TAGLICHBROTHERS
The Standard of Excellence in the Microcap Market
Member: FINRA, SIPC

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
February 4, 2010

SLP $1.63 — (NasdaqCM)

	FY (08/08) A	FY (08/09) A	***FY (08/10) E***	***FY (08/10) E***
Net sales (in millions)	$9.0	$9.1	***$10.5***	***$11.9***
Earnings per share	$0.10	$0.08	***$0.11***	***$0.13***

52-Week range	$2.05 – $0.79	Fiscal year ends:	August
Shares outstanding a/o 1/12/10	15.7 million	Revenue/shares (ttm)	$0.56
Approximate float	8.8 million	Price/Sales (ttm)	2.9X
Market Capitalization	$26 million	Price/Sales (2011)E	2.2X
Tangible Book value/shr	$0.69	Price/Earnings (ttm)	18.1X
Price/Book	2.4X	Price/Earnings (2011)E	12.5X

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

Key Investment Considerations:

We are maintaining our Speculative Buy rating on shares of Simulations Plus, Inc. (AMEX: SLP) and raising our twelve-month price target to $2.40 per share from $2.20 per share. Our price target, which is based on a price-to-EBITDA valuation model, increased primarily due to our expanded (by $0.02 per share) EBITDA forecast over the next four quarters.

On January 13, 2009, SLP reported 1Q10 sales of $2.4 million, up 14% from $2.1 million in 1Q09. EBITDA increased by 36.5% to nearly $0.8 million versus $0.6 million in 1Q09. Net income increased to $0.4 million or $0.03 per share from $0.3 million or $0.02 per share. The company exceeded our sales forecast by over $0.1 million and our earnings projection by $0.01 per share.

The year-over-year increase in sales was attributable to a 21.3% rise in pharmaceutical software sales. The increase in net income resulted from operating margin expansion.

For FY10, we project sales of $10.5 million, EBITDA of $3.3 million, and net income of $1.8 million or $0.11 per diluted share. We previously projected FY10 sales of $10.4 million, EBITDA of $3.2 million, and net income of $1.7 million or $0.10 per diluted share. Our FY10 forecast reflects sales and gross profit growth forecast of 15% and 13.6%, respectively, and leveraging of operating expenses.

We are introducing our FY11 forecasts. We project sales of $11.9 million, EBITDA of $3.8 million, and net income of $2.1 million or $0.13 per share. The continued growth is based on at least 30% growth from consulting studies and services revenue and modest growth in the Words+ subsidiary.

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

Recommendation

We are maintaining our Speculative Buy rating on shares of Simulations Plus, Inc. (NasdaqCM: SLP), as we forecast positive growth trends (EBITDA growth in excess of 25%) for the five-year period of FY06 through FY11.

We are increasing our twelve-month price target to $2.40 per share from $2.20 per share. Our price target is based on a price-to-EBITDA multiple of 17.3X, (the trailing twelve month multiple as of February 3, 2010) for the application and business software and services industry, applied to our EBITDA estimate of $0.21 per share for the next four quarters (which is an increase of $0.02 per share from our prior forecast). We discounted the result by 35% to account for microcap and company specific risks.

Simulations Plus shares are ideally suited for risk tolerant investors seeking exposure to a micro cap software and services company targeting research scientist in the pharmaceutical, biotechnology, and drug development sectors.

The Company

Simulations Plus, Inc. (NasdaqCM: SLP), based in Lancaster, California, has 40 employees (38 full-time and two part-time) including 13 who hold a Ph.D. and one Ph.D. candidate with four others holding one or more Master's degrees. SLP continues to seek additional scientists to expand its Life Sciences team.

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

- Simulations Plus, Inc., develops and licenses software for pharmaceutical research and development, and performs contract studies for pharmaceutical and biotechnology companies. The company's software offerings are in two major areas: simulation and cheminformatics (the use of computer and informational techniques, applied to a range of problems in the field of chemistry). The offerings focus on ADMET (absorption, distribution, metabolism, elimination, and toxicity) and on tools for discovery chemistry in the pharmaceutical and biotechnology industries. The company's software assists pharmaceutical scientists to predict certain key potential drug dynamics and compound properties rapidly, thereby increasing the likelihood of eliminating multi-million dollar clinical trial failures and speeding up the time to market of effective new medications. SLP provides the following software offerings (see next page for details) – ADMET Predictor™/ADMET Modeler™; ClassPharmer™; DDDPlus™; and its flagship offering GastroPlus™. Marketing intelligence (done by the SLP) and its reorder history (of over 90%) indicates that GastroPlus continues to enjoy a dominant position in the number of users worldwide (while not disclosed, we estimate site licensing in excess of 1,000). In addition to most major pharmaceutical companies, licensees include government agencies in the U.S and abroad, a growing number of smaller pharmaceutical and biotech companies, generic drug companies, and drug delivery companies.

  On December 4, 2009, Simulations Plus announced the introduction of its Abbreviate!™ technology for the iPhone™. The technology was originally developed to help people that needed to use augmentative communication software to communicate faster and with less effort, allowing them to type considerably faster and avoid spelling errors by using a few keystrokes to represent the words that are repeatedly used. Apple had over 50 million iPhone and iPod Touch customers.

