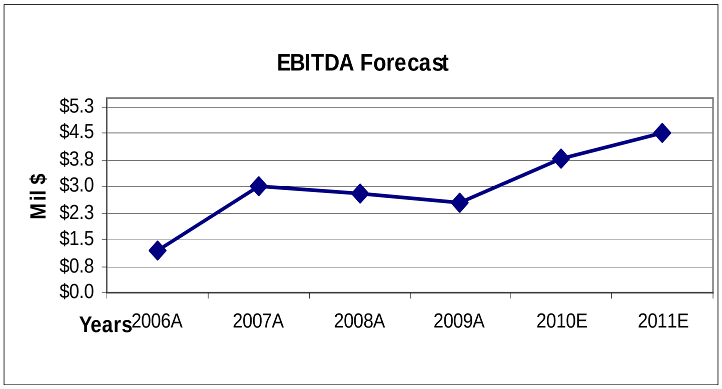
Cost Structure

	2009A	2010 E		2011 E	
	Actual	Prior	Revised	Prior	Revised
Gross Margin	74.6%	73.6%	75.2%	74.4%	75.6%
SG&A expenses (as a Percent of Sales)	42.6%	39.5%	38.4%	39.3%	37.6%
Research and Development (as a Percent of Sales)	12.2%	9.5%	9.1%	8.7%	8.0%
Operating Margin	19.8%	24.6%	27.7%	26.4%	29.9%
Tax rate	30.3%	35.2%	36.5%	35.2%	35.6%
Pre-tax Margin	22.2%	26.1%	29.6%	27.2%	31.2%

Source: Taglich Brothers Estimates and company reports

We project greater gross margin expansion than we previously estimated due primarily to increased sales of the higher margin simulations software and services products.

Based on our sales and cost structure estimates, we project FY10 and FY11 EBITDA (defined as operating income plus depreciation and amortization of property, equipment, and capitalized software development, and stock-based compensation) of $3.8 million (prior estimate was $3.3 million) and $4.5 million (prior was $3.8 million) respectively (see chart – right for historic numbers and projections through FY11).



Our revised net income projection for fiscal 2010 is $2.1 million or $0.13 per share (prior estimate was $1.8 million or $0.11 per diluted share). We project FY11 net income of $2.5 million or $0.16 per share (prior was i$2.1 million or $0.13 per share).

Our EPS forecasts are based on average shares of approximately 16.6 million and 16.4 million, respectively. Our average share projections are based on a newly authorized share repurchase program for one million shares over a 12-month period beginning February 15, 2010.

Finances

For FY10, we project cash earnings and cash generated from operations of $2.9 million and $2.8 million (versus $2.4 million and $2.5 million respectively, in 2009). As in the prior two years, working capital needs will decrease slightly (by $76,000 projected for 2010 versus $115,000 in 2009 and $55,000 in 2008) primarily due to an increase in deferred revenue. Changes in all other current accounts are projected to offset one another. Cash at the end of FY10 should increase by $1.6 million to $9 million, even after nearly $0.5 million of common stock repurchased during the first quarter of fiscal 2010, as well as our projection of shares to be repurchased during the third and fourth quarters of FY10.

For FY11, we project cash earnings and cash generated from operations of $3.4 million, respectively (versus $2.9 million and $2.9 million forecasted for FY10). Working capital needs will decrease slightly (by $28,000 projected for 2011) primarily due to an increase in deferred taxes. Changes in all other current accounts are projected to offset one another. Cash at the end of FY11 should increase by $2.2 million to $11.2 million, even after our forecast of share repurchases of nearly $0.6 million during the first half of FY11.

Based on our cash flow projections through FY11, we believe the company has the cash and operational strength to repurchase common shares, fund and grow operations (organically and through small asset purchases and acquisitions) for at least the next twelve-months.

