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 28, 2009

SLP $1.50 — (NasdaqCM)

	FY (08/07) A	FY (08/08) A	***FY (08/09) E***	***FY (08/10) E***
Net sales (in millions)	$8.9	$9.0	***$9.8***	***$10.9***
Earnings per share	$0.08	$0.10	***$0.10***	***$0.11***

52-Week range	$2.05 – $0.79	Fiscal year ends:	August
Shares outstanding a/o 07/10/09	15.9 million	Revenue/shares (ttm)	$0.53
Approximate float	8.8 million	Price/Sales (ttm)	2.8X
Market Capitalization	$24 million	Price/Sales (2010)E	2.3X
Tangible Book value/shr a/o 05/31/09	$0.68	Price/Earnings (ttm)	18.8X
Price/Book	2.2X	Price/Earnings (2010)E	13.6X

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 reiterating our Speculative Buy rating on shares of Simulations Plus, Inc. (AMEX: SLP) and increasing our twelve-month price target to $2.20 per share (prior was $1.85 per share). The increased price target is a result of our growth expectations for sales and EBITDA and expansion of valuation multiples.

On July 16, 2009, SLP announced net sales for 3Q'09 decreased by approximately 8.6% to $2.7 million versus $3.0 million. EBITDA was $1.0 million versus $1.3 million in 3Q'08. Net income decreased to approximately $0.6 million or $0.02 per diluted share versus approximately $0.8 million or $0.03 per diluted share. The overall decrease in net sales and income was attributable to Words+ benefiting in 3Q'08 from a large order (approximately $0.3 million) for Say-it! SAM PDA kits, while no such order was received in 3Q'09 and higher operating expenses of approximately $159,000.

We are maintaining our 2009 net sales forecast of $9.8 million, since 3Q'09 results were in line with our forecast. Also, we are maintaining our EBITDA forecast of approximately $3.0 million.

However, we are adjusting our net income forecast to $1.7 million or $0.10 per diluted share (prior was $1.6 million or $0.09 per share). The adjustment to net income is based on our interpretation of management's comments during the 3Q'09 earnings conference call presentation.

Our 2010 forecast is based on sustained organic growth in tough macro economic conditions and a narrowing of expense margins. For fiscal 2010, we project net sales of $10.6 million, EBITDA of $3.5 million, and net income of $1.9 million or $0.11 per diluted share. Our prior forecast called for net sales of $10.9 million, EBITDA of $3.7 million, and net income of $2.1 million or $0.12 per diluted share.

**** Please view our disclaimer located on page 11.***

Recommendation

We reiterate our Speculative Buy rating on shares of Simulations Plus, Inc. (NasdaqCM: SLP), as we continue to forecast positive growth trends for at least through fiscal 2010.

We are increasing our twelve-month price target to $2.20 per share (prior was $1.85 per share). Our price target is based on averaging the following two valuation models (which we believe are the most appropriate) then discounting the result by 30% to account for microcap risk along with Company specific risks, as well as the current economic environment:

- A 5.1X price-to-sales multiple, which is the company's average trailing twelve-month multiple for the past 5-years, applied to our estimate of $0.63 per share for the next four quarters ending May 31, 2010;
- A 15.6X price-to-EBITDA multiple, which is the trailing twelve month multiple (as of July 27, 2009) for the Application and Business Software and Services Industry according to moneycentral.com, applied to our estimate of $0.20 per share for the next four quarters ending May 31, 2010.

The increase in our price target is due to expansion of valuation multiples expanding. The price-to-sales and price-to-EBITDA multiples were previously 3.9X and 13.8X, respectively in our prior research note published on June 15, 2009.

The Company

Simulations Plus, Inc. (NasdaqCM: SLP), based in Lancaster, California, has thirty eight employees (thirty six full-time and two part-time). Eleven employees have a Ph.D. and one is a Ph.D. candidate. Five others have 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 to predict 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 (see next page for details) – ADMET Predictor™/ADMET Modeler™; ClassPharmer™; DDDPlus™; and its flagship offering GastroPlus™. Marketing intelligence (done by the SLP) and its reorder history indicate that GastroPlus continues to enjoy a dominant position in the number of users worldwide. 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. This provided Words+ a small, light augmentative communication system, which is based on a Hewlett-Packard iPAQ personal digital assistant. Since the acquisition, the company continues to add new functionality to the SAM software and offer it on additional hardware platforms. In 3Q'08, Words+ introduced the Conversa™. SLP claims that this offering, which provides the most human-sounding synthetic speech output available in the marketplace, utilizes AT&T synthetic voices and a new custom designed Sound Pack.