- The Words+ Inc., subsidiary, which was founded in 1981, produces computer software and specialized hardware for use by people with severe disabilities. This subsidiary's focus is on introducing and improving augmentative and alternative communication and computer access software and devices for disabled persons. In 2003, the Say-it! SAM technology was acquired. This provided Words+ a small, light augmentative communication system which is based on a Hewlett-Packard iPAQ personal digital assistant. Since the acquisition, the company continues to add new functionality to the SAM software and offer it on additional hardware platforms. Last year SLP introduced Conversa™ product, which the company claims provides the most human-sounding synthetic speech output available in the marketplace. Conversa utilizes AT&T synthetic voices and a new custom designed Sound Pack.

Software Offerings

Software Offerings	Description	Updated Developments
ADMET Predictor™/ ADMET Modeler™	The predictor component is a molecular property prediction program that enables pharmaceutical researchers to rapidly estimate a number of ADMET properties of new chemical entities from their molecular structure. The modeler component allows researchers to build artificial neural network ensembles or support vector machine ensemble models from their own data. Under a funded collaboration with Pfizer, the capability for scientists to run large molecular libraries through ADMET Predictor in order to generate the predicted dose amount that would be required to achieve an effective concentration level for each potential new drug was added. Recently added (on July 21, 2009) were 15 new predicted properties including additional models for metabolism, five models for different liver toxicities, new models for how molecules partition between water and a fatty liquid, a model for predicting the ratio of the concentration of a new molecule in whole blood compared to only in plasma, and a model that predicts the likelihood of a compound remaining in a supersaturated condition if it moves from a region of high solubility at one pH (pH is a measure of the acidity or basicity of a solution) to one of lower solubility at a different pH in the gastrointestinal tract. This product is used by customers in the US, Europe, and Japan including multiple licenses at the FDA.	Work that started in 4Q09 in relation to the $525,000 SBIR Phase II grant will continue in FY10. This grant will aid in the development of a rapid atomic partial charge calculation method. The descriptors are unique to ADMET Predictor and provide a strategic advantage in predictive models. Also, expanded graphics capability was added via a Miner3D component.
ClassPharmer™	This offering is designed to enhance the hits-to-lead-to-clinic process which aids in finding drug leads with novel and unpatented structural motifs, reduce screening costs with more efficient follow-up screening strategies, and improve productivity with software that thinks like a medicinal chemist. It also provides an extended data mining and molecule design capability to help medicinal and computational chemists to analyze results from high throughput screening experiments, and then to use the information gained from those experiments to design new molecules. It incorporates an optional ADMET Predictor Module that provides predicted properties for molecules. This combination enables chemists to design and screen new molecules rapidly to home in on promising new compounds. Version 4.7, released in Oct. 2009, features a new scaffold-hopping feature. This feature enables chemists to substitute the core (scaffold) portion of a molecule while retaining other atoms around the periphery. This product is used by customers in the US, Europe, Japan, and India, including multiple licenses at the FDA.	The next version of ClassPharma under development includes the streamlining of the software code to make it faster and more compact, as well as increasing the number of options available to the user for visualizing the output.
DDDPlus™	DDDPlus enables formulation scientists to predict how changes in formulation or changes in experimental setup are likely to affect dissolution rate in laboratory experiments. Version 3 matches the user interface in GastroPlus as closely as possible & has capabilities & expanded built-in databases for excipient (a pharmacologically inert substance) ingredients & dissolution media. DDDPlus is used by customers in the US, Europe, and Japan (with multiple licenses at the FDA).	Development's were minimal as staff time was redirected towards contract consulting studies
GastroPlus™	GastroPlus simulates absorption, pharmacokinetics (PK) (the process by which a drug is absorbed, distributed, metabolized, and eliminated by the body), and pharmacodynamics (PD) (the combination of therapeutic and adverse effects on the body) for orally dosed and injected drugs. In the drug development phase, GastroPlus aids researchers in dosage formulation by allowing the adjustment of formulation variables (solubility, particle density, dose, and radius) versus time, in order to achieve a target plasma concentration. It also offers analysis of in vitro – in vivo 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 IVICPlus™ Module provides a fast and convenient way for formulation scientists to perform correlations, using both traditional methods and a new method that provides more accurate and useful correlations. The PKPlus™ module enables the scientist to rapidly fit simple empirical models for how a drug behaves once it enters the body. GastroPlus can predict and track the metabolites that are formed when a drug is converted into a different molecule by enzymes in the body. Version 6.1 was released in November 2009. This version incorporates the distribution of bile salts in the intestinal tract for both fasted and fed conditions, and the ability to estimate the improved solubility from nanoparticle formulations. This product is used by customers in the US, Europe, and Japan including multiple licenses at the FDA.	The plan is to release Version 7.0 in early 2010. That version will include a comprehensive drug-drug interaction capability, as well as the ocular and nasal/pulmonary administration routes SLP has been developing under its funded collaborations with two top-five pharmaceutical companies.

Competitive Environment

Major pharmaceutical companies conduct drug discovery and development efforts through their internal development staffs and by outsourcing some of this work. Smaller companies need to outsource a greater percentage of this research. This means that SLP also competes with the in-house development teams at some pharmaceutical companies.

According to IBISWorld, this is a mature industry, which over recent years has seen a number of mergers and acquisitions among the major players, including global players with operations in the US. On a global scale, the number of major pharmaceutical firms in the world has fallen from about 80 in the 1980s to less than 30, with the top ten pharmaceutical companies now accounting for over 50% of the global pharmaceutical market, compared with 28% a decade earlier.

