



# TAGLICHBROTHERS

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## 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

July 27, 2010

**SLP \$2.46 — (NasdaqCM)**

	2008 A	2009 A	2010 E	2011 E
Net sales (in millions)	\$9.0	\$9.1	<b>\$11.1</b>	<b>\$12.6</b>
Earnings per share	\$0.10	\$0.08	<b>\$0.13</b>	<b>\$0.16</b>

52-Week range	\$2.60 – \$1.30	Fiscal year ends:	August
Shares outstanding a/o 07/12/10	15.8 million	Revenue/shares (ttm)	\$0.61
Approximate float	5.0 million	Price/Sales (ttm)	4.0X
Market Capitalization	\$39 million	Price/Sales (2011)E	3.2X
Tangible Book value/shr	\$0.81	Price/Earnings (ttm)	20.5X
Price/Book	3.0X	Price/Earnings (2011)E	15.4X

*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](http://www.simulations-plus.com)*

#### Key Investment Considerations:

*We are reiterating our Speculative Buy rating on Simulations Plus, Inc. (AMEX: SLP) and maintaining our 12-month price target of \$3.35 per share. Our price target is based on a P/E multiple of 21X applied to the estimated \$0.16 per share we forecast for the next four quarters.*

*The pharmaceutical and biotechnology industries search for productivity tools as its workforce shrinks has led Simulations Plus to intensify its marketing of drug discovery and development software at scientific conferences and institute a price increase in 2Q10.*

*On July 15, 2010, SLP reported 3Q10 sales growth of nearly 15% to \$3.1 million and a \$0.2 million rise in net income to \$0.7 million or \$0.04 per share. The year-over-year increases were due to 17% growth in sales of higher margin pharmaceutical software and services. Results exceeded our sales forecast by \$84,000 and our net income projection by \$105,000.*

*For FY10, we project EPS of \$0.13 on sales of \$11.1 million, unchanged from our prior forecast. Our projections reflect 3Q10 sales gains and 2Q10 price increases for the company's pharmaceutical software offerings.*

*We project FY11 EPS of \$0.16 on sales of \$12.6 million. The growth we forecast versus our FY10 forecasts are based on an average 90% customer retention rate, a full year of price increases, new customers attracted during the company's participation in conferences, and the release in 4Q10 of GastroPlus™ version 7.*

**Please view our Disclosures pages 13 - 15**

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## ***Recommendation***

**We are reiterating our Speculative Buy rating on Simulations Plus, Inc. (NasdaqCM: SLP), as we forecast positive growth trends (EPS growth in excess of 22%) for the three-year period through FY11.**

Intensive marketing of the company's pharmaceutical software offerings at scientific conferences, 2Q10 price increases, and the 4Q10 release of GastroPlus™ version 7 should fuel growth through fiscal 2011.

We are maintaining our 12-month price target of \$3.35 per share. The application and business software and services industries' trailing 12-month EPS multiple is 23.8X. The company's current forward P/E multiple is 15.5X. We believe a P/E multiple of 21X, applied to our EPS estimate of \$0.16 for the next four quarters can be achieved over the next 12-months. The \$3.35 per share price target implies potential price appreciation of nearly 37%

**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™; MedChem Studio™ (formerly 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 introduced EyePro™, an eyegaze product that allows people to operate a computer or communication device by looking at the screen.

**Software Offerings**

<b>Software Offerings</b>	<b>Description</b>	<b>Updated Developments</b>
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.	Version 5 released on July 27, 2010. Incorporates rapid calculation of quantum level descriptors.  Working on identification of atoms in a molecule most likely to be affected by metabolism by certain enzymes.
MedChem Studio™ (Formerly ClassPharmer™)	This offering is designed for medicinal and computational chemists for data mining and for designing new drug-like molecules. Provides molecule design capabilities for chemists to rapidly generate large numbers of novel chemical structures based on intelligence from compounds that have already been synthesized and tested. Being used by customers in the US, Europe, Japan, and India including multiple licenses at the FDA.	Next version will be released in 4Q10. In April 2010 data generated from the new release was part of a scientific poster presented at the ADMET 2010 conference in Munich and a scientific conference in England in July 2010.
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 (including multiple licenses at the FDA), Europe, and Japan.	Version 7.0, to be released by August 2010 and will contain new capabilities for: <ul style="list-style-type: none"> <li>- Drug-to-drug interaction</li> <li>- Ocular drug delivery</li> <li>- Nasal/pulmonary drug delivery</li> </ul> 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.

