



# TAGLICHBROTHERS

The Standard of Excellence in the Microcap Market

Member: FINRA, SIPC

## Earnings Note

*Investors should consider this report as only a single factor in making their investment decision.*

### Simulations Plus, Inc.

**Rating: Speculative Buy**

Howard Halpern

December 1, 2008

**SLP \$1.01 — (AMEX)**

\* All per share figures below reflects the 2-1 stock splits effective August 14, 2006 and October 2, 2007

*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](http://www.simulations-plus.com)*

On November 26, 2008, Simulations Plus filed its 10-K for the twelve-month period ended August 31, 2008. Below are the Company's results for its fourth quarter of fiscal 2008, compared to Taglich Brothers' estimates:

	Q4 (08/08)A	Q4 (08/08)E	Q4 (08/07)A
Net sales	1,836	2,520	2,236
Cost of sales	535	535	533
<b>Gross Profit</b>	<b>1,301</b>	<b>1,985</b>	<b>1,703</b>
<i>Gross Margins</i>	70.87%	78.77%	76.17%
<b>Operating Expenses:</b>			
Total Operating Expenses	1,285	1,175	1,068
<b>Operating Income (loss)</b>	16	810	636
<i>Operating Margin</i>	0.89%	32.14%	28.43%
Total Other Income (expense)	135	55	36
<b>Pre-Tax Income (loss)</b>	151	865	671
<i>Pre-Tax Margins</i>	8.22%	34.32%	30.03%
Income Tax Expense (Benefit)	(14)	280	729
<i>Tax Rate</i>	-9.18%	32.37%	108.53%
Net income (loss)	\$ 165	\$ 585	\$ (57)
<b>Earnings per share -- Diluted</b>	<b>\$ 0.01</b>	<b>\$ 0.03</b>	<b>\$ (0.00)</b>
Avg Shares Outstanding	17,987	17,900	18,340
Year / Year growth			
Total Revenues	-17.89%	12.68%	26.63%

*\* Please view our disclaimer located on page 5.*

405 Lexington Avenue, 51st Floor, New York, N.Y. 10174

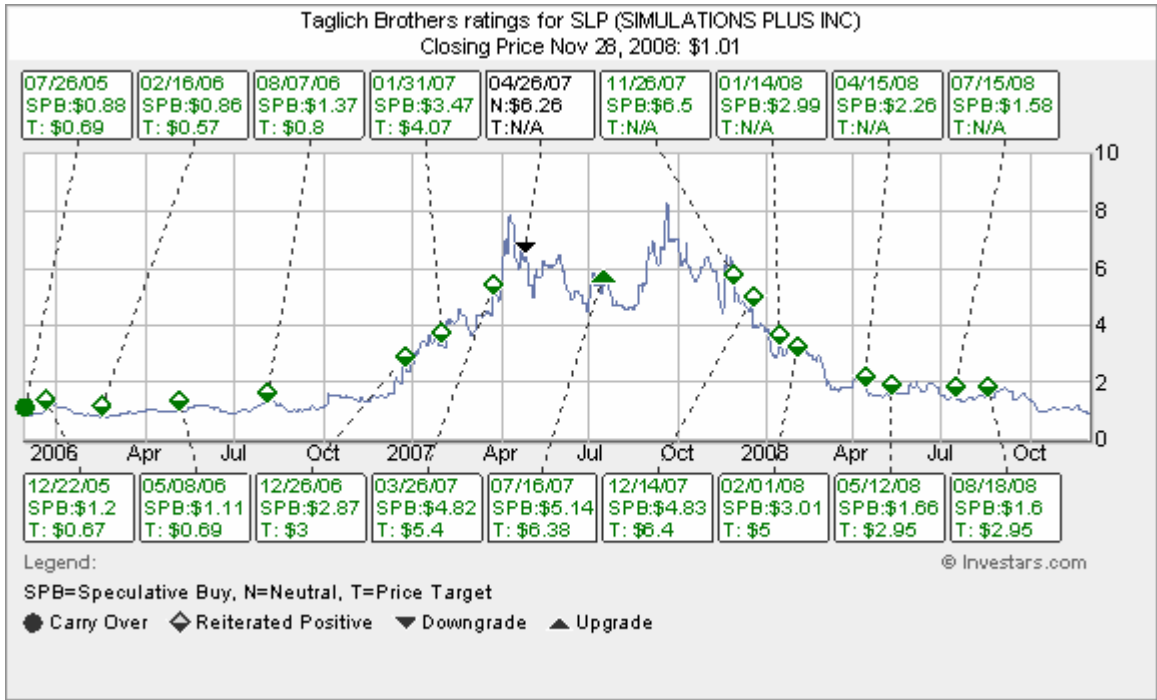
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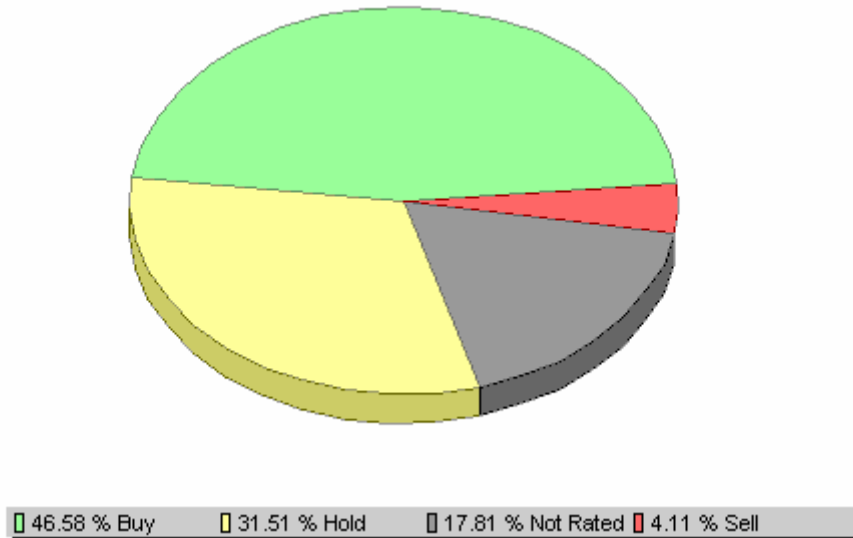
**Estimate Analysis:** Top line growth fell short of our expectations by \$0.684 million or approximately 27%. We believe the primarily reason for the shortfall was that we had anticipated a 16% sales increase in pharmaceutical software and services, but the Company experienced a year-over-year decline during the fourth quarter of approximately 25%. We assume the decline was caused by either customers not renewing their yearly subscription or the renewals may have slipped into the first quarter of fiscal 2009. The short fall in top line results caused bottom line results to fall below our expectations by approximately \$0.420 million or \$0.02 per share.

**Rating:** Currently, we are maintaining our Speculative Buy rating on Simulations Plus, Inc.

**Risks:** Please review our latest research report (August 18, 2008) for a summary of the principal risks underlying the stock.



Taglich Brothers Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months		
Rating	#	%
Buy	0	0
Hold	1	7.14%
Sell	0	0
Not Rated	0	0

### Meaning of Ratings

#### Buy

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

#### Speculative Buy

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

#### Neutral

We will remain neutral pending certain developments.

#### Underperform

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

#### Sell

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

### **Some notable Risks within the Microcap Market**

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

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

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**I, Howard Halpern, the research analyst of this earnings note, hereby certify that the views expressed in this note 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.**