Financial Results

For the three-month period ended February 28, 2010, versus the same period last year:

- Sales grew to nearly $3.0 million from $2.5 million. Taglich Brothers estimated net sales of $2.6 million.
- Gross margin was 76.3% versus 74.5%.
- SG&A expenses increased to $1.1 million from $1.0 million.
- Research and development expenses decreased to $252,098 from $286,115.
- Operating income increased to $0.9 million from $0.5 million.
- Net income was approximately $0.6 million, or $0.04 per share versus net income of $0.4 million or $0.03 per share. Taglich Brothers estimated net income of $0.4 million or $0.03 per share.

In 2Q10 the pharmaceutical software and services segment drove the 20.1% sales increase to $3 million. Pharmaceutical software and services growth of 25.2% to $2.2 million was primarily due to study contracts sales, software licenses to new customers, licensing of new modules to existing customers, increases in number of licenses with existing customers, a contribution from grant revenue, a price increase in the second half of the quarter, and a reduction in software discounts. The Words+ subsidiary's growth of 6.6% to $723,000 due to higher sales of the MessageMates product to its Japanese distributor and higher domestic sales of the Conversa product with preloaded Say-it! SAM software.

Gross margin expanded by 180 basis points primarily due to higher margin pharmaceutical sales comprising a larger portion of sales (76% vs. 72% in 2Q09), in spite of the systematic amortization of capitalized software development and royalty costs, which in 2Q10 increased by $52,000 vs. the prior period last year. Gross margin expansion was offset in part by the Words+ subsidiary tilt towards lower margined products. Also, pharmaceutical software typically experiences

SG&A expenses increased by $52,000 to $1.1 million, due to travel expenses, advertising costs, consultant fees, commissions, bonuses, and salaries and payroll related expenses.

R&D expenditures totaled $509,000 of which $257,000 was capitalized. In the prior year, $152,000 out of $438,000 in R&D expenditures was capitalized. The aggregate increase was due to hiring of contractors, salary of a new hire, and salary increases to existing staff.

Other income for 2Q10 increased to $66,000 from $52,000 in 2Q09 due to an increase in gains on currency exchange and a higher cash balances. The company anticipates based on current information that the tax rate for the full year of 2010 to be in the range of 34% – 37%. Where it falls within that range will depend on the amount of R&D tax credits generated.

1H10 net sales grew to $5.4 million from $4.6 million. In the 1H10, pharmaceutical software sales and services increased by $753,000 with Words+ increasing by $44,000.

Gross profit expanded to $4.1 million from $3.4 million as the increase in higher margin software sales offset the rise in lower margin sales of the Words+ subsidiary.

Operating expenses expanded by 4.5% from the 1H09 to support sales grow. Net income growth (see table to right) reflects the leveraging potential of pharmaceutical software sales.

	6 Mos. '10	6 Mos. '09	% Δ
Net sales	$ 5,387	$ 4,590	17.4%
Gross Profit	4,079	3,403	19.9%
Total Operating Expenses	2,607	2,494	4.5%
EBITDA	1,842	1,257	46.5%
Operating Income (loss)	1,473	909	62.1%
Total Other Income (expense)	162	103	57.1%
Pre-Tax Income (loss)	1,635	1,012	61.6%
Income Tax Expense (Benefit)	564	332	70.0%
Tax Rate			
Net income (loss)	1,071	680	57.5%
Earnings per share	$0.06	$0.04	50.0%
Avg Shares Outstanding	16,479	17,312	
Margin Analysis			
Gross margin	75.7%	74.1%	
Operating margin	27.3%	19.8%	
Pre-tax margin	30.4%	22.0%	

Source: company reports

Finances

1H10 cash earnings was $1.5 million and cash generated from operations was $1.9 million. Working capital needs decreased by $0.4 as deferred income and accounts payable increased; changes in most other current assets offset one another. Investing activity consisted mainly of $456,000 in capitalized computer software development costs. Cash increased by $1.2 million to $8.6 million despite the repurchase of $0.3 million in common stock.