Software Offerings

Software Offerings	Description	Updated Developments
ADMET Predictor™ ADMET Modeler™	The predictor component is a 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. Under a funded collaboration with Pfizer, the capability for scientists to run large molecular libraries through ADMET Predictor in order to generate the predicted dose amount that would be required to achieve an effective concentration level for each potential new drug was added. Recently added (on July 21, 2009) were 15 new predicted properties including additional models for metabolism, five models for different liver toxicities, a model for how molecules partition between water and a fatty liquid, a model for predicting the ratio of the concentration of a new molecule in whole blood compared to only in plasma, and a model that predicts the likelihood of a compound remaining in a supersaturated condition if it moves from a region of high solubility at one pH to one of lower solubility at a different pH in the gastrointestinal tract.	This offering is available for purchase via four individual modules. The company indicated that marketing and selling of individual models appears to be a successful pricing strategy.
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, reduce screening costs with more efficient follow-up screening strategies, and improve productivity with software that thinks like a medicinal chemist. Version 4.6 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 to use the information gained from those experiments to design new molecules. This offering incorporates an optional ADMET Predictor Module that provides predicted properties for new virtual molecules. This combination enables chemist to design and screen new molecules rapidly to hone in on promising new compounds.	New release will feature a new scaffold hopping feature. This feature will enable chemists to substitute the core (scaffold) portion of a molecule while retaining other atoms around the periphery. The offering currently only has the inverse capability (to replace the atoms surrounding the core). Scaffold hopping is a technique with growing interest among chemists.
DDDPlus™	The offering enables formulation scientists to predict how changes in formulation or changes in experimental setup are likely to affect dissolution rate in laboratory experiments. Version 3.0 matches the user interface in GastroPlus as closely as possible and has capabilities and expanded built-in databases for excipient (a pharmacologically inert, adhesive substance) ingredients and dissolution media.	According to management, the company's sales for its DDDPlus offering are increasing at a steady rate. This product is used by customers in the U.S., Europe, Japan, and India, including multiple licenses at the FDA.
GastroPlus™	The offering 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 heterogeneic variations in physiology and transit times. Version 6.0 provided major upgrades that included the enhanced analysis of what are called in vitro – in vivo (IVIV) correlations – the relationship between how a dosage form dissolves in the lab (in vitro) with how it dissolves in humans or animals (in vivo). A new IVICPlus™ Module provides a fast and convenient way for formulation scientists to perform IVIV correlations, both using traditional methods and with a new method the company developed that provides more accurate and useful correlations. Another improved module is PKPlus™, which enables the scientist to rapidly fit simple empirical models for how a drug behaves once it enters the body. The most recent upgrade offers the ability to predict and track the metabolites that are formed when a drug is converted into a different molecule by enzymes in the body.	The tight integration of GastroPlus and ADMET Predictor software products has enhanced the capabilities of both products, enabling chemists to automate the screening of new molecular structures to a new level. The U.S. Food and Drug Administration was one of the first organizations to order GastroPlus with the new ADMET Predictor Module. The FDA has multiple licenses for GastroPlus in a number of different divisions.

Recent Developments

On July 21, 2009, Simulations Plus announced the release of ADMET Predictor™ 4.0. This updated version includes 15 new predicted property models for metabolism, five for different liver toxicities, one for determining how molecules partition between water and a fatty liquid, a model for predicting the ratio of the concentration of a new molecule in whole blood compared to only in plasma, and one that predicts the likelihood of a compound remaining in a supersaturated condition if it moves from a region of high solubility at one pH to one of lower solubility at a different pH in the gastrointestinal tract. SLP's CEO stated that this offering is top-ranked for predictive accuracy in every published independent comparison study of the 15 to 20 competitive programs that are currently in the market.

Financial Results

For the three-month period ended May 31, 2009, versus the three-months ended May 31, 2008:

- Net sales decreased to $2.7 million versus $3.0 million. Taglich Brothers' estimated net sales of $2.7 million;
- Gross margin improved to nearly 80% versus approximately 79%;
- SG&A expenses increased to $1.0 million versus $0.9 million. As a percentage of net sales, SG&A expenses increased to 36.5% versus 31.7%, due mainly to higher aggregate expenses and a decline in net sales;
- Research and development expenses increased to $0.3 million versus $0.2 million. The company capitalized R&D costs in the amount of $0.1 million, versus $0.2 million in the same period last year;
- Operating income decreased by approximately 28.2% to approximately $0.8 million;
- Provision for income taxes decreased to $0.3 million from $0.4 million; and
- Net income was approximately $0.6 million, or $0.03 per diluted share versus net income of $0.8 million or $0.04 per diluted share. Taglich Brothers' estimated net income of $0.5 million or $0.03 per diluted share.

