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Research Report – Update

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Simulations Plus, Inc.

Rating: Speculative Buy

Howard Halpern
August 18, 2008

SLP $1.60 — (NasdaqCM)

	FY (08/06) A	FY (08/07) A	*FY (08/08) E*	*FY (08/09) E*
Net sales (in millions)	$5.86	$8.86	***$9.65***	***$11.01***
Earnings per share	$0.04	$0.08	***$0.12***	***$0.15***

52-Week range	$8.63 – $1.32	Fiscal year ends:	August
Shares outstanding a/o 07/14/08	16.23 million	Revenue/shares (ttm)	$0.51
Approximate float	8.14 million	Price/Sales (ttm)	3.1X
Market Capitalization	$26 million	Price/Sales (2009)E	2.6X
Tangible Book value/shr	$0.60	Price/Earnings (ttm)	20.0X
Price/Book	2.7X	Price/Earnings (2009)E	10.7X

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), as we continue to forecast positive growth trends for fiscal 2008 and believe those trends will continue into fiscal 2009. Also, we are maintaining our twelve-month price target of $2.95 per share, which is based on our sales, EBITDA, and fully taxed earnings per shares forecasts for fiscal 2009.

On July 15, 2008, SLP announced net sales for the third quarter of fiscal 2008 increased by 12.8% to $2.968 million versus $2.631 million in the third quarter of fiscal 2007. Also, EBITDA increased to $1.329 million versus $1.094 million in the same period last year. Net income was $0.753 million or $0.04 per diluted share versus $0.782 million or $0.04 per diluted share in the third quarter of fiscal 2007. Bottom line results were relatively flat on a year-over-year basis primarily due to the tax rate reported in the current period of 36.6% (versus 22% in the same period late year) in order to obtain an overall 32% tax rate for the full year.

We are adjusting our estimates for fiscal 2008, given comments made by Management during the Company's earnings conference call. Our revised net sales and net income forecasts are $9.652 million (prior was $9.798 million) and $2.146 million or $0.12 per diluted share (prior was $2.500 million or $0.14 per share).

Based on public comments by Management, our analysis of financial results, and market conditions, we are adjusting our fiscal 2009 forecasts, which calls for net sales of $11.005 million (prior was $11.200 million) and net income of $2.710 million or $0.15 per diluted share (prior was $3.210 million or $0.17 per share). In addition, we are forecasting EBITDA of $4.370 million versus our prior forecast of $4.525 million.

**** 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 (32 full-time and 3 part-time), includes 16 professionals in research and development, 7 in production, and 1 in information technology/repairs. 10 employees have Ph.D.s and one is a Ph.D. candidate. Four 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 March 2008, Version 2.4 was released, which incorporates the new Enslein Metabolism Module for the prediction of kinetic rate constants for metabolism via hydroxylation (the most common form of metabolism). This new version also allows smaller companies to license separate modules when all the capabilities of the program are not required. On July 2, 2008, SLP announced the release of Version 3.0, 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 last year's SBIR grant and subsequent internal R&D to rapidly calculate partial atomic charges. According to Management, the tight integration between ADMET Predictor™ and ClassPharmer™ software products means that the de novo design capabilities of ClassPharmer will also be enhanced, thus allowing chemists to automate the generation and screening of new molecular structures to a new level;

    - **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. On June 2, 2008, the Company announced the release of Version 4.5, which adds new capabilities for drug molecule design and data mining. This version offers customers detection of Activity Cliffs (i.e., small changes in molecular structure that produces large changes in activity or some other property). It also provides tight integration with the Company's ADMET Predictor™;

    - **DDDPlus™ -** is a relatively new and unique tool for formulation scientists, which enables them to predict how changes in formulation or changes in experimental setup are likely to affect dissolution rate in laboratory experiments. According to the Company's fiscal 2008 third quarter 10Q filing, work on the next update commenced during the quarter and is planned for release during the fourth quarter of fiscal 2008; 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. Version 5.3 included the ability to call ADMET Predictor software directly from within GastroPlus. Additionally, the upgrade included a new numerical integrator that speeds ups simulations, improved virtual trials for simulating effects in large populations, handling of enteric coated or delayed release tablets and capsules, particle shape for dissolving particles, a redesigned units converter for the Metabolism and Transporter Module, as well as a monkey physiology model for physiologically based pharmacokinetics (PBPK). On May 19, 2008, the Company announced the release of Version 6.0, which provides major upgrades to several modules and additional user conveniences. The upgrades include the establishment 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 provides more accurate and useful correlations. Another improved module is PKPlus™, which provides the scientist with the understanding of how a drug behaves once it enters the body. An additional function of this upgrade is that it offers the ability to predict and track the metabolites that are formed when a drug is converted into a different molecule by enzymes in the body.

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

Recent Developments

On August 8, 2008, the Company announced it received a purchase order from the U.S. Food and Drug Administration (FDA) to license ADMET Predictor™ software. Management stated it was pleased that the FDA's Cardiovascular and Renal Products division licensed ADMET Predictor™ with all four of its modules. Additionally, the press release noted that the FDA added property prediction software to its earlier GastroPlus™ licenses.

