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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 $1.04 — (NasdaqCM)**

February 4, 2009

| | FY (08/07) A | FY (08/08) A | ***FY (08/09) E*** | ***FY (08/10) E*** |
|---|---|---|---|---|
| Net sales (in millions) | $8.86 | $8.97 | ***$9.63*** | ***$10.52*** |
| Earnings per share | $0.08 | $0.10 | ***$0.11*** | ***$0.13*** |

| | | | |
|---|---|---|---|
| 52-Week range | $3.61 – $0.87 | Fiscal year ends: | August |
| Shares outstanding a/o 01/30/09 | 16.15 million | Revenue/shares (ttm) | $0.51 |
| Approximate float | 9.03 million | Price/Sales (ttm) | 2.0X |
| Market Capitalization | $17 million | Price/Sales (2010)E | 1.7X |
| Tangible Book value/shr a/o 011/30/08 | $0.63 | Price/Earnings (ttm) | 10.4X |
| Price/Book | 1.7X | Price/Earnings (2010)E | 8.00X |

*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 reiterating our Speculative Buy rating on shares of Simulations Plus, Inc. (AMEX: SLP). Also, we are increasing our twelve-month price target to $1.70 per share (prior was $1.55 per share). The increase in the price target is a result of our growth expectations for sales, EBITDA, and tangible book value over the next twelve-month period.***

***On January 14, 2009, SLP announced net sales for the first quarter of fiscal 2009 increased by 7.5% to $2.133 million versus $1.984 million in the same period last year. EBITDA increased to $0.577 million versus $0.483 million in the first quarter of fiscal 2008. Net income improved to $0.312 million or $0.02 per diluted share versus $0.243 million or $0.01 per diluted share in the first quarter of fiscal 2008.***

***On October 23, 2008, the Company announced a share repurchase program. As of January 15, 2009, the Company had repurchased approximately 0.130 million shares for a total cost of approximately $0.127 million.***

***Based on our interpretation of the public comments made by Management during the first quarter of fiscal 2009 conference call, our analysis of financial results, and overall market conditions, we are maintaining our fiscal 2009 forecast, which calls for net sales of $9.63 million and net income of $1.88 million or $0.11 per diluted share (prior was $1.92 million or $0.11 per share). In addition, we are forecasting EBITDA of $3.217 million versus our prior forecast of $3.305 million.***

***Our initial forecast for fiscal 2010 calls for net sales of $10.52 million, EBITDA of $3.75 million, and net income of $2.330 million or $0.13 per diluted share. This initial forecast is based on our belief that Management will continue to grow the business organically, even given the tough macro economic conditions.***

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

***The Company***

Simulations Plus, Inc. (NasdaqCM: 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 17 professionals in research and development, 6 in production, and 6 in marketing and sales. 11 employees have Ph.D.s and one is a Ph.D. candidate. Five others have one or more Master's degrees. SLP continues to seek additional scientists to expand its Life Sciences team.

SLP's net sales are derived from two distinct operations:

- Simulations Plus, Inc., develops and licenses software for pharmaceutical research and development, and performs contract studies for pharmaceutical and biotechnology companies. The Company's software offerings are in two major areas: simulation and cheminformatics (the use of computer and informational techniques, applied to a range of problems in the field of chemistry). The offerings focus on ADMET (absorption, distribution, metabolism, elimination, and toxicity) and on tools for discovery chemistry in the pharmaceutical and biotechnology industries. The Company's software assists pharmaceutical scientists to predict certain key potential drug dynamics and compound properties rapidly, thereby increasing the likelihood of eliminating multi-million dollar clinical trial failures and speeding up the time to market of effective new medications. SLP provides the following software offerings:

    - **ADMET Predictor™/ADMET Modeler™ -** the predictor component is an advanced property prediction program that enables pharmaceutical researchers to rapidly estimate a number of ADMET properties of new chemical entities from their molecular structure. The modeler component allows researchers to build artificial neural network ensemble or support vector machine (svm) ensemble models from their own data. During fiscal 2008 Version 3.0 was released, which employs new technology for molecular descriptors, as well as provides all new predictive models (including 14 new predicted properties). New models include eight for metabolic inhibition and five for intrinsic clearance that were added to the previously released Enslein Metabolism Module. Incorporated in this version is innovative technology that was developed under the previous year's SBIR grant and subsequent internal R&D to rapidly calculate partial atomic charges. According to Management, the tight integration with ClassPharmer™ and GastroPlus™ software products means that the capabilities of ClassPharmer and GastroPlus have also been enhanced, thus allowing chemists to automate the generation and screening of new molecular structures to a new level. Investors should note that the U.S. Food and Drug Administration was one of the first organizations to order GastroPlus with the new ADMET Predictor Module. **The Company expects to release the next version of this offering during February or March 2009**;

    - **ClassPharmer™ -** enhances the hits-to-lead-to-clinic process which aids in finding drug leads with novel and unpatented structural motifs, reduces screening costs with more efficient follow-up screening strategies, and improves productivity with software that thinks like a medicinal chemist. During the fourth quarter of fiscal 2008, SLP announced the release of Version 4.5, which added new capabilities for drug molecule design and data mining. This version provided customers detection of Activity Cliffs (i.e., small changes in molecular structure that produce large changes in activity or some other property). It also provides tight integration with the Company's ADMET Predictor. **On January 9, 2009, version 4.6 was released.** This version provided an extended data mining and molecule design capability to help medicinal and computational chemists analyzing results from high throughput screening experiments, and then using the information gained from those experiments to design new molecules;

    - **DDDPlus™ -** is still a 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. According to the Company's fiscal 2008 10K filing, work on the next update will include making the program match the user interface in GastroPlus as closely as possible since many formulation scientists can use both programs. Additions to the program's capabilities and built-in databases for excipient ingredients and dissolution media will also be included. The updated version should be released during early calendar 2009; and

- **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. The release of Version 6.0 during fiscal 2008 provided major upgrades to several modules and additional user conveniences. The upgrades include the enhanced analysis of what are called in vitro – in vivo (IVIV) correlations – the relationship between how a dosage form dissolves in the lab (in vitro) with how it dissolves in humans or animals (in vivo). The new IVICPlus™ Module provides a fast and convenient way for formulation scientists to perform IVIV correlations, both using traditional methods and with a new method the Company developed that provides more accurate and useful correlations. Another improved module is PKPlus™, which enables the scientist to rapidly fit simple empirical models for how a drug behaves once it enters the body. An additional GastroPlus upgrade offers the ability to predict and track the metabolites that are formed when a drug is converted into a different molecule by enzymes in the body. Investors should be aware that the Company's own marketing intelligence and reorder history indicate that this offering continues to enjoy a dominant position in the number of users worldwide. In addition to virtually every major pharmaceutical company, licenses include government agencies in the U.S and abroad, a growing number of smaller pharmaceutical and biotech companies, generic drug companies, and drug delivery companies.