According to IBISWorld, the smaller biotechnology segment where a number of companies are struggling due to product failures is consolidating more rapidly. In The US Pharmaceutical and Medicine Manufacturing industry report (published by IBISWorld in November 2009) it is expected to consolidate further through 2014.
IBISWorld predicts that while the industry undergoes consolidation there will be the greater use of new technologies and a rationalization in product portfolios as pharmaceutical companies adapt to the new realities of the global health market. That prediction supports our view that spending on software productivity tools should continue to growth (maybe at a slightly slower pace) because of the need for effective productivity tools (i.e., software), which have the highest productivity gain of any technology. We believe that a positive development is the fact that SLP's management has repeatedly indicated that it has not seen any significant impact, especially as it relates to SLP's relationship with Pfizer, Roche, and GlaxoSmithKline.

The company's pharmaceutical software and services business competes against companies that provide more expensive screening, testing, and research services, and products that are not based on simulation software. There are also software companies whose products do not compete directly, but are sometimes closely related.

We searched and were unable to find other companies that might currently pose a competitive threat to GastroPlus or DDDPlus. Those simulated software offerings appear to be unique. ClassPharmer and ADMET Predictor/ADMET Modeler operate in a more competitive environment; however, independently published product comparisons have been very favorable, with ADMET Predictor consistently ranked first in predictive accuracy.

Strategy

- **Expand its pharmaceutical software offerings and services by:**
    - Hiring additional professionals. Each new hire has the potential to bring in new customers due to their knowledge and interaction with scientists, assist in product development, and increase the capacity to conduct consulting studies and funded collaborations. Two recently hired Ph.Ds commenced work on SLP's life sciences team; another is scheduled to start in March 2010.

      Also, Dr. Robert Clark joined the company on January 19, 2010 as director of life sciences. He was formerly vice president of research for a pharmaceutical software company.
    - Expanding its simulation software offering outside of the pharmaceutical industry. The environmental toxicology area may be a large potential new market, as the Environmental Protection Agency has licensed one of the company's software offerings;
    - Leveraging funded collaboration opportunities. Funded collaborations from Roche, GlaxoSmithKline, and Pfizer for drug-drug interactions, development of ocular drug delivery capabilities, and development of a nasal-pulmonary drug delivery capability have been completed. They will be included with the release of GastroPlus version 7.0. A fourth funded collaboration with Pfizer added a capability to ADMET Predictor to automatically determine the dose amount needed to reach effective plasma concentrations for new drug molecules in early discovery. The company will continue to seek funded collaborations in order to enhance their software portfolio;

- Expanding contract research and consulting services. The demand for consulting services has increased steadily (approximately four to six at any one time) due to clinical scientists' requests for studies from their pre-clinical colleagues who do not have the time to conduct the requested study. Management stated that sometimes once a contract is completed, one or two new consulting contracts are signed. Consulting studies serve as a marketing tool and help build and strengthen customer relationships. Further evidence of strategic growth is the company's revenue pipeline of consulting studies and services, which should reach $250,000 in 2Q10 from $140,000 in 2Q09;

- Continuing the pace of its expanded marketing and sales activities through the number of conferences and meetings worldwide. In addition to leads generated at those meetings, the company plans to leverage pharmaceutical companies' statements (or posters) related to SLP software portfolio. One example occurred at the November 2009 American Association of Pharmaceutical Scientists meeting when SLP's GastroPlus offering was mentioned by every speaker in at least three different sessions as the tool used to run the analyses that was being presented. A Novartis presentation noted that GastroPlus simulation results submitted to the FDA (which owns a number of GastroPlus licenses) resulted in the FDA agreeing to eliminate a clinical trial that would have otherwise been required.

- Seeking to complete strategic accretive acquisitions in order to enhance and expand the product portfolio, as well as new collaborations; and

- Examining additional Small Business Innovation Research (SBIR) opportunities. The 2009 stimulus package of the U.S. has the potential to provide monies to fund additional grant opportunities.

– **Words+ subsidiary:**

- Continuing product improvement and more aggressive marketing and sales;

- Utilizing added staff to process prior authorizations and accounts receivables more quickly in order to collect old receivables from state Medicaid agencies;

- Leveraging the work this subsidiary has done over the years in developing language strategies to help assist users of augmentative communication software to communicate faster and with less effort;

- Looking for potential SBIR funding opportunities that fit the subsidiary's expertise.

Outlook

We believe the company's primary simulation software products (GastroPlus™, ADMET Predictor/Modeler™, DDDPlus™, and ClassPharmer™) will continue to gain exposure to a wider audience within the community of researchers in the pharmaceutical, biotechnology, and drug discovery industries of the healthcare sector.

This is most likely to be accomplished through continued exposure at large and small conferences around the world and an increase in the company's sales personnel. According to the company's SEC filings, members of its staff have been speakers or presenters at over 50 scientific meetings worldwide over the past five years. During calendar 2009 SLP attended and spoke at two to three times as many conferences, shows, and meetings as compared to the prior year. This marketing push has driven its sales lead pipeline well above what was accomplished last year. The company's plan for calendar 2010 is to maintain a level of visibility as high as it was in 2009. This means that sales growth should continue into FY2011.

The company's sales cycle for its pharmaceutical software products tends to average about six months. Customers frequently need to evaluate software and then obtain approvals from multiple decision makers prior to the purchase order being placed. In the current economic environment the sales cycle tends to be longer then the six month average, as budget tightening at pharmaceutical companies has resulted in software usage audits as a condition to purchase of a software license. The company indicated that once a customer purchases a license, the renewal rate in the following year is in excess of 90%.