Over the next five years the pharmaceutical industry is likely to see imbalances develop between new product introductions and patent losses. According to IMS Health, this is the main reason global pharmaceutical market growth is likely to be 5%-8% through 2014. During the next few year's products that currently generate more than \$142 billion in sales can expect to face generic competition (i.e., Lipitor, Plavix and Zyprexa).

This should cause companies to find way of increasing productivity, since they will most likely be forced to reduce their staff.

According to IBISWorld, this is a mature industry and by 2015 the number of companies are expected to fall to approximately 2,600 from approximately 3,000 in 2010. This in turn will mean job cuts resulting in declining employment through 2015 at a rate of 1.2% per year on average. IBISWorld's research indicates that over the past several years it has been widely recognized throughout the industry that the productivity of research and

development expenditures has declined in recent years; that is, the number of new drugs being produced has generally declined, while research and development expenditures have been steadily increasing.

Indications of declining R&D productivity support 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 from its 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 had 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 4Q10, the company has three conferences and one workshop planned.

In addition to pursuing 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.

- 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.
- Using its predictive modeling software to design new molecules for a specific protein targets and then pay a third party to make the molecule(s) and run tests to assess the predictive value of the simulation software. The estimated cost per target is \$50,000 to \$100,000. That relatively small investment could pay dividends through licensing the molecule, if the company is able to pick a target that the pharmaceutical companies desire and have not yet had success with.
- Hiring additional professionals. Each new professional hired 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 to the environmental toxicology sector. The Environmental Protection Agency has licensed one of the company's software offerings, suggesting that the 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. In 3Q10, EyePro, a product that allows people to operate a computer or communication device by looking at the screen, was introduced.
- 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 has executed its plan to maintain the same visibility in calendar 2010 it had in calendar 2009. This means that sales growth should continue into FY2011.

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. Over the past year the sales cycle has tended to be longer than the six-month average, as budget tightening at pharmaceutical companies 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 approximately 90%.

### ***Projections***

#### *Operations*

Our sales projection FY10 is unchanged from our prior forecast of 21.4% growth to \$11.1 million. With 3Q10 slightly exceeding our forecast, the company should be able to meet our full year projection. Our projected sales growth reflects successful conversion of leads garnered over the last year, increased research and development 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 28.7% (to approximately \$8.12 million). We project a sales increase of approximately 5% for Words+ to nearly \$3 million; comparisons should be easier, as SLP is past the year-earlier date of the large order obtained in fiscal 2008 from a U.K. distributor and EyePro sales begin in 4Q10.

We project FY2011 sales of \$12.6 million, only a slight decrease from our prior forecast of \$12.7 million. The 13.5% year-over-year growth we project should be supported by an 18% gain in simulations software products and services to \$9.6 million. We project a sales increase of approximately 1.7% (to just over \$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.

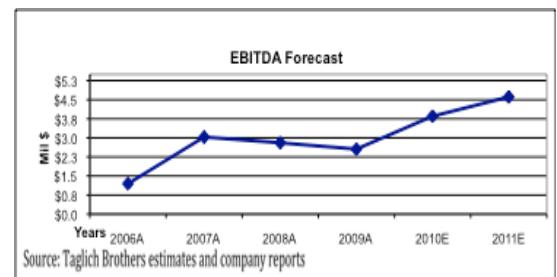
**Cost Structure**

	2009A	2010 E		2011 E	
	Actual	Prior	Revised	Prior	Revised
<b>Gross Margin</b>	74.6%	75.2%	75.3%	75.6%	76.0%
<b>SG&amp;A expenses (as a Percent of Sales)</b>	42.6%	38.4%	38.3%	37.6%	37.3%
<b>Research and Development (as a Percent of Sales)</b>	12.2%	9.1%	8.9%	8.0%	7.7%
<b>Operating Margin</b>	19.8%	27.7%	28.2%	29.9%	31.0%
<b>Tax rate</b>	30.3%	36.5%	34.3%	35.6%	35.0%
<b>Pre-tax Margin</b>	22.2%	29.6%	30.2%	31.2%	31.8%

Source: Taglich Brothers Estimates and company reports

We project gross margin to expand slightly more than previously anticipated for FY11 primarily due 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 \$3.9 million and \$4.6 million, respectively. (see chart – right for historic numbers and projections through FY11).



