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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

SLP $5.49 — (AMEX)

August 7, 2006

	FY (08/04)A	FY (08/05) A	***FY (08/06) E***	***FY (08/07) E***
Net sales (in millions)	$5.21	$4.75	***$5.56***	***$6.54***
Earnings per share	$0.21	$0.07	***$0.16***	***$0.24***

52-Week range	$5.60 – $2.85	Fiscal year ends:	August
Shares outstanding as of July 11, 2006	3.70 million	Revenue/shares (ttm)	$1.37
Trading float	1.60 million	Price/Sales (ttm)	4.01X
Insiders	2.10 million	Price/Sales (2007)E	3.47X
Tangible Book value/share a/o 05-31-06	$1.10	Price/Earnings (ttm)	45.8X
Price/Book	4.99X	Price/Earnings (2007)E	22.9X

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

Key Investment Considerations:

We are maintaining coverage of Simulations Plus, Inc. (AMEX: SLP) with a Speculative Buy recommendation and increasing our twelve-month price target to $6.35 per share from our prior price target of $5.50 per share. The increase in our price target is primarily due to the positive growth prospects we anticipate for fiscal 2007.

The Company reported third quarter fiscal 2006 net sales of $1.788 million versus $1.424 million in the same period last year. Operating income for the quarter was $0.441 million versus $0.218 million. Net income for the quarter was $0.386 million or $0.09 per diluted share versus $0.173 million or $0.04 per share.

On July 20, 2006, SLP announced its Board of Directors approved a two-for-one stock split. The stock split will be effective on August 14, 2006 to shareholders of record on July 31, 2006. According to Management, the purpose of the split is to increase the public float to approximately 3.2 million shares from its current level of about 1.6 million shares. (All per share number in this report are pre the two-for-one stock split).

Based on results for the first nine months of 2006 and Management's public statements in the Company's 10-Q filing, we have adjusted our fiscal 2006 forecast for net sales and net income to $5.564 million and $0.630 million or $0.16 per diluted share, respectively. Our prior forecast called for net sales of $5.450 million and net income of $0.571 million or $0.14 per diluted share, respectively.

Based on current trends and Management's public statements, we are adjusting our forecasts for fiscal 2007. Our net sales and net income forecasts are $6.535 million and $1.001 million or $0.24 per diluted share, respectively. Our prior forecasts called for net sales and net income of $6.395 million and $0.956 million or $0.23 per diluted share, respectively.

**** Please view our disclaimer located on page 14.***

The Company

Simulations Plus, Inc. (AMEX: SLP), founded in 1996, went public during June of 1997 through a $5.0 million initial public offering. The Company, which has 30 employees (27 full-time and 3 part-time), includes 13 professionals in research and development, seven have Ph.D.s and one is a Ph.D. candidate. In addition, four have one or more Master's degrees. SLP is seeking additional scientists to expand its 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 discovery chemistry, ADMET (absorption, distribution, metabolism, elimination, and toxicity) and on tools for discovery chemistry in the pharmaceutical and biotechnology industries. The Company's software assists pharmaceutical scientists to predict certain key potential drug dynamics and compounds rapidly, thereby increasing the likelihood of eliminating multi-million dollar clinical trial failures and speeding up the time to market of effective new medications.

- The Words+ Inc., subsidiary, which was founded in 1981, produces computer software and specialized hardware for use by people with severe disabilities, as well as a personal productivity software program called Abbreviate! for the retail market.

Recent Developments

On July 20, 2006, the Company announced that its Board of Directors approved a two-for-one stock split. The stock split will be effective on August 14, 2006 to shareholders of record on July 31, 2006. According to Management, the primary purpose of the stock split is to increase the public float to approximately 3.2 million shares from its current level of approximately 1.6 million shares. *Unless otherwise noted, all per share number in this report are pre the two-for-one stock split.*

Simulations Plus

Software Offerings

The Company's software products are used by major pharmaceutical companies, and a number of second and third-tier pharmaceutical and drug delivery companies in the United States, Europe, and Japan. The software offerings for pharmaceutical and drug delivery research are focused on drug discovery chemistry, preclinical development, early clinical trials, and formulation. Each of these stages present different risks in drug discovery and development that can be mitigated through the use of software models that enable researchers to identify important molecular characteristics that affect different properties, predict the effects of modifying molecular structures, predict optimum dosing levels and formulation variables, and analyze data from human and animal trials to gain an understanding of what is happening to a drug when it gets into the body. Through predictive modeling, some laboratory experiments can be eliminated, including some animal studies, and the results of certain kinds of clinical trials in humans can be simulated to sometimes identify and avoid inevitable costly failures. According to public statement, Management believes that its software has resulted in such savings.

SLP provides the following software offerings:

- **ADMET Modeler ™** allows researchers to build artificial neural network ensemble models from their own data. In addition, it allows for the identification of critical descriptors and training ensemble artificial neural network models. According to Management, through the automation provided in the proprietary software of ADMET Modeler, the time to build high quality ensemble artificial neural network models has been reduced from months to hours or days. All ADMET Predictor models were built with ADMET Modeler. During the

third quarter of fiscal 2006, a new version was released that improves the support vector machine ensemble modeling to include classification models, as well as regression models. In addition, the new release also offers scientists the ability to see (graphically) the sensitivity of the predictive models to values of various molecular descriptors used in the artificial neural network ensembles.

- **ADMET Predictor™** is an advanced modeling program that enables pharmaceutical researchers to rapidly estimate a number of ADMET properties of new chemical entities from their molecular structure. It takes as inputs the structures of molecules, generates predictions for approximately 50 properties, including seven toxicity predictions, and also provides estimates which can be used as inputs for GastroPlus.