- Other current/future opportunities include:

  - **Funded Collaborations** – the Company has four funded collaborations to extend the capabilities of GastroPlus into new types of analysis. All four funded collaborations are from the top 5 pharmaceutical companies (3 different companies), and all are for significant improvements. One is funding the extension of GastroPlus' capabilities into the area of drug-drug interactions. Another is funding the development of the ocular drug delivery capabilities. The third is funding the development of a nasal-pulmonary drug delivery capability. Management believes that these extensions will further push GastroPlus ahead of its competitors by providing the most comprehensive simulation capabilities available. The Company also has a funded collaboration to add a capability to ADMET Predictor (based on a scaled-down GastroPlus simulation engine) to automatically determine the dose amount that would be needed to reach effective plasma concentration for new drug molecules in early discovery.

  - **Contract Research and Consulting Services** – the Company has expertise in oral absorption and pharmacokinetics. This has allowed SLP to develop a revenue source by conducting contracted studies for customers who prefer to have studies run by SLP's scientists rather than to license the software. According to the Company's SEC filings, the demand for consulting services has been increasing steadily, and Management expects that trend to continue. Also, long-term collaborations and shorter-term consulting contracts serve both to showcase the Company's technologies, as well as providing a way to build and strengthen customer relationships. A good indication of the momentum is that on a year-over-year basis revenue increase from this opportunity by approximately $0.100 million during the first quarter of fiscal 2009 versus the same period last year.

- **MembranePlus™** – a computer program that simulates in-vitro experiments that measure the permeability of new drug-like molecules through a layer of living cells or through an artificial membrane. These experiments are conducted in order to estimate the permeability of new drug compounds through the human intestinal wall and into the blood. However, such experiments do not produce results that are easily translated into human permeabilities. Management believes that a detailed mechanistic simulation of these in-vitro experiments will provide the insight and understanding needed to provide reasonably accurate estimates of permeability in different regions of the human intestinal tract from the data. Investors should note that development of this new program is on hold until additional scientists can be hired to expand the Life Sciences team.

- The Words+ Inc., subsidiary, which was founded in 1981, produces computer software and specialized hardware for use by people with severe disabilities. This subsidiary's focus is on introducing and improving augmentative and alternative communication and computer access software and devices for disabled persons. In 2003, the subsidiary acquired The Say-it! SAM technologies from SAM Communications, LLC. This provided the Company a small, light augmentative communication system, which is based on a Hewlett-Packard iPAQ personal digital assistant (PDA). Since the acquisition, the Company has continued to add new functionality to the SAM software and to offer it on additional hardware platforms. Also, just before the end of the third quarter of fiscal 2008, Words+ introduced the Conversa™. According to Management, this product offers the most human-sounding synthetic speech output available in the marketplace utilizing AT&T synthetic voices and a new custom designed Sound Pack.

## *Recent Developments*

**As of January 15, 2009,** according to Management's first quarter fiscal 2009 earnings presentation, the Company had repurchased approximately 0.130 million shares for a total cost of approximately $0.127 million. Investors should remember that on October 23, 2008 the Company announced that its Board of Directors authorized a share repurchase program. The authorization enables the Company to buyback up to $2.5 million of its common shares during the twelve month period beginning October 27, 2008.

**On January 2, 2009**, the Company received confirmation from UBS Financial Services, Inc. that all Auction Rated Securities (ARS) were sold and payment was settled on January 5, 2009. As of the end of the first quarter of fiscal 2009, the ARS are presented as investments at November 30, 2008. As a result, the par value of $0.750 million plus accrued interest was available to the Company as cash on January 5, 2009.

## *Financial Results* *for the first quarter of fiscal 2009*

For the three-month period ended November 30, 2008, versus the three-months ended November 30, 2007:

- Net sales increased to $2.133 million versus $1.984 million. Taglich Brothers' estimate called for net sales of $2.085 million;
- Gross margin was virtually flat at 75.32% versus 75.50%;
- SG&A expenses decreased to $0.904 million versus $0.930 million. As a percentage of net sales, SG&A expenses decreased to 42.36% versus 46.89%, primarily resulting from top line growth and lower aggregate expenses;
- Research and development expenses increased to $0.301 million versus $0.226 million. Investors should note that the Company capitalized R&D costs in the amount of $0.202 million versus $0.174 million in the same period last year;
- Operating income increased by approximately 17.5% to $0.402 million versus $0.342 million;
- Provision for income taxes declined to $0.141 million from $0.162 million; and

- Net income was $0.312 million or $0.02 per diluted share versus net income of $0.243 million or $0.01 per diluted share. Taglich Brothers' estimate called for net income of $0.290 million or $0.02 per diluted share.

Management attributed year-over-year growth in net sales of 7.5% to a 28.9% (or $0.158 million) increase from the Company's Words+ subsidiary. The higher level of sales was primarily attributable to the Company's new PDA version of its Say-it! SAM speech output device and the new Conversa™ offering, which more than offset any decreases in sale from other products in the Words+ subsidiary. Investors should take note that during the first quarter (last year) inventory of the old version of the PDA was depleted, resulting in an inability to accept orders for units until the new device was close to production.

Mitigating the overall increase in top line sales for the quarter was a less than 1% (or $0.009 million) decline in the Company's pharmaceutical software and services subsidiary. Management attributed the decrease in pharmaceutical software sales primarily to:

- A reduction in the number of ClassPharmer licenses from one large pharmaceutical company due to budget constraints;
- An additional discount provided to a long-standing collaboration partner; and
- A shift of approximately $0.260 million out of the first quarter, both because some licenses were renewed earlier during the fourth quarter of fiscal 2008 (approximately $0.175 million) and because some were renewed during the upcoming second quarter of fiscal 2009 (approximately $0.085 million).

Nearly eliminating the decrease was sales of the Company's ADMET Predictor software, which increased due to orders for new module licenses, as well as an increase in the number of users. Also adding to results was revenue generated from contract studies, which increased over $0.100 million over the same period last year.

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 evaluate software and then obtain approvals from multiple decision makers prior to the purchase order being placed. Also, of note, when multi-year licenses are sold, they are only unlocked (allowed to be used) for each year of the term with the subsequent years of the license being placed in deferred revenue until they are unlocked at the same time the following fiscal year.

Gross margin was virtually flat, only increasing by 18 basis points primarily due to the systematic amortization of capitalized software development costs; therefore, as more new products become available for sale in the pharmaceutical software and services side of SLP this cost should increase. During the current period, amortization cost increased by approximately $0.006 million versus the same period last year, as well as sales decreasing by approximately $0.009 million.

