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Research Report – Update

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

Simulations Plus, Inc.

Rating: Speculative Buy

Howard Halpern

SLP $1.44 — (NasdaqCM)

December 18, 2009

	FY (08/07) A	FY (08/08) A	FY (08/09) A	***FY (08/10) E***
Net sales (in millions)	$8.9	$9.0	$9.1	***$10.4***
Earnings per share	$0.08	$0.10	$0.08	***$0.10***

52-Week range	$2.05 – $0.79	Fiscal year ends:	August
Shares outstanding a/o 11/16/09	15.6 million	Revenue/shares (ttm)	$0.53
Approximate float	8.6 million	Price/Sales (ttm)	2.7X
Market Capitalization	$23 million	Price/Sales (2010)E	2.3X
Tangible Book value/shr a/o 08/31/09	$0.67	Price/Earnings (ttm)	18.0X
Price/Book	2.1X	Price/Earnings (2010)E	14.4X

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

Key Investment Considerations:

We are reiterating our Speculative Buy rating on shares of Simulations Plus, Inc. (AMEX: SLP) and maintaining our twelve-month price target of $2.20 per share. Our price target is based on a price-to-EBITDA valuation model.

On November 30, 2009, SLP announced sales for fiscal 2009 increased by approximately 2% to over $9.1 million versus nearly $9.0 million last year. EBITDA dipped slightly to $2.6 million versus $2.8 million in FY08. Net income decreased to $1.4 million or $0.08 per diluted share from $1.7 million or $0.10 per diluted share.

The year-over-year increase in sales was attributable to a 4.1% higher level of pharmaceutical software and services sales, offset by a 2.4% decrease in sales from its Words+ subsidiary. The decrease in net income was due to across the board margin compression.

For FY10, we project sales of $10.4 million, EBITDA of $3.2 million, and net income of $1.7 million or $0.10 per diluted share. We previously projected FY10 sales of $10.6 million, EBITDA of $3.5 million, and net income of $1.9 million or $0.11 per diluted share. Our FY10 forecast reflects modest organic growth as economic conditions improve and gross margin compression due to a revenue mix shift to lower margined consulting study services.

As of November 27, 2009, the company had repurchased (under a board-of-directors authorization) slightly more than 1 million common shares at an average price of $1.32 per share. The company announced that it does not intend to repurchase shares after December 1, 2009.

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

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Recommendation

We reiterating our Speculative Buy rating on shares of Simulations Plus, Inc. (NasdaqCM: SLP), as we continue to forecast positive growth trends for fiscal 2010.

We are maintaining our twelve-month price target of $2.20 per share. Our price target is based on a price-to-EBITDA multiple of 18X, trailing twelve month multiple (as of December 17, 2009) for the Application and Business Software and Services Industry, applied to our sales estimate of $0.19 per share for the next four quarters. We discounted the result by 35% to account for microcap and company specific risks.

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

The Company

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

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

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

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

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

Software Offerings

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

Strategy

- **Expand its pharmaceutical software offerings and services by:**
  - Hiring additional professionals. Each new hire has the potential to bring in new customers (organic growth) due to their knowledge and interaction with scientists, assist in product development, and increase the capacity to conduct consulting studies and funded collaborations. Two new scientists (each having a Ph.D.), were hired, one at the end of fiscal 2009 and the other during the first month of fiscal 2010. The company plans to hire at least two more scientists so they can work on contract studies and internal projects for both existing products and new products in development;

