

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

December 26, 2006

SLP \$5.73 — (AMEX)

	FY (08/04)A	FY (08/05) A	FY (08/06) A	FY (08/07) E
Net sales (in millions)	\$5.21	\$4.75	\$5.86	\$7.16
Earnings per share	\$0.11	\$0.03	\$0.08	\$0.18
52-Week range*	\$5.89 – \$1.73		Fiscal year ends:	August
Shares outstanding <small>a/o 11/21/06*</small>	7.37 million		Revenue/shares (ttm)*	\$0.73
Approximate float*	3.26 million		Price/Sales (ttm)*	7.85X
Market Capitalization	\$42 million		Price/Sales (2007)E*	6.59X
Tangible Book value/shr	\$0.58		Price/Earnings (ttm)*	71.6X
Price/Book*	9.9X		Price/Earnings (2007)E*	31.8X

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

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

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 \$6.60 per share from our prior price target of \$3.18 per share. The increase in our price target is due to the positive growth prospects we anticipate for fiscal 2007 and an increase in industry P/E valuation multiples.

The Company reported full year fiscal 2006 net sales of \$5.855 million versus \$4.753 million in the same period last year. Operating income for the year was \$0.833 million versus \$0.296 million. Net income was \$0.676 million or \$0.08 per diluted share versus \$0.262 million or \$0.03 per share.

On August 31, 2006, Simulations Plus, Inc. announced it signed a new, multi-year consulting contract with a top ten pharmaceutical company that will significantly fund the further development of its flagship GastroPlus™ software program. According to Management, the value of contract is the equivalent of some of the Company's larger software licenses and will add to both revenues and earnings over the next two years.

Based on results for fiscal 2006, current licensing trends and renewals, as well as Management's public statements during the Company's year-end conference call, we are adjusting our forecasts for fiscal 2007. Our net sales and net income forecasts are \$7.155 million and \$1.440 million or \$0.18 per diluted share, respectively. Our prior forecasts called for net sales and net income of \$6.535 million and \$1.001 million or \$0.12 per diluted share, respectively.

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

The Company

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

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 August 31, 2006, Simulations Plus announced it signed a new, multi-year consulting contract with a top ten pharmaceutical company that will significantly fund the further development of its flagship GastroPlus™ software program. While the terms of consulting contract are confidential, the value of contract is the equivalent of some of the Company's larger software licenses and is expected to add to both revenues and earnings over the next two years.

On October 3, 2006, the Company announced that it received a purchase order for a 5-year license for its ClassPharmer™ software for the National Institute of Health Sciences (NIHS) in Japan. According to the press release, NIHS has been using the Company's new ClassPharmer™ 4.1 version since early in 2006 and has experienced a dramatic increase in speed and utility of the program. The Company's CFO stated that under SLP's revenue recognition policy for multi-year contracts, it will recognize the revenue from this order ratably over the next five years.

On November 27, 2006, Simulations Plus, announced it released ClassPharmer™ version 4.2. This new version offers additional technical features that improve its classification algorithms. Also, it offers full integration with Scitegic's (a developer of enterprise informatics software for the scientific discovery and development industries) widely used Pipeline Pilot™ software. Pipeline Pilot™ is a high-throughput data analysis and mining system for drug discovery informatics. According to Management, this integration will allow chemists to incorporate ClassPharmer's algorithms directly into their workflows, which should enhance their ability to analyze complex high throughput screening data.

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

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

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 the Company's software has resulted in such savings.

SLP provides the following software offerings:

- **ADMET Predictor™/ADMET Modeler™** was released during September 2006, and accomplished the goal of merging ADMET Modeler™ into ADMET Predictor™ 2.0 for the creation of a more convenient package and enhance the competitive posture of ADMET Predictor™. The ADMET Predictor™ component is:
 - An advanced 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. It also generates predictions for approximately 50 properties (including seven toxicity predictions), and provides estimates which can be used as inputs for GastroPlus. The capabilities of the program means a chemist can draw a molecule diagram and get reasonable estimates of these properties, even through the molecule has never existed.