SLP announced in January 2010 the launch of a solubility database (a new product for license) to assist pharmaceutical scientists in estimating the effects of physiological fluids on the solubility of drug-like molecules. SLP is likely to conduct additional experiments in other areas in order to build more databases for license.

Projections

<u>*Operations*</u>

We project sales for fiscal 2010 to grow by 15.2% to $10.5 million (prior was $10.4 million). Our aggregate increase of $0.1 million is due to 1Q10 results beating our forecast by that amount. Our sales projection reflects an improving economic environment, successful conversion to licenses of leads due to increased visibility in 2009, increased budgets for pharmaceutical and biotechnology companies in 2010, and over a 30% increase in consulting services revenue that should result from pharmaceutical companies outsourcing the analysis of clinical data.

For FY10, we project sales growth for simulations software products and services of 21.3% (to approximately $7.6 million). We project a sales increase of approximately 3.6% for Words+ to $2.9 million; comparisons will be easier, as SLP is past the year-earlier date of the large order obtained in fiscal 2008 from a U.K. distributor.

We are initially projecting FY2011 sales of $11.9 million, which should be supported by growth of its simulations software products and services of over 17% (to nearly $9.0 million). We project a sales increase of approximately 1.5% (to over 2.9 million). The continued growth is based on at least 30% growth from consulting services as outsourcing for the analysis of clinical data should continue and the increased marketing efforts through attending and presenting at a record number of conferences and meetings worldwide.

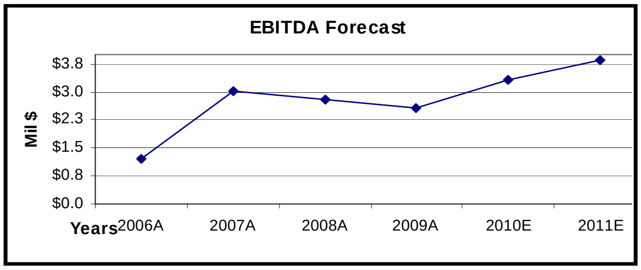
The table below illustrates the cost structure (which incorporates higher marketing expenses) we anticipate for fiscal 2010 and fiscal 2011, versus actual results achieved in fiscal 2009.

Cost Structure

	2009A	2010 E		2011 E
	Actual	Prior	Revised	Initial
Gross Margin	74.6%	72.4%	73.6%	74.4%
SG&A expenses (as a Percent of Sales)	42.6%	40.3%	39.5%	39.3%
Research and Development (as a Percent of Sales)	12.2%	8.4%	9.5%	8.7%
Operating Margin	19.8%	23.7%	24.6%	26.4%
Tax rate	30.3%	33.5%	35.2%	35.2%
Pre-tax Margin	22.2%	24.5%	26.1%	27.2%

We project gross margin expansion from our prior estimate and for FY11, due primarily to a richer sales mix of simulations software and services products that carry higher margins than its Words+ subsidiary.

Based on our sales and cost structure estimates, we project FY10 and FY11 EBITDA (defined as operating income plus depreciation and amortization of property, equipment, and capitalized software development, and stock-based compensation) of $3.3 million (prior estimate was $3.2 million) and $3.8 million respectively (see chart – right for historic numbers and projections through FY11).



Our revised net income projection for fiscal 2010 is $1.8 million or $0.11 per diluted share (prior estimate was $1.6 million or $0.10 per diluted share). Our initial FY11 projection for net income is $2.1 million or $0.13 per share.

Our EPS forecasts are based on average fully diluted shares of approximately 16.7 million and 16.4 million, respectively. Our average share projections are based on shares repurchased through the end of its October 2008 share repurchase program (which ended December 1, 2009) and the commencement of a newly authorized share repurchase program for one million shares over a 12-month period beginning February 15, 2010.

Finances
For FY10, we project cash throw-off and cash generated from operations of $2.6 million (versus $2.4 million and $2.5 million respectively, in 2009). As in the prior two years, working capital needs will decrease slightly (by $5,000 projected for 2010 versus $115,000 in 2009 and $55,000 in 2008) primarily due to an increase in deferred revenue. Changes in all other current accounts are projected to offset one another. Cash at the end of FY10 should increase by $1.3 million to $8.8 million, even after nearly $0.5 million of common stock repurchased during the first quarter of fiscal 2010, as well as our projection of shares to be repurchased during the third and fourth quarters of FY10.

For FY11, we project cash throw-off and cash generated from operations of $3.0 million (versus $2.6 million we forecast for FY10). Working capital needs will decrease slightly (by $8,000 projected for 2011) primarily due to an increase in deferred taxes. Changes in all other current accounts are projected to offset one another. Cash at the end of FY11 should increase by $1.8 million to $10.6 million, even after our forecast of share repurchases of nearly $0.6 million during the first half of FY11.

Based on our cash flow projections through FY11, we believe the company has the cash and operational strength to repurchase common shares, fund and grow operations (organically and through small asset purchases and acquisitions) for at least the next twelve-months.

Financial Results

For the three-month period ended November 30, 2009, versus the same period last year:

- Sales grew to $2.4 million from $2.1 million. Taglich Brothers estimated net sales of $2.3 million;
- Gross margin was 75.1% versus 75.3%;
- SG&A expenses increased to $1.0 million from $0.9 million;
- Research and development expenses decreased to $261,325 from $269,085;
- Operating income increased to $0.6 million from $0.4 million;
- Net income was approximately $0.4 million, or $0.03 per diluted share versus net income of $0.3 million or $0.02 per diluted share. Taglich Brothers estimated net income of $0.3 million or $0.02 per share.