In 2Q10 cash earnings was $880,000 and cash generated from operation was $902,000. Working capital needs decreasing by $22,000. Investing activity consisted mainly of computer software development expenditures of $255,000. Cash at the end of 2Q10 grew by $668,000 to $8.6 million.

On January 20, 2010, SLP announced the renewal of a share repurchase program of up to one million shares during a 12-month period beginning February 15, 2010. The company is not obligated to repurchase shares; however, share repurchased will depend on the performance of its stock price, general market conditions, and securities laws. The repurchase program is not expected to interfere with potential acquisitions.

Risks

Technology

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.

Shareholder Control

We estimate that Walter Woltosz, the company's co-founder, chairman of the board, president, and CEO, and Virginia Woltosz, the company's co-founder, corporate secretary, and treasurer, own approximately 42.3% of the outstanding voting stock (based on shares outstanding as of April 14, 2019 and a Form 4 filing with the SEC on March 11, 2010). Walter and Virginia Woltosz should be able to control the outcome, or greatly influence the outcome, on all matters requiring stockholder approval, which may or may not be in the best interests of the other shareholders.

Intellectual Property Rights

Third parties may infringe or misappropriate IP 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

On January 1, 2001, Medicare began funding augmentative communication devices for the first time. Over the company's 30-year history, the trend has been toward increased 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 subsidiary's products will continue to meet the requirements imposed for funding of such devices.

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 2009 was 20,814 a day. During the first three months of 2010 average daily volume increased to 37,989. Investors need to be aware that by nature a thinly traded equity can have significant price volatility.

Simulations Plus, Inc.
Consolidated Balance Sheets
August 31, FY2008 –FY2011E
(in thousands)

	2007A	2008A	2009A	2Q10A	2010E	2011E
ASSETS						
Current assets:						
Cash	$ 4,538	$ 5,890	$ 7,474	$ 8,641	$ 9,043	$ 11,220
Accounts receivable, net	2,060	2,105	1,889	1,647	2,220	2,506
Contracts receivable, net	47	-	80	383	-	-
Inventory	231	342	326	336	344	362
Deferred tax	241	318	339	330	300	150
Prepaid expense and other current assets	74	195	159	111	139	146
Total current assets	**7,191**	**8,850**	**10,265**	**11,448**	**12,046**	**14,383**
Investments	-	750	-	-	-	-
Capitalized computer software development costs, net	1,528	1,789	1,943	2,083	1,920	1,950
Property and Equipment, net	90	103	53	48	48	47
Contracts receivable	-	-	-	-	-	-
Customer relationships	69	43	23	16	23	25
Deferred tax	-	-	-	-	-	-
Other assets	18	18	18	18	18	15
Total assets	**$ 8,895**	**$ 11,553**	**$ 12,303**	**$ 13,613**	**$ 14,056**	**$ 16,420**
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities:						
Accounts payable	201	181	199	302	229	250
Accrued payroll and other expenses	492	537	552	614	661	743
Accrued bonuses to officers	201	60	60	60	72	76
Accrued income taxes	71	-	-	168	-	-
Accrued warranty and service costs	38	34	43	31	35	50
Current portion of deferred revenue	-	83	82	120	155	165
Other current liabilities	-	-	-	-	-	-
Total current liabilities	**1,004**	**896**	**937**	**1,294**	**1,152**	**1,284**
Deferred tax liability	-	742	795	857	800	900
Stockholders' equity:						
Common stock, no par value; authorized 20,000,000 shares;	4	5	4	5	4	4
Additional paid-in capital	5,804	6,328	5,572	5,392	5,383	5,572
Retained earnings	1,857	3,582	4,994	6,065	6,107	8,196
Total stockholders' equity	**7,665**	**9,915**	**10,571**	**11,461**	**12,103**	**14,236**
Total liabilities and stockholders' equity	**$ 8,895**	**$ 11,553**	**$ 12,303**	**$ 13,613**	**$ 14,056**	**$ 16,420**
SHARES OUT	15,761	16,297	15,700	15,700	15,559	15,284