The 8.6% decrease in net sales to approximately $2.7 million resulted primarily from lower sales of its Words+ subsidiary. This subsidiary had a 26.7% or approximately a $0.3 million decrease. The decrease was attributable to 3Q'08 benefiting from a large order for the Say-it! SAM PDA kits, while no such order was received in 3Q'09. Pharmaceutical software and services revenue experienced a small gain of $10,000. The company would have had a larger increase if an approximately $0.1 million renewal order had not slipped out of 3Q'09 into 4Q'09. As a result of pharmaceutical company reorganizations, a few customers were lost. Management has been able to compensate for those losses by adding a number of new customers.

Gross margin improved by 100 basis points primarily due to a $0.1 million reduction in the cost of sales for the Words+ subsidiary. Pharmaceutical software cost of sales increased due to the systematic amortization of capitalized software development costs; therefore, as more new products become available for sale in the pharmaceutical software and services side of SLP, this cost should increase. During the current period, amortization cost increased by approximately $25,000 versus the same period last year. Royalty expense, which is a variable cost (relating to GastroPlus and the ADMET Predictor Enslein Metabolism module) was essentially flat.

The increase of $47,000 in SG&A expenses was due to expanded trade show expenses, travel expenses, consultant fees, bad debts, and salaries (which resulted from a consultant becoming an employee and the hiring of two sales professionals for the Words+ subsidiary), which offset reductions in commission costs, professional fees, and repairs.

In total, the company incurred approximately $0.5 million of research and development costs during the quarter, of which $0.2 million was capitalized. During the same period last year, $0.4 million of research and development costs were incurred with $0.2 million capitalized. The aggregate increase was due primarily to increases in salaries resulting from a new hire, as well as raises to existing staff.

Other income increased by $33,000 to $41,000 from $8,000 in Q3'08. The increase was due to an unrecognized loss that occurred in its auction rate securities during Q3'08 that never materialized.

The provision for income taxes during 3Q'09 decreased to $0.3 million from $0.4 million during the same period last fiscal year. The decrease was primarily due to lower income. The company anticipates based on current information that the tax rate for the full year to be in the range of 34 – 38%. Where it falls in that range will depend on the amount of R&D tax credits generated during the balance of fiscal 2009.

<u>Finances</u>

During the first nine months of fiscal 2009, cash throw off from operations totaled approximately $2.0 million. Most of that was offset by an approximately $1.8 million increase in working capital stemming mainly from a rise in receivables. Cash increased by approximately $1.5 million even as the company had repurchased common stock of approximately $0.5 million.

On October 23, 2008 the Company announced that its Board of Directors authorized a share repurchase program that enables SLP to buyback up to $2.5 million of its common shares during the twelve month period beginning October 27, 2008. As of July 10, 2009, the Company had approximately $1.8 million of funds remaining to repurchase shares under the authorization. Since the authorization, approximately 648,135 shares have been repurchased at an average price of approximately $1.14 per share.

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. We concur with management's view as we anticipate the company's cash balance to exceed $9 million by the end of fiscal 2010 (excluding acquisitions).

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 is most likely to be accomplished through continued exposure at large and small 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 50 scientific meetings worldwide over the past five years. The schedule for SLP during calendar 2009 call for the company to do 2 to 3 times as many conferences, shows, and meetings as compared to last year. This marketing push, which also includes HTML e-mails going out regularly to advise customers' and prospects of the company's activities, has driven its sales lead pipeline well above what was accomplished last year.

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 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 is tending to be longer then the six month average, which is due to budget tightening at pharmaceutical companies that has resulted in software usage audits before the purchase of a software license can occur.

Strategy

- Expand its pharmaceutical software offerings and services via:
    - Hiring additional professionals. Each new hire has the potential to bring in new customers (organic growth) due to their knowledge and interaction with scientists, assist in product development, and increase the capacity to conduct consulting studies and funded collaborations. Two new scientists (each having a Ph.D.), are scheduled to start work during August and September 2009;
    - Expanding its simulation software offering outside of the pharmaceutical industry. The environmental toxicology area may be a large potential new market, as the Environmental Protection Agency has licensed one of the company's software offerings;
    - Leveraging funded collaboration opportunities. The funded collaborations (one of which was recently completed) are from three of the top 5 pharmaceutical companies. The funded collaborations

include extension of GastroPlus' capabilities into the area of drug-drug interactions, development of ocular drug delivery capabilities, and development of a nasal-pulmonary drug delivery capability. A fourth recently completed collaboration with Pfizer added a capability to ADMET Predictor to automatically determine the dose amount needed to reach effective plasma concentrations for new drug molecules in early discovery;

- Expanding contract research and consulting services. The demand for consulting services has increased steadily, resulting from clinical scientists requesting studies from their pre-clinical colleagues who do not have the time to conduct the requested study; therefore, they turn to SLP's consulting services. Consulting contracts serve as a marketing tool and help build and strengthen customer relationships;
- Seeking to complete strategic accretive acquisitions in order to enhance and expand the product portfolio, as well as new collaborations; and
- 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:

- Continue product improvements and more aggressive marketing and sales;
- Utilized added staff to process prior authorizations and accounts receivables more quickly in order to collect old receivables from state Medicaid agencies; and
- Look for potential SBIR funding opportunities that fit the subsidiary's expertise.