    On December 11, 2009, the company announced it hired Robert D. Clark, Ph.D. as director of life sciences. He has over 25 years of experience in discovery chemistry, including experience in managing the development of software tools for pharmaceutical and chemical research. His Ph.D is from Cornell University in biochemistry, statistics and biometry. He replaces Dr. John Crison, who resigned in October 2009;
  - Obtaining licenses from governmental agencies. The company has a number of its offerings at the FDA, NIH, and their overseas equivalents. On August 10, 2009, it was announced that the FDA expanded the number of licenses (actual number not disclosed) for SLP's GastroPlus™ simulation software. The FDA also has ADMET Predictor and DDDPlus;
  - Expanding its simulation software offering outside of the pharmaceutical industry. The environmental toxicology area may be a large potential new market, as the Environmental Protection Agency has licensed one of the company's software offerings;
  - Leveraging funded collaboration opportunities. The current funded collaborations are from three (Roche, GlaxoSmithKline, and Pfizer) of the top 5 pharmaceutical companies. The funded collaborations include extension of GastroPlus' capabilities into the area of drug-drug interactions, development of ocular drug delivery capabilities, and development of a nasal-pulmonary drug delivery capability. A fourth recently completed collaboration with Pfizer added a capability to ADMET Predictor to automatically determine the dose amount needed to reach effective plasma concentrations for new drug molecules in early discovery;
  - Expanding contract research and consulting services. The demand for consulting services has increased steadily (approximately four to six at any one time) due to clinical scientists' requests for studies from their pre-clinical colleagues who do not have the time to conduct the requested study. Management stated that sometimes once a contract is completed, one or two new consulting contracts are signed. Consulting contracts serve as a marketing tool and help build and strengthen customer relationships;
  - Seeking to complete strategic accretive acquisitions in order to enhance and expand the product portfolio, as well as new collaborations; and
  - Examining additional Small Business Innovation Research (SBIR) opportunities. The 2009 stimulus package of the U.S. has the potential to provide monies to fund additional grant opportunities.
- **Words+ subsidiary:**
  - Continuing product improvement and more aggressive marketing and sales;
  - Utilizing added staff to process prior authorizations and accounts receivables more quickly in order to collect old receivables from state Medicaid agencies;
  - Obtaining certifications. On August 17, 2009, this subsidiary obtained Medicare accreditation becoming a Durable Medical Equipment, Prosthetics, Orthotics, and Supplies supplier for augmentative communication and speech generating devices. This should make reimbursements easier to obtain;

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

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

Outlook

We believe the company's primary simulation software products (GastroPlus™, ADMET Predictor/Modeler™, DDDPlus™, and ClassPharmer™) will continue to gain exposure to a wider audience within the community of researchers in the Pharmaceutical, Biotechnology, and Drug Discovery Industries of the Healthcare Sector.

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

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

Projections

Operations

We project sales for fiscal 2010 to grow by 14.1% to $10.4 million (prior was $10.6 million). While our aggregate forecast is a decline of $0.2 million, our percentage increase of 14.1% is up from our prior forecast of 9.1%. Our sales projection reflects an improving economic environment, successful conversion to licenses of leads due to increased visibility in 2009, and increased budgets for pharmaceutical and biotechnology companies in 2010.

For fiscal 2010, we project sales growth for simulations software products of 19% (to approximately $7.5 million). We project a sales increase of approximately 3.6% for Words+ to $2.9 million; comparisons will be easier, as SLP is past the year-earlier date of the large order obtained in fiscal 2008 from a U.K. distributor.

The table below illustrates the cost structure (which incorporates higher marketing expenses) we anticipate for fiscal 2010, versus actual results achieved in fiscal 2008 and 2009.

Cost Structure

	2008A	**2009A**	**2010 E**	
	Actual	**Actual**	**Prior**	**Revised**
Gross Margin	76.6%	74.6%	77.92%	72.4%
SG&A expenses (as a Percent of Sales)	41.3%	42.6%	39.78%	40.3%
Research and Development (as a Percent of Sales)	11.0%	12.2%	12.21%	8.4%
Operating Margin	24.3%	19.8%	25.93%	23.7%
Tax rate	29.5%	30.3%	34.09%	33.5%
Pre-tax Margin	27.3%	22.2%	26.87%	24.5%

Source: Company filings and Taglich Brothers estimates

Based on our sales and cost structure estimates, we project FY10 EBITDA (defined as operating income plus depreciation and amortization of property, equipment, and capitalized software development, and stock-based compensation) of $3.2 million (prior estimate was $3.5 million) versus EBITDA of $2.6 million in fiscal 2009.

Our revised net income forecast for fiscal 2010 is $1.6 million or $0.10 per diluted share (prior estimate was $1.9 million or $0.11 per diluted share).

Our EPS forecasts are based on average fully diluted shares of approximately 16.7 million, which includes the shares repurchased as of November 27, 2009.