In 1Q10, the company's sales increased by 14.2% to $2.4 million, driven by gains in the pharmaceutical software and services segment as a whole. That segment grew by approximately $305,000, or 21.3%, primarily due to a $252,000 increase for license renewals (the majority from new customers) orders for additional module licenses from existing customers', higher consulting services revenue of approximately $52,000, and a small contribution from a grant. The growth in simulations software and services compares to a $1,000 decline in the Words+ subsidiary sales.

Gross margin contracted by 22 basis points, primarily due to the cost of contract studies, which are mainly conducted by salaried scientists; as revenue from study contracts increased, the cost of goods sold grew by $22,000. The cost of good sold also increased due to the systematic amortization of capitalized software development and royalties by $45,000.

SG&A expenses increased by $101,000 to $1.0 million, due to travel expenses, advertising costs, commissions, bonuses, equipment repairs, and legal fees.

In total, the company incurred nearly $462,000 of research and development costs during 1Q10, of which $201,000 was capitalized. In the prior year, $471,000 of research and development costs were incurred with $202,000 was capitalized. The aggregate decrease was due to a shift in salaries being recorded as cost of sales for consulting studies and services.

Other income for 1Q10 increased to $96,671 from $51,306 in 1Q09 due to an increase in gains on currency exchange, which outweighed lower interest rates that generated less cash on its cash on hand. The provision for income taxes during 1Q10 increased to $231,433 from $141,333 in 1Q09. The increase was due higher operating income. The company anticipates based on current information that the tax rate for the full year of 2010 to be in the range of 33% – 37%. Where it falls within that range will depend on the amount of R&D tax credits generated.

Finances
In 1Q10, cash throw-off from operations totaled approximately $629,000 and cash generated from operations was $966,000. Working capital needs decreased by $337,000 as deferred income and accounts payable increased, while most other current assets offset one another. The main item for investing activity was capitalized computer software development costs of $201,000. Cash in 1Q10 increased by $0.5 million to $8.0 million, even as the company repurchased common stock (in the aggregate) of nearly $0.3 million.

On October 23, 2008 the company announced a share repurchase program that enabled SLP to buy back up to $2.5 million of its common shares during the 12-month period beginning October 27, 2008. Since the purchases commenced on December 2, 2008, the purchase period was extended until December 1, 2009. As of December 1, 2009 over 1.03 million shares were bought back at average price per share of approximately $1.32. Management stated during the full year conference call that the company's had no plans to repurchase shares after December 1, 2009, but that the board of directors could authorize a further repurchase at any time.

On January 20, 2010, SLP announced its board of directors authorized a renewed share repurchase program of up to one million shares during a 12-month period beginning February 15, 2010. The company is not obligated to repurchase shares; however, share repurchased will depend on the performance of its stock price, general market conditions, and securities laws. The repurchase program is not expected to interfere with potential acquisitions.

Risks

Technology
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.

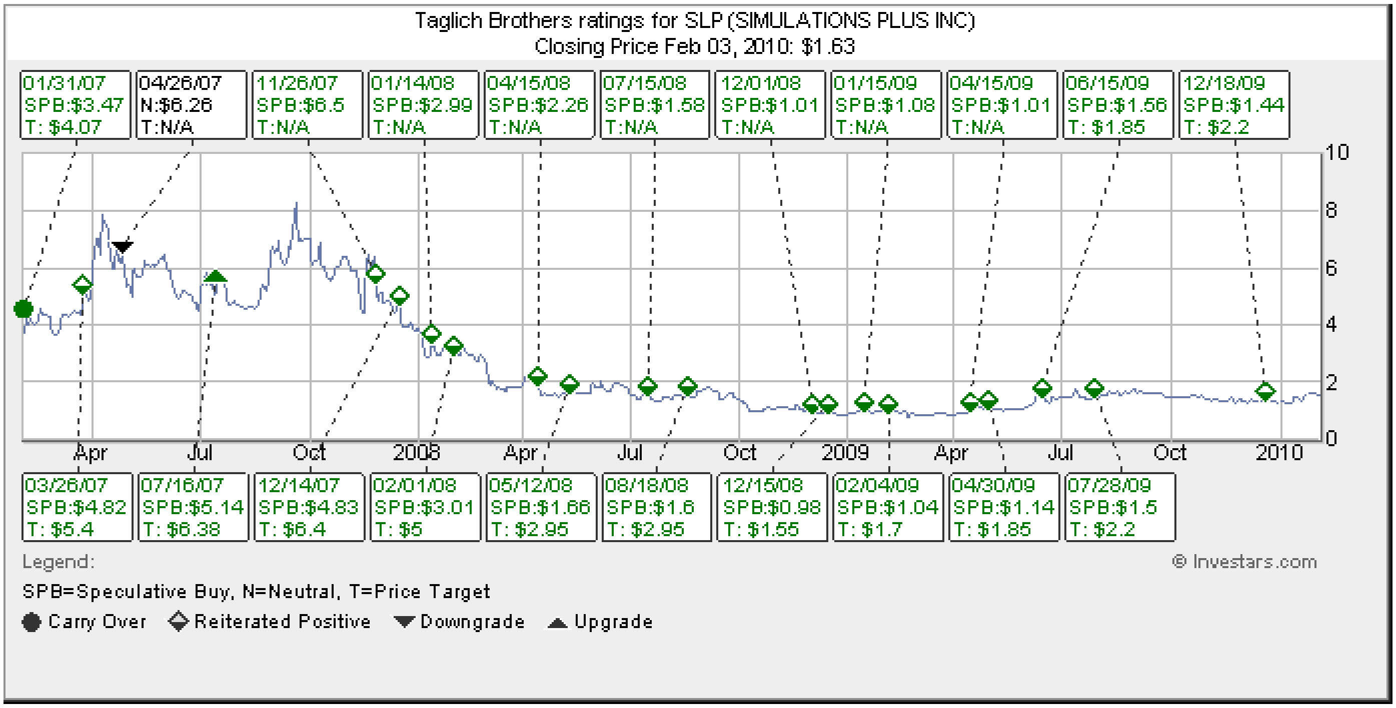
Shareholder Control
We estimate that Walter Woltosz, the company's co-founder, chairman of the board, president, and CEO, and Virginia Woltosz, the company's co-founder, corporate secretary, and treasurer, own approximately 44.3% of the outstanding voting stock (based on shares outstanding as of December 30, 2009 and a Form 4 filing with the SEC on December 31, 2009). Walter and Virginia Woltosz should be able to control the outcome, or greatly influence the outcome, on all matters requiring stockholder approval, which may or may not be in the best interests of the other shareholders.