Projections

Third quarter results were in line with our forecast so we are maintaining our net sales forecast of approximately $9.8 million for fiscal 2009. Our forecast for the final quarter of fiscal 2009 takes into account the current economic environment and increased emphasis by the company on marketing its offerings via increased participation as presenters/exhibitors at conferences both in the U.S. and abroad. Our net sales forecast for fiscal 2010, which takes into account the potential for slightly better economic conditions, stable budgets for the pharmaceutical and biotechnology companies, as well as the benefits of increased marketing efforts, has been lowered slightly to $10.6 million from $10.9 million.

Our fiscal 2009 forecast (which does not include potential acquisitions) reflects an 8.8% increase in revenue to $9.8 million. For fiscal 2010, we forecast a 9.1% increase in revenue to $10.9 million. We anticipate sales growth for simulations software products for fiscal 2009 of approximately 13.4% (to approximately $6.9 million). We project a sales decrease of approximately 1.5% for Words+ to approximately $2.9 million, stemming from a large order obtained during fiscal 2008 from its distributor in the U.K. that is unlikely to occur during fiscal 2009. For fiscal 2010, we forecast simulations software product sales of $7.7 million and Word+ sales of $2.9 million.

The table below illustrates the cost structure (which incorporates higher marketing expenses) we anticipate for fiscal 2009 and 2010, versus actual results achieved in fiscal 2008.

Cost Structure

	2008A	**2009E**		**2010 E**	
	Actual	**Prior**	**Revised**	**Prior**	**Revised**
Gross Margin	76.58%	77.51%	77.84%	77.96%	77.92%
SG&A expenses (as a Percent of Net Sales)	41.25%	41.00%	40.52%	38.84%	39.78%
Research and Development (as a Percent of Net Sales)	11.04%	13.29%	13.33%	11.91%	12.21%
Operating Margin	24.29%	23.32%	23.99%	27.21%	25.93%
Tax rate	29.46%	33.50%	35.09%	33.23%	34.09%
Pre-tax Margin	27.28%	24.84%	25.72%	28.12%	26.87%

Source: Company filings and Taglich Brothers estimates

Based on our net sales and cost structure estimates, EBITDA (defined as operating income plus depreciation and amortization of property, equipment, and capitalized software development, and stock-based compensation) should approach $3.0 million in fiscal 2009 and $3.5 million in fiscal 2010 versus EBITDA of $2.805 million in fiscal 2008. Our revised net income forecast for fiscal 2009 is $1.6 million or $0.10 per diluted share (prior was $1.6 million or $0.09 per diluted share). Our net income forecast for fiscal 2010 has been reduced to $1.9 million or $0.11 per diluted share (prior was $2.1 million of 0.12 per diluted share).

Our EPS forecasts are based on average fully diluted shares of approximately 17.1 million and 16.7 million, respectively. Incorporated in our forecast is the share repurchase program. We may change our share estimates based on the actual number of common shares purchased under the authorization.

Risks

Technology

The company's strongest area of growth is software products and services 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.

Pharmaceutical Consolidation

During early 2009, it was announced that Pfizer Inc. was going to purchase Wyeth in a $68 billion deal. As consequence of the purchase, it was reported that 8,000 job cuts would occur. Also, in 2009, Merck announced it was going to acquire Schering-Plough. Industry consolidation could have the potential of management reevaluating research budgets. While that might cause a delay, money spent by those companies on research and development projects should continue, even if the time frame becomes elongated. We believe the reason why spending on software productivity tools should continue (maybe at a slightly slower pace) is that there is an ever greater need for productivity tools (i.e., software), which have the highest productivity gain of any technology. SLP's management indicated that it has not seen any significant impact, especially as it relates to SLP's relationship with Pfizer, Roche, and GlaxoSmithKline.

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 44.6% of the outstanding voting stock (based on shares outstanding as of July 10, 2009 and a Form 4 filing with the SEC on June 5, 2009). 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