  According to Management, this offering is one of the few programs available in the world that provides accurate predictions of ionization constants for molecules. New capabilities introduced in 2005 provide seven different toxicity models based on data sets released to the public domain by the U.S. Environmental Protection Agency and the U.S. Food and Drug Administration in 2004. During June 2005, the Company announced it upgraded the software by including two new solubility models with enhanced scope that provide a comparison of predicted solubility from models built on large datasets, which includes both drug-like molecules and other chemicals, and solubility predicted from models built only on actual drug molecules. On October 28, 2005, the Company announced the release of a new toxicity prediction for the hERG (human Ether-a-go-go Related Gene) potassium channel. This gene is responsible for the normal repolarization of the cardiac action potential. Blockage or any other impairment of these channels in the heart cells can lead to cardiac arrhythmia and sudden death. The FDA requires that every drug be tested for hERG blockage before it is approved for market distribution.

  During the second and third quarters of fiscal 2006, the Company enhanced this offering to include a convenient model editor and to add an algorithm that allows scientists to add their own data and extend any of the predictive models into their own chemical space. The version that includes these latest enhancements was released during the third quarter of fiscal 2006. The Company is now merging ADMET Modeler ™ into ADMET Predictor™ in order to create a more convenient package that Management hopes will increase the market opportunity.

- **ClassPharmer™** was acquired (during November 2005) by the Company through the acquisition of certain assets of Bioreason, Inc. from its former creditors. The acquisition also included two patents governing classification algorithms, a database of over 5,000 measurements of potential toxicity in a particular cell culture, and a database of over 1,800 pharmaceutical industry contacts. On March 16, 2006, the Company announced the release of ClassPharmer™ 4.0, which was developed by combining the ChemTK™ software the Company acquired from Sage Informatics, LLC in August 2005 with the ClassPharmer 3.5 software it acquired in November 2005. According to public statements made by Management, the new 4.0 version is more than ten times faster than ClassPharmer 3.5, and adds a number of valuable features from ChemTK™ that provide additional utility to discovery chemists. The Company released version 4.1 at the end of June 2006, which includes additional capabilities that have been requested by customers.

- **DDDPlus ™** is an important new and unique tool for formulation scientists, which enables them to predict how changes in formulation or changes in experimental setup are likely to affect dissolution rate in laboratory experiments. Dissolution rate is a critical parameter in the development of new dosage forms, in making generic versions of existing drugs, and in quality control for production. On April 6, 2006, the Company announced the release of DDDPlus™ 2.0, which Management believes is a major revision of the original version released in early 2005. This new version includes suggested changes from over 60 evaluators of the original version, as well as adding the ability to simulate new types of formulations and to optimize experimental designs to better match desired dissolution versus time profiles observed in human and animals.

- **GastroPlus™** simulates absorption, pharmacokinetics (PK) (the process by which a drug is absorbed, distributed, metabolized, and eliminated by the body), and pharmacodynamics (PD) (the combination of therapeutic and adverse effects on the body for orally dosed and injected drugs). In the drug development phase, GastroPlus is designed to aid researchers in dosage formulation, the effects of various controlled release profiles, and evaluation of heterogeneic variations in physiology and transit times. On April 25, 2006,

SLP announced the release of version 5.1, which adds the ability for formulation scientists to use a distribution of different particle sizes to represent a dose. This addition allows formulation scientists to simulate the dissolution of solid drug particles of various sizes, rather than suing an average size to represent all particles. The advantage of having a distribution is that smaller particles dissolve faster than large particles, so the dissolution versus timer behavior is more accurately simulated with a distribution. Version 5.0 included the PBPKPlus™ Module (an extension module for GastroPlus that enables researchers to predict the amount of drug that reaches different body tissues and organs). Management believes this provides the best known method for predicting human pharmacokinetics from animal and in-vitro data.

In addition to the software products described above, the Company offers contract research services to the pharmaceutical industry in the specific areas of gastrointestinal absorption, pharmacokinetics, structure-property model building, and related technologies. The purpose of offering contract research services is to generate additional revenue, as well as to introduce current software products to new customers.

The table below details the most recent product updates:

Product	Date/Release	Added Functionality
ADMET Modeler ™	In Q3 of 2006 / Version 1.2	Improves the support vector machine ensemble modeling to include classification and regression models. Also, offers scientists the ability to graphically see the sensitivity of the predictive models to values of various molecular descriptors used in the artificial neural network.
ADMET Predictor™	In Q3 of 2006 / Version 1.3.2	Enhancements include a convenient model editor and ability to add an algorithm that allows scientists to add their own data and extend any of the predictive models into their own chemical space.
ClassPharmer™	In June 2006 / Version 4.1	Developed by combining ChemTK™ software with ClassPharmer 3.5 software. It is ten times faster than ClassPharmer 3.5.
DDDPlus ™	In April 2006 / Version 2.0	Includes changes from over 60 evaluators of the original version. Also adds the ability to simulate new types of formulations and to optimize experimental designs to better match desired dissolution versus time profiles observed in humans and animals.
GastroPlus™	In April 2006 / Version 5.1	Allows formulation scientists to use a distribution of different particle sizes to represent a dose.

Under Development

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

Software that is being developed by the Company includes an integration of ADMET Predictor and ADMET Modeler into a single program for greater user convenience. Management believes that the integration of the two into a single package will enhance the competitive posture of ADMET Predictor. Also in development is MembranePlus™, a simulation program similar in many respects to DDDPlus in that it is a simulation of in-vitro experiments; however, in this case the experiments are those that are used to estimate the permeability of new

compounds. The permeability of a molecule is a measure of its ability to be absorbed into tissues, either from the gastrointestinal tract or from the blood plasma into various tissues.