The ADMET Modeler™ component:

- 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. 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. The component also was upgraded to support vector machine ensemble modeling (including classification models), as well as regression models. The most recent improvements to the Modeler component includes:
 - 1) A new, state-of-the-art modeling method known as Kernel Partial Least Squares (KPLS);
 - 2) An advanced method for selecting the best model among a matrix of models that each use different numbers of inputs and different model architectures;
 - 3) An improved methods for the sensitivity analysis that helps to select the most important inputs for a particular model; and
 - 4) An integrated Model Editor that allows users to easily hide or display models, as well as to change the tooltips that appears when the mouse is paused over any model column.

- **ClassPharmer™** was acquired (during November 2005) by the Company through the acquisition of certain assets of Bioreason, Inc. from its former creditors. The acquisition also included two patents governing classification algorithms, a database of over 5,000 measurements of potential toxicity in a particular cell culture, and a database of over 1,800 pharmaceutical industry contacts. On March 16, 2006, the Company announced the release of ClassPharmer™ 4.0, which was developed by combining the ChemTK™ software the Company acquired from Sage Informatics, LLC in August 2005 with the ClassPharmer 3.5 software it acquired in November 2005. According to public statements made by Management, the 4.0 version was more than ten times faster than ClassPharmer 3.5, and added a number of valuable features from ChemTK™ that provide additional utility to discovery chemists. On November 27, 2006, the Company announced that version 4.2 was released. This new version offers additional technical features that improve its classification algorithms (see recent developments for additional details).
- **DDDPlus™** is an important new and unique tool for formulation scientists, which enables them to predict how changes in formulation or changes in experimental setup are likely to affect dissolution rate in laboratory experiments. Dissolution rate is a critical parameter in the development of new dosage forms, in the making generic versions of existing drugs, and in the quality control for production. On April 6, 2006, the Company announced the release of DDDPlus™ 2.0, which Management believes is a major revision of the original version released in early 2005. This new version includes suggested changes from over 60 evaluators of the original version, as well as adding the ability to simulate new types of formulations and to optimize experimental designs to better match desired dissolution versus time profiles observed in human and animals. According to the Company's 10-K filing, a number of additional suggestions were received and incorporated into Version 2.1, which was released during the first quarter of fiscal 2007. No DDDPlus licenses were sold during the fourth quarter of fiscal 2006; however, two were sold during the first quarter of fiscal 2007, and approximately 35 companies have requested evaluation copies.
- **GastroPlus™** simulates absorption, pharmacokinetics (PK) (the process by which a drug is absorbed, distributed, metabolized, and eliminated by the body), and pharmacodynamics (PD) (the combination of therapeutic and adverse effects on the body for orally dosed and injected drugs). In the drug development phase, GastroPlus is designed to aid researchers in dosage formulation, the effects of various controlled release profiles, and evaluation of heterogeneous variations in physiology and transit times. On April 25, 2006, SLP announced the release of version 5.1, which adds the ability for formulation scientists to use a distribution of different particle sizes to represent a dose. This addition allows formulation scientists to simulate the dissolution of solid drug particles of various sizes, rather than using an average size to represent all particles. The advantage of having a distribution is that smaller particles dissolve faster than large particles, so the dissolution versus time behavior is more accurately simulated with a distribution. Version 5.0 included the PBPKPlus™ Module (an extension module for GastroPlus that enables researchers to predict the amount of drug that reaches different body tissues and organs). Management believes this provides the best known method for predicting human pharmacokinetics from animal and in-vitro data. According to the Company's 10-K filing, its marketing intelligence indicates that GastroPlus enjoys a dominant position in the number of users worldwide. This is why Management believes this offering is the "gold standard" in the industry for its class of simulation software. On November 30, 2006, the Company announced the release of version 5.2, which adds a significant number of user convenience features, as well as expanded simulation. Some new features provide greater accuracy for certain types of simulations, while other new features allow users to generate and visualize simulation results in more convenient ways.