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

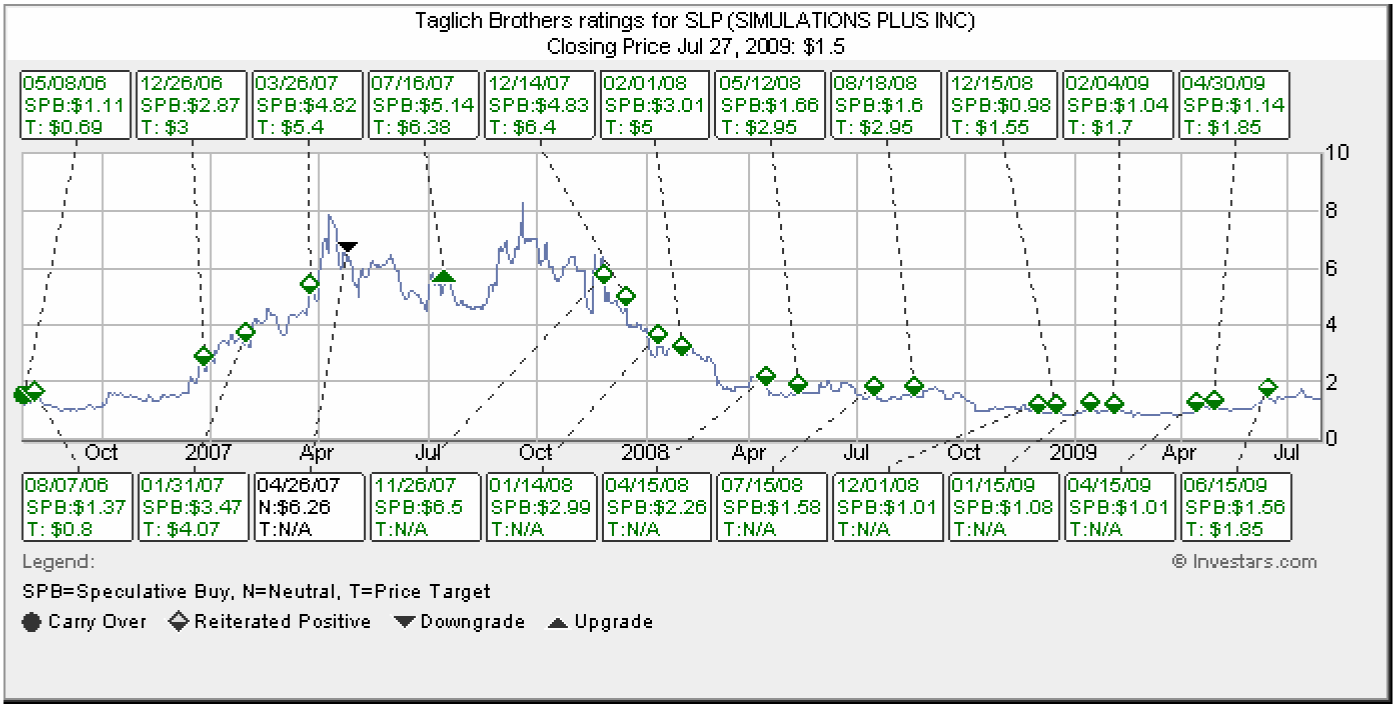
On January 1, 2001, Medicare began funding augmentative communication devices for the first time and over the company's 28-year history, the trend has been toward increasing funding from government agencies. There can be no assurance that government funding for such devices will continue, or if it does continue, that the company's subsidiary's products will continue to meet the requirements imposed for funding of such devices.

Foreign Exchange Risks

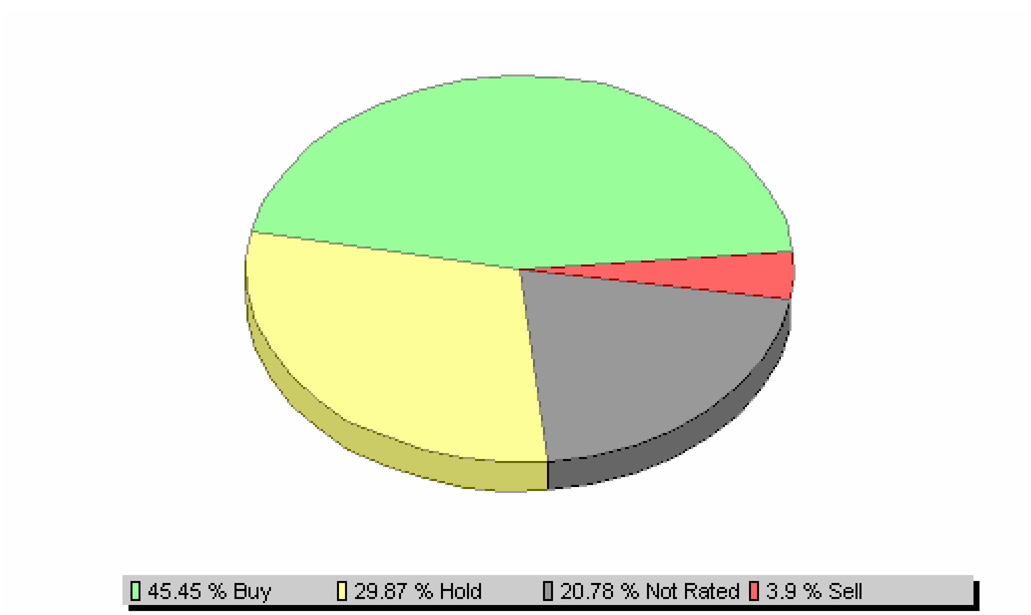
The company is compensated in Japanese yen by most Japanese customers. Therefore, if foreign currency transactions increase significantly, then SLP may mitigate their effect through foreign currency forward contracts whose market-to-market gains or losses are recorded in other income or expense at the time of the transaction. To date, exchange rate exposure has not resulted in a material impact.