Competitive Environment

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

Market Drivers

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

- $50 billion annual pharmaceutical industry R&D expenditures worldwide;
- 16% projected annual growth of pharmaceutical R&D spending over the next four years, which should be helped by the increased emphasis on outsourcing;
- The call for model-based drug development. At the last two annual R&D Leaders Forum conferences, several high-level speakers from the FDA and industry emphasized the need for this type of drug development;
- $900 million to $1.6 billion is the average cost to bring a new drug to market; and
- Pressure to reduce the use of animals in pharmaceutical research.

Other key metrics, based on data from the Pharmaceutical Research and Manufacturers of America (a trade organization), a White Paper, published by the FDA called Innovation or Stagnation: Challenge and Opportunity on the Critical Path to New Medical Products (published March 2004), and an FDA report called Drug Development Science (published January 2005) include:

- Only one in 5,000 compounds tested in the laboratory becomes a new drug;
- It takes as much as 16 years and $1.6 billion to develop a safe and effective drug for humans;
- A consistent growth trend over the 10-years from 1993 – 2003 in biomedical research spending by the National Institutes of Health and by pharmaceutical companies; and
- A consistent yearly decrease over the 10-years from 1993 – 2003 in the number of submissions of new molecular entities and the number of biologics license application submissions to the FDA.

Words+, Inc. Subsidiary

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

The Company offers a Windows CE tablet-computer-based augmentative communication system, called the SAM Tablet, based on a version of the Say-it! SAM software for PDAs. In March 2005, it introduced the SAM Tablet

XP1, the Company's Windows XP-based tablet product. The Company released a version of its SAM software for personal computers in March 2006, allowing SAM to be distributed on virtually any Windows XP desktop or laptop computer. It is Management's belief that the SAM offerings are in demand in the augmentative communication system market.

Competition

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

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

Financial Results

For the three-month period ended May 31, 2006, versus the three-months ended May 31, 2005:

- Net sales increased to $1.788 million versus $1.424 million. Taglich Brothers' estimate called for net sales of $1. 675 million;
- Gross margins increased to 75.76% versus 69.93%;
- SG&A expenses increased to $0.796 million versus $0.645 million. However, as a percentage of net sales SG&A expenses declined to 44.5% versus 45.3%;
- Research and development expenses decreased to $0.119 million versus $0.134 million;
- Operating income improved to $0.441 million versus $0.218 million; and
- Net income of $0.386 million or $0.09 per share versus net income of $0.173 million or $0.04 per diluted share. Taglich Brothers' estimate called for net income of $0.300 million or $0.07 per diluted share.

Management attributed the 25.6% increase in year-over-year net sales to a 65.5% (or $0.434 million) from pharmaceutical and educational software. The growth was primarily due to a multi-year global renewal order from one large customer, new revenues generated from ClassPharmer software that was acquired in November 2005, and an increase in revenue from ADMET Predictor/Modeler. Revenues from the multi-year order will be recognized separately for each year covered by the order.

Mitigating the overall increase in net sales was a slight decrease in sales of 9.2% (or $0.070 million) from the Company's Words+ subsidiary. The decrease was primarily due to lower sales of TuffTalker and Freedom products, and increases in insurance discounts, which outweighed increases in sales of Say-it-SAM! and TuffTalker Plus products.

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

Gross margins increased by 583 basis points primarily due to the growth in sales of its higher margin pharmaceutical and educational software, as well as improvement in the Word+ subsidiary resulting from purchase discounts by volume purchases of computers and PDAs.

The overall $0.151 million increase in SG&A expenses versus the same period last year was the result of legal fees incurred in order to communicate with an attorney in France, who represented an employee at the former French subsidiary of Bioreason. That employee is contesting SLP's ClassPharmer distribution rights in Europe. Other increases in SG&A expenses included accounting fees related to the acquisition of Bioreason assets, commissions to dealers, travel expenses, payroll-related expenses in the Company's Words+ subsidiary, as well as accrued bonuses to officers. Investors should note that as a percentage of net sales, SG&A expenses for the current period declined to 44.5% versus 45.3% in the same period last year.

Balance Sheet Snapshot as of May 31, 2006

The Company had cash of $1.099 million versus $1.754 million as of its fiscal year ended August 31, 2005. The decline in cash was due to the SLP spending approximately $0.8 million in cash for the acquisition of certain secured assets of Bioreason in November 2005. Working capital was $2.408 million versus $2.584 million as of August 31, 2005. Total assets, which stood at $6.034 million, are primarily comprised of cash, inventory, accounts receivable (that totaled $1.571 million) and a deferred tax asset of $1.146 million.

Also, the Company had total liabilities of $0.633 million, retained earnings of $0.151 million, and total shareholders' equity of $5.401 million. At the end of fiscal 2005, the Company had total liabilities of $0.690 million with an accumulated deficit of $0.285 million, and total shareholders' equity of $4.862 million.

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

Investors should be aware that the decline in the Company's cash position was a direct result of the acquisition of assets over the last nine months. As detailed in our December 22, 2005 update report, the Company acquired the assets of Sage Informatics and Bioreason, Inc.

Outlook

We believe the Company's primary simulation software products (GastroPlus™, ADMET Predictor™, ADMET Modeler™, DDDPlus™, and ClassPharmer™) need to gain exposure to a wider audience within the community of researchers in the Pharmaceutical, Biotechnology, and Drug Discovery Industries of the Healthcare Sector.
This should be accomplished through continued exposure at large conferences around the world and an increase in the Company's sales personnel. According to the Company's SEC filings, members of its staff have been speakers or presenters at over 40 prestigious scientific meeting worldwide over the past three years. In addition, Management has publicly stated that it will be adding scientific staff. According to the Company's third quarter 10-Q filing, two new Ph.D. scientists have accepted offers and plans are in place to hire three or four more. This will increase the Company's Life Sciences department from seven to 12 or 13. The increase in its professional staff is important since they all have the ability to bring in new customers.