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

Under Development

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

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

Competitive Environment

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

Market Drivers

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

- \$50 billion annual pharmaceutical industry R&D expenditures worldwide;
- The call for model-based drug development. At the last two annual R&D Leaders Forum conferences, several high-level speakers from the FDA and industry emphasized the need for this type of drug development;
- \$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 continues to enhance its major software products, E Z Keys and Say-it! SAM, as well as a growing line of hardware products.

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

software for personal computers in March 2006, allowing SAM to be distributed on virtually any Windows XP desktop or laptop computer and according to the fourth quarter earnings conference call a migration to Microsoft's new operating system VISTA should occur during calendar 2007. It is Management's belief that the SAM offerings are in demand in the augmentative communication system market.

Marketing and Distribution

As of August 31, 2006, the Company had 37 sales representatives worldwide including:

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

Additional outside sales persons and independent dealers and resellers are being actively recruited.

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

Competition

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

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

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

For the twelve-month period ended August 31, 2006, versus the twelve-months ended August 31, 2005:

- Net sales increased to \$5.855 million versus \$4.753 million. Taglich Brothers' estimate called for net sales of \$5.564 million;
- Gross margins increased to 72.60% versus 68.27%;
- SG&A expenses increased to \$2.972 million versus \$2.423 million. However, as a percentage of net sales SG&A expenses declined to 50.76% versus 51.00%;
- Research and development expenses decreased to \$0.445 million versus \$0.525 million;
- Operating income improved to \$0.833 million versus \$0.296 million; and
- Net income of \$0.676 million or \$0.08 per share versus net income of \$0.262 million or \$0.03 per diluted share. Taglich Brothers' estimate called for net income of \$0.630 million or \$0.08 per diluted share.

Management attributed the 23.2% increase in year-over-year net sales to a 54.0% (or \$1.118 million) from pharmaceutical and educational software. The growth was primarily due to increased licenses for GastroPlus™ and ADMET Predictor™ software, as well as licenses of ClassPharmer™ software, which was acquired during November 2005.

Mitigating the overall increase in net sales was a slight decrease in sales of 0.6% (or \$0.015 million) from the Company's Words+ subsidiary. The decrease was primarily due to lower sales of TuffTalker and Freedom products, 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 433 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 \$0.549 million increase in SG&A expenses versus the same period last year was the result of commissions and trade shows, annual bonuses to the Company's President and Corporate Secretary, higher stipend paid to the outside members of the Board of Directors for the first time since the Company incorporated, recruitment expenses related to staff additions, legal and accounting fees, and salary increases along with payroll-related expenses such as health insurance, payroll taxes and 401k matching contributions. Investors should note that as a percentage of net sales, SG&A expenses for the current period declined to 50.8% versus 51.0% in the same period last year.

Balance Sheet Snapshot as of August 31, 2006

The Company had cash of \$1.685 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, which was almost completely offset from cash generated from operations. Working capital was \$3.050 million versus \$2.584 million as of August 31, 2005. Total assets, which stood at \$6.513 million, are primarily comprised of cash, inventory, accounts receivable (that totaled \$3.705 million) and a deferred tax asset of \$0.991 million.

Also, the Company had total liabilities of \$0.845 million, retained earnings of \$0.390 million, and total shareholders' equity of \$5.669 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.