Finances

For FY10, we project cash throw-off and cash generated from operations of $2.5 million (versus $2.4 million and $2.5 million respectively, in 2009). As in the prior two years, working capital needs will decrease slightly (by $17,000 projected for 2010 versus $115,000 reported in 2009 and $55,000 reported in 2008) primarily due to an increase in deferredu revenue. Changes in all other current accounts are projected to offset one another. Cash at the end of FY10 should increase by $1.9 million to $9.4 million. Cash increased by $1.4 million and $1.6 million, respectively, in fiscal 2008 and 2009.

Based on our cash flow projections for FY10, we believe the company has the cash and operational strength to fund and grow operations for at least the next twelve-months.

Recent Developments

On December 16, 2009, the company announced the promotion of John DiBella, M.S., to the position of manager of marketing and sales. He replaces Ron Creeley, who resigned for personal reasons. Mr. DiBella, has been with SLP for over six year, four in marketing and sales. He was the original developer of the company's DDDPlus simulation software program. John DiBella holds a master's degree in biomedical engineering from Case Western Reserve University.

Financial Results

For the three-month period ended August 31, 2009, versus the same period last year:

- Sales were flat at $1.8 million. Taglich Brothers estimated net sales of $2.5 million. We expected growth in both segments of the company operations. The revenue growth in the pharmaceutical software and services segment of 1.4% was offset by a sales decline in the Word+ subsidiary.
- Gross margin contracted to 62% from nearly 71%. The year-over-year compression was due to an increase in contract consulting services, which earn a lower gross margin.
- SG&A expenses decreased to $966,000 from $995,000.
- Research and development expenses decreased to $118,000 from $290,000. The decrease was due to a greater amount of time spent on contract studies, which shifted nearly $164,000 to cost of goods sold.
- Operating income increased by $40,000 to $56,000.
- Net income was approximately $0.2 million, or $0.01 per diluted share versus net income of $0.2 million or $0.01 per diluted share. Taglich Brothers estimated net income of $0.4 million or $0.02 per diluted share.

For Fiscal 2009, sales increased by nearly 2% to $9.1 million, driven by gains in the pharmaceutical software and services segment as a whole. On a year-over-year basis that segment grew by $246,000, or 4.1%, primarily due to increases in contract studies and collaborations. That growth was offset in part by the Words+ subsidiary sales decline of $71,000, or 2.4%, for the year. The decrease in that subsidiary's sales was due to lower sales of its Freedom and TuffTalker Plus products (which were discontinued) and hardware products such as MessageMates and other input devices. Those declines outweighed increased sales from its Say-it SAM! and Conversa products.

Gross margin contracted by 200 basis points to 74.6% from 76.6%, primarily due to the cost of contract studies, which are mainly conducted by salaried scientists; as revenue from study contracts increased, the cost of goods sold grew by $222,000.

SG&A expenses increased by $197,000 to $3.9 million, due to expanded trade show expenses, travel expenses, higher air fares, increased personal vehicle mileage allowances, consultant fees, and increased salaries and payroll expenses.

In total, the company incurred nearly $2 million of research and development costs during FY09, of which $0.7 million was capitalized. In the prior year, $1.7 million of research and development costs were incurred with $0.7 million capitalized. The increase was due to higher salary expense levels – as the Life Sciences Department staff expanded, and salaries increased for existing staff, which was offset to a small degree by a shift in expenses to the cost of sales as contract consulting study revenue increased.

Other income for FY09 decreased to $215,000 from $268,000 in FY08 due to a decline in interest income on money market accounts, which outweighed gains on currency exchange.

The provision for income taxes during FY09 decreased to $615,000 from $721,000 FY08. The decrease was primarily due to lower operating income and tax credits. The company anticipates based on current information that the tax rate for the full year of 2010 to be in the range of 32% – 35%. Where it falls within that range will depend on the amount of R&D tax credits generated.