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

Management has publicly stated that:

- The Company's customer base, which continues to grow, should build the base for future license renewals. During the Company's earnings conference calls and public presentations, Management reiterated that prior acquisitions not only added software offerings to its portfolio (the recently released ClassPharmer™ 4.0), but increased by approximately 30 its customer base, as well as adding approximately 1,800+ names to its database of potential customers; and
- In fiscal 2006, the Company will begin selling multi-year licenses on an annual basis. Management believes this should eliminate the extreme lumpiness in reported top and bottom line results the Company has experienced in the past.

We believe that the Words+ subsidiary will continue to be run profitably in fiscal 2006. Also positively impacting this subsidiary is the termination of royalty payments to SAM Communications, LLC. In addition, the introduction of a SAM for the personal computer should allow for distribution on virtually any Windows XP desktop or laptop computer.

Projections

Based on results for the first nine months of 2006 and Management's public statements, we have adjusted our fiscal 2006 forecast of net sales to $5.564 million versus our prior forecast of $5.450 million. Investors should be aware that Management publicly stated during the Company's full year 2005 conference call that net sales for fiscal 2006 should be at least $5.8 million. Unless the Company can make up for the shortfall that occurred earlier this fiscal year during the fourth quarter, it is our view full year results will be shy of full year guidance.

Based on the fact that all multi-year licenses expire by November 2006 and one-year renewals should be forthcoming, acquisitions made during the last nine months, and the release of ClassPharmer™ 4.0 and DDDPlus™ 2.0 products, we anticipate net sales growth for simulations software products in fiscal 2006 of approximately 39.7% to $2.889 million. Our anticipated net sales for the Words+ subsidiary for fiscal 2006, is essentially flat versus last year at $2.675 million.

We are adjusting slightly our net sales forecast for fiscal 2007 to $6.535 million versus our prior estimate of $6.395 million. Our estimate is based on the continued renewal of software licenses and expansion of existing customers through new product offerings, as well as enhancements to existing products, and the hiring of additional professionals in its Life Sciences department. We anticipate net sales growth for simulations software products in fiscal 2007 of approximately 30.0% to $3.755 million. Our net sales expectation for the Words+ subsidiary for fiscal 2007 is $2.780 million, which is essentially flat versus fiscal 2006.

The table below illustrates the cost structure we anticipate for fiscal 2006 and 2007, versus actual results achieved in 2005.

Cost Structure

	2005	2006E		2007E	
	Actual	**Prior**	**Revised**	**Prior**	**Revised**
Gross Margin	68.27%	71.50%	72.28%	74.20%	74.21%
SG&A expenses (as a Percent of Net Sales)	51.00%	49.84%	50.45%	45.35%	45.29%
Research and Development (as a Percent of Net Sales)	11.04%	8.74%	8.37%	9.39%	9.19%
Operating Margin	6.23%	12.91%	13.46%	19.46%	19.74%
Pre-tax Margin	7.32%	13.41%	13.99%	20.18%	20.44%

Source: Company filings and Taglich Brothers estimates

Based on our net sales and cost structure estimates, EBITDA should approach $1.109 million in fiscal 2006 and grow to $1.730 million, versus EBITDA of $0.503 million in fiscal 2005. Our net income forecasts are now $0.630 million or $0.16 per diluted share in fiscal 2006 and $1.001 million or $0.24 per diluted share in fiscal 2007. Our prior net income forecasts were $0.571 million or $0.14 per diluted share and $0.956 million or $0.23 per diluted share, respectively for fiscal 2006 and 2007. Our EPS forecast for fiscal 2006 and 2007 are based on average fully diluted shares of 3.994 and 4.146 million, respectively. ***(Investors need to be aware that are per share forecast is before the effect of the two-for-one stock split that becomes effective August 14, 2006. At the time per the Company's aggregate share count will double with per share amounts, and the stock price will be cut in half).***

Our net income estimate for fiscal 2006 and 2007 assumes that the Company will pay or record taxes at the 19.0% and 25.1% rates, respectively. In fiscal 2005, the Company recorded a tax rate of 24.66%. We estimate that the Company has federal net operating loss (NOL) carryforwards of approximately $2.2 million, which expire through 2024. Also, we estimate that the Company has state net operating loss carryforwards of less than $1.0 million that begin to expire in 2006. Investors should be aware that the Company in future periods may

reassess its deferred tax valuation, which could impact bottom line results. Since this involves the judgment of Management, we have not included any such changes to the deferred tax valuation in our estimates.

Risks

Growth Management
Investors need to be aware that as the Company becomes increasingly successful, it must meet the challenges associated with growth. If the Company is not successful in meeting these challenges, its business will be adversely impacted.

Additionally, Management believes that future success will depend on the ability to attract, hire, and retain qualified personnel in order to expand the Company's overall intellectual knowledge base.

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

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

Customer Concentration
International sales accounted for 25.3% and 30.8% of net sales for the fiscal years ended August 31, 2005 and 2004, respectively. For simulation software sales, one customer accounted for 24.0% of net sales for the year ended August 31, 2005, and four customers represented approximately 65.0% of the net accounts receivable. For the Words+ subsidiary, one government agency accounted for 20.0% of net sales during the fiscal year 2005, and one customer represented approximately 25.0% of the net accounts receivable.

For the third quarter of fiscal 2006, three customers accounted for 69% of simulation software sales and one government agency accounted for 17% of net sales in the Words+, Inc. subsidiary.

Revenue Recognition
Simulation Plus accounts for the licensing of software in accordance with American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 97-2 (Software Revenue Recognition). The application of SOP 97-2 requires judgment, including whether a software arrangement includes multiple elements, and if so, whether vendor-specific objective evidence (VSOE) of fair value exists for those elements.