We project net income for FY10 unchanged from our prior forecast of \$2.2 million or \$0.13 per share. For FY11 we project net income of \$2.6 million or \$0.16 per share.

Our EPS forecasts are based on average shares of approximately 16.8 million and 16.6 million, respectively, for FY10 and FY11. 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 \$3.0 million and \$2.9 million (versus \$2.4 million and \$2.5 million respectively, in 2009). As in the prior two years, working capital needs will increase slightly (by \$73,000 projected for 2010 versus \$115,000 in 2009 and \$55,000 in 2008) primarily due to changes in accounts receivables and income taxes. Changes in all other current accounts are projected to offset one another. Capital expenditures will consist mostly comprised of capitalized computer software development costs. Cash at the end of FY10 should increase by nearly \$1.3 million to \$8.8 million, even after nearly \$0.9 million of common stock repurchased in FY10.

For FY11, we project cash earnings and cash generated from operations of \$3.5 million, respectively (versus \$2.9 million and \$3.0 million forecasted for FY10). Working capital needs will increase slightly by \$13,000 projected for 2011. Cash at the end of FY11 should increase by \$2.3 million to \$11 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 3Q10, versus the same period last year:

- Sales grew to \$3.1 million from \$2.7 million. Taglich Brothers estimated net sales of \$3 million.
- Gross margin was 77.6% versus 80%.

## Simulations Plus, Inc.

- SG&A expenses increased to \$1.1 million from \$1.0 million.
- Research and development expenses decreased to \$234,318 from \$294,284.
- Operating income increased to \$1.1 million from \$0.8 million.
- Net income was \$740,113, or \$0.04 per share versus net income of \$569,133 or \$0.03 per share. Taglich Brothers estimated net income of \$635,000 million or \$0.04 per share.

In 3Q10 the pharmaceutical software and services segment drove the 14.9% sales increase to \$3.1 million. Pharmaceutical software and services growth of 17.1% to \$2.3 million was primarily due to new licenses, the impact of price increases on existing customers, the licensing of new modules to existing customers, and grant revenue. Offsetting the increase to a small degree was reduced revenue from contract studies as two major contracts were completed. The Words+ subsidiary's growth of 9.1% to \$794,000 was due to higher sales of the Conversa product with preloaded "Say-it! SAM" software.

Gross margin contracted by 240 basis points primarily due to an increase in the systematic amortization of capitalized software development and royalty costs, which in 3Q10 increased by \$82,000 from the same period last year. Words+ also contributed to gross margin contraction, as the Conversa product is a lower margin product.

SG&A expenses increased by \$129,000 to \$1.1 million due to investor relations, salaries and payroll related expenses, and travel and commissions from the Words+ subsidiary.

R&D expenditures totaled \$468,000 of which \$234,000 was capitalized. In the prior year, \$138,000 out of \$432,000 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 3Q10 increased to \$44,000 from \$41,000 in 3Q09 due to an increase in gains on currency exchange and higher cash balances. The company anticipates based on current information that the tax rate for 4Q10 will be in the range of 34% – 36%, depending on the amount of R&D tax credits generated.

For the first nine months of 2010 sales grew to \$8.5 million from \$7.3 million. Pharmaceutical software sales and services increased by \$1,093,000 with Words+ revenue increasing by \$110,000.

Gross profit expanded to \$6.5 million from \$5.5 million as the increase in higher margin software sales offset the rise in lower margin sales of the Words+ subsidiary.

Operating expenses expanded by 4.7% from the first nine months of 2009 to support sales grow. Net income growth (see table to right) reflects the leveraging potential of pharmaceutical software sales.

	9 Mos. '10	9 Mos. '09	% Δ
Net sales	\$ 8,506	\$ 7,304	16.5%
Gross Profit	6,499	5,535	17.4%
Total Operating Expenses	3,958	3,779	4.7%
EBITDA	3,090	2,283	35.3%
Operating Income (loss)	2,541	1,756	44.7%
Total Other Income (expense)	207	144	43.3%
Pre-Tax Income (loss)	2,747	1,900	44.6%
Income Tax Expense (Benefit)	936	651	43.9%
<i>Tax Rate</i>			
Net income (loss)	1,811	1,249	45.0%
Earnings per share	\$0.11	\$0.07	57.1%
Avg Shares Outstanding	16,500	17,194	
Margin Analysis			
Gross margin	76.4%	75.8%	
Operating margin	29.9%	24.0%	
Pre-tax margin	32.3%	26.0%	
Source: company reports			

### Finances

For the first nine months of FY10 cash earnings reached \$2.5 million and cash generated from operations was \$2.6 million. Working capital needs decreased by \$98,000 due to changes in deferred revenue and income taxes, offset by accounts receivables. Investing activity consisted mainly of \$690,000 in capitalized computer software development costs. Cash increased by \$1.1 million to \$8.6 million despite the repurchase of \$882,000 in stock.