Finances

In FY09, cash throw-off from operations totaled approximately $2.4 million and cash generated from operations was $2.5 million. Working capital needs changed marginally, decreasing by $115,000, as most changes in current assets offset one another. Cash flows from investing activity resulted in a nominal change of $32,000. A payment of $750,000 received on January 5, 2009 from a prior investment in Auction Rated Securities was offset by $45,000 in capital expenditures and capitalized computer software development costs of $674,000. Capitalized computer software development cots consisted of primarily of salaries and direct payroll-related costs and the purchase of existing software to be used in SLP's software products. Cash generated from operations was $2.5 million. The company increased its cash position for FY09 by $1.6 million to $7.5 million, even as the company repurchased common stock (in the aggregate) of nearly $1.1 million.

On October 23, 2008 the company announced that the board of directors authorized a share repurchase program that enabled SLP to buy back up to $2.5 million of its common shares during the 12-month period beginning October 27, 2008. Since the purchases commenced on December 2, 2008, the purchase period was extended until December 1, 2009. As of November 27, over 1.02 million shares had been bought back at average price per share of approximately $1.32. Management stated during the full year conference call that the company's had no plans to repurchase shares after December 1, 2009, but that the board of directors could authorize a further repurchase at any time.

Competitive Environment

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

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

According to IBIS, the smaller biotechnology segment where a number of companies are struggling due to product failures, is consolidating more rapidly. In The US Pharmaceutical and Medicine Manufacturing industry report (published by IBIS in November 2009) it is expected to consolidate further through 2014.

IBIS predicts that while the industry undergoes consolidation there will be the greater use of new technologies and a rationalization in product portfolios as pharmaceutical companies adapt to the new realities of the global health market. That prediction supports our view that spending on software productivity tools should continue to

growth (maybe at a slightly slower pace) because of the need for effective productivity tools (i.e., software), which have the highest productivity gain of any technology. We believe that a positive development is the fact that SLP's management has repeatedly indicated that it has not seen any significant impact, especially as it relates to SLP's relationship with Pfizer, Roche, and GlaxoSmithKline.

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

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

Risks

Technology

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

Shareholder Control

We estimate that Walter Woltosz, the company's co-founder, chairman of the board, president, and CEO, and Virginia Woltosz, the company's co-founder, corporate secretary, and treasurer, own approximately 44.7% of the outstanding voting stock (based on shares outstanding as of August 4, 2009 and a Form 4 filing with the SEC on August 6, 2009). Walter and Virginia Woltosz should be able to control the outcome, or greatly influence the outcome, on all matters requiring stockholder approval, which may or may not be in the best interests of the other shareholders.

Intellectual Property Rights

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

Government Regulation

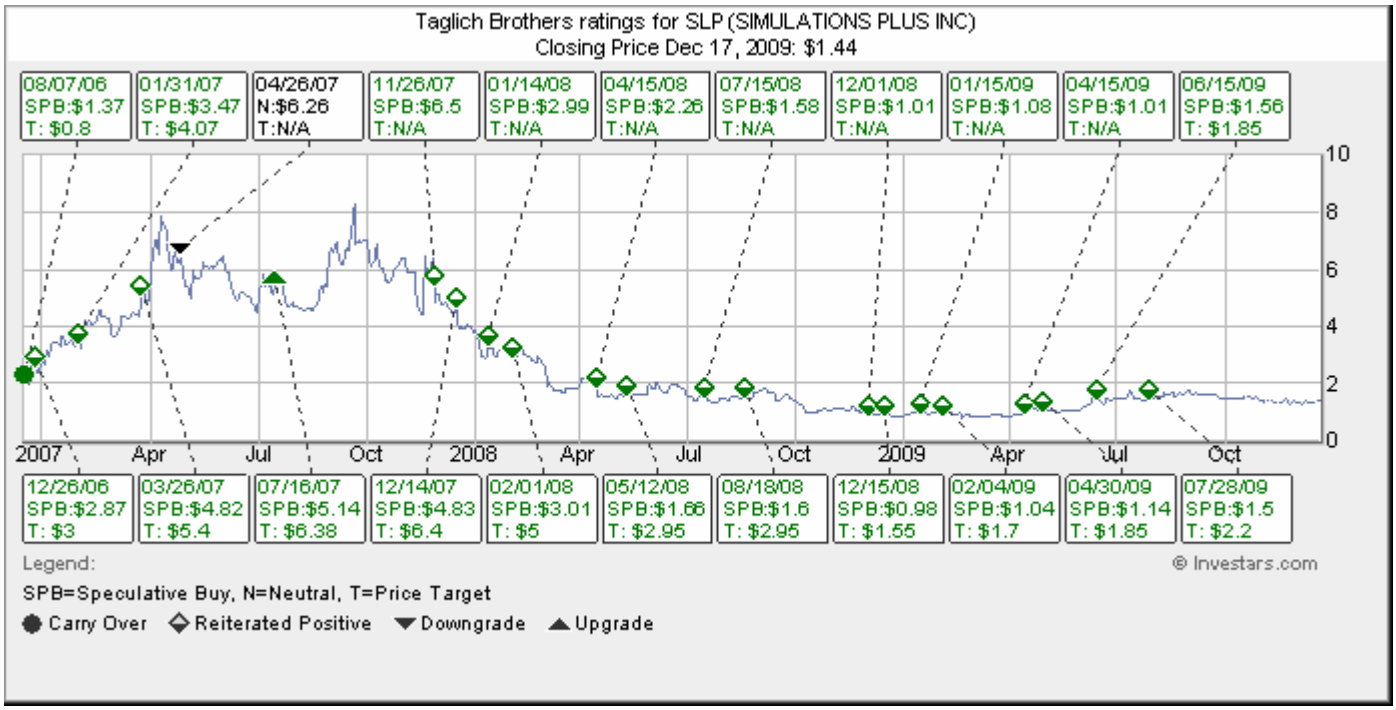
On January 1, 2001, Medicare began funding augmentative communication devices for the first time and over the company's 28-year history, the trend has been toward increasing funding from government agencies. There can be no assurance that government funding for such devices will continue, or if it does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

