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Research Report – Update

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

Simulations Plus, Inc.

Rating: Speculative Buy

Howard Halpern

SLP $0.98 — (NasdaqCM)

December 15, 2008

	FY (08/06) A	FY (08/07) A	FY (08/08) A	***FY (08/09) E***
Net sales (in millions)	$5.86	$8.86	$8.97	***$9.63***
Earnings per share	$0.04	$0.08	$0.10	***$0.11***

52-Week range	$4.83 – $0.87	Fiscal year ends:	August
Shares outstanding a/o 11/25/08	16.41 million	Revenue/shares (ttm)	$0.49
Approximate float	9.03 million	Price/Sales (ttm)	2.0X
Market Capitalization	$16 million	Price/Sales (2009)E	1.8X
Tangible Book value/shr	$0.60	Price/Earnings (ttm)	10.3X
Price/Book	1.6X	Price/Earnings (2009)E	9.2X

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 2009. However, we are lowering our twelve-month price target to $1.55 per share (prior was $2.95 per share). The reduction in the price target is a result of our reduced expectation for sales, EBITDA, fully taxed earnings per share for fiscal 2009, and tangible book value estimate.

On December 1, 2008, SLP announced net sales fiscal 2008 increased by 1.2% to $8.968 million versus $8.858 million in fiscal 2007. EBITDA decreased to $2.800 million versus $3.032 million last year. Net income improved to $1.726 million or $0.10 per diluted share versus $1.466 million or $0.08 per diluted share in fiscal 2007.

On October 23, 2008, the Company announced that its Board of Directors authorized a share repurchase program. The authorization enables the Company to buyback up to $2.5 million in shares during the twelve month period beginning October 27. 2008. As of December 1, 2008, the Company had not purchased any shares under this authorization.

Based on our interpretation of the public comments made by Management during the fiscal 2008 conference call, our analysis of financial results, and overall market conditions, we are lowering our fiscal 2009 forecasts, which calls for net sales of $9.625 million (prior was $11.005 million) and net income of $1.920 million or $0.11 per diluted share (prior was $2.710 million or $0.15 per share). In addition, we are forecasting EBITDA of $3.305 million versus our prior forecast of $4.370 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 34 employees (32 full-time and 2 part-time), includes 17 professionals in research and development, 6 in production, and 5 in marketing and sales. 11 employees have Ph.D.s and one is a Ph.D. candidate. Five others have one or more Master's degrees. SLP continues to seek additional scientists to expand its Life Sciences team.

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

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

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

    - **ClassPharmer™ -** enhances the hits-to-lead-to-clinic process which aids in finding drug leads with novel and unpatented structural motifs, reduces screening costs with more efficient follow-up screening strategies, and improves productivity with software that thinks like a medicinal chemist. During the fourth quarter of fiscal 2008, SLP announced the release of Version 4.5, which 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 produce 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 10K filing, work on the next update will include making the program match the user interface in GastroPlus as closely as possible since many formulation scientists can use both programs. Additions to the program's capabilities and built-in databases for excipient ingredients and dissolution media will also be included. The updated version should be released before the end of 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. The release of Version 6.0 during fiscal 2008 provided major upgrades to several modules and additional user conveniences. The upgrades include the enhanced analysis of what are called in vitro – in vivo (IVIV) correlations – the relationship between how a dosage form dissolves in the lab (in vitro) with how it dissolves in humans or animals (in vivo). The new IVICPlus™ Module provides a fast and convenient way for formulation scientists to perform IVIV correlations, both using traditional methods and with a new method the Company developed that provides more accurate and useful correlations. Another improved module is PKPlus™, which enables the scientist to rapidly fit simple empirical models for how a drug behaves once it enters the body. An additional GastroPlus upgrade offers the ability to predict and track the metabolites that are formed when a drug is converted into a different molecule by enzymes in the body.

- Other current/future offerings include:

    - **Contract Research and Consulting Services** – the Company has expertise in oral absorption and pharmacokinetics. This has allowed SLP to develop a revenue source by conducting contracted studies for customers who prefer to have studies run by SLP's scientists rather than to license the software. According to the Company's fiscal 2008 10K filing, the demand for consulting services has been increasing steadily, and Management expects that trend to continue. Also, long-term collaborations and shorter-term consulting contracts serve both to showcase the Company's technologies, as well as providing a way to build and strengthen customer relationships.