In 3Q10 cash earnings totaled \$1 million and cash generated from operation was \$0.7 million. Working capital needs decreasing by \$260,000. Investing activity consisted mainly of computer software development expenditures of \$234,000.

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. Between April 1, 2010 and May 31, 2010 the company repurchased 257,077 shares at an average price of nearly \$2.31. 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 42.7% of the outstanding voting stock (based on shares outstanding as of July 12, 2010 and a Form 4 filing with the SEC on May 13, 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 on 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 six months of 2010 average daily volume increased to 43,550. Investors need to be aware that by nature a thinly traded equity can have significant price volatility.



Simulations Plus, Inc.  
Consolidated Balance Sheets  
FY2007 –FY2011E  
(in thousands)

	2007A	2008A	2009A	2Q10A	2010E	2011E
<b>ASSETS</b>						
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
<b>Total current assets</b>	<b>7,191</b>	<b>8,850</b>	<b>10,265</b>	<b>11,448</b>	<b>12,046</b>	<b>14,383</b>
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
<b>Total assets</b>	<b>\$ 8,895</b>	<b>\$ 11,553</b>	<b>\$ 12,303</b>	<b>\$ 13,613</b>	<b>\$ 14,056</b>	<b>\$ 16,420</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>						
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	-	-	-	-	-	-
<b>Total current liabilities</b>	<b>1,004</b>	<b>896</b>	<b>937</b>	<b>1,294</b>	<b>1,152</b>	<b>1,284</b>
Deferred tax liability	-	742	795	857	800	900
<b>Stockholders' equity:</b>						
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
<b>Total stockholders' equity</b>	<b>7,665</b>	<b>9,915</b>	<b>10,571</b>	<b>11,461</b>	<b>12,103</b>	<b>14,236</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 8,895</b>	<b>\$ 11,553</b>	<b>\$ 12,303</b>	<b>\$ 13,613</b>	<b>\$ 14,056</b>	<b>\$ 16,420</b>
SHARES OUT	15,761	16,297	15,700	15,700	15,559	15,284

Simulations Plus, Inc.  
Annual Income Statement Model  
FY2007 – 2011E  
(in thousands)

	2007A	2008A	2009A	<b>2010E</b>	<b>2011E</b>
Net sales	8,858	8,968	9,143	<b>11,102</b>	<b>12,705</b>
Cost of sales	<u>2,082</u>	<u>2,100</u>	<u>2,322</u>	<u><b>2,752</b></u>	<u><b>3,100</b></u>
<b>Gross Profit</b>	<u><b>6,776</b></u>	<u><b>6,868</b></u>	<u><b>6,822</b></u>	<u><b>8,349</b></u>	<u><b>9,605</b></u>
<b>Operating Expenses:</b>					
Selling, general, and administrative	3,458	3,699	3,896	<b>4,268</b>	<b>4,780</b>
Research and development	815	990	1,114	<b>1,008</b>	<b>1,020</b>
Total Operating Expenses	<u>4,273</u>	<u>4,690</u>	<u>5,010</u>	<u><b>5,276</b></u>	<u><b>5,800</b></u>
EBITDA	3,032	2,805	2,556	<b>3,792</b>	<b>4,505</b>
<b>Operating Income (loss)</b>	2,503	2,178	1,812	<b>3,073</b>	<b>3,805</b>
Other income (expense)					
Interest income	114	185	94	<b>99</b>	<b>140</b>
Interest expense	(0)	(0)	-	<b>(0)</b>	-
Gain (Loss) on exchange of currency	2	83	120	<b>73</b>	-
Gain (Loss) on sale of assets	<u>5</u>	<u>0</u>	<u>1</u>	<u><b>43</b></u>	<u>-</u>
Total Other Income (expense)	<u>122</u>	<u>268</u>	<u>215</u>	<u><b>215</b></u>	<u><b>140</b></u>
<b>Pre-Tax Income (loss)</b>	2,624	2,446	2,027	<b>3,288</b>	<b>3,945</b>
Income Tax Expense (Benefit)	1,158	721	615	<b>1,199</b>	<b>1,405</b>
Release of valuation allowance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Tax Rate</i>	44.14%	29.46%	30.32%	<b>36.48%</b>	<b>35.61%</b>
Net income (loss)	\$ 1,466	\$ 1,726	\$ 1,412	\$ <b>2,089</b>	\$ <b>2,540</b>
<b>Earnings per share -- Diluted</b>	<u><b>\$ 0.08</b></u>	<u><b>\$ 0.10</b></u>	<u><b>\$ 0.08</b></u>	<u><b>\$ 0.13</b></u>	<u><b>\$ 0.16</b></u>
Avg Shares Outstanding	17,957	18,141	17,188	<b>16,606</b>	<b>16,386</b>
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%