On August 7, 2008, Simulations Plus, Inc. announced that the U.S. National Institutes of Health (NIH) renewed its ClassPharmer™ Software licenses. The purchase order was for the renewal of five licenses from NIH's Chemical Genomics Center.

On July 28, 2008, the Company announced it signed a multi-year collaboration agreement with Hoffmann La Roche, Inc., which will provide SLP funding for the equivalent of one full-time scientist for two years to expand the capabilities of GastroPlus™. The agreement calls for close collaboration with Roche scientists in order to advance the capabilities of GastroPlus™ in the area of simulating drug-drug interactions. Management believes that this collaboration will accelerate the implementation of what is expected to be the most advanced drug-drug interaction capability in the industry. Also, SLP will contribute in-house research and development funds.

On July 23, 2008, Simulations Plus, Inc. announced that its Words+, Inc. subsidiary launched a new augmentative communications product called Conversa™. The President of the subsidiary stated that this new offer is based on a state-of-the art tablet computer with an integrated 12" diagonal touch screen, high quality graphics, good battery life, as well as providing exceptional sound quality and volume. According to Management, this product fills a hole in the subsidiary's product line and is priced to sell through Medicare and Medicaid funding. That is why the expectation for the Conversa offering is that it should provide an excellent avenue for future growth.

On June 17, 2008, the Company announced it received a purchase order from the U.S. Environmental Protection Agency (EPA) for its ADMET Predictor™ software. This is SLP's first software license sold to the EPA. Management is pleased that the EPA has recognized the value of ADMET Predictor's Toxicity Module, as well as the new Enslein Metabolism Module in their work. According to the press release, one of the reasons why it makes sense for the EPA to use SLP's software is that in addition to pesticides and industrial chemicals, drugs also can pose a potential environmental hazard since a large portion of drugs are thrown away instead of being taken. As a consequence, these drugs eventually, as well as the excipients (an inert substance used as diluents or vehicle for a drug) that are packaged with them, end up in the sewage treatment and landfill systems in the U.S., from which they can reach fresh water streams and the oceans, or they can be blown into the air as dust and spread over large areas. ADMET Predictor will allow the EPA to predict a number of potential toxicities for industry chemicals, agricultural chemicals, and drug molecules plus excipients.

On May 28, 2008, Simulations Plus announced the signing of an agreement with Northeastern University to fund a research project that will measure solubilities in bio-relevant fluids. The Company will be working in collaboration with Dr. Rebecca Carrier and her lab at Northeastern University. SLP's CEO stated that solubility is a major concern in the development of many new drugs; therefore, the data that will be generated from this study should put SLP in a better position to estimate the solubility and dissolution of new drug molecules in various parts of the gastrointestinal tract.

On May 22, 2008, the Company announced that its GastroPlus™ software was the top-rated software in a comparison study performed by Pfizer (NYSE: PFE). The Company's CEO offered the following quote:

> *"We attended and exhibited at the Asian International Society for the Study of Xenobiotics meeting in Shanghai, China on May 12-13. At that meeting, one of the poster presentations was by a team of scientists at Pfizer. Their poster presented the results of a two-year effort to compare simulation programs that provide physiologically based pharmacokinetics (PBPK) modeling capabilities. All four marketed programs with this capability were involved in the study, which was based on actual data from 21 Pfizer compounds that entered human clinical trials. The goal was to assess the predictive accuracy of the four programs as well as to compare them with the then-current Pfizer methodology used to predict human results from preclinical (laboratory and animal) results for each new compound. The study was divided into two parts, one for intravenous dosing and one for the more difficult oral dosing. The accuracy of the predictions from all five methods (four commercial programs and the Pfizer internal method) was compared in each area."*

The result was that GatroPlus™ was ranked first in accuracy in both areas, while none of the other methods was ranked in the top three in both areas.

Financial Results

For the three-month period ended May 31, 2008, versus the three-months ended May 31, 2007:

- Net sales increased to $2.968 million versus $2.631 million. Taglich Brothers' estimate called for net sales of $2.885 million;
- Gross margin was virtually flat at 78.99% versus 79.07%;
- SG&A expenses increased to $0.942 million versus $0.885 million. As a percentage of net sales SG&A expenses decreased to 31.73% versus 33.65%, primarily due to growth of top line results;
- Research and development expenses were virtually flat at $0.222 million versus $0.227 million. Investors should note that the Company capitalized R&D costs in the amount of $0.206 million versus $0.130 million in the same period last year;
- Operating income increased by 18.4% to $1.188 million versus $1.003 million;
- Provision for income taxes increased to $0.435 million from $0.221 million and
- Net income was $0.753 million or $0.04 per diluted share versus net income of $0.782 million or $0.04 per diluted share. Taglich Brothers' estimate called for net income of $0.875 million or $0.05 per diluted share.

Management attributed the 12.8% growth in year-over-year net sales to an approximately 19.0% (or $0.316 million) increase from pharmaceutical software and services. The higher level of sales was primarily attributable to increased licenses, both to new customers and for new modules and additional licenses to renewal customers.