Simulations Plus, Inc.
Annual Income Statement Model
2007 – 2011E
For the Years Ended August 31,
(in thousands)

	2007A	2008A	2009A	**2010E**	**2011E**
Net sales	8,858	8,968	9,143	**11,102**	**12,705**
Cost of sales	2,082	2,100	2,322	**2,752**	**3,100**
Gross Profit	6,776	6,868	6,822	**8,349**	**9,605**
Operating Expenses:					
Selling, general, and administrative	3,458	3,699	3,896	**4,268**	**4,780**
Research and development	815	990	1,114	**1,008**	**1,020**
Total Operating Expenses	4,273	4,690	5,010	**5,276**	**5,800**
EBITDA	3,032	2,805	2,556	**3,792**	**4,505**
Operating Income (loss)	2,503	2,178	1,812	**3,073**	**3,805**
Other income (expense)					
Interest income	114	185	94	**99**	**140**
Interest expense	(0)	(0)	-	**(0)**	-
Gain (Loss) on exhange of currency	2	83	120	**73**	-
Gain (Loss) on sale of assets	5	0	1	**43**	-
Total Other Income (expense)	122	268	215	**215**	**140**
Pre-Tax Income (loss)	2,624	2,446	2,027	**3,288**	**3,945**
Income Tax Expense (Benefit)	1,158	721	615	**1,199**	**1,405**
Release of valuation allowance	-	-	-	-	-
Tax Rate	44.14%	29.46%	30.32%	**36.48%**	**35.61%**
Net income (loss)	$ 1,466	$ 1,726	$ 1,412	**$ 2,089**	**$ 2,540**
Earnings per share -- Diluted	$ 0.08	$ 0.10	$ 0.08	**$ 0.13**	**$ 0.16**
Avg Shares Outstanding	17,957	18,141	17,188	**16,606**	**16,386**
Margin Analysis					
Gross margin	76.5%	76.6%	74.6%	75.2%	75.6%
Selling, general, and administrative	39.0%	41.2%	42.6%	38.4%	37.6%
Research and development	9.2%	11.0%	12.2%	9.1%	8.0%
Operating margin	28.3%	24.3%	19.8%	27.7%	29.9%
Pre-tax margin	29.6%	27.3%	22.2%	29.6%	31.1%
YEAR / YEAR GROWTH					
Total Revenues	51.3%	1.2%	2.0%	21.4%	14.4%
Earnings per share	92.7%	16.5%	0.3%	53.1%	23.2%