Intellectual Property Rights
Third parties may infringe or misappropriate IP rights, or otherwise independently develop substantially equivalent products and/or services. The loss of intellectual property protection or the inability to secure or enforce intellectual property protection could harm its business and/or ability to compete.

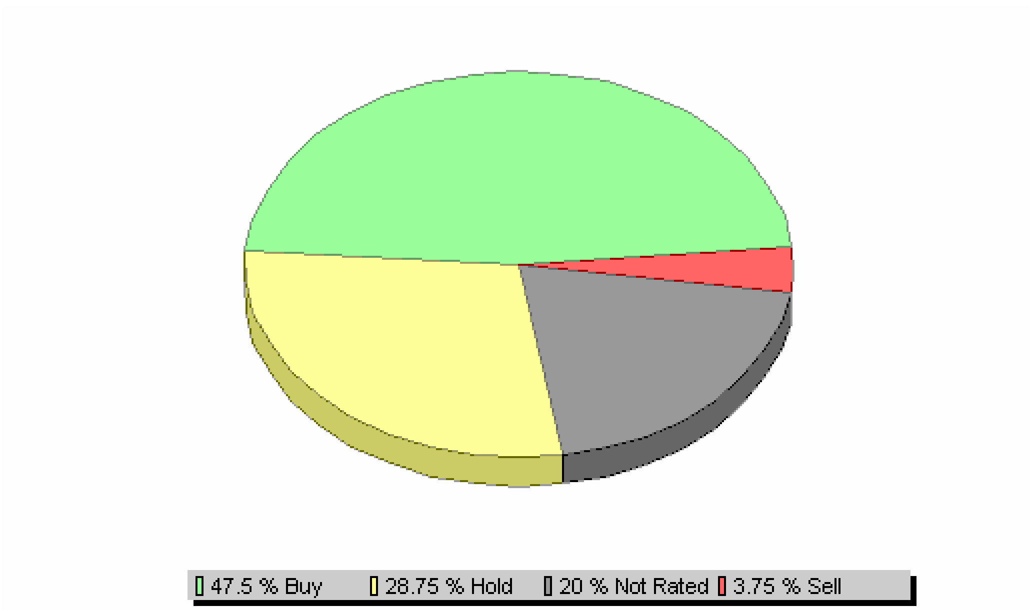
Government Regulation
On January 1, 2001, Medicare began funding augmentative communication devices for the first time and over the company's 28-year history, the trend has been toward increasing funding from government agencies. There can be no assurance that government funding for such devices will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

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

Trading Volume
Liquidity is a potential concern. Based on our calculations, the average daily-volume during calendar 2007 was 197,967 shares traded a day and during calendar 2008, average daily volume decreased to 60,242 shares traded a day. During calendar 2009, average daily volume decreased to 20,814. Investors need to be aware that by nature a thinly traded equity can have significant price volatility.



Taglich Brothers Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months

Rating	#	%
Buy	1	3.85%
Hold	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 thecompany may be fairly valued based on its current status. Upside potential is limited relative to investment risk.

Sell

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

Some notable Risks within the Microcap Market

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

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

Public Companies mentioned in this report:

GlaxoSmithKline	(NYSE: GSK)
Pfizer Inc.	(NYSE: PFE)
Roche	(Other OTC: RHHBY)