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

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

Recent Developments

On November 20, 2008, Simulations Plus, Inc. announced that it signed a collaboration agreement with a top-three pharmaceutical company to extend and enhance its ADMET Predictor™ program to predict the optimum dose level that would be required for new molecules to achieve effective plasma concentrations for large batches of new molecules in early discovery. According to Management, the customer is funding the collaborative effort. The new capability enables discovery chemists to input a combination of their own in vitro data and in silico predictions, along with the built-in ADMET Predictor property predictions, and have the software calculate the required dose amount. It accounts for complex interactions that exist among the potency of the molecule, as well as its permeability, solubility, volume of distribution, plasma protein binding, and clearance.

On October 23, 2008, the Company announced that its Board of Directors authorized a share repurchase program. The authorization enables the Company to buyback up to $2.5 million of its common shares during the twelve month period beginning October 27. 2008. Repurchases may be made in the open market, through a broker, or through privately negotiated transactions. It is important to note that SLP has no obligation to repurchases share under this authorization. The Company's Chairman and CEO stated that the Board of Directors believes that the undervaluation of the Company's stock has become so severe, while the accumulation of cash has continued; therefore, using some of it for this purpose is warranted.

On September 16, 2008, Simulations Plus, Inc. announced that it signed a collaboration agreement with a top-three pharmaceutical company in order to extend and enhance its prototype ocular drug delivery module within the GastroPlus simulation software program. According to Management, the customer is funding the collaborative effort at a level of one full-time equivalent for one year to take SLP's prototype ocular capability to the next level. SLP will be providing programming and scientific expertise and the customer will be providing data and scientific expertise to ensure that the ocular delivery module within GastroPlus is the most advanced in the industry.

Financial Results

For the twelve-month period ended August 31, 2008, versus the twelve-months ended August 31, 2007:

- Net sales increased to $8.968 million versus $8.858 million. Taglich Brothers' estimate called for net sales of $9.652 million;
- Gross margin was virtually flat at 76.58% versus 76.49%;
- SG&A expenses increased to $3.699 million versus $3.458 million. As a percentage of net sales SG&A expenses increased to 41.25% versus 39.04%, primarily resulting from top line growth not keeping pace with higher costs;
- Research and development expenses increased to $1.719 million versus $1.397 million. Investors should note that the Company capitalized R&D costs in the amount of $0.728 million versus $0.583 million in the same period last year;
- Operating income decreased by approximately 13.0% to $2.178 million versus $2.503 million;
- Provision for income taxes declined to $0.721 million from $1.158 million and
- Net income was $1.726 million or $0.10 per diluted share versus net income of $1.466 million or $0.08 per diluted share. Taglich Brothers' estimate called for net income of $2.146 million or $0.12 per diluted share.

Management attributed the 1.2% growth in year-over-year net sales to an approximately 5.2% (or $0.300 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, additional licenses to renewal customers, and contract studies, which outweighed licenses not renewed by some customers. As a side note, during the fourth quarter earnings conference call, Management detailed that nine companies did not renew licenses, accounting for approximately $0.414 million. Offsetting the decrease for licenses not renewed was sales to five new customers and increased sales to existing customers, amounting to approximately $0.275 million.

Mitigating the overall increase in top line sales for the fiscal year was an approximately 6.1% (or $0.190 million) decline in the Company's Words+ subsidiary. The lower level of sales was primarily due to declines in Freedom and TuffTalker Plus, which was discontinued during the fiscal year, and hardware products such as MessageMates and other input devices. Those declines in sales outweighed increased sales of Say-it SAM! and TuffTalker products.

Investors should be aware that the Company's sales cycle for its pharmaceutical software products tends to average about six months. The long sales cycle is because customers frequently need to evaluate software and then obtain approvals from multiple decision makers prior to the purchase order being placed. Also, of note, when multi-year licenses are sold, they are only unlocked (allowed to be used) for each year of the term with the subsequent years of the license being placed in deferred revenue until they are unlocked at the same time the following fiscal year.

Gross margin was virtually flat, only increasing by 9 basis points primarily due higher sales of pharmaceutical software and contract studies, which more than outweighed the negative impact from the Company's Words+ subsidiary.