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 2007 was 197,967 shares traded a day and during calendar 2008, average daily volume decreased to 60,242 shares traded a day. During the first six months of calendar 2009, average daily volume decreased to 21,748. Investors need to be aware that by nature a thinly traded equity can have significant price volatility.



Taglich Brothers Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months

Rating	#	%
Buy	1	3.85%
Hold	1	16.67%
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:

GlaxoSmithKline	(NYSE: GSK)
Merck & Co., Inc.	(NYSE: MRK)
Pfizer Inc.	(NYSE: PFE)
Schering-Plough Corporation	(NYSE: SGP
Wyeth	(NYSE: WYE)

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

	August 2006 Fiscal Year End	August 2007 Fiscal Year End	August 2008 Fiscal Year End	Nov. 2008 1st Qtr End	Feb 2009 2nd Qtr End	May 2009 3rd Qtr End
ASSETS						
Current assets:						
Cash	$ 1,685	$ 4,538	$ 5,890	$ 6,064	$ 7,522	$ 7,373
Accounts receivable, net	1,589	2,060	2,105	2,474	2,182	2,649
Contracts receivable, net	194	47	-	-	-	-
Inventory	237	231	342	337	392	375
Deferred tax	109	241	318	341	432	300
Prepaid expense and other current assets	81	74	195	125	107	85
Total current assets	**3,895**	**7,191**	**8,850**	**9,341**	**10,635**	**10,782**
Investments	-	-	750	750	-	-
Capitalized computer software development costs, net	1,374	1,528	1,789	1,867	1,890	1,898
Property and Equipment, net	96	90	103	94	55	49
Contracts receivable	37	-	-	-	-	-
Customer relationships	100	69	43	38	32	28
Deferred tax	991	-	-	-	-	-
Other assets	18	18	18	18	18	18
Total assets	**$ 6,513**	**$ 8,895**	**$ 11,553**	**$ 12,108**	**$ 12,630**	**$ 12,775**
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities:						
Accounts payable	215	201	181	165	174	266
Accrued payroll and other expenses	364	492	537	564	596	526
Accrued bonuses to officers	99	201	60	84	53	60
Accrued income taxes	2	71	-	129	302	116
Accrued warranty and service costs	35	38	34	41	52	40
Current portion of deferred revenue	129	-	83	33	206	42
Other current liabilities	0	-	-	-	-	-
Total current liabilities	**845**	**1,004**	**896**	**1,016**	**1,383**	**1,050**
Deferred tax liability	-	227	742	777	794	789
Stockholders' equity:						
Common stock, no par value; authorized 20,000,000 shares;	4	4	5	5	5	4
Additional paid-in capital	5,274	5,804	6,328	6,416	6,186	6,101
Accumulated deficit	390	1,857	3,582	3,894	4,262	4,831
Total stockholders' equity	**5,669**	**7,665**	**9,915**	**10,315**	**10,453**	**10,936**
Total liabilities and stockholders' equity	**$ 6,513**	**$ 8,895**	**$ 11,553**	**$ 12,108**	**$ 12,630**	**$ 12,775**
SHARES OUT	14,883	15,761	16,297	16,406	16,137	16,024

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

	FY2007A	FY2008A	**FY2009E**	**FY2010E**
Net sales	8,858	8,968	**9,759**	**10,645**
Cost of sales	2,082	2,100	**2,162**	**2,350**
Gross Profit	6,776	6,868	**7,596**	**8,295**
Gross Margins	76.49%	76.58%	**77.84%**	**77.92%**
Operating Expenses:				
Selling, general, and administrative	3,458	3,699	**3,955**	**4,235**
Research and development	815	990	**1,301**	**1,300**
Total Operating Expenses	4,273	4,690	**5,255**	**5,535**
EBITDA	3,023	2,805	**3,044**	**3,460**
Operating Income (loss)	2,503	2,178	**2,341**	**2,760**
Operating Margin	28.26%	24.29%	**23.99%**	**25.93%**
Other income (expense)				
Interest income	114	185	**98**	**100**
Interest expense	(0)	(0)	-	-
Gain (Loss) on exhange of currency	2	83	**70**	-
Gain (Loss) on sale of assets	5	0	**1**	-
Total Other Income (expense)	122	268	**169**	**100**
Pre-Tax Income (loss)	2,624	2,446	**2,510**	**2,860**
Pre-Tax Margins	29.63%	27.28%	**25.72%**	**26.87%**
Income Tax Expense (Benefit)	1,158	721	**881**	**975**
Release of valuation allowance	-	-	-	-
Tax Rate	44.14%	29.46%	**35.09%**	**34.09%**
Net income (loss)	$ 1,466	$ 1,726	**$ 1,629**	**$ 1,885**
Earnings per share -- Diluted	$ 0.08	$ 0.10	**$ 0.10**	**$ 0.11**
Avg Shares Outstanding	17,957	18,141	**17,069**	**16,675**
			0.35%	***18.42%***
Percent of Revenue				
Selling, general, and administrative	39.04%	41.25%	40.52%	39.78%
Research and development	9.20%	11.04%	13.33%	12.21%
YEAR / YEAR GROWTH				
Total Revenues	51.29%	1.24%	8.82%	9.08%
Earnings per share	92.72%	16.50%	0.35%	18.42%