The overall $0.026 million decrease in SG&A expenses versus the first quarter of fiscal 2008 was the result of lower investor relations fees, reduced commission expenses (as more non-commissionable sales occurred), and lower marketing consultant fees and salaries. Mitigating the overall decrease was higher technical service costs and equipment rental expense, as well as higher expenses for trade shows, and payroll-related costs.

In total, the Company incurred approximately $0.503 million of research and development costs during the first quarter of fiscal 2009. However, $0.202 million was capitalized and as noted on the income statement, $0.301 was expensed. During the same period last year, $0.400 million of research and development costs were incurred with $0.174 million capitalized and $0.226 million expensed. The aggregate increase was due primarily to increases in salaries because of new hires, as well as salary increases to existing staff.

Other income decreased by $0.012 million to $0.051 million from $0.063 million in the first quarter of fiscal 2008. According to the Company's first quarter 10Q filing, the decrease was due to lower interest from money market accounts.

**The provision for income taxes during the first quarter of fiscal 2009 decreased to $0.141 million from $0.162 million during the same period last fiscal year.** According to the Company's 10Q filing, the decrease was primarily the result of expected tax credits in fiscal 2009 (i.e., research and development credit and hiring tax credit).

*Balance Sheet Snapshot as of November 30, 2008*

The Company had cash of $6.064 million versus $5.890 million as of its fiscal year ended August 31, 2008. As previously noted the $0.750 million of Auction Rate Securities classified as in investment was available as cash on January 5, 2009. Working capital at the end of the first quarter of fiscal 2009 was $8.325 million versus $7.954 million as of August 31, 2008. Total assets, which stood at $12.108 million, were primarily comprised of cash, accounts receivable (that totaled $2.474 million) and a deferred tax asset of $0.341 million. As of August 31, 2008, total assets stood at $11.553 million.

Also, the Company had total liabilities of $1.016 million, retained earnings of $3.894 million, and total shareholders' equity of $10.315 million. Investors should be aware that the Company has been able to achieve compounded annual growth of its shareholders' equity by 26.8% between fiscal 2005 and 2008. At the end of fiscal 2008, the Company had total liabilities of $11.553 million with retained earnings of $3.582 million, and total shareholders' equity of $11.553 million.

Management believes (and we concur) 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/Modeler™, DDDPlus™, and ClassPharmer™) will continue to gain exposure to a wider audience within the community of researchers in the Pharmaceutical, Biotechnology, and Drug Discovery Industries of the Healthcare Sector.

This is most likely to be accomplished through continued exposure at large and small conferences around the world and an increase in the Company's sales personnel. According to the Company's SEC filings, members of its staff have been speakers or presenters at over 40 prestigious scientific meeting worldwide over the past three years. The following are examples:

- During the spring of 2008, Management attended a number of conferences to present the Company's offerings including one in China. At the conference in China, SLP's CEO was an invited speaker.
- During November 2008, Management attended the American Association of Pharmaceutical Scientists in Atlanta to showcase its portfolio of Simulations Plus software. According to Management, the GastroPlus program was mentioned in numerous presentations and posters by others. During the full year earnings conference call, Management publicly stated that as a result of attending this conference the number of new leads obtained was more than double any other meeting SLP has ever attended. According to Management, the estimated number of leads garnered at the Atlanta conference was over 100. We believe it will take some time to convert those leads to sales, maybe sometime during the second half of fiscal 2009.
- During the Company's first quarter of fiscal 2009 earnings conference call, Management indicated that it has a very busy conference schedule planned for calendar 2009. While no specific number was provided, Management stated that their conference presentations are likely to double versus calendar 2008.

Management reiterated during the first quarter year conference call that it continues to conduct a number of interviews with the hope of hiring additional professionals, in order to boost organic growth of its simulation software offering and services (i.e., contract services). The increase in its professional staff is important since each has the potential to bring in new customers due to their knowledge and interaction with scientists.
Additionally, as a result of the established relationships with large pharmaceutical companies, other researchers within those companies are exposed to Simulations Plus product offerings. This has lead to increased activity related to its ADMET Partners global licensing program for large pharmaceutical companies.

Management has publicly stated that it intends to put the Company's growing cash balance to work. We believe the following is likely to occur in order to maximize shareholder value, as well as create organic growth opportunities:

- Board of Directors authorizing a share repurchase program of up to $2.5 million that will expire on October 26, 2009. The strategy of this program is to buy back as many shares as possible to reduce the number of shares outstanding. Management believes that this program will be beneficial to the Company's long-term shareholders. As previously noted, the Company had repurchased approximately 0.130 million shares as of January 15, 2009;

- Exploiting the growing demand for consulting services due to a shortage of personnel with expertise in simulation and modeling within pharmaceutical and biotechnology companies. On recent earnings conference calls, Management publicly stated that the Company is usually working on at least two or three consulting contracts at any given point in time. We believe the hiring of additional professionals (as noted above) should add to the potential number of revenue generating projects the Company could handle at any particular point in time. This not only brings in revenue, but can be leveraged by the Company as a marketing tool, since doing consulting services has the potential to lead to software license revenue. Also, Management indicated that generic drug companies are increasing their usage of the Company's consulting services in order to mitigate the cost of purchasing a license;

- Generating alliance opportunities with large pharmaceutical companies and contract research organizations. It is Management's intent to have partnerships with large pharmaceutical companies that will help fund software product extension. On November 20, 2008, SLP announced that it signed a collaboration agreement with a top-three pharmaceutical company in order to extend and enhance its ADMET Predictor program to predict the optimum dose level that would be required for new molecules to achieve effective plasma concentrations for large batches of new molecules in early discovery. Also, on September 16, 2008, the Company announced that it signed a collaboration agreement with a top-three pharmaceutical company in order to extend and enhance its prototype ocular drug delivery module within the GastroPlus simulation software program. Additionally, the Company was able to obtain a collaboration agreement for nasal/pulmonary delivery;

- Creating a new area to generate revenue that is tangential to the Company's current technologies and expertise. Management has publicly stated its intent to develop a training seminar segment that will utilize the Company's current Life Sciences and Marketing sales teams to teach and train professionals on modeling and simulation software. Management believes that this will become a profit center, as well as a marketing vehicle for the Company's offerings;

- Seeking accretive acquisitions to enhance and expand the product portfolio, as well as seeking new collaborations. This point was reiterated during the Company's recent earnings conference calls. Management is seeking acquisitions for both the pharmaceutical software side and Words+ side of the business. The intent is to increase revenues and earnings by acquiring products and technologies that complement Simulations Plus and Words+; and

- Utilizing Small Business Innovation Research (SBIR) funding opportunities grant funds, which provide the ability to expand staff and grow the product line without adversely affecting earnings, because the expenses associated with the efforts in the studies are funded largely, if not completely, through the grants. Most recently, after completing a Phase I SBIR grant, the Company had applied for a Phase II follow-on grant of $0.750 million over two years. During April 2008, the Company received notice that its proposal was returned unscored. During August 2008, the Company submitted a revised Phase II proposal, which then received a favorable score, and currently SLP is waiting for notification regarding whether it will be funded.