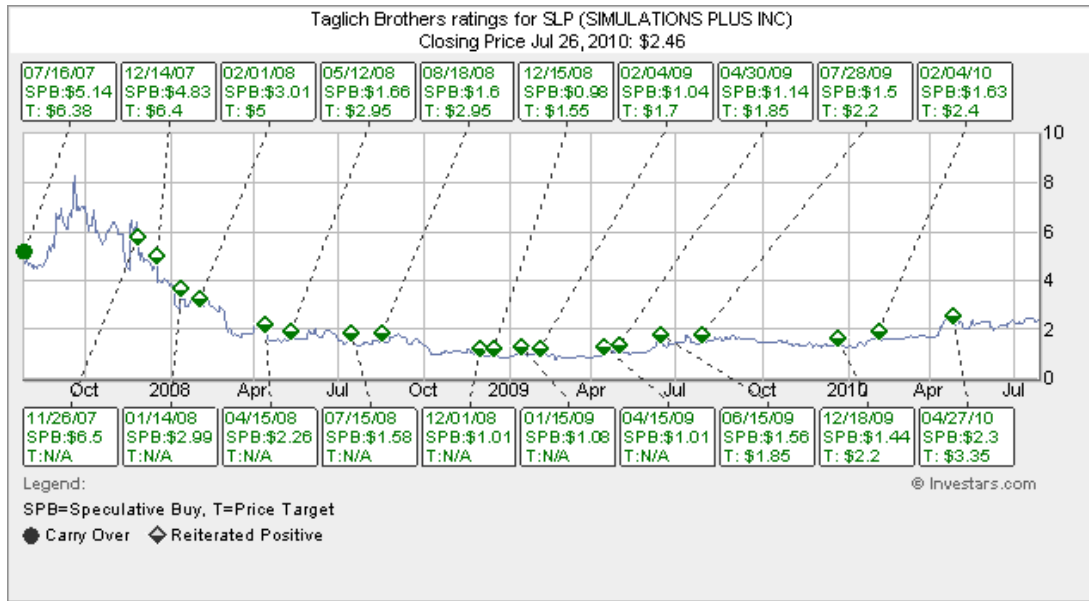
Simulations Plus, Inc.  
Quarterly Income Statement Model  
FY2009 to 2011E  
(in thousands)