Outlook

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

This should be accomplished through continued exposure at large conferences around the world and an increase in the Company's sales personnel. According to the Company's SEC filings, members of its staff have been speakers or presenters at over 40 prestigious scientific meeting worldwide over the past three years. In addition, Management has publicly stated that it will add to its scientific staff. According to the Company's 10-K filing, it increased the number of Ph.D.'s on its staff by four (nine at the end of fiscal 2006 versus five at the end of fiscal 2005). The increase in its professional staff is important since they all have the 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™ 4.1), but increased by approximately 30 its customer base, as well as adding approximately 1,800+ names to its database of potential customers;
- The investment to acquire and advance its ClassPharmer™ product line has exceeded the original acquisition costs. Total revenues for ClassPharmer™ license renewals and new licenses, along with monies received from the accounts receivable have exceeded the \$1.0 million mark;
- In fiscal 2006, the Company began selling multi-year licenses on an annual basis. Management believes this should eliminate the extreme lumpiness in reported top and bottom line results the Company experienced in the past;
- In fiscal 2007, year-over-year revenue is expected to increase by at least \$1.0 million, due to an increase in the Company’s customer base;
- On December 14, 2006, the Company announced F. Hoffmann-LaRoche renewed and expanded its global licenses of GastroPlus™ for two additional years. Based on SEC filings, the prior global licenses from this customer was approximately \$1.5 million (over a three year term) or approximately \$0.500 million per year; and
- On December 21, 2006, Simulations Plus announced it received a purchase order from a top five pharmaceutical company for expanded global licenses. According to Management, this is a renewal of a global license that slipped from the first quarter of fiscal 2006 to the second quarter of fiscal 2006. Based on SEC filings, the prior revenue from this global license was approximately \$0.300 million.

We believe that the Words+ subsidiary will continue to be run profitably in fiscal 2007. Aiding Management’s efforts in this subsidiary is expansion of platforms for SAM™ software and internationalization of the software into the French and German markets.

Projections

Based on results for fiscal 2006, current licensing trends and renewals, as well as Management’s public statements during the Company’s year-end conference call, we are adjusting our net sales forecast for fiscal 2007 to \$7.155 million versus our prior estimate of \$6.535 million. Our estimate is based on the continued renewal of software licenses (i.e., F. Hoffmann-LaRoche renewal) and expansion of existing customers through new product offerings, as well as enhancements to existing products, and the hiring of additional professionals in its Life Sciences department. We anticipate net sales growth for simulations software products in fiscal 2007 of approximately 40.7% to \$4.484 million. Our net sales expectation for the Words+ subsidiary for fiscal 2007 is \$2.671 million, which is essentially flat versus fiscal 2006.

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

Cost Structure

	2005	2006	2007E	
	Actual	Actual	Prior	Revised
Gross Margin	68.27%	72.60%	74.21%	76.52%
SG&A expenses (as a Percent of Net Sales)	51.00%	50.76%	45.29%	44.10%
Research and Development (as a Percent of Net Sales)	11.04%	7.60%	9.19%	6.56%
Operating Margin	6.23%	14.23%	19.74%	25.85%
Pre-tax Margin	7.32%	15.18%	20.44%	26.49%

Source: Company filings and Taglich Brothers estimates

Based on our net sales and cost structure estimates, EBITDA should approach \$2.290 million in fiscal 2007 versus EBITDA of \$1.196 million in fiscal 2006. Our net income forecast is now \$1.440 million or \$0.18 per diluted share in fiscal 2007. Our prior forecast called for net income of \$6.535 million and \$1.001 million or \$0.12 per diluted share. Our EPS forecast for fiscal 2007 is based on average fully diluted shares of 8.243 million. *(Investors need to be aware that all are per share number reflects the effect of the two-for-one stock split that becomes effective August 14, 2006.)*

Our net income estimate for fiscal 2007 assumes that the Company will pay or record taxes at 24.05%. In fiscal 2005 and 2006, the Company recorded tax rates of 24.66% and 23.96%. We estimate that the Company has federal net operating loss (NOL) carryforwards of approximately \$2.7 million, which expire through 2024. Also, the Company has a tax credit, totaling approximately \$0.385 million and \$0.240 million to offset future Federal and State income taxes, respectively. 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 35.0% and 25.0% of net sales for the fiscal years ended August 31, 2006 and 2005, respectively. For simulation software sales, three customers accounted for 42.0%, of net sales for the year ended August 31, 2006, and four customers represented approximately 35.0% of the net accounts receivable. For the Words+ subsidiary, one government agency accounted for 18.0% of net sales during the fiscal year 2006, and one customer represented approximately 12.0% of the net accounts receivable.