Also, positively contributing to top line results was an increase of 2.2% (or $0.021 million) from the Company's Words+ subsidiary. The higher level of sales was primarily due to positive moment from its Say-it! SAM, TuffTalker, and MessageMate offerings, as well as sales of input devices. To add some perspective, according to the Company's earnings press release, its Say-it! SAM PDA product offering is shipping at a rate over 80% higher than the previous product did in the first nine months of last year. However, mitigating the growth of those product offerings were lower sales of its TuffTalker Plus and Freedom products with EZKeys software, which is based on Windows XP. The decrease was primarily due to two major Augmentative and Alternative Communication (AAC) manufacturers having introduced XP-based software in the market, which resulted in stiff new competition.

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 decreasing by 8 basis points primarily due to increased royalty payments, which was virtually offset by lower systematic amortization of capitalized software development costs, as well as a positive sales shift mix for the Company's Words+ subsidiary.

The overall $0.057 million increase in SG&A expenses versus the third quarter of fiscal 2007 was the result of increased commissions, travel expenses, professional fees for tax credit research, and investor relations activities. Mitigating the increases were reduction in hiring expense, legal fees and marketing consulting. The latter was the result of a consultant becoming an employee. Investors should note that as a percentage of net sales, SG&A expenses for the period decreased to 31.73% versus 33.65% in the third quarter of fiscal 2007.

Other income decreased by $0.027 million to $0.008 million in the current period from $0.035 million in the same period last year. According to the Company's 2008 third quarter 10Q filing, the decrease was primarily the result of an unrecognized loss that was incurred in Auction Rate Securities (ARS is a debt security, typically issued by a municipality, in which the yield is reset on each payment date via a Dutch auction) held in SLP's UBS Financial Services Inc. account. Under current market conditions, UBS, along with many firms in the industry, are no longer considering ARS cash alternatives due to their lack of liquidity, thus the Company was required to report this unrealized loss reflecting current market conditions. Investors should note, that even when an auction fails to sell the security, issuers, mostly Municipal certificates issuers, remain obligated to pay interest and principal when due; therefore, no actual loss occurs unless the security is sold. **On July 18, 2008, the Company issued a press release further clarifying its position within the ARS market. We believe the following points are important to note:**

- The Company has 4 ARS in its UBS account (face value of each is $0.250 million);
- As of May 31, 2008, the market value of its ARS was $0.942 million;
- As long as the Company holds all of the bonds it should not experience an actual loss; and
- Since the Company is in a strong cash position, there is no need for it to sell the securities at a discount.

We believe a more important point occurred on August 11, 2008, when UBS AG agreed to purchase or provide liquidity for $22.1 billion of auction rate securities in a settlement with state and federal regulators. Under the agreement, UBS will offer to liquidate at par all ARS from individual investors and charities who have less than $1 million in funds on deposit at UBS.

The provision for income taxes during the quarter increased to $0.435 million from $0.221 million in the same period last year. According to the Company's earnings press release, the increase was primarily the result of several factors:

- SLP made more money, which decreased the relative percentage of beneficial factors such as its research and development tax credit;
- The estimated research and development tax credit provided by its consultant a few months ago was about $0.090 million higher than the actual final value after the several months of work that were required to reach the final number; and
- The provision for income taxes during the three months ended May 31, 2007 was underestimated. Thus Management using its best estimates for the additional revenues and profits expected during the fourth quarter, they have anticipated a tax rate for the year of about 32%. Therefore, for the current period, the Company used a 37% rate in order to bring the nine-month rate up to 32%. Investors should note that most of the income tax provision for the current period was not paid in cash, but was a reduction of SLP's deferred tax asset.

During the third quarter earnings conference call, Management expressed their belief that the Company's income tax provision is likely to approximate 32% on a go forward basis.

Balance Sheet Snapshot as of May 31, 2008
The Company had cash of $5.986 million versus $4.538 million as of its fiscal year ended August 31, 2007. It should be noted that according to the Company's earnings press release, half way through the fourth quarter of fiscal 2008 had cash on hand of over $6.7 million. Working capital at the end of the third quarter of fiscal 2008 was $8.454 million versus $6.187 million as of August 31, 2007. Total assets, which stood at $11.353 million, were primarily comprised of cash, inventory, accounts receivable (that totaled $2.861 million) and a deferred tax asset of $0.169 million. As of August 31, 2007, total assets stood at $8.895 million.

Also, the Company had total liabilities of $1.664 million, retained earnings of $3.417 million, and total shareholders' equity of $9.690 million. At the end of fiscal 2007, the Company had total liabilities of $1.231 million with retained earnings of $1.856 million, and total shareholders' equity of $7.665 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 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 October 2007, the Company's Chairman and CEO was co-chair of a scientific session and gave a presentation to a large group of scientists from around the world at the International Society for the Study of Xenobiotics conference in Sendai, Japan.
- During November 2007, the Company attended the annual meeting of the American Association of Pharmaceutical Scientists.
- During the Company's second quarter fiscal 2008 earnings conference call, Management indicated that during the spring of 2008 there are a number of conferences that SLP will be attending. Also, the CEO was in China for the first time as an invited speaker and to present the Company's offerings at a conference.