Miscellaneous Risk

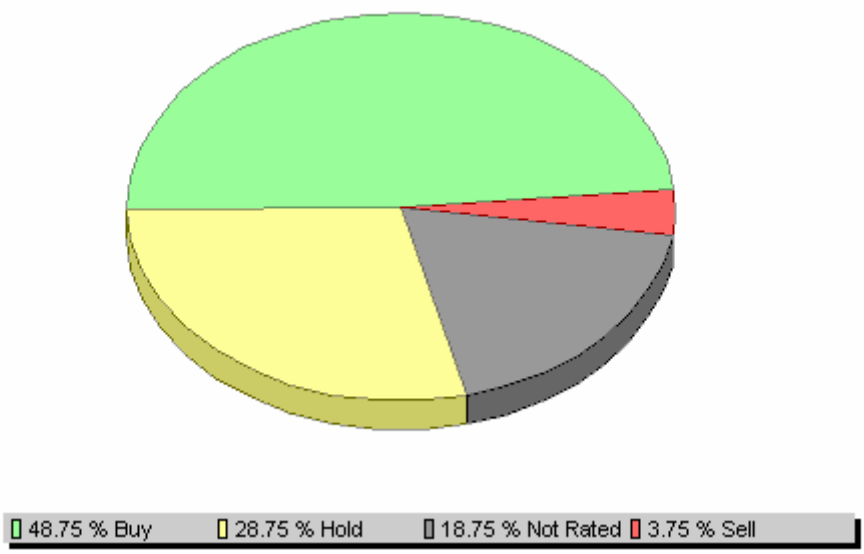
The company's financial results and equity values are subject to other risks and uncertainties known and unknown, including but not limited to competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

Trading Volume

Liquidity is a potential concern. Based on our calculations, the average daily-volume during calendar 2007 was 197,967 shares traded a day and during calendar 2008, average daily volume decreased to 60,242 shares traded a day. During the first eleven months of calendar 2009, average daily volume decreased to 21,588. Investors need to be aware that by nature a thinly traded equity can have significant price volatility.



Taglich Brothers Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months

Rating	#	%
Buy	1	3.57%
Hold	0	0
Sell	0	0
Not Rated	0	0

Meaning of Ratings

Buy

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

Speculative Buy

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

Neutral

We will remain neutral pending certain developments.