The end users receive certain elements of its products over a period of time. These elements include free post-delivery telephone and e-mail support and the right to receive unspecified upgrades/enhancements. In accordance with SOP 97-2, Management has evaluated these agreements and recognized the entire license fee on the date the software is delivered to and accepted by the customer. In order to recognize the fee in this manner, the Company must meet all the criteria required, including:

- The post contract customer support (PCS) fee is included in the initial licensing fee;
- The PCS included with the license is for one year or less;
- The estimated cost of providing the PCS during the arrangement is insignificant; and
- Unspecified upgrades/enhancements during the PCS arrangements have been and are expected to continue to be minimal and infrequent.

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

Accounting Pronouncements

In December 2004, the FASB issued Statement of Accounting Standard No. 123R, Share-Based Payment, a revision of SFAS No. 123, Accounting for Stock-Based Compensation. SFAS 123R requires all companies to measure compensation expense for all share-based payments (including employee stock options and options issued pursuant to employee stock purchase plans) based upon the fair value of the stock-based awards at the date of grant, and is effective for the Company for fiscal year beginning after December 15, 2005. The impact of adoption of Statement 123R cannot be predicted at this time because it will depend on levels of share-based payments granted in the future.

Seasonality

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

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

Intellectual Property Rights

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

Government Regulation

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

Vendor(s)

The Company's subsidiary purchases most of the notebook computers for its disability related computer products from a single vendor. In addition, it uses a number of pictographic symbols that are used in its software products which are licensed from a third party. The inability of the Company to obtain computers used in its products or to renew its licensing agreement to use pictographic symbols could negatively impact its financial position, results of operations, and cash flows.

Legal Issues

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

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

Foreign Exchange Risks

Even though most of the Company's transactions are in U.S. dollars, revenues are generated from overseas customers. Specifically, the Company is compensated in Japanese yen by most Japanese customers. During the first nine months of fiscal 2006, the Company experienced a gain from currency exchange. If foreign currency transactions increase significantly, then SLP may mitigate this effect through foreign currency forward contracts whose market-to-market gains or losses are recorded in other income or expense at the time of the transaction. To date, exchange rate exposure has not resulted in a material impact.

Federal Reserve

Investors should be aware that if the Federal Reserve continues increasing interest rates (over the last seventeen meetings it has increased rates 25 basis points each time), it is likely to have a negative impact on valuation multiples.

Miscellaneous Risk

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

Trading Volume

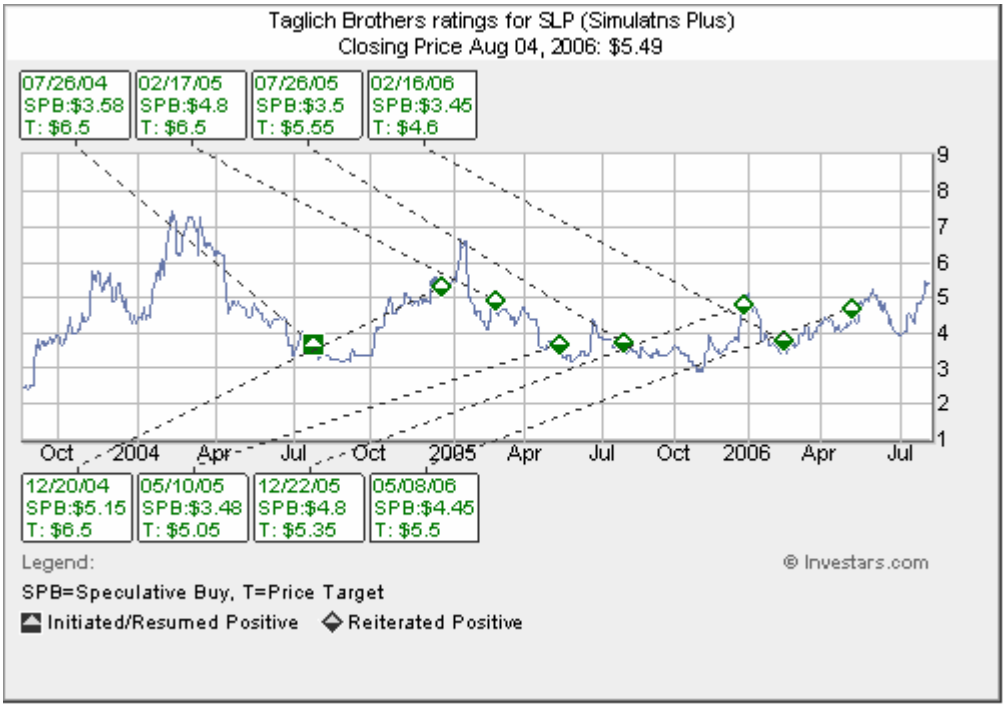
Liquidity is a potential concern. Based on our calculations, the average daily-volume during calendar 2004 increased to approximately 8,340 shares from 7,685 shares in calendar 2003. During calendar 2005 average daily-volume decreased to 4,424 shares a day. During the first seven months of calendar 2006, average daily-volume increased to 6,242 shares a day. Since the July 20, 2006 announcement that the Company's Board of Directors approved a two-for-one stock split, average daily volume has increased to 8,122 shares traded a day. Investors need to be aware that by nature a thinly traded equity can have significant price volatility.