We believe Management's efforts to grow the Words+ subsidiary and have it make a more positive overall contribution to the Company is beginning to pay off as evidenced by achieving record revenues for the third quarter of fiscal 2008 and 29% year-over-year growth for the first quarter of fiscal 2009 versus the first quarter of fiscal 2008. The primary driver is its newly designed PDA-based Say-it! SAM augmentative communication device, which includes a new audio amplifier and speaker system. We also believe driving future sales is a relatively new product called Conversa™, which is a 12" touch tablet-based system that fills a need for customers, as well as being priced to fit within the Medicare repayment schedule. According to the Company, this product offers the most human-sounding synthetic speech output available in the marketplace, utilizing AT&T synthetic voices and a new custom designed sound pack. Another factor contributing to this subsidiary's positive prospects was the hiring during the second quarter of fiscal 2008 of a full-time National Sales Manager, which has improved marketing and sales activities and dealer relationships. According to the earnings conference call, that sales manager is being charged with expanding its commissioned sales force in order to grow top line results and during the first quarter of fiscal 2009, two new sales representatives serving California were hired to drive top line results.

### *Projections*

We are tweaking our fiscal 2009 net sales forecast based on our interpretation of the public comments made by Management during the first quarter fiscal 2009 conference call, our analysis of recent financial results, and overall market conditions. Our net sales forecast calls for sales of $9.628 million (prior was $9.625 million). Our expectations for fiscal 2009 takes into account the current economic environment, as well as the potential for reduced budgets for pharmaceutical and biotechnology companies. Our initial net sales forecast for fiscal 2010, which takes into account the potential for slightly better economic conditions and stable budgets for the pharmaceutical and biotechnology companies, is $10.515 million.

Our fiscal 2009 forecast (which does not include the potential for accretive acquisitions) would be a 7.36% increase versus fiscal 2008 results. For fiscal 2010, our forecast would be a 9.21% increase versus our fiscal 2009 forecast. We anticipate net sales growth for simulations software products in fiscal 2009 of approximately 7.4% to $6.502 million. Our net sales expectation for the Words+ subsidiary for fiscal 2009 is $3.126 million, which is approximately a 7.3% increase versus fiscal 2008. For fiscal 2010, we anticipate simulations software product sales of $7.325 million and Word+ sales of $3.190 million.

The table below illustrates the cost structure we anticipate for fiscal 2009 and 2010, versus actual results achieved in fiscal 2008.

**Cost Structure**

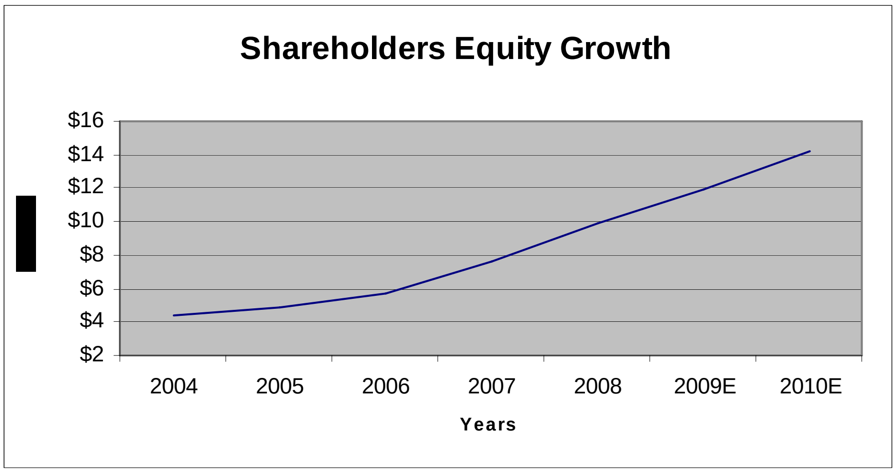
| | 2008A | 2009E | | 2010 |
|---|---|---|---|---|
| | Actual | Prior | Revised | Initial |
| **Gross Margin** | 76.58% | 78.23% | 77.40% | 77.94% |
| **SG&A expenses** (as a Percent of Net Sales) | 41.25% | 40.16% | 38.78% | 37.52% |
| **Research and Development** (as a Percent of Net Sales) | 11.04% | 11.01% | 12.48% | 11.41% |
| **Operating Margin** | 24.29% | 27.06% | 26.14% | 29.00% |
| **Tax rate** | 29.46% | 32.40% | 31.40% | 31.77% |
| **Pre-tax Margin** | 27.28% | 29.51% | 28.49% | 32.48% |

Source: Company filings and Taglich Brothers estimates

Based on our net sales and cost structure estimates, EBITDA should approach $3.217 million in fiscal 2009 and $3.750 million in fiscal 2010 versus EBITDA of $2.800 million in fiscal 2008. Our revised net income forecast for fiscal 2009 is $1.882 million or $0.11 per diluted share (prior was $1.920 million or $0.11 per diluted share). Our initial net income forecast for fiscal 2010 is $2.330 million or $0.13 per diluted share.

Our EPS forecast are based on average fully diluted shares of 17.459 million and 17.410 million, respectively. Incorporated to some degree in our forecast is the share repurchase program and as time progresses we may change our share estimates based on the actual number of common shares purchased under the authorization.

During the Company's earnings conference calls, Management continued to point out that shareholders' equity increased by 29.4% in fiscal 2008 versus fiscal 2007. For investors, we believe the following chart is an important metric to focus on, as it illustrates the growth of shareholders' equity since 2004, as well as our expectation for fiscal 2009 and 2010.




Given our shareholders equity forecast for fiscal 2009 and 2010, we estimate tangible book value per share of approximately $0.72 per share and $0.85 per share, respectively. Historically, the Company has had a price-to-book multiple as high as 17.5x and as low as 2.6X.

## *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.

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.

Pharmaceutical Consolidation

On Monday, January 26, 2009, it was announced that Pfizer Inc. was going to purchase Wyeth in a $68 billion deal. As consequence of the purchase, it was reported that 8,000 job cuts would occur. Investors should be aware that industry consolidation could have the potential of Management reevaluating research budgets. While that might cause a delay, money spent by those companies on research and development projects should continue, even if the time frame becomes elongated. We believe the reason why spending on software productivity tools should continue is that there is an ever greater need for productivity tools (i.e., software), which have the highest productivity gain of any technology.