Underperform

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

Sell

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

Some notable Risks within the Microcap Market

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

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

Public Companies mentioned in this report:

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

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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 2007A Fiscal Year End	August 2008A Fiscal Year End	August 2009A Fiscal Year End	August 2010E Fiscal Year End
ASSETS				
Current assets:				
Cash	$ 4,538	$ 5,890	$ 7,474	$ 9,382
Accounts receivable, net	2,060	2,105	1,889	2,086
Contracts receivable, net	47	-	80	-
Inventory	231	342	326	360
Deferred tax	241	318	339	300
Prepaid expense and other current assets	74	195	159	130
Total current assets	**7,191**	**8,850**	**10,265**	**12,259**
Investments	-	750	-	-
Capitalized computer software development costs, net	1,528	1,789	1,943	1,920
Property and Equipment, net	90	103	53	48
Contracts receivable	-	-	-	-
Customer relationships	69	43	23	23
Deferred tax	-	-	-	-
Other assets	18	18	18	18
Total assets	**$ 8,895**	**$ 11,553**	**$ 12,303**	**$ 14,268**
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts payable	201	181	199	240
Accrued payroll and other expenses	492	537	552	621
Accrued bonuses to officers	201	60	60	68
Accrued income taxes	71	-	-	-
Accrued warranty and service costs	38	34	43	35
Current portion of deferred revenue	-	83	82	155
Other current liabilities	-	-	-	-
Total current liabilities	**1,004**	**896**	**937**	**1,118**
Deferred tax liability	227	742	795	800
Stockholders' equity:				
Common stock, no par value; authorized 20,000,000 shares;	4	5	4	4
Additional paid-in capital	5,804	6,328	5,572	5,572
Retained earnings	1,857	3,582	4,994	6,164
Total stockholders' equity	**7,665**	**9,915**	**10,571**	**12,349**
Total liabilities and stockholders' equity	**$ 8,895**	**$ 11,553**	**$ 12,303**	**$ 14,268**
SHARES OUT	15,761	16,297	15,700	15,750

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

	FY2007A	FY2008A	FY2009A	**FY2010E**
Net sales	8,858	8,968	9,143	**10,430**
Cost of sales	2,082	2,100	2,322	**2,880**
Gross Profit	6,776	6,868	6,822	**7,550**
Operating Expenses:				
Selling, general, and administrative	3,458	3,699	3,896	**4,200**
Research and development	815	990	1,114	**880**
Total Operating Expenses	4,273	4,690	5,010	**5,080**
EBITDA	3,023	2,805	2,556	**3,170**
Operating Income (loss)	2,503	2,178	1,812	**2,470**
Other income (expense)				
Interest income	114	185	94	**80**
Interest expense	(0)	(0)	-	**-**
Gain (Loss) on exhange of currency	2	83	120	**-**
Gain (Loss) on sale of assets	5	0	1	**-**
Total Other Income (expense)	122	268	215	**80**
Pre-Tax Income (loss)	2,624	2,446	2,027	**2,550**
Income Tax Expense (Benefit)	1,158	721	615	**855**
Release of valuation allowance	-	-	-	**-**
Tax Rate	44.14%	29.46%	30.32%	**33.53%**
Net income (loss)	$ 1,466	$ 1,726	$ 1,412	**$ 1,695**
Earnings per share -- Diluted	$ 0.08	$ 0.10	$ 0.08	**$ 0.10**
Avg Shares Outstanding	17,957	18,141	17,188	**16,678**
Margin Analysis				
Gross margin	76.5%	76.6%	74.6%	72.4%
Selling, general, and administrative	39.0%	41.2%	42.6%	40.3%
Research and development	9.2%	11.0%	12.2%	8.4%
Operating margin	28.3%	24.3%	19.8%	23.7%
Pre-tax margin	29.6%	27.3%	22.2%	24.4%
YEAR / YEAR GROWTH				
Total Revenues	51.3%	1.2%	2.0%	14.1%
Earnings per share	92.7%	16.5%	0.3%	18.4%