	Q1 09A	Q2 09A	Q3 09A	Q4 09A	2009A	Q1 10A	Q2 10A	Q3 10A	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	3,119	2,595	11,101	2,990	3,380	3,570	2,655	12,595
Cost of sales	558,726	627	543	699	2,428	607	700	699	730	2,737	715	775	790	740	3,020
<b>Gross Profit</b>	<b>1,575</b>	<b>1,830</b>	<b>2,170</b>	<b>1,141</b>	<b>6,715</b>	<b>1,830</b>	<b>2,249</b>	<b>2,420</b>	<b>1,865</b>	<b>8,364</b>	<b>2,275</b>	<b>2,605</b>	<b>2,780</b>	<b>1,915</b>	<b>9,575</b>
<i>Gross Margins</i>	73.81%	74.47%	79.99%	62.00%	73.44%	75.10%	76.25%	77.58%	71.87%	75.35%	76.09%	77.07%	77.87%	72.13%	76.02%
<b>Operating Expenses:</b>									8167.17					9713.292	
Selling, general, and administrative	904	1,037	989	966	3,896	1,004	1,089	1,118	1,040	4,251	1,140	1,220	1,280	1,055	4,695
Research and development	269	286	334	118	1,007	261	252	234	240	988	240	240	250	240	970
Total Operating Expenses	1,173	1,323	1,323	1,084	4,903	1,266	1,341	1,352	1,280	5,238	1,380	1,460	1,530	1,295	5,665
EBITDA	577	680	1,026	273	2,556	778	1,065	1,247	760	3,850	1,070	1,320	1,425	795	4,610
<b>Operating Income (loss)</b>	<b>402</b>	<b>507</b>	<b>847</b>	<b>56</b>	<b>1,812</b>	<b>565</b>	<b>908</b>	<b>1,068</b>	<b>585</b>	<b>3,125</b>	<b>895</b>	<b>1,145</b>	<b>1,250</b>	<b>620</b>	<b>3,910</b>
<i>Operating Margin</i>	18.83%	20.63%	31.22%	3.05%	19.82%	23.16%	30.79%	34.23%	22.54%	28.16%	29.93%	33.88%	35.01%	23.35%	31.04%
Other income (expense)															
Interest income	33	20	20	21	93,874	22	24	27	25	98	25	25	25	25	100
Interest expense	-	-	-	-	-	(0)	(0)	-	-	(0)	-	-	-	-	-
Gain (Loss) on exchange of currency	18	32	20	50	120	73	-	15	-	88	-	-	-	-	-
Gain (Loss) on sale of assets and miscellaneous	0	-	1	0	1	1	42	2	-	45	-	-	-	-	-
Total Other Income (expense)	51	52	41	71	215	97	66	44	25	232	25	25	25	25	100
<b>Pre-Tax Income (loss)</b>	<b>453</b>	<b>559</b>	<b>888</b>	<b>127</b>	<b>2,027</b>	<b>661</b>	<b>974</b>	<b>1,112</b>	<b>610</b>	<b>3,357</b>	<b>920</b>	<b>1,170</b>	<b>1,275</b>	<b>645</b>	<b>4,010</b>
<i>Pre-Tax Margins</i>	21.24%	22.74%	32.72%	6.90%	22.17%	27.13%	33.01%	35.65%	23.51%	30.24%	30.77%	34.61%	35.71%	24.29%	31.84%
Income Tax Expense (Benefit)	141	191	319	(36)	615	231	333	372	215	1,151	325	410	435	235	1,405
Release of valuation allowance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income (loss)	\$ 312	\$ 368	\$ 569	\$ 163	\$ 1,412	\$ 430	\$ 641	\$ 740	\$ 395	\$ 2,206	\$ 595	\$ 760	\$ 840	\$ 410	\$ 2,605
<b>Earnings per share -- Diluted</b>	<b>\$ 0.02</b>	<b>\$ 0.02</b>	<b>\$ 0.03</b>	<b>\$ 0.01</b>	<b>\$ 0.08</b>	<b>\$ 0.03</b>	<b>\$ 0.04</b>	<b>\$ 0.04</b>	<b>\$ 0.02</b>	<b>\$ 0.13</b>	<b>\$ 0.04</b>	<b>\$ 0.05</b>	<b>\$ 0.05</b>	<b>\$ 0.02</b>	<b>\$ 0.16</b>
Avg Shares Outstanding	17,517	17,108	16,926	17,200	17,188	16,775	16,558	16,830	16,800	16,741	16,700	16,600	16,590	16,580	16,618
Margin Analysis															
Gross margin	73.8%	74.5%	80.0%	62.0%	73.4%	75.1%	76.3%	77.6%	71.9%	75.3%	76.1%	77.1%	77.9%	72.1%	76.0%
Selling, general, and administrative	42.4%	42.2%	36.5%	52.5%	42.6%	41.2%	36.9%	35.8%	40.1%	38.3%	38.1%	36.1%	35.9%	39.7%	37.3%
Research and development	12.6%	11.6%	12.3%	6.4%	11.0%	10.7%	8.5%	7.5%	9.2%	8.9%	8.0%	7.1%	7.0%	9.0%	7.7%
Operating margin	18.8%	20.6%	31.2%	3.1%	19.8%	23.2%	30.8%	34.2%	22.5%	28.2%	29.9%	33.9%	35.0%	23.3%	31.0%
Pre-tax margin	21.2%	22.7%	32.7%	6.9%	22.2%	27.1%	33.0%	35.7%	23.5%	30.2%	30.8%	34.6%	35.7%	24.3%	31.8%
Tax rate	31.2%	34.1%	35.9%	(28.6%)	30.3%	35.0%	34.2%	33.4%	35.2%	34.3%	35.3%	35.0%	34.1%	36.4%	35.0%
YEAR / YEAR GROWTH															
Total Revenues	7.5%	12.0%	(8.6%)	0.2%	2.0%	14.2%	20.1%	14.9%	41.1%	21.4%	22.7%	14.6%	14.5%	2.3%	13.5%
Earnings per share	34.8%	(30.4%)	(20.2%)	3.5%	(13.6%)	44.0%	79.9%	30.8%	147.9%	60.4%	39.1%	18.3%	3.8%	5.1%	19.0%