Management indicated during the third quarter conference call that it hopes to hirer three to five additional professionals over the next six months, 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 create organic growth opportunities:

- 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 organization (CRO). In regards to the latter, Management stated during the third quarter earnings conference call that the Company has just recently begun to work with a CRO, but will move slowly to see how the relationship evolves. With regards to the former, it is Management's intent to have partnerships with large pharmaceutical companies that will help fund software product extension. Recently (on July 28, 2008), SLP announced one such partnership with Hoffmann La Roche, Inc., in order to advance the capabilities of GastroPlus™ in the area of simulating drug-drug interactions;
- Creating a new area to generate revenue that is tangential to the Company's current technologies and expertise. During the third quarter earnings conference call, Management 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 simulation software. Management believes that this will become a profit center, as well as a marketing vehicle for the Company's offerings;
- Building its technology infrastructure. According to the Company's third quarter press release, it has purchased a few databases that should provide new material for some opportunities that at the current time were not disclosed by Management. Also, during the third quarter, improvement was made in the Company's ability to simulate absorption through the eye. This could be important since it is a new route of administration requiring a significant amount of scientific investigation, programming changes, and actual data to validate the model equations. Scientists who work in ocular delivery at several customer sites have told SLP that they had not seen such a sophisticated capability before;
- Utilizing the customer base that continues to demonstrate growth. Customer growth should build the base for future license renewals. It is important to note the following:
  - During 2007 the Company received purchase orders for licenses from the U.S. Food and Drug Administration (FDA) for its GastroPlus simulation software, as well as new licenses for its DDDPlus software from the FDA.
  - During April 2008, the Company announced it received a renewal order from the FDA for one of its GastroPlus simulation software licenses, as well as an order for the newly introduced ADMET Predictor Module for GastroPlus;

    - On June 17, 2008, the Company announced it received a purchase order from the U.S. Environmental Protection Agency (EPA) for its ADMET Predictor™ software. This could open the door to new industry's like chemicals and waste disposal;
    - On August 7, 2008, the U.S. National Institutes of Health renewed their ClassPharmer™ Software licenses; and
    - On August 8, 2008, it announced that property prediction software modules were added by the FDA to the GastroPlus licenses, as well as receiving a purchase order from them to licenses ADMET Predictor™ software.

- 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 Research Funding Opportunities (SBIR) grant funds, which provides 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. We believe a revised proposal was submitted in early August 2008.

We believe Management's efforts to grow the Words+ subsidiary and have it make a positive overall contribution to the Company is beginning to pay off as evidenced by achieving record revenues for the third quarter of fiscal 2008. Its newly designed PDA-based Say-it! SAM augmentative communication device, which includes a new audio amplifier and speaker system, has achieved shipments during this current fiscal year of more than 80% versus the same period last fiscal year. According to the third quarter earnings conference call, a new product release was expected to occur for a 12" touch tablet-based system that will fill a need for customers, as well as be priced to fit within the Medicare repayment schedule. As previously discussed, the launch of this product (called Conversa™) was announced on July 23, 2008. Another factor contributing to this subsidiary's positive prospects was the hiring last quarter of a full-time National Sales Manager, which has improved marketing and sales activities and dealer relationships.

On July 15, 2008 and during the Company's third quarter fiscal 2008 earnings conference call, Management did not offer specific guidance in terms of top line expectations other than to state that the fourth quarter fiscal 2008 should exceed fourth quarter of fiscal 2007 on the top line.

Projections

We are adjusting our fiscal 2008 forecasts based on results for the first nine months of fiscal 2008 and Management's public comments during the third quarter earnings conference call (which is supported by licensing trends and renewals, and growth of contract consulting services). Our net sales forecast calls for sales to $9.652 million versus our prior estimate of $9.798 million. Our reduced expectation for fiscal 2008 incorporates Management public comments that its team is working hard to make the fourth quarter as strong as possible but as of Mid-July 2008, was unable to project that the goal (on a full year basis) of an increase of $1.0 million over last fiscal year will occur.

Our revised forecast (which does not include the potential for accretive acquisitions) would be an 8.96% increase versus fiscal 2007 results. We anticipate net sales growth for simulations software products in fiscal 2008 of approximately 16.4% to $6.701 million. Our net sales expectation for the Words+ subsidiary for fiscal 2008 is $2.951 million, which is approximately a 4.9% decrease versus fiscal 2007.

Based on our updated forecast for fiscal 2008, incorporating new offerings and potential organic growth drivers (as discussed in the outlook section, as well as absent any acquisitions), we are tweaking our net sales forecast for fiscal 2009. Our forecast calls for growth of 14.02% to $11.005 million (prior was $11.200 million) versus our fiscal 2008 estimate (this still includes the potential for new customers, growth of contract consulting services, as well as expanded product offerings). We anticipate net sales growth for simulations software products in fiscal 2009 of approximately 19.8% to $8.030 million. Our net sales expectation for the Words+ subsidiary for fiscal 2009 is $2.975 million, which is approximately a 1.0% increase versus fiscal 2008.

The table below illustrates the cost structure we anticipate for fiscal 2008 and 2009, versus actual results achieved in 2007.