The overall $0.241 million increase in SG&A expenses versus fiscal 2007 was the result of higher expenses related to air fares and personal vehicle mileage allowance, professional fees, (i.e., Web-site design, tax credit research, valuation services, and for an additional Board member). Also, impacting expenses were investor relations costs, higher overall expenses for health insurance, 401K, and payroll taxes. The Company stated that some of the above noted expenses were one-time. Also, mitigating higher expenses was the elimination of the bonus previously paid to the Company's CEO.

Other income increased by $0.147 million to $0.268 million from $0.121 million in fiscal 2008. According to the Company's 2008 10K filing, the increase was primarily the result of interest income on money market accounts and gain on currency exchange.

Investors should note that the Company currently holds three Auction Rate Securities (ARS) at $0.250 million each (2 Iowa student loans and 1 Missouri higher education loan). On August 8, 2008, UBS announced a comprehensive settlement, in principle, to all who hold ARS issued through UBS, that it would buy back each ARS at par from most of their clients during a two-year time period beginning January 1, 2009. Management believes that as a result of the settlement announcement, the Company's investment in those securities' are appropriately presented at its face value of $0.750 million at August 31, 2008. The face value as of August 31, 2008 was confirmed by a prospectus UBS issued on October 7 informing SLP that it was given an option either to keep the ARS or to sell them to UBS at the face value plus accrued interest. Management exercised the option of selling them to UBS and received a letter from UBS dated November 5, 2008 stating that they had accepted the exercise and will buy back the three ARS at their full face value of $0.750 million plus accrued interest. Accordingly, SLP's account manager at UBS advised the Company that this buyback is expected to occur between January 2, 2009 and January 4, 2011.

The provision for income taxes during fiscal 2008 decreased to $0.721 million from $1.158 million in fiscal 2008. According to the Company's 10K filing, the decrease was primarily the result of the hiring of a tax credit specialist company to identify potential unused tax credits. The tax specialist found unused R&D credits of approximately $0.276 million, which allowed the Company to reduce its overall tax provision to approximately 29.46% for the whole year.

Balance Sheet Snapshot as of August 31, 2008
The Company had cash of $5.890 million versus $4.538 million as of its fiscal year ended August 31, 2007. It should be noted that according to the Company's 2008 10K filing, $0.750 million of Auction Rate Securities are classified on the balance sheet as a non-current investment. Management has been advised by the Company's UBS account manager that the buyback of Auction Rate Securities from the Company is expected to take place after January 2, 2008. This will add to the Company current cash balance. Working capital at the end of fiscal 2008 was $7.954 million versus $6.187 million as of August 31, 2007. Total assets, which stood at $11.553

million, were primarily comprised of cash, inventory, accounts receivable (that totaled $8.337 million) and a deferred tax asset of $0.318 million. As of August 31, 2007, total assets stood at $8.895 million.

Also, the Company had total liabilities of $1.638 million, retained earnings of $3.582 million, and total shareholders' equity of $9.915 million. Investors should be aware that the Company has been able to achieve compounded annual growth of its shareholders' equity by 26.8% between fiscal 2005 and 2008. At the end of fiscal 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:

- o During the spring of 2008, Management attended a number of conferences to present the Company's offerings including one in China. At the conference in China, SLP's CEO was an invited speaker.
- o During November 2008, Management attended The American Association of Pharmaceutical Scientists in Atlanta to showcase its portfolio of Simulations Plus software. According to Management, the GastroPlus program was mentioned in numerous presentations and posters by others. During the full year earnings conference call, Management publicly stated that as a result of attending this conference the number of new leads obtained was more than double any other meeting SLP has ever attended. According to Management, the estimated number of leads garnered at the Atlanta conference was over 100. We believe it will take some time to convert those leads to sales, maybe sometime during the second half of fiscal 2009.

Management indicated during the full year conference call that it continues to conduct a number of interviews with the hope of hiring additional professionals, in order to boost organic growth of its simulation software offering and services (i.e., contract services). The increase in its professional staff is important since each has the potential to bring in new customers due to their knowledge and interaction with scientists.

Additionally, as a result of the established relationships with large pharmaceutical companies, other researchers within those companies are exposed to Simulations Plus product offerings. This has lead to increased activity related to its ADMET Partners global licensing program for large pharmaceutical companies.