* 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, 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 2008A Fiscal Year End	August 2009A Fiscal Year End	Nov. 2009A 1st Qtr End	August 2010E Fiscal Year End	August 2011E Fiscal Year End
ASSETS					
Current assets:					
Cash	$ 5,890	$ 7,474	$ 7,973	$ 8,815	$ 10,588
Accounts receivable, net	2,105	1,889	1,831	2,107	2,348
Contracts receivable, net	-	80	177	-	-
Inventory	342	326	371	348	356
Deferred tax	318	339	339	300	150
Prepaid expense and other current assets	195	159	59	132	137
Total current assets	**8,850**	**10,265**	**10,750**	**11,703**	**13,578**
Investments	750	-	-	-	-
Capitalized computer software development costs, net	1,789	1,943	1,993	1,920	1,950
Property and Equipment, net	103	53	48	48	47
Contracts receivable	-	-	-	-	-
Customer relationships	43	23	19	23	25
Deferred tax	-	-	-	-	-
Other assets	18	18	18	18	15
Total assets	**$ 11,553**	**$ 12,303**	**$ 12,828**	**$ 13,712**	**$ 15,615**
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Accounts payable	181	199	300	232	246
Accrued payroll and other expenses	537	552	577	627	696
Accrued bonuses to officers	60	60	124	68	71
Accrued income taxes	-	-	37	-	-
Accrued warranty and service costs	34	43	35	35	50
Current portion of deferred revenue	83	82	150	155	165
Other current liabilities	-	-	-	-	-
Total current liabilities	**896**	**937**	**1,222**	**1,118**	**1,229**
Deferred tax liability	742	795	795	800	900
Stockholders' equity:					
Common stock, no par value; authorized 20,000,000 shares;	5	4	4	4	4
Additional paid-in capital	6,328	5,572	5,383	5,383	5,572
Retained earnings	3,582	4,994	5,424	5,798	7,447
Total stockholders' equity	**9,915**	**10,571**	**10,812**	**11,794**	**13,487**
Total liabilities and stockholders' equity	**$ 11,553**	**$ 12,303**	**$ 12,828**	**$ 13,712**	**$ 15,615**
SHARES OUT	16,297	15,700	15,684	15,559	15,284

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

	FY2008A	FY2009A	**FY2010E**	**FY2011E**
Net sales	8,968	9,143	**10,537**	**11,905**
Cost of sales	2,100	2,322	**2,787**	**3,050**
Gross Profit	6,868	6,822	**7,750**	**8,855**
Operating Expenses:				
Selling, general, and administrative	3,699	3,896	**4,159**	**4,675**
Research and development	990	1,114	**1,001**	**1,040**
Total Operating Expenses	4,690	5,010	**5,161**	**5,715**
EBITDA	2,805	2,556	**3,328**	**3,840**
Operating Income (loss)	2,178	1,812	**2,589**	**3,140**
Other income (expense)				
Interest income	185	94	**82**	**100**
Interest expense	(0)	-	**(0)**	-
Gain (Loss) on exhange of currency	83	120	**73**	-
Gain (Loss) on sale of assets	0	1	**1**	-
Total Other Income (expense)	268	215	**157**	**100**
Pre-Tax Income (loss)	2,446	2,027	**2,746**	**3,240**
Income Tax Expense (Benefit)	721	615	**966**	**1,140**
Release of valuation allowance	-	-	-	-
Tax Rate	29.46%	30.32%	**35.19%**	**35.19%**
Net income (loss)	$ 1,726	$ 1,412	**$ 1,780**	**$ 2,100**
Earnings per share -- Diluted	$ 0.10	$ 0.08	**$ 0.11**	**$ 0.13**
Avg Shares Outstanding	18,141	17,188	**16,710**	**16,386**
Margin Analysis				
Gross margin	76.6%	74.6%	73.6%	74.4%
Selling, general, and administrative	41.2%	42.6%	39.5%	39.3%
Research and development	11.0%	12.2%	9.5%	8.7%
Operating margin	24.3%	19.8%	24.6%	26.4%
Pre-tax margin	27.3%	22.2%	26.1%	27.2%
YEAR / YEAR GROWTH				
Total Revenues	1.2%	2.0%	15.2%	13.0%
Earnings per share	16.5%	0.3%	29.3%	18.0%

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

	Q1(11/08)A	Q2 (02/09)A	Q3 (05/09)A	Q4 (08/09)A	FY2009A
Net sales	2,133	2,457	2,714	1,840	9,143
Cost of sales	526	553	543	699	2,322
Gross Profit	1,607	1,904	2,170	1,141	6,822
Operating Expenses:					
Selling, general, and administrative	904	1,037	989	966	3,896
Research and development	301	360	334	118	1,114
Total Operating Expenses	1,205	1,397	1,323	1,084	5,010
EBITDA	577	680	1,026	273	2,556
Operating Income (loss)	402	507	847	56	1,812
Other income (expense)					
Interest income	33	20	20	21	94
Gain (Loss) on exhange of currency	18	32	20	50	120
Total Other Income (expense)	51	52	41	71	215
Pre-Tax Income (loss)	453	559	888	127	2,027
Income Tax Expense (Benefit)	141	191	319	(36)	615
Release of valuation allowance	-	-	-	-	-
Tax Rate	*31.20%*	*34.13%*	*35.91%*	*-28.58%*	30.32%
Net income (loss)	$ 312	$ 368	$ 569	$ 163	$ 1,412
Earnings per share -- Diluted	$ 0.02	$ 0.02	$ 0.03	$ 0.01	$ 0.08
Avg Shares Outstanding	17,517	17,108	16,926	17,200	17,188
Margin Analysis					
Gross margin	75.3%	77.5%	80.0%	62.0%	74.6%
Selling, general, and administrative	42.4%	42.2%	36.5%	52.5%	42.6%
Research and development	14.1%	14.7%	12.3%	6.4%	12.2%
Operating margin	18.8%	20.6%	31.2%	3.1%	19.8%
Pre-tax margin	21.2%	22.7%	32.7%	6.9%	22.2%
YEAR / YEAR GROWTH					
Total Revenues	7.5%	12.7%	(8.6%)	0.2%	2.0%

Simulations Plus, Inc.
Quarterly Income Statement Model
For the Years August 31, 2009 & 2010
(in thousands)