Revenue Recognition

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

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

- 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 September 1, 2006. 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.

On April 6, 2006, the Company received notice from a liquidator for the former French subsidiary of Bioreason (Bioreason SARL), saying that the liquidator had initiated legal action against SLP in the French courts with respect to ClassPharmer distribution rights to European customers, and is claiming commissions and legal fees with respect to European customers. Management has been working through the Company's U.S. attorneys and a law firm in Paris. SLP filed a counterclaim for its rights and lost sales against Bioreason SARL's assets by sending a debt recovery declaration to the liquidator on June 15, 2006. Management believes the documentation from the purchase of certain secured assets of Bioreason clearly shows the rights to the disputed accounts. Although, Management is pursuing the Company's rights aggressively, there can be no assurance that the outcome will be favorable. According to the Company's 10-K filing, Management expects resolution of this issue in calendar 2007.

Foreign Exchange Risks

Even though most of the Company's transactions are in U.S. dollars, revenues are generated from overseas customers. Specifically, the Company is compensated in Japanese yen by most Japanese customers. During the first 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 were to resume increasing interest rates (during their August, September, October, and December 2006 meetings the Federal Reserve Board of Governors did not increase the federal funds target rate by 25 basis points as it did in its previous seventeen meetings), it is likely to have a negative impact on valuation multiples.

Miscellaneous Risk

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

Trading Volume

Liquidity is a potential concern. Based on our calculations, the average daily-volume during calendar 2004 increased to approximately 8,340 shares from 7,685 shares in calendar 2003. During calendar 2005 average daily-volume decreased to 4,424 shares a day. During the first eleven months of calendar 2006, average daily-volume increased to 16,330 shares a day. Since the July 20, 2006 announcement that the Company's Board of Directors approved a two-for-one stock split, average daily volume increased to 22,069 shares traded a day (for the period ended October 31, 2006). Investors need to be aware that by nature a thinly traded equity can have significant price volatility.