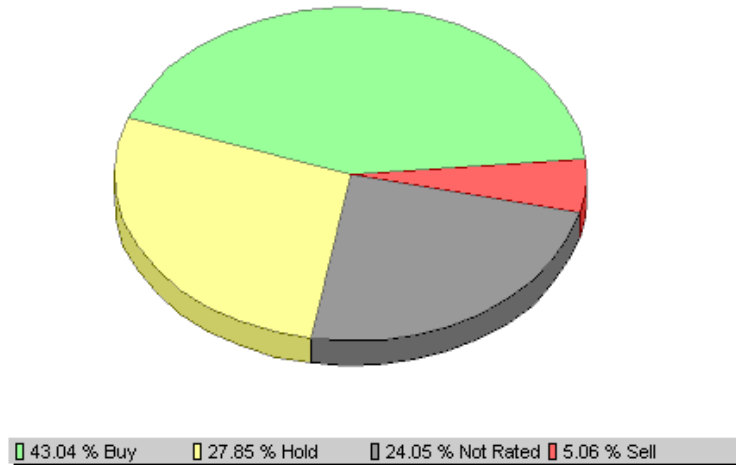
Simulations Plus, Inc.  
Cash Flow Statement  
(in thousands)

	<u>FY2007A</u>	<u>FY2008A</u>	<u>FY2009A</u>	<u>1H10A</u>	<u>FY2010E</u>	<u>FY2011E</u>
<i>Cash Flows from Operating Activities</i>						
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)	-
	<u>2,055</u>	<u>2,422</u>	<u>2,376</u>	<u>1,509</u>	<u>2,862</u>	<u>3,415</u>
<i>Changes In:</i>						
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	<u>909</u>	<u>55</u>	<u>115</u>	<u>359</u>	<u>(76)</u>	<u>(28)</u>
<b>Net cash Provided by Operations</b>	<u><u>2,964</u></u>	<u><u>2,477</u></u>	<u><u>2,492</u></u>	<u><u>1,868</u></u>	<u><u>2,786</u></u>	<u><u>3,387</u></u>
<i>Cash Flows from Investing Activities</i>						
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	-	-	-	-	-
<b>Cash Flows from Investing Activities</b>	<u><u>(624)</u></u>	<u><u>(1,560)</u></u>	<u><u>32</u></u>	<u><u>(488)</u></u>	<u><u>(825)</u></u>	<u><u>(710)</u></u>
<i>Cash Flows from Financing Activities</i>						
Repurchase of common stock	-	-	(1,064)	(289)	(491)	(600)
Proceeds from the exercise of stock options	513	435	125	76	100	100
<b>Net cash provided by Financing</b>	<u><u>513</u></u>	<u><u>435</u></u>	<u><u>(940)</u></u>	<u><u>(213)</u></u>	<u><u>(391)</u></u>	<u><u>(500)</u></u>
Net change in Cash	2,853	1,352	1,584	1,168	1,570	2,177
Cash Beginning of Period	<u>1,685</u>	<u>4,538</u>	<u>5,890</u>	<u>7,474</u>	<u>7,474</u>	<u>9,043</u>
Cash End of Period	<u><u>\$ 4,538</u></u>	<u><u>\$ 5,890</u></u>	<u><u>\$ 7,474</u></u>	<u><u>\$ 8,641</u></u>	<u><u>\$ 9,043</u></u>	<u><u>\$ 11,220</u></u>

**Price Chart**



**Taglich Brothers Current Ratings Distribution**



**Investment Banking Services for Companies Covered in the Past 12 Months**

Rating	#	%
Buy	1	3.70%
Hold	0	0
Sell	1	100%
Not Rated	0	0

### **Important Disclosures**

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### **Analyst Certification**

**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.**

### **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 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.**

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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.