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

- – Board of Directors authorizing a share repurchase program of up to $2.5 million that will expire on October 26, 2009. The strategy of this program is to buy back as many shares as possible to reduce the number of shares outstanding. Management believes that this program will be beneficial to the Company's long-term shareholders. As of December 1, 2008, the Company had not purchased any shares under the authorization;

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

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

- 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 and reiterated during the fourth quarter 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. Also, Management stated during the Company's earnings conference call that it held a strategic planning meeting with its staff and is evaluating a number of opportunities for new products and services. Management did not disclose those opportunities for competitive reasons;

- Building its technology infrastructure. During fiscal 2008 improvements were 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;

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

We believe Management's efforts to grow the Words+ subsidiary and have it make a more positive overall contribution to the Company is beginning to pay off as evidenced by achieving record revenues for the third quarter of fiscal 2008 and for all of fiscal 2008 being slightly additive to the bottom line. The primary driver is its newly designed PDA-based Say-it! SAM augmentative communication device, which includes a new audio amplifier and speaker system. The device has achieved shipments during this current fiscal year of more than 80% versus the same period last fiscal year. We also believe driving future sales is a relatively new product called Conversa™, which is a 12" touch tablet-based system that fills a need for customers, as well as be priced to fit within the Medicare repayment schedule. According to the Company, this product offers the most human-sounding synthetic speech output available in the marketplace, utilizing AT&T synthetic voices and a new custom designed sound pack. Another factor contributing to this subsidiary's positive prospects was the hiring during the second quarter of fiscal 2008 of a full-time National Sales Manager, which has improved marketing and sales activities and dealer relationships. According to the earnings conference call, that sales manager is being charged with expanding its commissioned sales force in order to grow top line results.

During the Company's full year fiscal 2008 earnings conference call on December 1, 2008, Management did not offer specific guidance in terms of top line expectations other than to state that first quarter fiscal 2009 looked good.

Projections

We are adjusting our fiscal 2009 forecasts based on our interpretation of the public comments made by Management during the fiscal 2008 conference call, our analysis of recent financial results, and overall market conditions. Our net sales forecast calls for sales of $9.625 million versus our prior estimate of $11.005 million. Investors should note that the Company reported fiscal 2008 sales of $8.968 million. Our reduced expectation for fiscal 2009 takes into account the deteriorating macro-economic environment, as well as the potential for reduced budgets for pharmaceutical and biotechnology companies.

Our revised forecast (which does not include the potential for accretive acquisitions) would be a 7.33% increase versus fiscal 2008 results. We anticipate net sales growth for simulations software products in fiscal 2009 of approximately 10% to $6.663 million. Our net sales expectation for the Words+ subsidiary for fiscal 2009 is $2.962 million, which is approximately an 1.7% increase versus fiscal 2008.

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

Cost Structure

	2007A	**2008A**	**2009E**	
	Actual	**Actual**	**Prior**	**Revised**
Gross Margin	76.49%	76.58%	78.60%	78.23%
SG&A expenses (as a Percent of Net Sales)	39.04%	41.25%	35.80%	40.16%
Research and Development (as a Percent of Net Sales)	9.20%	11.04%	8.73%	11.01%
Operating Margin	28.26%	24.29%	34.07%	27.06%
Tax rate	44.14%	29.46%	32.00%	32.40%
Pre-tax Margin	29.63%	27.28%	36.21%	29.51%

Source: Company filings and Taglich Brothers estimates

Based on our net sales and cost structure estimates, EBITDA should approach $3.305 million in fiscal 2009, versus EBITDA of $2.800 million in fiscal 2008. Our revised net income forecast for fiscal 2009 is $1.920 million or $0.11 per diluted share. Our prior forecast called for net income of $2.710 million or $0.17 per diluted share.

Our EPS forecasts are based on average fully diluted shares of 17.966. We may change our estimate over time as the Company begins purchasing common shares under the recent repurchase authorization.

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

Given our shareholders equity forecast for fiscal 2009, we estimate tangible book value per share of approximately $0.71 per share. Historically, the Company has had a price-to-book multiple as high as 17.5x and as low as 2.6X.

Risks

Growth Management

Investors need to be aware that as the Company becomes increasingly successful, it must meet the challenges associated with growth. If the Company is not successful in meeting these challenges, its business will be adversely impacted. Additionally, Management believes that future success will depend on the ability to attract, hire, and retain qualified personnel in order to expand the Company's overall intellectual knowledge base.