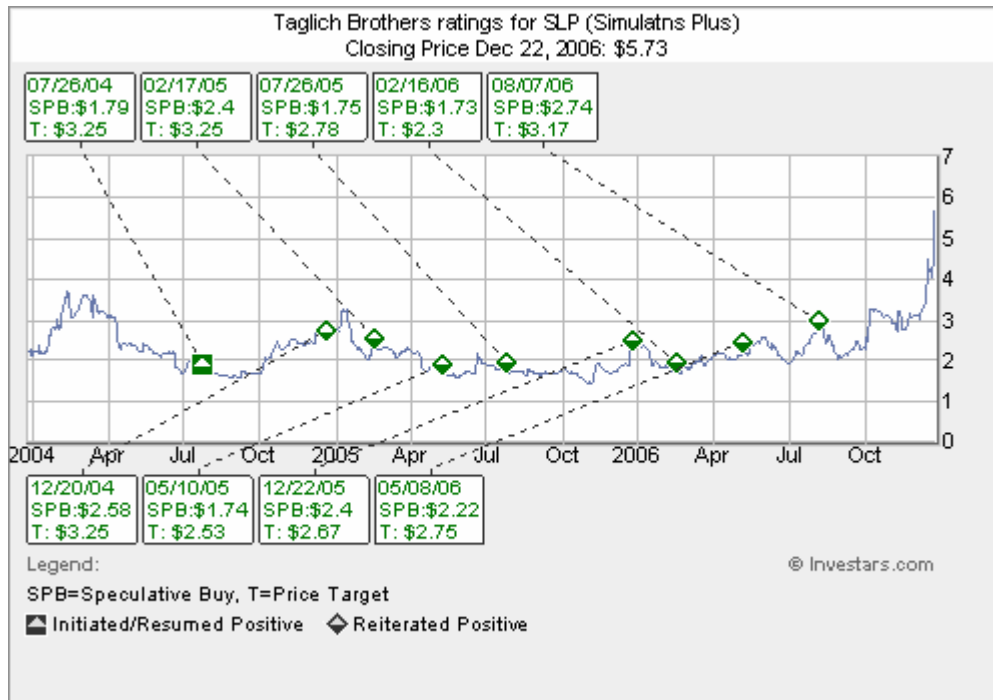
Valuation/Conclusion

We are maintaining coverage of Simulations Plus, Inc. (AMEX: SLP) with a Speculative Buy recommendation and increasing our twelve-month price target at \$6.60 per share from our prior price target of \$3.18 per share. The increase in our price target is primarily due to the positive growth prospects we anticipate for fiscal 2007 and an increase in P/E valuation multiples.

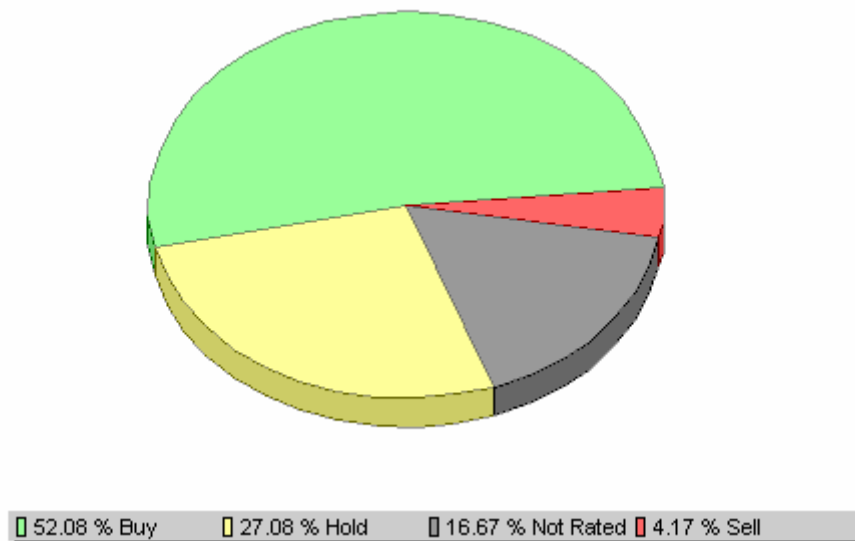
Our price target is based on the following valuation model discounted by 15% to account for microcap risk along with Company specific risks discussed earlier:

- A 43.0X, price-to-earnings multiple, which is the average of the trailing twelve-month multiple and last five year high multiple (as of 12/22/06) for the Software and Programming Industry (according to investor.reuters.com), applied to our EPS estimate of \$0.18 per share for fiscal 2007.

Simulations Plus, Inc.



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	7.69%

Meaning of Ratings

Buy

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

Speculative Buy

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

Neutral

We will remain neutral pending certain developments.

Underperform

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

Sell

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

Some notable Risks within the Microcap Market

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

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

Public Companies mentioned in this report:

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

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

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

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

	August 2004 Fiscal Year End	August 2005 Fiscal Year End	August 2006 Fiscal Year End
ASSETS			
Current assets:			
Cash	\$ 734	\$ 1,754	\$ 1,685
Accounts receivable, net	1,705	1,098	1,589
Contracts receivable, net	-	-	194
Inventory	359	281	237
Deferred tax	186	60	109
Prepaid expense and other current assets	<u>116</u>	<u>81</u>	<u>81</u>
Total current assets	3,100	3,274	3,895
Long term receivables, net of present value discount	-	-	-
Capitalized computer software development costs, net	576	937	1,374
Property and Equipment, net	66	87	96
Contracts receivable	-	-	37
Customer relationships	-	-	100
Deferred tax	1,210	1,252	991
Other assets	<u>11</u>	<u>11</u>	<u>18</u>
Total assets	<u>\$ 4,964</u>	<u>\$ 5,561</u>	<u>\$ 6,513</u>
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	153	91	215
Accrued payroll and other expenses	219	399	364
Accrued bonuses to officers	78	39	99
Accrued income taxes	2	2	2
Accrued warranty and service costs	32	28	35
Current portion of deferred revenue	11	132	129
Other current liabilities	-	-	0
Current portion of capitalized lease obligations	<u>-</u>	<u>-</u>	<u>-</u>
Total current liabilities	495	690	845
Capital lease obligations, net of current portion	3	-	-
Deferred Revenue	20	9	-
Stockholders' equity:			
Common stock, no par value; authorized 20,000,000 shares;	4	4	4
Additional paid-in capital	4,990	5,144	5,274
Accumulated deficit	(548)	(285)	390
Total stockholders' equity	<u>4,446</u>	<u>4,862</u>	<u>5,669</u>
Total liabilities and stockholders' equity	<u>\$ 4,964</u>	<u>\$ 5,561</u>	<u>\$ 6,513</u>
SHARES OUT	3,564	3,649	7,441

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

	<u>FY2004A</u>	<u>FY2005A</u>	<u>FY2006A</u>	<u>FY2007E</u>
Net sales	5,207	4,753	5,855	7,155
Cost of sales	<u>1,557</u>	<u>1,508</u>	<u>1,605</u>	<u>1,680</u>
Gross Profit	<u>3,650</u>	<u>3,244</u>	<u>4,250</u>	<u>5,475</u>
<i>Gross Margins</i>	70.09%	68.27%	72.60%	76.52%
Operating Expenses:				
Selling, general, and administrative	2,508	2,424	2,972	3,155
Research and development	515	525	445	470
Total Operating Expenses	<u>3,023</u>	<u>2,948</u>	<u>3,417</u>	<u>3,625</u>
EBITDA	850	503	1,196	2,290
Operating Income (loss)	626	296	833	1,850
<i>Operating Margin</i>	12.03%	6.23%	14.23%	25.85%
Other income (expense)				
Interest income	73	43	21	46
Interest expense	(1)	(1)	(0)	-
Gain (Loss) on exchange of currency	-	(7)	23	-
Loss on sale of assets	<u>-</u>	<u>15</u>	<u>11</u>	<u>-</u>
Total Other Income (expense)	<u>72</u>	<u>52</u>	<u>56</u>	<u>46</u>
Pre-Tax Income (loss)	699	348	889	1,896
<i>Pre-Tax Margins</i>	13.42%	7.32%	15.18%	26.49%
Income Tax Expense (Benefit)	(138)	86	213	456
Release of valuation allowance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Tax Rate</i>	-19.73%	24.66%	23.96%	24.05%
Net income (loss)	\$ 836	\$ 262	\$ 676	\$ 1,440
Earnings per share -- Diluted	<u>\$ 0.11</u>	<u>\$ 0.03</u>	<u>\$ 0.08</u>	<u>\$ 0.18</u>
Avg Shares Outstanding	7,790	7,961	8,144	8,220
Percent of Revenue				
Selling, general, and administrative	48.17%	51.00%	50.76%	44.10%
Research and development	9.89%	11.04%	7.60%	6.56%
YEAR / YEAR GROWTH				
Total Revenues	-5.07%	-8.72%	23.19%	22.20%