Valuation/Conclusion

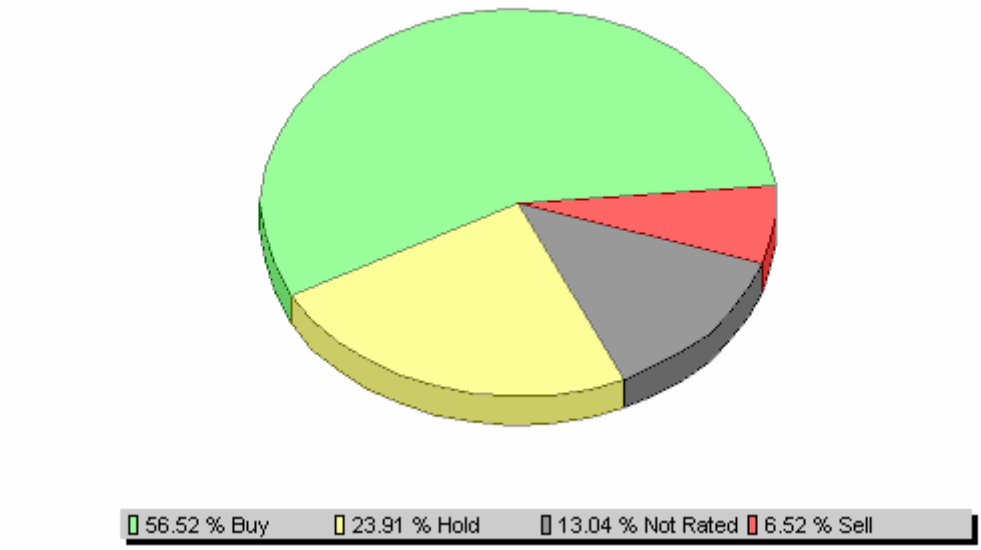
We are maintaining coverage of Simulations Plus, Inc. (AMEX: SLP) with a Speculative Buy recommendation and setting our twelve-month price target at $6.35 per share (pre-split, the Company will effect a two-for-one stock split August 14, 2006) from our prior price target of $5.50 per share. The increase in our price target is primarily due to the positive growth prospects we anticipate for fiscal 2007.

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

- A 5.55X, price-to-sales multiple, which is the trailing twelve-month multiple (as of 08/04/06) for the Software and Programming Industry (according to investor.reuters.com), applied to our net sales estimate of $1.58 per share for fiscal 2007; and
- A 29.50X, price-to-earnings multiple, which is the trailing twelve-month multiple (as of 08/04/06) for the Software and Programming Industry (according to investor.reuters.com), applied to our EPS estimate of $0.24 per share for fiscal 2007.



Taglich Brothers Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months

Rating	#	%
Buy	1	3.33%
Hold	0	0
Sell	0	0
Not Rated	1	6.66%

Meaning of Ratings

Buy

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

Speculative Buy

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

Neutral

We will remain neutral pending certain developments.

Underperform

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

Sell

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

Some notable Risks within the Microcap Market

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

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

Public Companies mentioned in this report:

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

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

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

	August 2004 Fiscal Year End	August 2005 Fiscal Year End	Nov. 2005 1st Qtr End	Feb. 2006 2nd Qtr End	May 2006 3rd Qtr End
ASSETS					
Current assets:					
Cash	$ 734	$ 1,754	$ 932	$ 1,068	$ 1,099
Accounts receivable, net	1,705	1,098	815	992	1,571
Inventory	359	281	313	242	232
Deferred tax	186	60	86	50	83
Prepaid expense and other current assets	116	81	60	33	55
Total current assets	**3,100**	**3,274**	**2,206**	**2,386**	**3,040**
Long term receivables, net of present value discount	-	-	288	340	294
Capitalized computer software development costs, net	576	937	1,279	1,309	1,322
Property and Equipment, net	66	87	89	108	103
Customer relationships	-	-	128	118	109
Deferred tax	1,210	1,252	1,294	1,252	1,146
Other assets	11	11	29	29	19
Total assets	**$ 4,964**	**$ 5,561**	**$ 5,313**	**$ 5,542**	**$ 6,034**
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Accounts payable	153	91	124	184	159
Accrued payroll and other expenses	219	399	382	309	309
Accrued bonuses to officers	78	39	39	-	58
Accrued income taxes	2	2	-	-	-
Accrued warranty and service costs	32	28	32	36	32
Current portion of deferred revenue	11	132	65	14	73
Other current liabilities	-	-	-	2	1
Current portion of capitalized lease obligations	-	-	-	-	-
Total current liabilities	**495**	**690**	**642**	**545**	**633**
Capital lease obligations, net of current portion	3	-	-	-	-
Deferred Revenue	20	9	6	-	-
Stockholders' equity:					
Common stock, no par value; authorized 20,000,000 shares;	4	4	4	4	4
Additional paid-in capital	4,990	5,144	5,146	5,228	5,247
Accumulated deficit	(548)	(285)	(484)	(235)	151
Total stockholders' equity	**4,446**	**4,862**	**4,666**	**4,997**	**5,401**
Total liabilities and stockholders' equity	**$ 4,964**	**$ 5,561**	**$ 5,313**	**$ 5,542**	**$ 6,034**
SHARES OUT	3,564	3,649	3,650	3,691	3,703