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 $0.750 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.

According to the Company's 2008 10K filing, On October 7, 2008, UBS issued a prospectus informing SLP that it would have an option either to keep the ARS or sell them back to UBS at the face value plus accrued interest. Management exercised the option of selling them back to UBS. The Company received a letter from UBS dated November 5, 2008 stating that they accepted the exercise and will buy back ARS at their face value of $0.750 million plus accrued interest. Lastly, the Company was advised by its UBS account manager that this buyback is expected to occur sometime after January 2, 2009.

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 38% and 37% of net sales for fiscal 2008 and 2007, respectively. For simulation software sales, two customers accounted for 30% of net sales for fiscal 2008 compared to two customers accounting for 27% of net sales in fiscal 2007. Three customers represented approximately 59% of the net accounts receivable as of August 31, 2008, while two customers accounted for 44% of the net accounts receivable during the same period last year. For the Words+ subsidiary, one government agency accounted for 21% of net sales during fiscal 2008, and one government agency represented approximately 34% of net accounts receivable. During fiscal 2007, one government agency and one customer accounted for approximately 25% of net sales and one government agency represented approximately 29% of net accounts receivable.

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 2008 10K filing, this trend has continued for nine out of the last ten years.

Intellectual Property Rights

Despite the Company’s best efforts to protect its intellectual property rights, third parties may infringe or misappropriate those rights, or otherwise independently develop substantially equivalent products and/or services. The loss of intellectual property protection or the inability to secure or enforce intellectual property protection could harm its business and/or ability to compete.

Government Regulation

The Company's pharmaceutical software products are tools used in research and development and do not need to obtain approval by the Food and Drug Administration or other government agency. Changes in government regulations regarding the use of augmentative communication aids and other assistive technology under such funding could affect the Company's operations of its Words+ subsidiary. On January 1, 2001, Medicare began funding augmentative communication devices for the first time and over the Company's 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 2008, the Company experienced a very small gain from currency exchange. If foreign currency transactions increase significantly, then SLP may mitigate this effect through foreign currency forward contracts whose market-to-market gains or losses are recorded in other income or expense at the time of the transaction. To date, exchange rate exposure has not resulted in a material impact.

Miscellaneous Risk

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

Trading Volume

Liquidity is a potential concern. Based on our calculations, the average daily-volume during calendar 2006 was 21,398 shares a day. During calendar 2007, average daily volume increased to 197,967 shares traded a day and during the first eleven months of calendar 2008, average daily volume has decreased to 63,477 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 2009.

We are lowering our twelve-month price target to $1.55 per share (prior was $2.95 per share). The reduction in the price target is a result of our reduced expectation for sales, EBITDA, and fully taxed earnings per share for fiscal 2009 (which we have reduced from our prior report by approximately 21.2%, on average).