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

	<u>Q1(11/04)A</u>	<u>Q2 (02/05)A</u>	<u>Q3 (05/05)A</u>	<u>Q4 (08/05)A</u>	<u>FY2005A</u>
Net sales	1,066	1,032	1,424	1,230	4,753
Cost of sales	<u>322</u>	<u>371</u>	<u>428</u>	<u>387</u>	<u>1,508</u>
Gross Profit	<u>744</u>	<u>661</u>	<u>996</u>	<u>843</u>	<u>3,244</u>
<i>Gross Margins</i>	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	<u>746</u>	<u>667</u>	<u>779</u>	<u>757</u>	<u>2,948</u>
EBITDA	41	51	272	139	503
Operating Income (loss)	(1)	(6)	218	86	296
<i>Operating Margin</i>	-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 exchange of currency	2	-	(5)	(4)	(7)
Loss on sale of assets	<u>5</u>	<u>-</u>	<u>3</u>	<u>7</u>	<u>15</u>
Total Other Income (expense)	<u>24</u>	<u>15</u>	<u>6</u>	<u>8</u>	<u>52</u>
Pre-Tax Income (loss)	23	9	223	93	348
<i>Pre-Tax Margins</i>	2.11%	0.86%	15.67%	7.59%	7.32%
Income Tax Expense (Benefit)	-	-	50	36	86
Release of valuation allowance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Tax Rate</i>	0.00%	0.00%	22.40%	38.35%	24.66%
Net income (loss)	\$ 23	\$ 9	\$ 173	\$ 58	\$ 262
Earnings per share -- Diluted	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.02</u>	<u>\$ 0.01</u>	<u>\$ 0.03</u>
Avg Shares Outstanding	8,287	8,230	7,916	7,411	7,961
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)

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

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

	<u>Q1(11/06)E</u>	<u>Q2 (02/07)E</u>	<u>Q3 (05/07)E</u>	<u>Q4 (08/07)E</u>	<u>FY2007E</u>
Net sales	1,295	1,975	1,990	1,895	7,155
Cost of sales	<u>310</u>	<u>450</u>	<u>475</u>	<u>445</u>	1,680
Gross Profit	<u>985</u>	<u>1,525</u>	<u>1,515</u>	<u>1,450</u>	5,475
<i>Gross Margins</i>	76.05%	77.20%	76.15%	76.50%	76.52%
Operating Expenses:					
Selling, general, and administrative	725	790	815	825	3,155
Research and development	100	115	120	135	470
Total Operating Expenses	<u>825</u>	<u>905</u>	<u>935</u>	<u>960</u>	3,625
EBITDA	270	730	690	600	2,290
Operating Income (loss)	160	620	580	490	1,850
<i>Operating Margin</i>	12.33%	31.39%	29.15%	25.85%	25.85%
Other income (expense)					
Interest income	<u>10</u>	<u>11</u>	<u>12</u>	<u>13</u>	46
Total Other Income (expense)	<u>10</u>	<u>11</u>	<u>12</u>	<u>13</u>	46
Pre-Tax Income (loss)	170	631	592	503	1,896
<i>Pre-Tax Margins</i>	13.10%	31.95%	29.75%	26.54%	26.49%
Income Tax Expense (Benefit)	31	118	110	197	456
Release of valuation allowance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	-
<i>Tax Rate</i>	18.27%	18.70%	18.58%	39.18%	24.05%
Net income (loss)	\$ 139	\$ 513	\$ 482	\$ 306	\$ 1,440
Earnings per share -- Diluted	<u>\$ 0.02</u>	<u>\$ 0.06</u>	<u>\$ 0.06</u>	<u>\$ 0.04</u>	<u>\$ 0.18</u>
Avg Shares Outstanding	8,210	8,215	8,225	8,230	8,220
Percent of Revenue					
Selling, general, and administrative	56.00%	40.00%	40.95%	43.55%	44.10%
Research and development	7.72%	5.81%	6.05%	7.10%	6.56%
YEAR / YEAR GROWTH					
Total Revenues	58.15%	33.32%	11.26%	7.30%	22.20%

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

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