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

	Q1(11/07)A	Q2 (02/08)A	Q3 (05/08)A	Q4 (08/08)A	**FY2008A**
Net sales	1,984	2,180	2,968	1,836	**8,968**
Cost of sales	486	456	624	535	**2,100**
Gross Profit	1,498	1,724	2,345	1,301	**6,868**
Gross Margins	*75.50%*	*79.10%*	*78.99%*	*70.87%*	**76.58%**
Operating Expenses:					
Selling, general, and administrative	930	832	942	995	**3,699**
Research and development	226	252	222	290	**990**
Total Operating Expenses	1,156	1,084	1,164	1,285	**4,690**
EBITDA	483	791	1,336	196	**2,805**
Operating Income (loss)	342	640	1,180	16	**2,178**
Operating Margin	*17.22%*	*29.35%*	*39.77%*	*0.89%*	**24.29%**
Other income (expense)					
Interest income	45	47	54	39	**185**
Interest expense	-	-	(0)	(0)	**(0)**
Gain (Loss) on exhange of currency	19	15	11	38	**83**
Gain (Loss) on sale of assets	0	-	(58)	58	**0**
Total Other Income (expense)	64	62	8	135	**268**
Pre-Tax Income (loss)	405	702	1,188	151	**2,446**
Pre-Tax Margins	*20.44%*	*32.20%*	*40.02%*	*8.22%*	**27.28%**
Income Tax Expense (Benefit)	162	137	435	(14)	**721**
Release of valuation allowance	-	-	-	-	**-**
Tax Rate	*40.00%*	*19.52%*	*36.64%*	*-9.18%*	**29.46%**
Net income (loss)	$ 243	$ 565	$ 753	$ 165	**$ 1,726**
Earnings per share -- Diluted	$ 0.01	$ 0.03	$ 0.04	$ 0.01	$ 0.10
Avg Shares Outstanding	18,430	18,280	17,869	17,987	**18,141**
Percent of Revenue					
Selling, general, and administrative	46.89%	38.19%	31.73%	54.16%	41.25%
Research and development	11.39%	11.56%	7.49%	15.82%	11.04%
YEAR / YEAR GROWTH					
Total Revenues	36.21%	-13.98%	12.81%	-17.89%	1.24%

Simulations Plus, Inc.
Income Statement Model
For the Year Ended August 31, 2009
(in thousands)

	Q1(11/08)A	Q2 (02/09)A	Q3 (05/09)A	Q4 (08/09)E	**FY2009E**
Net sales	2,133	2,457	2,714	2,455	**9,759**
Cost of sales	526	553	543	540	**2,162**
Gross Profit	1,607	1,904	2,170	1,915	**7,596**
Gross Margins	*75.32%*	*77.49%*	*79.99%*	*78.00%*	**77.84%**
Operating Expenses:					
Selling, general, and administrative	904	1,037	989	1,025	**3,955**
Research and development	301	360	334	305	**1,301**
Total Operating Expenses	1,205	1,397	1,323	1,330	**5,255**
EBITDA	577	680	1,026	760	**3,044**
Operating Income (loss)	402	507	847	585	**2,341**
Operating Margin	*18.83%*	*20.63%*	*31.22%*	*23.84%*	**23.99%**
Other income (expense)					
Interest income	33	20	20	25	**98**
Gain (Loss) on exhange of currency	18	32	20	-	**70**
Total Other Income (expense)	51	52	41	25	**169**
Pre-Tax Income (loss)	453	559	888	610	**2,510**
Pre-Tax Margins	*21.24%*	*22.74%*	*32.72%*	*24.86%*	**25.72%**
Income Tax Expense (Benefit)	141	191	319	230	**881**
Release of valuation allowance	-	-	-	-	**-**
Tax Rate	*31.20%*	*34.13%*	*35.91%*	*37.69%*	**35.09%**
Net income (loss)	$ 312	$ 368	$ 569	$ 380	**$ 1,629**
Earnings per share -- Diluted	$ 0.02	$ 0.02	$ 0.03	$ 0.02	$ 0.10
Avg Shares Outstanding	17,517	17,108	16,926	16,725	**17,069**
Percent of Revenue					
Selling, general, and administrative	42.36%	42.20%	36.45%	41.75%	40.52%
Research and development	14.13%	14.66%	12.31%	12.42%	13.33%
YEAR / YEAR GROWTH					
Total Revenues	7.53%	12.71%	-8.58%	33.70%	8.82%
Earnings per share	34.82%	-30.37%	-20.17%	148.08%	0.35%