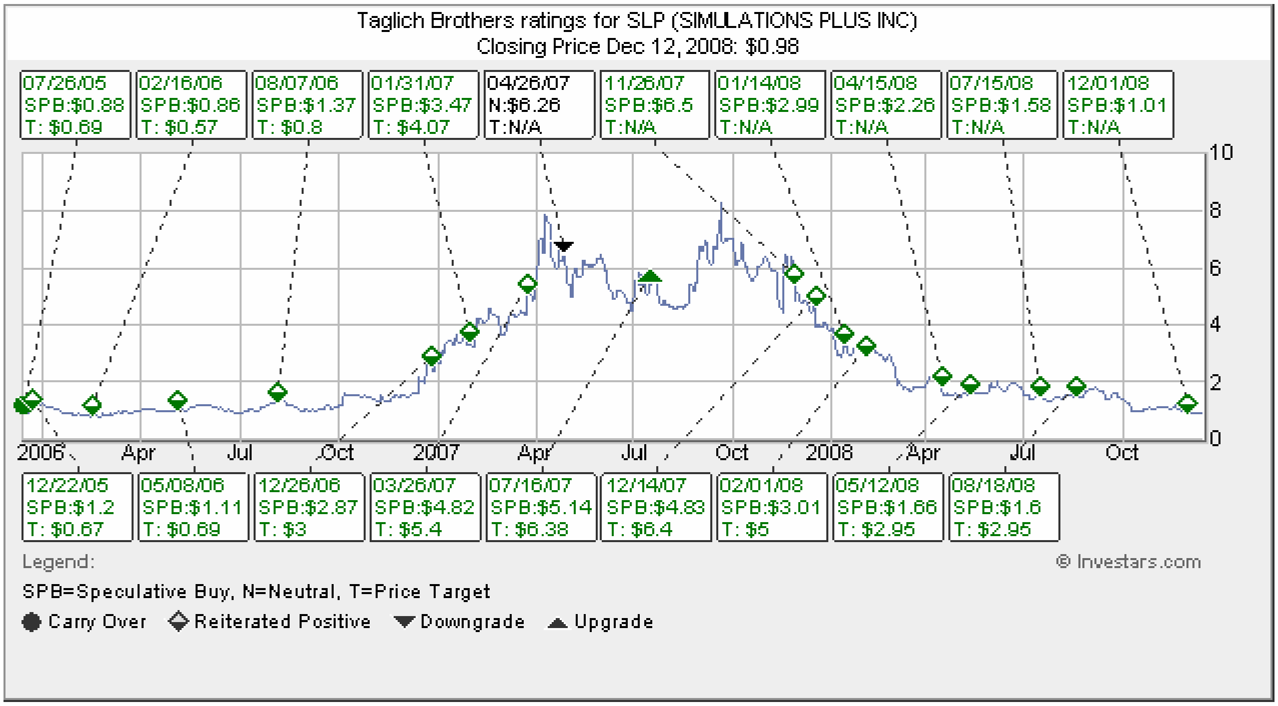
Our price target is based on the following valuation models discounted by 30% to account for microcap risk along with Company specific risks, as well as the current economic environment:

- A 3.1X price-to-sales multiple, which is the trailing twelve month multiple (as of December 12, 2008) for the Application and Business Software and Services Industry, applied to our estimate of $0.54 per share for fiscal 2009;

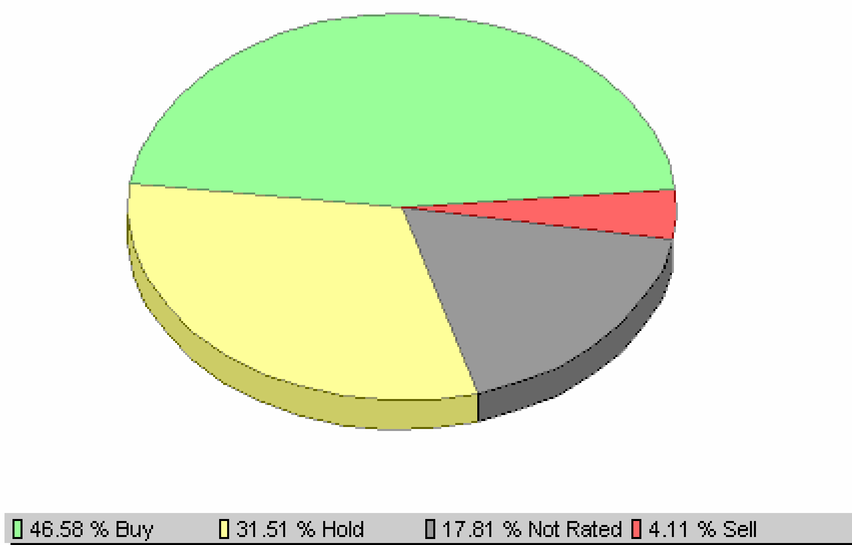
- A 11.2X price-to-EBITDA multiple, which is the trailing twelve month multiple (as of December 12, 2008) for the Application and Business Software and Services Industry, applied to our estimate of $0.18 per share for fiscal 2009;

- A 12.4X price-to-earnings multiple, which is the trailing twelve month multiple (as of December 12, 2008) for the Application and Business Software and Services Industry according to moneycentral.msn.com, applied to our fully taxed EPS estimate of $0.10 per share for the twelve month period ending May 31, 2009 (our EPS estimate for fiscal 2009 is $0.11 per share but is only taxed at a 32.4% rate, we adjusted our figure to reflect a 40% tax rate); and

- A 5.4X price-to-book multiple, which is the trailing twelve month multiple (as of December 12, 2008) for the Application and Business Software and Services Industry according to moneycentral.msn.com, applied to our estimated book value per share of $0.71 per share for fiscal 2009.