	Q1(11/09)A	Q2 (02/10)E	Q3 (05/10)E	Q4 (08/10)E	**FY2010E**	Q1(11/10)E	Q2 (02/11)E	Q3 (05/11)E	Q4 (08/11)E	**FY2011E**
Net sales	2,437	2,615	2,875	2,610	**10,537**	2,790	2,965	3,230	2,920	**11,905**
Cost of sales	607	655	715	810	**2,787**	685	740	765	860	**3,050**
Gross Profit	1,830	1,960	2,160	1,800	**7,750**	2,105	2,225	2,465	2,060	**8,855**
Operating Expenses:										
Selling, general, and administrative	1,004	1,065	1,050	1,040	**4,159**	1,140	1,180	1,195	1,160	**4,675**
Research and development	261	260	240	240	**1,001**	260	260	260	260	**1,040**
Total Operating Expenses	1,266	1,325	1,290	1,280	**5,161**	1,400	1,440	1,455	1,420	**5,715**
EBITDA	778	810	1,045	695	**3,328**	880	960	1,185	815	**3,840**
Operating Income (loss)	565	635	870	520	**2,589**	705	785	1,010	640	**3,140**
Other income (expense)										
Interest income	22	20	20	20	**82**	25	25	25	25	**100**
Total Other Income (expense)	97	20	20	20	**157**	25	25	25	25	**100**
Pre-Tax Income (loss)	661	655	890	540	**2,746**	730	810	1,035	665	**3,240**
Income Tax Expense (Benefit)	231	230	315	190	**966**	260	285	360	235	**1,140**
Release of valuation allowance	-	-	-	-	**-**	-	-	-	-	**-**
Tax Rate	*35.00%*	*35.11%*	*35.39%*	*35.19%*	***35.19%***	*35.62%*	*35.19%*	*34.79%*	*35.34%*	**35.19%**
Net income (loss)	$ 430	$ 425	$ 575	$ 350	**$ 1,780**	$ 470	$ 525	$ 675	$ 430	**$ 2,100**
Earnings per share -- Diluted	$ 0.03	$ 0.03	$ 0.03	$ 0.02	**$ 0.11**	$ 0.03	$ 0.03	$ 0.04	$ 0.03	$ 0.13
Avg Shares Outstanding	16,775	16,750	16,695	16,620	**16,710**	16,495	16,345	16,350	16,355	**16,386**
Margin Analysis										
Gross margin	75.1%	75.0%	75.1%	69.0%	**73.6%**	75.4%	75.0%	76.3%	70.5%	74.4%
Selling, general, and administrative	41.2%	40.7%	36.5%	39.8%	**39.5%**	40.9%	39.8%	37.0%	39.7%	39.3%
Research and development	10.7%	9.9%	8.3%	9.2%	**9.5%**	9.3%	8.8%	8.1%	8.9%	8.7%
Operating margin	23.2%	24.3%	30.3%	19.9%	**24.6%**	25.3%	26.5%	31.3%	21.9%	26.4%
Pre-tax margin	27.1%	25.0%	31.0%	20.7%	**26.1%**	26.2%	27.3%	32.0%	22.8%	27.2%
YEAR / YEAR GROWTH										
Total Revenues	14.2%	6.4%	6.0%	41.9%	**15.2%**	14.5%	13.4%	12.3%	11.9%	13.0%

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

	FY2008A	FY2009A	Q1 2010A	FY2010E	FY2011E
Cash Flows from Operating Activities					
Net Income (loss)	$ 1,726	$ 1,412	$ 430	$ 1,780	$ 2,100
Depreciation and amortization of property and equipment	51	22	6	24	25
Amortization of capitalized software development	467	519	4	375	400
Amortization of customer relationships	26	20	150	175	200
Bad debt expense	63	220	(13)	-	-
Stock-based compensation	90	183	52	200	250
Contribution of equipment at book value	-	-	-	-	-
Loss on sale of assets	-	-	(1)	(1)	-
	2,422	2,376	629	2,553	2,975
Changes In:					
Accounts receivable	(60)	(83)	(3)	(218)	(241)
Inventory	(93)	88	(45)	(22)	(7)
Deferred tax	437	33	-	39	150
Other assets	(122)	37	100	27	(5)
Accounts payable	(20)	18	100	33	13
Accrued payroll and other expenses	46	15	24	75	69
Accrued bonuses to officers	(141)	-	64	8	3
Income taxes	(71)	-	37	-	-
Accrued warranty and service costs	(4)	9	(8)	(8)	15
Deferred revenue	83	(1)	68	73	10
Net Changes in Working Capital	55	115	337	5	8
Net cash Provided by Operations	2,477	2,492	966	2,558	2,982
Cash Flows from Investing Activities					
Purchase of property and equipment	(82)	(45)	(24)	(25)	(25)
Investment in securities	(750)	750	-	-	-
Purchases of Bioreason's assets	-	-	-	-	-
Capitalized computer software development costs	(728)	(674)	(201)	(800)	(685)
Proceeds from sale of assets	-	-	-	-	-
Cash Flows from Investing Activities	(1,560)	32	(225)	(825)	(710)
Cash Flows from Financing Activities					
Repurchase of common stock	-	(1,064)	(285)	(491)	(600)
Proceeds from the exercise of stock options	435	125	44	100	100
Net cash provided by Financing	435	(940)	(241)	(391)	(500)
Net change in Cash	1,352	1,584	500	1,342	1,772
Cash Beginning of Period	4,538	5,890	7,474	7,474	8,815
Cash End of Period	$ 5,890	$ 7,474	$ 7,973	$ 8,815	$ 10,588