Simulations Plus, Inc.
Income Statement Model
For the Year Ended August 31, 2010
(in thousands)

	Q1(11/09)E	Q2 (02/10)E	Q3 (05/10)E	Q4 (08/10)E	**FY2010E**
Net sales	2,430	2,675	2,925	2,615	**10,645**
Cost of sales	585	600	590	575	**2,350**
Gross Profit	1,845	2,075	2,335	2,040	**8,295**
Gross Margins	*75.93%*	*77.57%*	*79.83%*	*78.00%*	**77.92%**
Operating Expenses:					
Selling, general, and administrative	1,035	1,090	1,060	1,050	**4,235**
Research and development	325	325	325	325	**1,300**
Total Operating Expenses	1,360	1,415	1,385	1,375	**5,535**
EBITDA	660	835	1,125	840	**3,460**
Operating Income (loss)	485	660	950	665	**2,760**
Operating Margin	*19.96%*	*24.68%*	*32.48%*	*25.42%*	**25.93%**
Other income (expense)					
Interest income	25	25	25	25	**100**
Total Other Income (expense)	25	25	25	25	**100**
Pre-Tax Income (loss)	510	685	975	690	**2,860**
Pre-Tax Margins	*20.99%*	*25.61%*	*33.33%*	*26.38%*	**26.87%**
Income Tax Expense (Benefit)	165	230	355	225	**975**
Release of valuation allowance	-	-	-	-	**-**
Tax Rate	*32.35%*	*33.57%*	*36.41%*	*32.62%*	**34.09%**
Net income (loss)	$ 345	$ 455	$ 620	$ 465	**$ 1,885**
Earnings per share -- Diluted	$ 0.02	$ 0.03	$ 0.03	$ 0.03	$ 0.11
Avg Shares Outstanding	16,650	16,665	16,685	16,700	**16,675**
Percent of Revenue					
Selling, general, and administrative	42.59%	40.75%	36.24%	40.15%	39.78%
Research and development	13.38%	12.15%	11.11%	12.43%	12.21%
YEAR / YEAR GROWTH					
Total Revenues	13.91%	8.88%	7.79%	6.52%	9.08%
Earnings per share	16.44%	26.92%	-4.36%	22.40%	18.42%

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

	FY2006A	FY2007A	FY2008A	9 Mos 2009A
Cash Flows from Operating Activities				
Net Income (loss)	$ 676	$ 1,466	$ 1,726	$ 1,249
Depreciation and amortization of property and equipment	48	51	51	17
Amortization of capitalized software development	287	430	467	381
Amortization of customer relationships	28	32	26	15
Bad debt expense	-	63	63	220
Stock-based compensation	-	17	90	130
Contribution of equipment at book value	-	1	-	-
Loss on sale of assets	(11)	(4)	-	-
	1,028	2,055	2,422	2,012
Changes In:				
Accounts receivable	(275)	(351)	(60)	(764)
Inventory	44	6	(93)	39
Deferred tax	211	1,087	437	65
Other assets	(8)	8	(122)	110
Accounts payable	124	(14)	(20)	84
Accrued payroll and other expenses	(34)	127	46	(12)
Accrued bonuses to officers	60	103	(141)	-
Income taxes	-	70	(71)	116
Accrued warranty and service costs	7	3	(4)	6
Deferred revenue	(12)	(129)	83	(41)
Net Changes in Working Capital	119	909	55	(396)
Net cash Provided by Operations	1,148	2,964	2,477	1,616
Cash Flows from Investing Activities				
Purchase of property and equipment	(62)	(48)	(82)	(35)
Investment in securities	-	-	(750)	750
Purchases of Bioreason's assets	(826)	-	-	-
Capitalized computer software development costs	(480)	(583)	(728)	(490)
Proceeds from sale of assets	21	7	-	-
Cash Flows from Investing Activities	(1,347)	(624)	(1,560)	225
Cash Flows from Financing Activities				
Repurchase of common stock	-	-	-	(448)
Proceeds from the exercise of stock options	131	513	435	90
Net cash provided by Financing	131	513	435	(358)
Net change in Cash	(69)	2,853	1,352	1,483
Cash Beginning of Period	1,754	1,685	4,538	5,890
Cash End of Period	$ 1,685	$ 4,538	$ 5,890	$ 7,373