Customer Concentration

International sales accounted for 38% and 37% of net sales for fiscal 2008 and 2007, respectively. During the first quarters of fiscal 2009 and 2008, International sales accounted for 22% and 30%, respectively.

For simulation software sales, two customers accounted for 30% of net sales for fiscal 2008 compared to two customers accounting for 27% of net sales in fiscal 2007. Three customers represented approximately 59% of the net accounts receivable as of August 31, 2008, while two customers accounted for 44% of the net accounts receivable during the same period last year. For simulation software sales, three customers accounted for 58% and 56% of net sales for the first quarters of fiscal 2009 and 2008, respectively. Also, three customers represented approximately 71% and 63% of the net accounts receivable during the first quarters of fiscal 2009 and 2008, respectively.

For the Words+ subsidiary, one government agency accounted for 21% of net sales during fiscal 2008, and one government agency represented approximately 34% of net accounts receivable. During fiscal 2007, one government agency and one customer accounted for approximately 25% of net sales and one government agency represented approximately 29% of net accounts receivable.

For the Words+ subsidiary, three government agencies accounted for 39%, of net sales during the three months ended November 30, 2008, compared with two government agencies accounted for 29% of net sales during the three months ended November 30, 2007. Also, three government agencies accounted for 49%, of accounts receivable at November 30, 2008, and two government agencies and one insurance agency represented 54% of accounts receivable at November 30, 2007.

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: 1) the post contract customer support (PCS) fee is included in the initial licensing fee; 2) the PCS included with the license is for one year or less; 3) the estimated cost of providing the PCS during the arrangement is insignificant; and 4) 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.

Shareholder Control

We estimate that Walter Woltosz, the Company’s Co-founder, Chairman of the Board, President, and CEO, and Virginia Woltosz, the Company’s Co-founder, Corporate Secretary, and Treasurer, own approximately 44% of the outstanding voting stock (based on shares outstanding as of January 9, 2009). Therefore, Mr. Walter and Virginia Woltosz should be able to control the outcome, or greatly influence the outcome, on all matters requiring stockholder approval, including the election of directors, amendment of certificate of incorporation, and any merger, consolidation or sale of all or substantially all of the Company’s assets or other transactions resulting in a change of control.

Seasonality

Historically, the 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 products exhibit minimal seasonal fluctuation. However, the tendency is for the first fiscal quarter to almost always be below the average for all quarters. According to the Company's fiscal 2008 10K filing, this trend has continued for nine out of the last ten years.

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. 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 28-year history, the trend has been toward increasing funding from government agencies. There can be no assurance that government funding for such devices will continue, or if it does continue, that the Company's 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 pending or threatened litigation against the Company.

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 fiscal 2008, the Company experienced a very small 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.

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 2006 was 21,398 shares a day. During calendar 2007, average daily volume increased to 197,967 shares traded a day and during calendar 2008, average daily volume decreased to 60,242 shares traded a day. Over the last three months, average daily volume decreased further to 22,363. Investors need to be aware that by nature a thinly traded equity can have significant price volatility.

## *Valuation*

**We are reiterating our Speculative Buy rating on shares of Simulations Plus, Inc. (AMEX: SLP), as we continue to forecast positive growth trends for at least the next twelve months.**

We are increasing slightly our twelve-month price target to $1.70 per share (prior was $1.55 per share). The increase in the price target is a result of our growth expectations for sales, EBITDA, and tangible book value over the next twelve-month period.

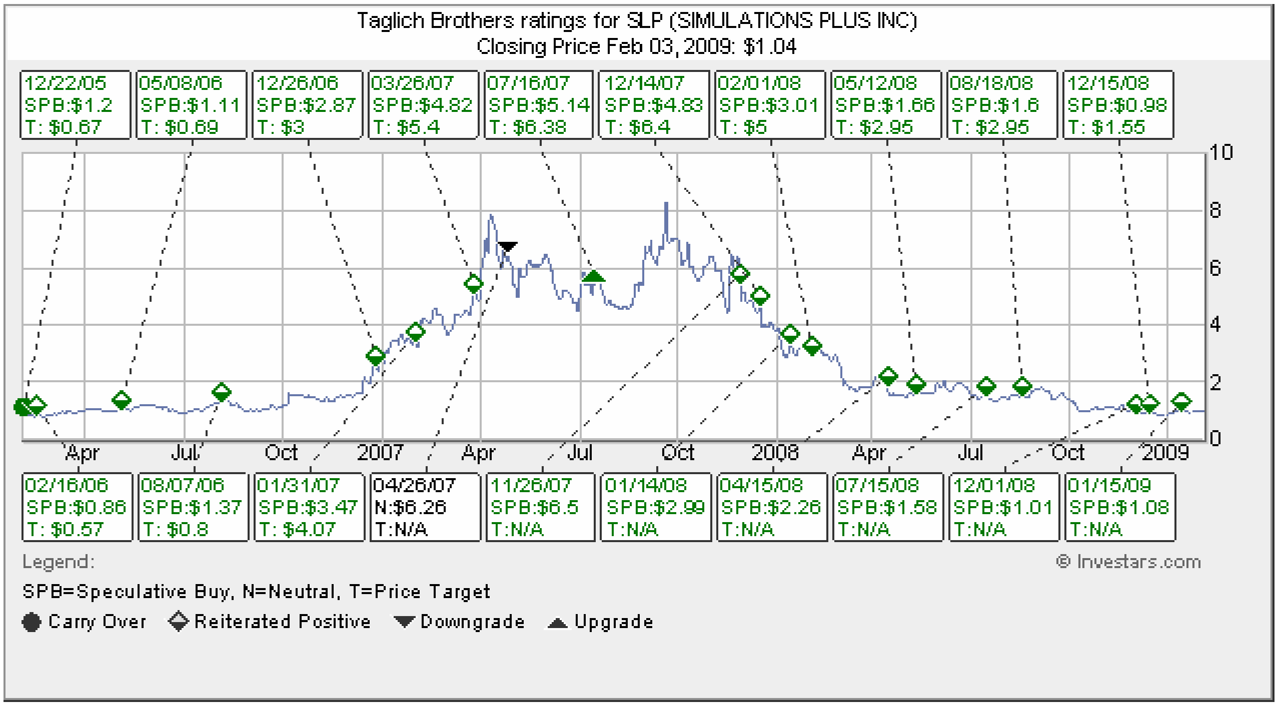
Our price target is based on the following valuation models discounted by 30% to account for microcap risk along with Company specific risks, as well as the current economic environment:

- A 4.1X price-to-sales multiple, which is the trailing twelve month multiple (as of February 3, 2009) for the Application and Business Software and Services Industry, applied to our estimate of $0.56 per share for the next four quarters;

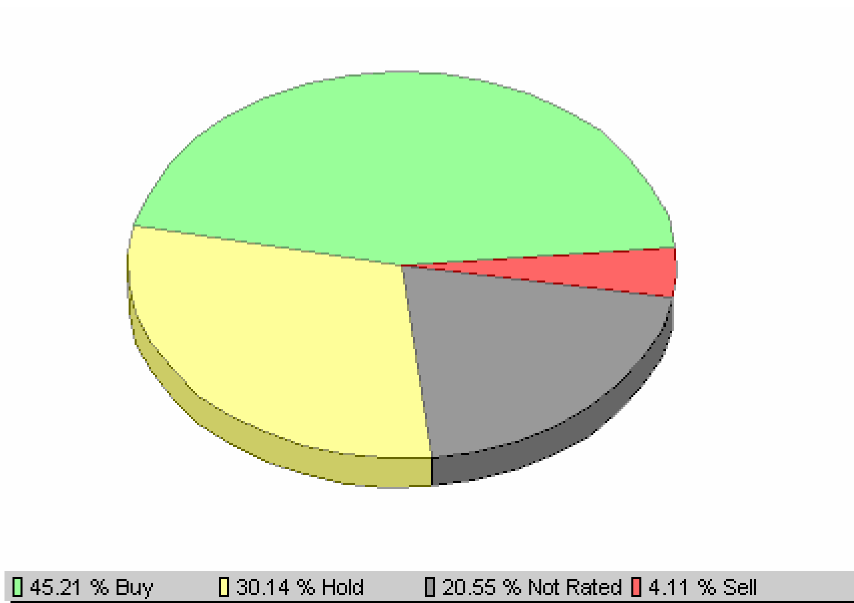
- A 11.0X price-to-EBITDA multiple, which is the trailing twelve month multiple (as of February 3, 2009) for he Application and Business Software and Services Industry, applied to our estimate of $0.19 per share for the next four quarters;

- A 15.0X price-to-earnings multiple, which is the trailing twelve month multiple (as of February 3, 2009) for the Application and Business Software and Services Industry according to moneycentral.msn.com, applied to our fully taxed EPS estimate of $0.09 per share for the next four quarters (our EPS estimate for the next four quarters is $0.11 per share but is only taxed at approximately a 31.5% rate, we adjusted our figure to reflect a 40% tax rate); and

- A 5.2X price-to-book multiple, which is the trailing twelve month multiple (as of February 3, 2009) for the Application and Business Software and Services Industry according to moneycentral.msn.com, applied to our estimated book value per share of $0.74 per share for the next four quarters.




Taglich Brothers Current Ratings Distribution




| **Investment Banking Services for Companies Covered in the Past 12 Months** | | |
|---|---|---|
| Rating | # | % |
| Buy | 1 | 3.70% |
| Hold | 0 | 0 |
| Sell | 0 | 0 |
| Not Rated | 0 | 0 |

Meaning of Ratings

Buy

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

Speculative Buy

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

Neutral

We will remain neutral pending certain developments.

Underperform

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

Sell

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

**Some notable Risks within the Microcap Market**

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

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

**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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As of the date of this report, we, our affiliates, any officer, director or stockholder, or any member of their families do not have a position in the stock of the company mentioned in this report. 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.

All research issued by Taglich Brothers, Inc. is based on public information. 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 2006 Fiscal Year End | August 2007 Fiscal Year End | August 2008 Fiscal Year End | Nov. 2008 1st Qtr End |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Current assets: | | | | |
| Cash | $ 1,685 | $ 4,538 | $ 5,890 | $ 6,064 |
| Accounts receivable, net | 1,589 | 2,060 | 2,105 | 2,474 |
| Contracts receivable, net | 194 | 47 | - | - |
| Inventory | 237 | 231 | 342 | 337 |
| Deferred tax | 109 | 241 | 318 | 341 |
| Prepaid expense and other current assets | 81 | 74 | 195 | 125 |
| **Total current assets** | **3,895** | **7,191** | **8,850** | **9,341** |
| Investments | - | - | 750 | 750 |
| Capitalized computer software development costs, net | 1,374 | 1,528 | 1,789 | 1,867 |
| Property and Equipment, net | 96 | 90 | 103 | 94 |
| Contracts receivable | 37 | - | - | - |
| Customer relationships | 100 | 69 | 43 | 38 |
| Deferred tax | 991 | - | - | - |
| Other assets | 18 | 18 | 18 | 18 |
| **Total assets** | **$ 6,513** | **$ 8,895** | **$ 11,553** | **$ 12,108** |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | | | |
| Current liabilities: | | | | |
| Accounts payable | 215 | 201 | 181 | 165 |
| Accrued payroll and other expenses | 364 | 492 | 537 | 564 |
| Accrued bonuses to officers | 99 | 201 | 60 | 84 |
| Accrued income taxes | 2 | 71 | - | 129 |
| Accrued warranty and service costs | 35 | 38 | 34 | 41 |
| Current portion of deferred revenue | 129 | - | 83 | 33 |
| Other current liabilities | 0 | - | - | - |
| **Total current liabilities** | **845** | **1,004** | **896** | **1,016** |
| Deferred tax liability | - | 227 | 742 | 777 |
| **Stockholders' equity:** | | | | |
| Common stock, no par value; authorized 20,000,000 shares; | 4 | 4 | 5 | 5 |
| Additional paid-in capital | 5,274 | 5,804 | 6,328 | 6,416 |
| Accumulated deficit | 390 | 1,857 | 3,582 | 3,894 |
| **Total stockholders' equity** | **5,669** | **7,665** | **9,915** | **10,315** |
| **Total liabilities and stockholders' equity** | **$ 6,513** | **$ 8,895** | **$ 11,553** | **$ 12,108** |
| SHARES OUT | 14,883 | 15,761 | 16,297 | 16,406 |