Cost Structure

	2007A	2008E		2009E	
	Actual	**Prior**	**Revised**	**Prior**	**Revised**
Gross Margin	76.49%	78.45%	78.24%	78.62%	78.60%
SG&A expenses (as a Percent of Net Sales)	39.04%	38.20%	37.87%	35.18%	35.80%
Research and Development (as a Percent of Net Sales)	9.20%	9.67%	9.58%	8.57%	8.73%
Operating Margin	28.26%	30.58%	30.79%	34.86%	34.07%
Tax rate	44.14%	22.46%	32.10%	22.46%	32.00%
Pre-tax Margin	29.63%	32.90%	32.74%	36.96%	36.21%

Source: Company filings and Taglich Brothers estimates

Based on our net sales and cost structure estimates, EBITDA should approach $3.563 million and $4.370 million in fiscal 2008 and 2009, respectively, versus EBITDA of $3.032 million in fiscal 2007. Our revised net income forecast for fiscal 2008 is $2.146 million or $0.12 per diluted share. Our prior forecast called for net income of $2.500 million or $0.14 per diluted share. For fiscal 2009, our revised net income forecast is $2.710 or $0.15 per diluted share. Our prior forecast called for net income of $3.210 million or $0.17 per diluted share. Our EPS forecasts are based on average fully diluted shares of 18.120 million and $18.106 million, respectively.

Based on Management's public statement during the third quarter earnings conference call, our forecasts incorporate an income tax of approximately 32% (see recent financial section page 5 for details). Investors should note that the primary change in the bottom line for fiscal 2009 is the incorporation of a higher tax rate to 32% from our prior forecast of 22.46%.

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.

Auction Rate Securities

On July 18, 2008, the Company issued a press release in order to clarify its position on auction rate securities (ARS). The Company currently has auction rate securities in its UBS account, with a face value of $0.250 million.

On August 11, 2008, UBS AG agreed to purchase or provide liquidity for $22.1 billion of auction rate securities in a settlement with state and federal regulators. Under the agreement, UBS will offer to liquidate at par all ARS from individual investors and charities who have less than $1 million in funds on deposit at UBS. Given the settlement, we believe that this is likely to be a non-issue for the Company.

Sales Cycle

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

Technology

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

Customer Concentration

International sales accounted for 40% and 38% of net sales for the first nine months of fiscal 2008 and 2007, respectively. For simulation software sales, two customers accounted for 24% of net sales for the first nine months of fiscal 2008 compared to two customers accounting for 23% of net sales in the same period last year. Three customers represented approximately 56% of the net accounts receivable as of May 31, 2008, while three customers accounted for 49% of the net accounts receivable during the same period last year. For the Words+ subsidiary, one government agency and one customer accounted for 22% of net sales during the first nine months of fiscal 2008, and one government agency represented approximately 35% of net accounts receivable. During the same period last year, one government agency and one customer accounted for approximately 14% of net sales and one government agency represented approximately 37% of net accounts receivable.

Revenue Recognition

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

The end users receive certain elements of its products over a period of time. These elements include free post-delivery telephone and e-mail support and the right to receive unspecified upgrades/enhancements. In accordance with SOP 97-2, Management has evaluated these agreements and recognized the entire license fee on the date the software is delivered to and accepted by the customer. In order to recognize the fee in this manner, the Company must meet all the criteria required, including: 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 42% of the outstanding voting stock. 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 2007 10-K 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 22-year history, the trend has been toward increasing funding from government agencies. There can be no assurance that government funding for such devices will continue, or if it does continue, that the Company's products will continue to meet the requirements imposed for funding of such devices.

Vendor(s)

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

Legal Issues

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

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 2007, 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 2004 increased to approximately 8,340 shares from 7,685 shares in calendar 2003. During calendar 2005, average daily-volume decreased to 4,424 shares a day. During calendar 2006, average daily-volume increased to 21,398 shares a day. During calendar 2007, average daily volume increased to 197,967 shares traded a day and during the first seven months of 2008, average daily volume has decreased to 77,603 shares traded a day. Investors need to be aware that by nature a thinly traded equity can have significant price volatility.