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

	FY2003A	FY2004A	FY2005A	**FY2006E**	**FY2007E**
Net sales	5,485	5,207	4,753	**5,564**	**6,535**
Cost of sales	1,538	1,557	1,508	**1,542**	**1,685**
Gross Profit	3,947	3,650	3,244	**4,022**	**4,850**
Gross Margins	71.96%	70.09%	68.27%	**72.28%**	**74.21%**
Operating Expenses:					
Selling, general, and administrative	2,302	2,508	2,424	**2,807**	**2,960**
Research and development	380	515	525	**465**	**600**
Total Operating Expenses	2,681	3,023	2,948	**3,272**	**3,560**
EBITDA	1,461	850	503	**1,109**	**1,730**
Operating Income (loss)	1,265	626	296	**749**	**1,290**
Operating Margin	23.07%	12.03%	6.23%	**13.46%**	**19.74%**
Other income (expense)					
Interest income	0	73	43	**22**	**46**
Interest expense	(5)	(1)	(1)	**(0)**	-
Gain (Loss) on exhange of currency	-	-	(7)		
Loss on sale of assets	(2)	-	15	**8**	-
Total Other Income (expense)	(7)	72	52	**29**	**46**
Pre-Tax Income (loss)	1,258	699	348	**778**	**1,336**
Pre-Tax Margins	22.94%	13.42%	7.32%	**13.99%**	**20.44%**
Income Tax Expense (Benefit)	43	(138)	86	**148**	**335**
Release of valuation allowance	(1,291)	-	-	**-**	-
Tax Rate	NMF	-19.73%	24.66%	**19.02%**	**25.08%**
Net income (loss)	$ 2,506	$ 836	$ 262	**$ 630**	**$ 1,001**
Earnings per share -- Diluted	$ 0.67	$ 0.21	$ 0.07	$ 0.16	$ 0.24
Avg Shares Outstanding	3,740	3,895	3,981	**3,994**	**4,146**
Percent of Revenue					
Selling, general, and administrative	41.97%	48.17%	51.00%	50.45%	45.29%
Research and development	6.92%	9.89%	11.04%	8.37%	9.19%
YEAR / YEAR GROWTH					
Total Revenues	23.42%	-5.07%	-8.72%	17.07%	17.46%

Simulations Plus, Inc.
Income Statement Model
For the Year Ended August 31, 2004
(in thousands)

	Q1(11/03)A	Q2 (02/04)A	Q3 (05/04)A	Q4 (08/04)A	**FY2004A**
Net sales	1,139	1,369	1,233	1,466	**5,207**
Cost of sales	352	460	383	363	**1,557**
Gross Profit	787	909	850	1,103	**3,650**
Gross Margins	*69.11%*	*66.41%*	*68.96%*	*75.25%*	**70.09%**
Operating Expenses:					
Selling, general, and administrative	606	734	622	547	**2,508**
Research and development	143	154	118	100	**515**
Total Operating Expenses	749	888	740	646	**3,023**
EBITDA	98	89	150	512	**850**
Operating Income (loss)	38	21	111	457	**626**
Operating Margin	*3.32%*	*1.55%*	*8.96%*	*31.16%*	**12.03%**
Other income (expense)					
Interest income	20	19	22	11	**73**
Interest expense	(0)	(0)	(0)	(0)	**(1)**
Loss on sale of assets	-	-	-	-	**-**
Total Other Income (expense)	20	19	22	11	**72**
Pre-Tax Income (loss)	58	40	133	468	**699**
Pre-Tax Margins	*5.08%*	*2.95%*	*10.75%*	*31.91%*	**13.42%**
Income Tax Expense (Benefit)	11	8	-	(157)	**(138)**
Release of valuation allowance	-	-	-	-	**-**
Tax Rate	*19.30%*	*19.30%*	*0.00%*	*-33.53%*	**-19.73%**
Net income (loss)	$ 47	$ 33	$ 133	$ 625	**$ 836**
Earnings per share -- Diluted	$ 0.01	$ 0.01	$ 0.03	$ 0.16	$ 0.21
Avg Shares Outstanding	4,128	4,209	4,046	3,895	**3,895**
Percent of Revenue					
Selling, general, and administrative	53.20%	53.61%	50.44%	37.29%	48.17%
Research and development	12.59%	11.25%	9.57%	6.80%	9.89%
YEAR / YEAR GROWTH					
Total Revenues	5.68%	22.21%	-2.17%	-27.66%	-5.07%

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

	Q1(11/04)A	Q2 (02/05)A	Q3 (05/05)A	Q4 (08/05)A	**FY2005A**
Net sales	1,066	1,032	1,424	1,230	**4,753**
Cost of sales	322	371	428	387	**1,508**
Gross Profit	744	661	996	843	**3,244**
Gross Margins	*69.80%*	*64.06%*	*69.93%*	*68.54%*	**68.27%**
Operating Expenses:					
Selling, general, and administrative	632	535	645	612	**2,424**
Research and development	114	131	134	146	**525**
Total Operating Expenses	746	667	779	757	**2,948**
EBITDA	41	51	272	139	**503**
Operating Income (loss)	(1)	(6)	218	86	**296**
Operating Margin	*-0.12%*	*-0.55%*	*15.28%*	*6.96%*	**6.23%**
Other income (expense)					
Interest income	17	15	7	5	**43**
Interest expense	(0)	-	(0)	(0)	**(1)**
Gain (Loss) on exhange of currency	2	-	(5)	(4)	**(7)**
Loss on sale of assets	5	-	3	7	**15**
Total Other Income (expense)	24	15	6	8	**52**
Pre-Tax Income (loss)	23	9	223	93	**348**
Pre-Tax Margins	*2.11%*	*0.86%*	*15.67%*	*7.59%*	**7.32%**
Income Tax Expense (Benefit)	-	-	50	36	**86**
Release of valuation allowance	-	-	-	-	**-**
Tax Rate	*0.00%*	*0.00%*	*22.40%*	*38.35%*	**24.66%**
Net income (loss)	$ 23	$ 9	$ 173	$ 58	**$ 262**
Earnings per share -- Diluted	$ 0.01	$ 0.00	$ 0.04	$ 0.02	$ 0.07
Avg Shares Outstanding	4,144	4,115	3,958	3,705	**3,981**
Percent of Revenue					
Selling, general, and administrative	59.26%	51.90%	45.25%	49.74%	51.00%
Research and development	10.66%	12.72%	9.41%	11.84%	11.04%
YEAR / YEAR GROWTH					
Total Revenues	-6.35%	-24.62%	15.51%	-16.10%	-8.72%