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

| | FY2007A | FY2008A | **FY2009E** | **FY2010E** |
|---|---|---|---|---|
| Net sales | 8,858 | 8,968 | **9,628** | **10,515** |
| Cost of sales | 2,082 | 2,100 | **2,176** | **2,320** |
| **Gross Profit** | 6,776 | 6,868 | **7,452** | **8,195** |
| *Gross Margins* | 76.49% | 76.58% | **77.40%** | **77.94%** |
| | | | | |
| **Operating Expenses:** | | | | |
| Selling, general, and administrative | 3,458 | 3,699 | **3,734** | **3,945** |
| Research and development | 815 | 990 | **1,201** | **1,200** |
| | | | | |
| Total Operating Expenses | 4,273 | 4,690 | **4,935** | **5,145** |
| | | | | |
| EBITDA | 3,023 | 2,805 | **3,217** | **3,750** |
| | | | | |
| **Operating Income (loss)** | 2,503 | 2,178 | **2,517** | **3,050** |
| *Operating Margin* | 28.26% | 24.29% | **26.14%** | **29.00%** |
| | | | | |
| Other income (expense) | | | | |
| Interest income | 114 | 185 | **208** | **365** |
| Interest expense | (0) | (0) | **-** | **-** |
| Gain (Loss) on exhange of currency | 2 | 83 | **18** | **-** |
| Gain (Loss) on sale of assets | 5 | 0 | **0** | **-** |
| Total Other Income (expense) | 122 | 268 | **226** | **365** |
| | | | | |
| **Pre-Tax Income (loss)** | 2,624 | 2,446 | **2,743** | **3,415** |
| *Pre-Tax Margins* | 29.63% | 27.28% | **28.49%** | **32.48%** |
| | | | | |
| Income Tax Expense (Benefit) | 1,158 | 721 | **861** | **1,085** |
| Release of valuation allowance | - | - | **-** | **-** |
| *Tax Rate* | 44.14% | 29.46% | **31.40%** | **31.77%** |
| | | | | |
| Net income (loss) | $ 1,466 | $ 1,726 | **$ 1,882** | **$ 2,330** |
| | | | | |
| **Earnings per share -- Diluted** | $ 0.08 | $ 0.10 | **$ 0.11** | **$ 0.13** |
| | | | | |
| Avg Shares Outstanding | 17,957 | 18,141 | **17,459** | **17,410** |
| | | | | |
| Percent of Revenue | | | | |
| Selling, general, and administrative | 39.04% | 41.25% | 38.78% | 37.52% |
| Research and development | 9.20% | 11.04% | 12.48% | 11.41% |
| | | | | |
| YEAR / YEAR GROWTH | | | | |
| Total Revenues | 51.29% | 1.24% | 7.36% | 9.21% |
| Earnings per share | 92.72% | 16.50% | 13.31% | 24.17% |

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

| | Q1(11/06)A | Q2 (02/07)A | Q3 (05/07)A | Q4 (08/07)A | **FY2007A** |
|---|---|---|---|---|---|
| Net sales | 1,456 | 2,534 | 2,631 | 2,236 | **8,858** |
| Cost of sales | 441 | 557 | 551 | 533 | **2,082** |
| **Gross Profit** | 1,015 | 1,977 | 2,080 | 1,703 | **6,776** |
| *Gross Margins* | *69.69%* | *78.01%* | *79.07%* | *76.17%* | **76.49%** |
| **Operating Expenses:** | | | | | |
| Selling, general, and administrative | 757 | 936 | 885 | 880 | **3,458** |
| Research and development | 184 | 216 | 227 | 188 | **815** |
| Total Operating Expenses | 940 | 1,153 | 1,112 | 1,068 | **4,273** |
| EBITDA | 194 | 979 | 1,093 | 766 | **3,032** |
| **Operating Income (loss)** | 75 | 824 | 968 | 636 | **2,503** |
| *Operating Margin* | *5.12%* | *32.53%* | *36.80%* | *28.43%* | **28.26%** |
| Other income (expense) | | | | | |
| Interest income | 16 | 25 | 35 | 38 | **114** |
| Gain (Loss) on exhange of currency | 3 | 4 | (1) | (4) | **2** |
| Gain (Loss) on sale of assets | 0 | 3 | 0 | 2 | **5** |
| Total Other Income (expense) | 19 | 32 | 35 | 36 | **122** |
| **Pre-Tax Income (loss)** | 94 | 856 | 1,003 | 671 | **2,624** |
| *Pre-Tax Margins* | *6.44%* | *33.79%* | *38.12%* | *30.03%* | **29.63%** |
| Income Tax Expense (Benefit) | 21 | 188 | 221 | 729 | **1,158** |
| Release of valuation allowance | - | - | - | - | **-** |
| *Tax Rate* | *22.00%* | *22.00%* | *22.00%* | *108.53%* | **44.14%** |
| Net income (loss) | $ 73 | $ 668 | $ 782 | $ (57) | **$ 1,466** |
| **Earnings per share -- Diluted** | $ 0.00 | $ 0.04 | $ 0.04 | $ (0.00) | $ 0.08 |
| Avg Shares Outstanding | 17,097 | 18,030 | 18,361 | 18,340 | **17,957** |
| Percent of Revenue | | | | | |
| Selling, general, and administrative | 51.96% | 36.94% | 33.65% | 39.33% | 39.04% |
| Research and development | 12.61% | 8.54% | 8.62% | 8.41% | 9.20% |
| YEAR / YEAR GROWTH | | | | | |
| Total Revenues | 77.87% | 71.00% | 47.14% | 26.63% | 51.29% |
| Earnings per share | NMF | 143.92% | 81.51% | -121.37% | 92.72% |

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

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

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

| | Q1(11/08)A | Q2 (02/09)E | Q3 (05/09)E | Q4 (08/09)E | **FY2009E** |
|---|---|---|---|---|---|
| Net sales | 2,133 | 2,265 | 2,995 | 2,235 | **9,628** |
| Cost of sales | 526 | 535 | 605 | 510 | **2,176** |
| **Gross Profit** | 1,607 | 1,730 | 2,390 | 1,725 | **7,452** |
| *Gross Margins* | *75.32%* | *76.38%* | *79.80%* | *77.18%* | **77.40%** |
| **Operating Expenses:** | | | | | |
| Selling, general, and administrative | 904 | 930 | 940 | 960 | **3,734** |
| Research and development | 301 | 300 | 300 | 300 | **1,201** |
| Total Operating Expenses | 1,205 | 1,230 | 1,240 | 1,260 | **4,935** |
| EBITDA | 577 | 675 | 1,325 | 640 | **3,217** |
| **Operating Income (loss)** | 402 | 500 | 1,150 | 465 | **2,517** |
| *Operating Margin* | *18.83%* | *22.07%* | *38.40%* | *20.80%* | **26.14%** |
| Other income (expense) | | | | | |
| Interest income | 33 | 40 | 60 | 75 | **208** |
| Gain (Loss) on exhange of currency | 18 | - | - | - | **18** |
| Total Other Income (expense) | 51 | 40 | 60 | 75 | **226** |
| **Pre-Tax Income (loss)** | 453 | 540 | 1,210 | 540 | **2,743** |
| *Pre-Tax Margins* | *21.24%* | *23.84%* | *40.40%* | *24.16%* | **28.49%** |
| Income Tax Expense (Benefit) | 141 | 170 | 380 | 170 | **861** |
| Release of valuation allowance | - | - | - | - | **-** |
| *Tax Rate* | *31.20%* | *31.48%* | *31.40%* | *31.48%* | **31.40%** |
| Net income (loss) | $ 312 | $ 370 | $ 830 | $ 370 | **$ 1,882** |
| **Earnings per share -- Diluted** | $ 0.02 | $ 0.02 | $ 0.05 | $ 0.02 | $ 0.11 |
| Avg Shares Outstanding | 17,517 | 17,450 | 17,440 | 17,430 | **17,459** |
| Percent of Revenue | | | | | |
| Selling, general, and administrative | 42.36% | 41.06% | 31.38% | 42.95% | 38.78% |
| Research and development | 14.13% | 13.25% | 10.02% | 13.42% | 12.48% |
| YEAR / YEAR GROWTH | | | | | |
| Total Revenues | 7.53% | 3.91% | 0.90% | 21.72% | 7.36% |
| Earnings per share | 34.82% | -31.38% | 12.99% | 131.60% | 13.31% |