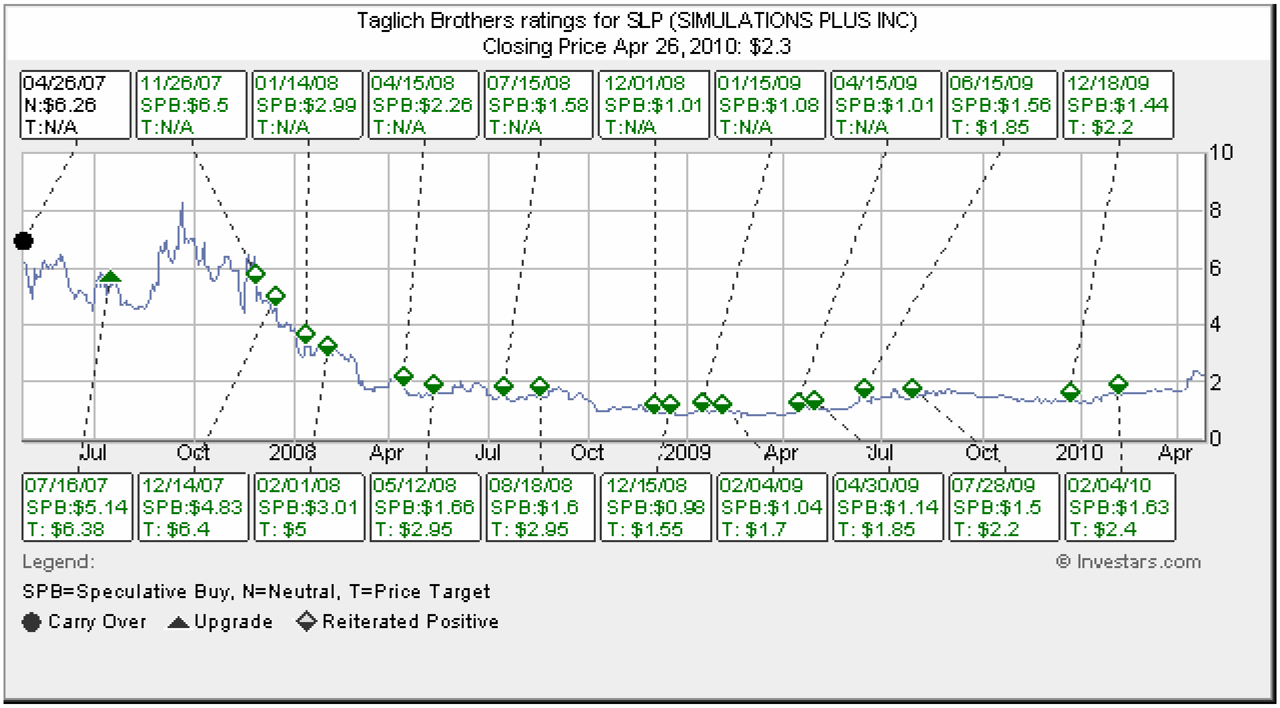
Simulations Plus, Inc.
Quarterly Income Statement Model
For the Years August 31, 2009 to 2011E
(in thousands)