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

	Q1(11/05)A	Q2 (02/06)A	Q3 (05/06)A	Q4 (08/06)E	**FY2006E**
Net sales	819	1,482	1,788	1,475	**5,564**
Cost of sales	332	387	433	390	**1,542**
Gross Profit	487	1,095	1,355	1,085	**4,022**
Gross Margins	*59.50%*	*73.88%*	*75.76%*	*73.55%*	**72.28%**
Operating Expenses:					
Selling, general, and administrative	629	688	796	695	**2,807**
Research and development	97	120	119	130	**465**
Total Operating Expenses	726	807	914	825	**3,272**
EBITDA	(181)	380	544	365	**1,109**
Operating Income (loss)	(239)	287	441	260	**749**
Operating Margin	*-29.16%*	*19.39%*	*24.64%*	*17.63%*	**13.46%**
Other income (expense)					
Interest income	3	6	4	8	**22**
Total Other Income (expense)	(2)	13	19	8	**29**
Pre-Tax Income (loss)	(241)	300	460	268	**778**
Pre-Tax Margins	*-29.38%*	*20.24%*	*25.71%*	*18.17%*	**13.99%**
Income Tax Expense (Benefit)	(42)	52	74	65	**148**
Release of valuation allowance	-	-	-	-	**-**
Tax Rate	*17.46%*	*17.17%*	*16.00%*	*24.25%*	**19.02%**
Net income (loss)	$ (199)	$ 248	$ 386	$ 203	**$ 630**
Earnings per share -- Diluted	$ (0.05)	$ 0.06	$ 0.09	$ 0.05	$ 0.16
Avg Shares Outstanding	3,649	4,090	4,113	4,125	**3,994**
Percent of Revenue					
Selling, general, and administrative	76.79%	46.41%	44.48%	47.12%	50.45%
Research and development	11.87%	8.08%	6.64%	8.80%	8.37%
YEAR / YEAR GROWTH					
Total Revenues	-23.22%	43.62%	25.54%	19.92%	17.07%

Simulations Plus, Inc.
Income Statement Model
For the Year Ended August 31, 2007
(in thousands)

	Q1(11/06)E	Q2 (02/07)E	Q3 (05/07)E	Q4 (08/07)E	**FY2007E**
Net sales	1,395	1,525	1,915	1,700	**6,535**
Cost of sales	365	385	490	445	**1,685**
Gross Profit	1,030	1,140	1,425	1,255	**4,850**
Gross Margins	*73.83%*	*74.75%*	*74.40%*	*73.83%*	**74.21%**
Operating Expenses:					
Selling, general, and administrative	700	710	815	735	**2,960**
Research and development	150	150	150	150	**600**
Total Operating Expenses	850	860	965	886	**3,560**
EBITDA	290	390	570	480	**1,730**
Operating Income (loss)	180	280	460	370	**1,290**
Operating Margin	*12.93%*	*18.36%*	*24.01%*	*21.75%*	**19.74%**
Other income (expense)					
Interest income	9	10	12	15	**46**
Total Other Income (expense)	9	10	12	15	**46**
Pre-Tax Income (loss)	189	290	472	385	**1,336**
Pre-Tax Margins	*13.58%*	*19.01%*	*24.64%*	*22.64%*	**20.44%**
Income Tax Expense (Benefit)	50	75	110	100	**335**
Release of valuation allowance	-	-	-	-	**-**
Tax Rate	*26.40%*	*25.88%*	*23.32%*	*25.98%*	**25.08%**
Net income (loss)	$ 139	$ 215	$ 362	$ 285	**$ 1,001**
Earnings per share -- Diluted	$ 0.03	$ 0.05	$ 0.09	$ 0.07	$ 0.24
Avg Shares Outstanding	4,130	4,140	4,150	4,165	**4,146**
Percent of Revenue					
Selling, general, and administrative	50.15%	46.55%	42.55%	43.25%	45.29%
Research and development	10.75%	9.85%	7.84%	8.83%	9.19%
YEAR / YEAR GROWTH					
Total Revenues	70.37%	2.89%	7.09%	15.29%	17.46%

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

	FY2004A	FY2005A	9 Mos. 2006A
Cash Flows from Operating Activities			
Net Income (loss)	$ 836	$ 262	$ 436
Depreciation and amortization of property and equipment	43	43	34
Amortization of capitalized software development	181	164	202
Amortization of customer relationships	-	-	19
Loss on sale of assets	-	(15)	(8)
	1,060	454	683
Changes In:			
Accounts receivable	(12)	608	(321)
Inventory	(152)	77	50
Deferred tax	(105)	84	83
Other assets	(50)	35	18
Accounts payable	(22)	(62)	68
Accrued payroll and other expenses	(20)	177	(89)
Accrued bonuses to officers	(56)	(39)	19
Income taxes	(41)	-	(2)
Accrued warranty and service costs	(12)	(5)	5
Deferred revenue	(15)	110	(68)
Net Changes in Working Capital	(485)	985	(236)
Net cash Provided by Operations	575	1,438	447
Cash Flows from Investing Activities			
Purchase of property and equipment	(44)	(71)	(52)
Purchases of Bioreason's assets	-	-	(826)
Capitalized computer software development costs	(221)	(475)	(342)
Proceeds from sale of assets	-	23	15
Cash Flows from Investing Activities	(265)	(522)	(1,205)
Cash Flows from Financing Activities			
Payments on capitalized lease obligations	(4)	-	-
Proceeds from the exercise of stock options	168	104	103
Net cash provided by Financing	164	104	103
Net change in Cash	474	1,020	(655)
Cash Beginning of Period	261	734	1,754
Cash End of Period	$ 734	$ 1,754	$ 1,099