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

| | Q1(11/09)E | Q2 (02/10)E | Q3 (05/10)E | Q4 (08/10)E | **FY2010E** |
|---|---|---|---|---|---|
| Net sales | 2,290 | 2,485 | 3,240 | 2,500 | **10,515** |
| Cost of sales | 550 | 570 | 650 | 550 | **2,320** |
| **Gross Profit** | 1,740 | 1,915 | 2,590 | 1,950 | **8,195** |
| *Gross Margins* | *75.98%* | *77.06%* | *79.94%* | *78.00%* | ***77.94%*** |
| **Operating Expenses:** | | | | | |
| Selling, general, and administrative | 970 | 985 | 1,015 | 975 | **3,945** |
| Research and development | 300 | 300 | 300 | 300 | **1,200** |
| Total Operating Expenses | 1,270 | 1,285 | 1,315 | 1,275 | **5,145** |
| EBITDA | 645 | 805 | 1,450 | 850 | **3,750** |
| **Operating Income (loss)** | 470 | 630 | 1,275 | 675 | **3,050** |
| *Operating Margin* | *20.53%* | *25.35%* | *39.35%* | *27.00%* | ***29.00%*** |
| Other income (expense) | | | | | |
| Interest income | 80 | 90 | 95 | 100 | **365** |
| Total Other Income (expense) | 80 | 90 | 95 | 100 | **365** |
| **Pre-Tax Income (loss)** | 550 | 720 | 1,370 | 775 | **3,415** |
| *Pre-Tax Margins* | *24.02%* | *28.97%* | *42.28%* | *31.00%* | ***32.48%*** |
| Income Tax Expense (Benefit) | 175 | 230 | 435 | 245 | **1,085** |
| Release of valuation allowance | - | - | - | - | - |
| *Tax Rate* | *31.82%* | *31.95%* | *31.75%* | *31.61%* | ***31.77%*** |
| Net income (loss) | $ 375 | $ 490 | $ 935 | $ 530 | **$ 2,330** |
| **Earnings per share -- Diluted** | $ 0.02 | $ 0.03 | $ 0.05 | $ 0.03 | $ 0.13 |
| Avg Shares Outstanding | 17,420 | 17,415 | 17,405 | 17,400 | **17,410** |
| Percent of Revenue | | | | | |
| Selling, general, and administrative | 42.36% | 39.64% | 31.33% | 39.00% | 37.52% |
| Research and development | 13.10% | 12.08% | 9.26% | 12.00% | 11.41% |
| YEAR / YEAR GROWTH | | | | | |
| Total Revenues | 7.35% | 9.71% | 8.18% | 11.86% | 9.21% |
| Earnings per share | 20.97% | 32.67% | 12.86% | 43.51% | 24.17% |

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

| | FY2006A | FY2007A | FY2008A | 3 Mos 2009A |
|---|---|---|---|---|
| *Cash Flows from Operating Activities* | | | | |
| Net Income (loss) | $ 676 | $ 1,466 | $ 1,726 | $ 312 |
| Depreciation and amortization of property and equipment | 48 | 51 | 51 | 12 |
| Amortization of capitalized software development | 287 | 430 | 467 | 124 |
| Amortization of customer relationships | 28 | 32 | 26 | 5 |
| Bad debt expense | - | 63 | 63 | 56 |
| Stock-based compensation | - | 17 | 90 | 39 |
| Contribution of equipment at book value | - | 1 | - | - |
| Loss on sale of assets | (11) | (4) | - | - |
| | 1,028 | 2,055 | 2,422 | 549 |
| *Changes In:* | | | | |
| Accounts receivable | (275) | (351) | (60) | (426) |
| Inventory | 44 | 6 | (93) | 8 |
| Deferred tax | 211 | 1,087 | 437 | 13 |
| Other assets | (8) | 8 | (122) | 70 |
| Accounts payable | 124 | (14) | (20) | (16) |
| Accrued payroll and other expenses | (34) | 127 | 46 | 26 |
| Accrued bonuses to officers | 60 | 103 | (141) | 24 |
| Income taxes | - | 70 | (71) | 129 |
| Accrued warranty and service costs | 7 | 3 | (4) | 7 |
| Deferred revenue | (12) | (129) | 83 | (50) |
| Net Changes in Working Capital | 119 | 909 | 55 | (215) |
| **Net cash Provided by Operations** | 1,148 | 2,964 | 2,477 | 334 |
| | | | | |
| *Cash Flows from Investing Activities* | | | | |
| Purchase of property and equipment | (62) | (48) | (82) | (7) |
| Investment in securities | - | - | (750) | - |
| Purchases of Bioreason's assets | (826) | - | - | - |
| Capitalized computer software development costs | (480) | (583) | (728) | (202) |
| Proceeds from sale of assets | 21 | 7 | - | - |
| **Cash Flows from Investing Activities** | (1,347) | (624) | (1,560) | (209) |
| | | | | |
| *Cash Flows from Financing Activities* | | | | |
| Proceeds from the exercise of stock options | 131 | 513 | 435 | 49 |
| **Net cash provided by Financing** | 131 | 513 | 435 | 49 |
| | | | | |
| Net change in Cash | (69) | 2,853 | 1,352 | 174 |
| | | | | |
| Cash Beginning of Period | 1,754 | 1,685 | 4,538 | 5,890 |
| | | | | |
| Cash End of Period | $ 1,685 | $ 4,538 | $ 5,890 | $ 6,064 |