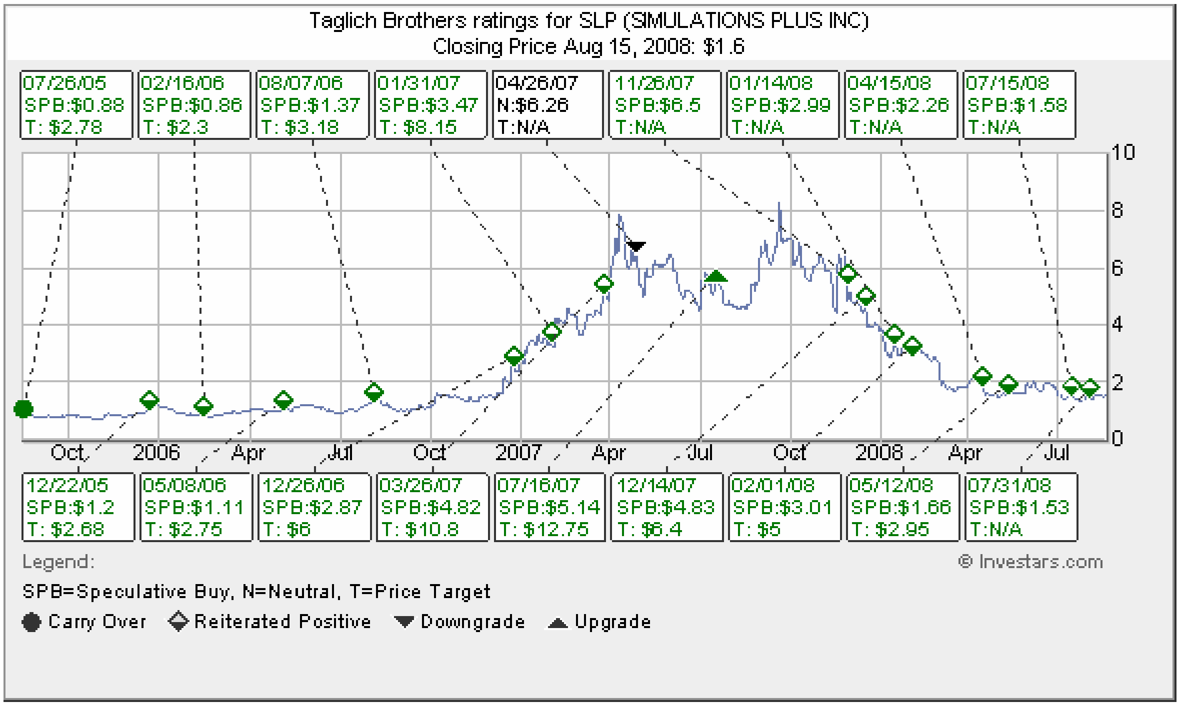
Valuation

We are reiterating our Speculative Buy rating on shares of Simulations Plus, Inc. (AMEX: SLP), as we continue to forecast positive growth trends for fiscal 2008 and believe those trends will continue into fiscal 2009. However, as discussed in our prior report growth trends have contracted from the beginning of fiscal 2008 and is the leading factor to price declines in shares of SLP (see price chart on page 13).

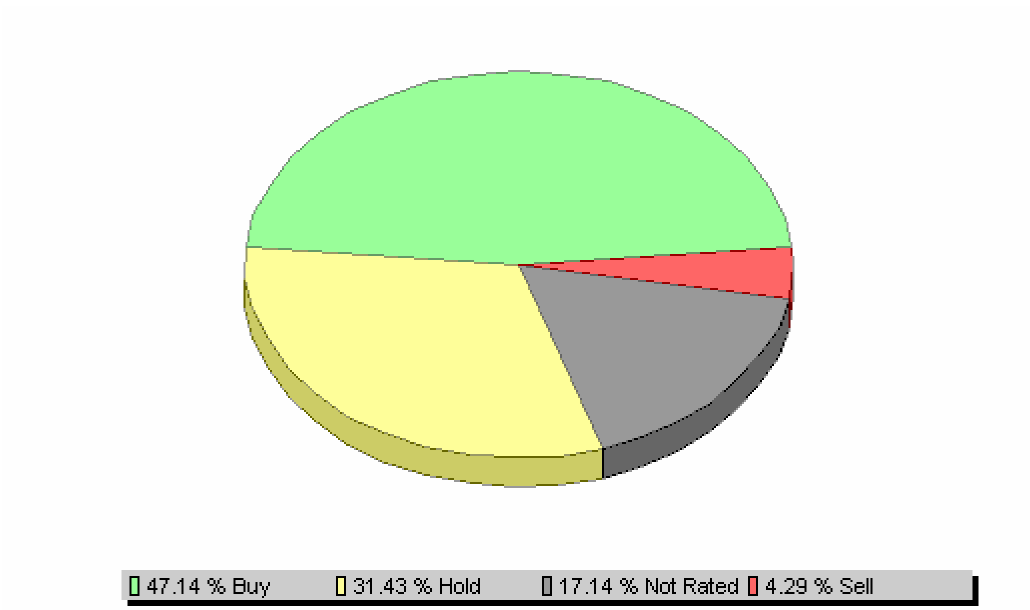
Currently, we are maintaining our twelve-month price target of $2.95 per share, which is based on our sales, EBITDA, and fully taxed earnings per shares forecasts for fiscal 2009.

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

- A 6X price-to-sales multiple, which is the trailing twelve month multiple (as of August 15, 2008) for the Application and Business Software and Services Industry, applied to our estimate of $0.60 per share for fiscal 2009;
- A 18X price-to-EBITDA multiple, which is the trailing twelve month multiple (as of August 15, 2008) for the Application and Business Software and Services Industry, applied to our estimate of $0.24 per share for fiscal 2009; and
- A 20X price to earnings multiple, which is the trailing twelve month multiple (as of August 15, 2008) for the Application and Business Software and Services Industry according to moneycentral.msn.com, applied to our fully taxed EPS estimate of $0.14 per share for the twelve month period ending May 31, 2009 (our EPS estimate for fiscal 2009 is $0.15 per share but is only taxed at a 32.0% rate, we adjusted our figure to reflect a 40% tax rate).



Taglich Brothers Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months

Rating	#	%
Buy	0	0
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.