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

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

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

	Q1(11/08)A	Q2 (02/09)A	Q3 (05/09)A	Q4 (08/09)A	Q1(11/09)E	Q2 (02/10)E	Q3 (05/10)E	Q4 (08/10)E
Net sales	2,133	2,457	2,714	1,840	2,330	2,615	2,875	2,610
Cost of sales	526	553	543	699	685	695	715	785
Gross Profit	1,607	1,904	2,170	1,141	1,645	1,920	2,160	1,825
Operating Expenses:								
Selling, general, and administrative	904	1,037	989	966	1,045	1,065	1,050	1,040
Research and development	301	360	334	118	210	210	230	230
Total Operating Expenses	1,205	1,397	1,323	1,084	1,255	1,275	1,280	1,270
EBITDA	577	680	1,026	273	565	820	1,055	730
Operating Income (loss)	402	507	847	56	390	645	880	555
Other income (expense)								
Interest income	33	20	20	21	20	20	20	20
Total Other Income (expense)	51	52	41	71	20	20	20	20
Pre-Tax Income (loss)	453	559	888	127	410	665	900	575
Income Tax Expense (Benefit)	141	191	319	(36)	140	230	300	185
Release of valuation allowance	-	-	-	-	-	-	-	-
Tax Rate	*31.20%*	*34.13%*	*35.91%*	*-28.58%*	*34.15%*	*34.59%*	*33.33%*	*32.17%*
Net income (loss)	$ 312	$ 368	$ 569	$ 163	$ 270	$ 435	$ 600	$ 390
Earnings per share -- Diluted	$ 0.02	$ 0.02	$ 0.03	$ 0.01	$ 0.02	$ 0.03	$ 0.03	$ 0.02
Avg Shares Outstanding	17,517	17,108	16,926	17,200	16,660	16,665	16,685	16,700
Margin Analysis								
Gross margin	75.3%	77.5%	80.0%	62.0%	70.6%	73.4%	75.1%	69.9%
Selling, general, and administrative	42.4%	42.2%	36.5%	52.5%	44.9%	40.7%	36.5%	39.8%
Research and development	14.1%	14.7%	12.3%	6.4%	9.0%	8.0%	8.0%	8.8%
Operating margin	18.8%	20.6%	31.2%	3.1%	16.7%	24.7%	30.6%	21.3%
Pre-tax margin	21.2%	22.7%	32.7%	6.9%	17.6%	25.4%	31.3%	22.0%
YEAR / YEAR GROWTH								
Total Revenues	7.5%	12.7%	(8.6%)	0.2%	9.2%	6.4%	6.0%	41.9%

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

	FY2007A	FY2008A	FY2009A	FY2010E
Cash Flows from Operating Activities				
Net Income (loss)	$ 1,466	$ 1,726	$ 1,412	$ 1,695
Depreciation and amortization of property and equipment	51	51	22	22
Amortization of capitalized software development	430	467	519	525
Amortization of customer relationships	32	26	20	25
Bad debt expense	63	63	220	50
Stock-based compensation	17	90	183	185
Contribution of equipment at book value	1	-	-	-
Loss on sale of assets	(4)	-	-	-
	2,055	2,422	2,376	2,502
Changes In:				
Accounts receivable	(351)	(60)	(83)	(197)
Inventory	6	(93)	88	(34)
Deferred tax	1,087	437	33	39
Other assets	8	(122)	37	28
Accounts payable	(14)	(20)	18	41
Accrued payroll and other expenses	127	46	15	68
Accrued bonuses to officers	103	(141)	-	8
Income taxes	70	(71)	-	-
Accrued warranty and service costs	3	(4)	9	(8)
Deferred revenue	(129)	83	(1)	73
Net Changes in Working Capital	909	55	115	17
Net cash Provided by Operations	2,964	2,477	2,492	2,519
Cash Flows from Investing Activities				
Purchase of property and equipment	(48)	(82)	(45)	(25)
Investment in securities	-	(750)	750	-
Purchases of Bioreason's assets	-	-	-	-
Capitalized computer software development costs	(583)	(728)	(674)	(685)
Proceeds from sale of assets	7	-	-	-
Cash Flows from Investing Activities	(624)	(1,560)	32	(710)
Cash Flows from Financing Activities				
Repurchase of common stock	-	-	(1,064)	-
Proceeds from the exercise of stock options	513	435	125	100
Net cash provided by Financing	513	435	(940)	100
Net change in Cash	2,853	1,352	1,584	1,909
Cash Beginning of Period	1,685	4,538	5,890	7,474
Cash End of Period	$ 4,538	$ 5,890	$ 7,474	$ 9,382