	Q1 09A	Q209 A	Q3 09 A	Q4 09 A	2009A	Q1 10A	Q210A	Q3 10 E	Q4 10 E	2010E	Q1 11 E	Q2 11 E	Q3 /11 E	Q4 11 E	2011E
Net sales	2,133	2,457	2,714	1,840	**9,143**	2,437	2,950	3,035	2,680	**11,102**	2,990	3,380	3,490	2,845	**12,705**
Cost of sales	559	627	543	699	**2,428**	607	700	695	750	**2,752**	715	790	805	790	**3,100**
Gross Profit	1,575	1,830	2,170	1,141	**6,715**	1,830	2,249	2,340	1,930	**8,349**	2,275	2,590	2,685	2,055	**9,605**
Operating Expenses:															
Selling, general, and administrative	904	1,037	989	966	**3,896**	1,004	1,089	1,105	1,070	**4,268**	1,140	1,220	1,290	1,130	**4,780**
Research and development	269	286	334	118	**1,007**	261	252	250	245	**1,008**	255	255	255	255	**1,020**
Total Operating Expenses	1,173	1,323	1,323	1,084	**4,903**	1,266	1,341	1,355	1,315	**5,276**	1,395	1,475	1,545	1,385	**5,800**
EBITDA	577	680	1,026	273	**2,556**	778	1,065	1,160	790	**3,792**	1,055	1,290	1,315	845	**4,505**
Operating Income (loss)	402	507	847	56	**1,812**	565	908	985	615	**3,073**	880	1,115	1,140	670	**3,805**
Other income (expense)															
Interest income	33	20	20	21	**94**	22	24	25	28	**99**	30	33	37	40	**140**
Total Other Income (expense)	51	52	41	71	**215**	97	66	25	28	**215**	30	33	37	40	**140**
Pre-Tax Income (loss)	453	559	888	127	**2,027**	661	974	1,010	643	**3,288**	910	1,148	1,177	710	**3,945**
Income Tax Expense (Benefit)	141	191	319	(36)	**615**	231	333	375	260	**1,199**	320	405	415	265	**1,405**
Release of valuation allowance	-	-	-	-	**-**	-	-	-	-	**-**	-	-	-	-	**-**
Tax Rate	*31.20%*	*34.13%*	*35.91%*	*-28.58%*	***30.32%***	*35.00%*	*34.19%*	*37.12%*	*40.44%*	***36.48%***	*35.17%*	*35.28%*	*35.26%*	*37.32%*	**35.61%**
Net income (loss)	$ 312	$ 368	$ 569	$ 163	**$ 1,412**	$ 430	$ 641	$ 635	$ 383	**$ 2,089**	$ 590	$ 743	$ 762	$ 445	**$ 2,540**
Earnings per share -- Diluted	$ 0.02	$ 0.02	$ 0.03	$ 0.01	**$ 0.08**	$ 0.03	$ 0.04	$ 0.04	$ 0.02	**$ 0.13**	$ 0.04	$ 0.05	$ 0.04	$ 0.03	$ 0.16
Avg Shares Outstanding	17,517	17,108	16,926	17,200	**17,188**	16,775	16,558	16,550	16,540	**16,606**	16,495	16,345	16,350	16,355	**16,386**
Margin Analysis															
Gross margin	73.8%	74.5%	80.0%	62.0%	**73.4%**	75.1%	76.3%	77.1%	72.0%	**75.2%**	76.1%	76.6%	76.9%	72.2%	75.6%
Selling, general, and administrative	42.4%	42.2%	36.5%	52.5%	**42.6%**	41.2%	36.9%	36.4%	39.9%	**38.4%**	38.1%	36.1%	37.0%	39.7%	37.6%
Research and development	12.6%	11.6%	12.3%	6.4%	**11.0%**	10.7%	8.5%	8.2%	9.1%	**9.1%**	8.5%	7.5%	7.3%	9.0%	8.0%
Operating margin	18.8%	20.6%	31.2%	3.1%	**19.8%**	23.2%	30.8%	32.5%	22.9%	**27.7%**	29.4%	33.0%	32.7%	23.6%	29.9%
Pre-tax margin	21.2%	22.7%	32.7%	6.9%	**22.2%**	27.1%	33.0%	33.3%	24.0%	**29.6%**	30.4%	34.0%	33.7%	25.0%	31.1%
YEAR / YEAR GROWTH															
Total Revenues	7.5%	12.0%	(8.6%)	0.2%	**2.0%**	14.2%	20.1%	11.8%	45.7%	**21.4%**	22.7%	14.6%	15.0%	6.2%	14.4%

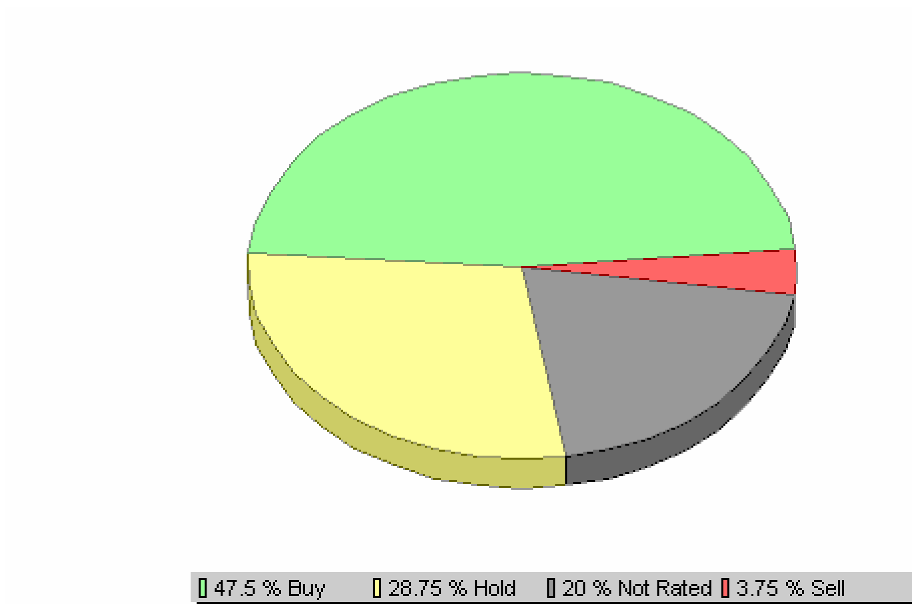
Simulations Plus, Inc.
Cash Flow Statement
(in thousands)