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.

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

Public Companies mentioned in this report:

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

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As of the date of this report, we, our affiliates, any officer, director or stockholder, or any member of their families do not have a position in the stock of the company mentioned in this report. Taglich Brothers, Inc. does not currently have an Investment Banking relationship with the company mentioned in this report and was not a manager or co-manager of any offering for the company with in the last three years.

All research issued by Taglich Brothers, Inc. is based on public information. The company paid for the first year of distribution a fee of $21,000 (USD) on May 2004, and since August 2005 pays a monthly monetary fee of $1,750 (USD) to Taglich Brothers, Inc. for the creation and dissemination of research reports.

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

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

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

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

	FY2006A	FY2007A	FY2008A	**FY2009E**
Net sales	5,855	8,858	8,968	**9,625**
Cost of sales	1,605	2,082	2,100	**2,095**
Gross Profit	4,250	6,776	6,868	**7,530**
Gross Margins	72.60%	76.49%	76.58%	**78.23%**
Operating Expenses:				
Selling, general, and administrative	2,972	3,458	3,699	**3,865**
Research and development	445	815	990	**1,060**
Total Operating Expenses	3,417	4,273	4,690	**4,925**
EBITDA	1,196	3,032	2,800	**3,305**
Operating Income (loss)	833	2,503	2,178	**2,605**
Operating Margin	14.23%	28.26%	24.29%	**27.06%**
Other income (expense)				
Interest income	21	114	185	**235**
Interest expense	(0)	(0)	(0)	-
Gain (Loss) on exhange of currency	23	2	83	-
Loss on sale of assets	11	5	0	-
Total Other Income (expense)	56	122	268	**235**
Pre-Tax Income (loss)	889	2,624	2,446	**2,840**
Pre-Tax Margins	15.18%	29.63%	27.28%	**29.51%**
Income Tax Expense (Benefit)	213	1,158	721	**920**
Release of valuation allowance	-	-	-	-
Tax Rate	23.96%	44.14%	29.46%	**32.40%**
Net income (loss)	$ 676	$ 1,466	$ 1,726	**$ 1,920**
Earnings per share -- Diluted	$ 0.04	$ 0.08	$ 0.10	**$ 0.11**
Avg Shares Outstanding	15,953	17,957	18,141	**17,966**
Percent of Revenue				
Selling, general, and administrative	50.76%	39.04%	41.25%	40.16%
Research and development	7.60%	9.20%	11.04%	11.01%
YEAR / YEAR GROWTH				
Total Revenues	23.19%	51.29%	1.24%	7.33%
Earnings per share	152.01%	92.72%	16.50%	12.35%

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)A	**FY2008A**
Net sales	1,984	2,180	2,968	1,836	**8,968**
Cost of sales	486	456	624	535	**2,100**
Gross Profit	1,498	1,724	2,345	1,301	**6,868**
Gross Margins	*75.50%*	*79.10%*	*78.99%*	*70.87%*	**76.58%**
Operating Expenses:					
Selling, general, and administrative	930	832	942	995	**3,699**
Research and development	226	252	222	290	**990**
Total Operating Expenses	1,156	1,084	1,164	1,285	**4,690**
EBITDA	483	791	1,329	197	**2,800**
Operating Income (loss)	342	640	1,180	16	**2,178**
Operating Margin	*17.22%*	*29.35%*	*39.77%*	*0.89%*	**24.29%**
Other income (expense)					
Interest income	45	47	54	39	**185**
Interest expense	-	-	(0)	(0)	**(0)**
Gain (Loss) on exhange of currency	19	15	11	38	**83**
Loss on sale of assets	0	-	(58)	58	**0**
Total Other Income (expense)	64	62	8	135	**268**
Pre-Tax Income (loss)	405	702	1,188	151	**2,446**
Pre-Tax Margins	*20.44%*	*32.20%*	*40.02%*	*8.22%*	**27.28%**
Income Tax Expense (Benefit)	162	137	435	(14)	**721**
Release of valuation allowance	-	-	-	-	**-**
Tax Rate	*40.00%*	*19.52%*	*36.64%*	*-9.18%*	**29.46%**
Net income (loss)	$ 243	$ 565	$ 753	$ 165	**$ 1,726**
Earnings per share -- Diluted	$ 0.01	$ 0.03	$ 0.04	$ 0.01	$ 0.10
Avg Shares Outstanding	18,430	18,280	17,869	17,987	**18,141**
Percent of Revenue					
Selling, general, and administrative	46.89%	38.19%	31.73%	54.16%	41.25%
Research and development	11.39%	11.56%	7.49%	15.82%	11.04%
YEAR / YEAR GROWTH					
Total Revenues	36.21%	-13.98%	12.81%	-17.89%	1.24%