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.

<u>Public Companies mentioned in this report:</u>

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

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

	August 2006 Fiscal Year End	August 2007 Fiscal Year End	Nov. 2007 1st Qtr End	Feb. 2008 2nd Qtr End	May 2008 3rd Qtr End
ASSETS					
Current assets:					
Cash	$ 1,685	$ 4,538	$ 4,584	$ 5,507	$ 5,986
Accounts receivable, net	1,589	2,060	2,380	1,965	2,861
Contracts receivable, net	194	47	-	-	-
Inventory	237	231	237	281	260
Deferred tax	109	241	201	160	169
Prepaid expense and other current assets	81	74	69	215	119
Total current assets	**3,895**	**7,191**	**7,471**	**8,129**	**9,395**
Long term receivables, net of present value discount	-	-	-	-	-
Capitalized computer software development costs, net	1,374	1,528	1,586	1,680	1,788
Property and Equipment, net	96	90	77	112	101
Contracts receivable	37	-	-	-	-
Customer relationships	100	69	62	55	49
Deferred tax	991	-	-	-	-
Other assets	18	18	18	18	21
Total assets	**$ 6,513**	**$ 8,895**	**$ 9,214**	**$ 9,994**	**$ 11,354**
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Accounts payable	215	201	225	134	270
Accrued payroll and other expenses	364	492	508	427	576
Accrued bonuses to officers	99	201	21	58	60
Accrued income taxes	2	71	37	363	-
Accrued warranty and service costs	35	38	35	29	32
Current portion of deferred revenue	129	-	-	-	3
Other current liabilities	0	-	-	-	-
Total current liabilities	**845**	**1,004**	**826**	**1,012**	**941**
Deferred tax liability	-	-	313	83	723
Stockholders' equity:					
Common stock, no par value; authorized 20,000,000 shares;	4	4	4	5	5
Additional paid-in capital	5,274	5,804	5,971	6,230	6,268
Accumulated deficit	390	1,857	2,100	2,665	3,417
Total stockholders' equity	**5,669**	**7,665**	**8,075**	**8,900**	**9,690**
Total liabilities and stockholders' equity	**$ 6,513**	**$ 8,895**	**$ 9,214**	**$ 9,994**	**$ 11,354**
SHARES OUT	14,883	15,761	15,981	16,229	16,229

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

	FY2006A	FY2007A	**FY2008E**	**FY2009E**
Net sales	5,855	8,858	**9,652**	**11,005**
Cost of sales	1,605	2,082	**2,100**	**2,355**
Gross Profit	4,250	6,776	**7,552**	**8,650**
Gross Margins	72.60%	76.49%	**78.24%**	**78.60%**
Operating Expenses:				
Selling, general, and administrative	2,972	3,458	**3,655**	**3,940**
Research and development	445	815	**925**	**960**
Total Operating Expenses	3,417	4,273	**4,580**	**4,901**
EBITDA	1,196	3,032	**3,563**	**4,370**
Operating Income (loss)	833	2,503	**2,972**	**3,750**
Operating Margin	14.23%	28.26%	**30.79%**	**34.07%**
Other income (expense)				
Interest income	21	114	**202**	**235**
Interest expense	(0)	(0)	**(0)**	**-**
Gain (Loss) on exhange of currency	23	2	**45**	**-**
Loss on sale of assets	11	5	**(58)**	**-**
Total Other Income (expense)	56	122	**188**	**235**
Pre-Tax Income (loss)	889	2,624	**3,160**	**3,985**
Pre-Tax Margins	15.18%	29.63%	**32.74%**	**36.21%**
Income Tax Expense (Benefit)	213	1,158	**1,014**	**1,275**
Release of valuation allowance	-	-	**-**	**-**
Tax Rate	23.96%	44.14%	**32.10%**	**32.00%**
Net income (loss)	$ 676	$ 1,466	**$ 2,146**	**$ 2,710**
Earnings per share -- Diluted	$ 0.04	$ 0.08	**$ 0.12**	**$ 0.15**
Avg Shares Outstanding	15,953	17,957	**18,120**	**18,106**
Percent of Revenue				
Selling, general, and administrative	50.76%	39.04%	37.87%	35.80%
Research and development	7.60%	9.20%	9.58%	8.73%
YEAR / YEAR GROWTH				
Total Revenues	23.19%	51.29%	8.96%	14.02%
Earnings per share	152.01%	92.72%	45.04%	26.38%