	FY2007A	FY2008A	FY2009A	1H10A	**FY2010E**	**FY2011E**
Cash Flows from Operating Activities						
Net Income (loss)	$ 1,466	$ 1,726	$ 1,412	$ 1,071	**$ 2,089**	**$ 2,540**
Depreciation and amortization of property and equipment	51	51	22	13	**24**	**25**
Amortization of capitalized software development	430	467	519	316	**375**	**400**
Amortization of customer relationships	32	26	20	8	**175**	**200**
Bad debt expense	63	63	220	70	**-**	**-**
Stock-based compensation	17	90	183	32	**200**	**250**
Contribution of equipment at book value	1	-	-	-	**-**	**-**
Loss on sale of assets	(4)	-	-	(1)	**(1)**	**-**
	2,055	2,422	2,376	1,509	**2,862**	**3,415**
Changes In:						
Accounts receivable	(351)	(60)	(83)	(107)	**(331)**	**(285)**
Inventory	6	(93)	88	(10)	**(18)**	**(18)**
Deferred tax	1,087	437	33	71	**39**	**150**
Other assets	8	(122)	37	48	**20**	**(7)**
Accounts payable	(14)	(20)	18	102	**30**	**20**
Accrued payroll and other expenses	127	46	15	61	**108**	**83**
Accrued bonuses to officers	103	(141)	-	-	**12**	**4**
Income taxes	70	(71)	-	168	**-**	**-**
Accrued warranty and service costs	3	(4)	9	(13)	**(8)**	**15**
Deferred revenue	(129)	83	(1)	38	**73**	**10**
Net Changes in Working Capital	909	55	115	359	**(76)**	**(28)**
Net cash Provided by Operations	2,964	2,477	2,492	1,868	**2,786**	**3,387**
Cash Flows from Investing Activities						
Purchase of property and equipment	(48)	(82)	(45)	(32)	**(25)**	**(25)**
Investment in securities	-	(750)	750	-	**-**	**-**
Purchases of Bioreason's assets	-	-	-	-	**-**	**-**
Capitalized computer software development costs	(583)	(728)	(674)	(456)	**(800)**	**(685)**
Proceeds from sale of assets	7	-	-	-	**-**	**-**
Cash Flows from Investing Activities	(624)	(1,560)	32	(488)	**(825)**	**(710)**
Cash Flows from Financing Activities						
Repurchase of common stock	-	-	(1,064)	(289)	**(491)**	**(600)**
Proceeds from the exercise of stock options	513	435	125	76	**100**	**100**
Net cash provided by Financing	513	435	(940)	(213)	**(391)**	**(500)**
Net change in Cash	2,853	1,352	1,584	1,168	**1,570**	**2,177**
Cash Beginning of Period	1,685	4,538	5,890	7,474	**7,474**	**9,043**
Cash End of Period	$ 4,538	$ 5,890	$ 7,474	$ 8,641	**$ 9,043**	**$ 11,220**

Price Chart



Taglich Brothers Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months

Rating	#	%
Buy	1	3.57%
Hold	1	3.33%
Sell	0	0
Not Rated	0	0

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Public Companies mentioned in this report:

GlaxoSmithKline	(NYSE: GSK)
Pfizer Inc.	(NYSE: PFE)
Roche	(Other OTC: RHHBY)

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 thecompany 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.