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

	Q1(11/08)E	Q2 (02/09)E	Q3 (05/09)E	Q4 (08/09)E	**FY2009E**
Net sales	2,085	2,310	2,995	2,235	**9,625**
Cost of sales	505	475	605	510	**2,095**
Gross Profit	1,580	1,835	2,390	1,725	**7,530**
Gross Margins	*75.78%*	*79.44%*	*79.80%*	*77.18%*	**78.23%**
Operating Expenses:					
Selling, general, and administrative	940	950	975	1,000	**3,865**
Research and development	265	265	265	265	**1,060**
Total Operating Expenses	1,205	1,215	1,240	1,265	**4,925**
EBITDA	550	795	1,325	635	**3,305**
Operating Income (loss)	375	620	1,150	460	**2,605**
Operating Margin	*17.99%*	*26.84%*	*38.40%*	*20.58%*	**27.06%**
Other income (expense)					
Interest income	55	57	60	63	**235**
Total Other Income (expense)	55	57	60	63	**235**
Pre-Tax Income (loss)	430	677	1,210	523	**2,840**
Pre-Tax Margins	*20.62%*	*29.31%*	*40.40%*	*23.40%*	**29.51%**
Income Tax Expense (Benefit)	140	220	390	170	**920**
Release of valuation allowance	-	-	-	-	**-**
Tax Rate	*32.56%*	*32.50%*	*32.23%*	*32.51%*	**32.40%**
Net income (loss)	$ 290	$ 457	$ 820	$ 353	**$ 1,920**
Earnings per share -- Diluted	$ 0.02	$ 0.03	$ 0.05	$ 0.02	$ 0.11
Avg Shares Outstanding	17,975	17,970	17,965	17,955	**17,966**
Percent of Revenue					
Selling, general, and administrative	45.08%	41.13%	32.56%	44.75%	40.16%
Research and development	12.71%	11.47%	8.85%	11.86%	11.01%
YEAR / YEAR GROWTH					
Total Revenues	5.10%	5.98%	0.90%	21.72%	7.33%
Earnings per share	22.23%	-17.69%	8.36%	114.49%	12.35%

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

	FY2006A	FY2007A	FY2008A
Cash Flows from Operating Activities			
Net Income (loss)	$ 676	$ 1,466	$ 1,726
Depreciation and amortization of property and equipment	48	51	51
Amortization of capitalized software development	287	430	467
Amortization of customer relationships	28	32	26
Bad debt expense	-	63	63
Stock-based compensation	-	17	90
Contribution of equipment at book value	-	1	-
Loss on sale of assets	(11)	(4)	-
	1,028	2,055	2,422
Changes In:			
Accounts receivable	(275)	(351)	(60)
Inventory	44	6	(93)
Deferred tax	211	1,087	437
Other assets	(8)	8	(122)
Accounts payable	124	(14)	(20)
Accrued payroll and other expenses	(34)	127	46
Accrued bonuses to officers	60	103	(141)
Income taxes	-	70	(71)
Accrued warranty and service costs	7	3	(4)
Deferred revenue	(12)	(129)	83
Net Changes in Working Capital	119	909	55
Net cash Provided by Operations	1,148	2,964	2,477
Cash Flows from Investing Activities			
Purchase of property and equipment	(62)	(48)	(82)
Purchases of Bioreason's assets	(826)	-	(750)
Capitalized computer software development costs	(480)	(583)	-
Proceeds from sale of assets	21	7	(728)
Cash Flows from Investing Activities	(1,347)	(624)	7
			(1,553)
Cash Flows from Financing Activities			
Proceeds from the exercise of stock options	131	513	-
Net cash provided by Financing	131	513	435
			435
Net change in Cash	(69)	2,853	
			1,358
Cash Beginning of Period	1,754	1,685	
			4537.795
Cash End of Period	$ 1,685	$ 4,538	