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	1,094	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**
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)E	**FY2008E**
Net sales	1,984	2,180	2,968	2,520	**9,652**
Cost of sales	486	456	624	535	**2,100**
Gross Profit	1,498	1,724	2,345	1,985	**7,552**
Gross Margins	*75.50%*	*79.10%*	*78.99%*	*78.77%*	**78.24%**
Operating Expenses:					
Selling, general, and administrative	930	832	942	950	**3,655**
Research and development	226	252	222	225	**925**
Total Operating Expenses	1,156	1,084	1,164	1,175	**4,580**
EBITDA	483	791	1,329	960	**3,563**
Operating Income (loss)	342	640	1,180	810	**2,972**
Operating Margin	*17.22%*	*29.35%*	*39.77%*	*32.14%*	**30.79%**
Other income (expense)					
Interest income	45	47	54	55	**202**
Total Other Income (expense)	64	62	8	55	**188**
Pre-Tax Income (loss)	405	702	1,188	865	**3,160**
Pre-Tax Margins	*20.44%*	*32.20%*	*40.02%*	*34.32%*	**32.74%**
Income Tax Expense (Benefit)	162	137	435	280	**1,014**
Release of valuation allowance	-	-	-	-	**-**
Tax Rate	*40.00%*	*19.52%*	*36.64%*	*32.37%*	**32.10%**
Net income (loss)	$ 243	$ 565	$ 753	$ 585	**$ 2,146**
Earnings per share -- Diluted	$ 0.01	$ 0.03	$ 0.04	$ 0.03	$ 0.12
Avg Shares Outstanding	18,430	18,280	17,869	17,900	**18,120**
Percent of Revenue					
Selling, general, and administrative	46.89%	38.19%	31.73%	37.70%	37.87%
Research and development	11.39%	11.56%	7.49%	8.93%	9.58%
YEAR / YEAR GROWTH					
Total Revenues	36.21%	-13.98%	12.81%	12.68%	8.96%
Earnings per share	208.22%	-16.59%	-1.14%	-1146.33%	45.04%

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

	Q1(11/08)E	Q2 (02/09)E	Q3 (05/09)E	Q4 (08/09)E	**FY2009E**
Net sales	2,275	2,575	3,305	2,850	**11,005**
Cost of sales	555	530	675	595	**2,355**
Gross Profit	1,720	2,045	2,630	2,255	**8,650**
Gross Margins	*75.60%*	*79.42%*	*79.58%*	*79.12%*	**78.60%**
Operating Expenses:					
Selling, general, and administrative	935	905	1,075	1,025	**3,940**
Research and development	240	240	240	240	**960**
Total Operating Expenses	1,175	1,145	1,315	1,265	**4,901**
EBITDA	700	1,055	1,470	1,145	**4,370**
Operating Income (loss)	545	900	1,315	990	**3,750**
Operating Margin	*23.95%*	*34.95%*	*39.78%*	*34.74%*	**34.07%**
Other income (expense)					
Interest income	55	57	60	63	**235**
Total Other Income (expense)	55	57	60	63	**235**
Pre-Tax Income (loss)	600	957	1,375	1,053	**3,985**
Pre-Tax Margins	*26.37%*	*37.16%*	*41.59%*	*36.95%*	**36.21%**
Income Tax Expense (Benefit)	195	305	440	335	**1,275**
Release of valuation allowance	-	-	-	-	-
Tax Rate	*32.50%*	*31.87%*	*32.01%*	*31.81%*	**32.00%**
Net income (loss)	$ 405	$ 652	$ 935	$ 718	**$ 2,710**
Earnings per share -- Diluted	$ 0.02	$ 0.04	$ 0.05	$ 0.04	$ 0.15
Avg Shares Outstanding	17,975	18,100	18,150	18,200	**18,106**
Percent of Revenue					
Selling, general, and administrative	41.10%	35.15%	32.53%	35.97%	35.80%
Research and development	10.55%	9.32%	7.27%	8.42%	8.73%
YEAR / YEAR GROWTH					
Total Revenues	14.68%	18.14%	11.34%	13.10%	14.02%
Earnings per share	70.68%	16.56%	22.26%	20.74%	26.38%

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

	FY2006A	FY2007A	9 Mos. 2008A
Cash Flows from Operating Activities			
Net Income (loss)	$ 676	$ 1,466	$ 1,561
Depreciation and amortization of property and equipment	48	51	40
Amortization of capitalized software development	287	430	335
Amortization of customer relationships	28	32	20
Bad debt expense	-	63	63
Stock-based compensation	-	17	53
Contribution of equipment at book value	-	1	-
Loss on sale of assets	(11)	(4)	-
	1,028	2,055	2,071
Changes In:			
Accounts receivable	(275)	(351)	(816)
Inventory	44	6	(29)
Deferred tax	211	1,087	567
Other assets	(8)	8	(47)
Accounts payable	124	(14)	68
Accrued payroll and other expenses	(34)	127	2
Accrued bonuses to officers	60	103	(141)
Income taxes	-	70	11
Accrued warranty and service costs	7	3	(6)
Deferred revenue	(12)	(129)	3
Net Changes in Working Capital	119	909	(388)
Net cash Provided by Operations	1,148	2,964	1,683
Cash Flows from Investing Activities			
Purchase of property and equipment	(62)	(48)	(68)
Purchases of Bioreason's assets	(826)	-	-
Capitalized computer software development costs	(480)	(583)	(595)
Proceeds from sale of assets	21	7	16
Cash Flows from Investing Activities	(1,347)	(624)	(647)
Cash Flows from Financing Activities			
Proceeds from the exercise of stock options	131	513	412
Net cash provided by Financing	131	513	412
Net change in Cash	(69)	2,853	1,448
Cash Beginning of Period	1,754	1,685	4,538
Cash End of Period	$ 1,685	$ 4,538	$ 5,986