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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
February 1, 2008

SLP $3.01 — (NasdaqCM)

	FY (08/06*) A	FY (08/07*) A	*FY (08/08) E*	*FY (08/09) E*
Net sales (in millions)	$5.86	$8.86	***$11.82***	***$15.34***
Earnings per share	$0.04	$0.08	***$0.12***	***$0.17***

52-Week range*	$8.63 – $2.51	Fiscal year ends:	August
Shares outstanding a/o 01/11/08*	16.16 million	Revenue/shares (ttm)*	$0.51
Approximate float*	8.76 million	Price/Sales (ttm)*	5.9X
Market Capitalization	$49 million	Price/Sales (2009)E*	3.6X
Tangible Book value/shr	$0.51	Price/Earnings (ttm)*	33.4X
Price/Book*	5.9X	Price/Earnings (2009)E*	17.7X

* All per share figures reflect the 2-1 stock splits effective August 14, 2006 and October 2, 2007.

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

Key Investment Considerations:

We are reiterating our Speculative Buy rating on shares of Simulations Plus, Inc. (NasdaqCM: SLP), as we are forecasting positive growth trends for fiscal 2008 and believe those trends will continue into fiscal 2009. We are lowering our twelve-month price target to $5.00 per share versus our prior target of $6.40 per share (primarily due to a contraction of multiples). Our price target is based on our sales and EBITDA forecasts for the next four quarters.

On December 11, 2007, SLP announced that a top three pharmaceutical company issued a purchase order to renew their global software license and to convert it from a single year license to a multi-year license. Management stated that it believes this multi-year multi-site renewal commitment confirms that this company has embraced SLP's technology so that their research scientists will use the software for another 3 years.

On January 14, 2008, the Company announced first quarter fiscal 2008 net sales increased by 36.3% to $1.984 million versus $1.456 million in Q1 of fiscal 2007. Top line growth was led by pharmaceutical software sales, which increased on a year-over-year basis by 74.5%. Net income increased to $0.243 million or $0.01 per diluted share versus $0.073 million or $0.00 per diluted share in the same period last year.

We are adjusting our estimates for fiscal 2008, given current licensing trends, renewals, potential for new customers, growth of contract services, and Management's public guidance. Our revised net sales and net income forecasts are $11.819 million (prior was $11.540) and $2.303 million or $0.12 per diluted share (prior was $2.275 million or $0.12 per dilute share. Also, we are issuing our initial forecast for fiscal 2009, which calls for net sales of $15.335 million and net income of $3.235 million or $0.17 per diluted share.

**** Please view our disclaimer located on page 13.***

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 (31 full-time and 3 part-time), includes 16 professionals in research and development, 7 in production, and 1 in information technology/repairs. Ten employees have Ph.D.s and one is a Ph.D. candidate. In addition, four 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. On July 24, 2007, the Company announced the release of Version 2.3, which adds both more accurate predictive models, as well as a list of new features inspired by user feedback and SLP's own internal use of the program. Included in the new release is a unique new predictive capability that will help pharmaceutical chemists predict drug-caused DNA mutations. The models were developed based on the proprietary database of salmonella mutagenicity measurements acquired as part of the assets of Bioreason, Inc. Unlike previous models for salmonella mutagenicity that lump together strains of the bacteria, this unique database provides individual mutagenicity data for each of ten individual strains. According to the Company's Chief Scientist, one FDA-required test for any new drug is the potential to cause mutations in the DNA of various strains of salmonella;

    - **ClassPharmer™ -** enhances the hits-to-lead-to-clinic process which aids in find drug leads with novel and unpatented structural motifs, reduces screening costs with more efficient follow-up screening strategies, and improves productivity with software that thinks like a medicinal chemist. On October 17, 2007, the Company released of Version 4.4. The upgrade includes features requested by users, as well as extensions to the molecule design capability;

    - **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; 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. On October 4, 2007, the Company released Version 5.3, which includes the ability to call ADMET Predictor™ software directly from within GastroPlus. Additionally, the upgrade includes a new numerical integrator that speeds ups simulations, improved virtual trials for simulating effects in large populations, handling enteric coated or delayed release tables and capsules, particle shape for dissolving particles, a redesigned units converter for the Metabolism and Transporter Module, as well as a monkey physiology model for physiologically based pharmacokinetics.

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

Recent Developments

During December 2007, the Company announced the following:

- It Board of Directors approved the decision to switch the listing of its common stock from the AMEX to the NASDAQ Stock Market LLC®. This occurred effective December 31, 2007 and its symbol remained the same SLP. Management believes that Nasdaq's electronic multiple market maker structure will provide the Company with enhanced exposure and liquidity, while at the same time providing investors with the best prices, the fastest execution, and the lowest cost per trade; and
- A top three pharmaceutical company issued a purchase order to renew their global software license and to convert it from a single year license to a multi-year license. Management stated that it believes this multi-year multi-site renewal commitment confirms that this company has embraced SLP's technology so that their research scientists will use the software for another three years. The Company's CEO stated that negotiating new contracts every year is a time-consuming process for purchasing departments, and the industry is looking for ways to reduce costs. As a result, Management has seen a number of companies expressing interest in switching to multi-year licenses for software they expect to use for years to come.

During January 2008, Simulations Plus announced the following:

- Its Words+, Inc. subsidiary released a new voice output augmentative communication device based on a Hewlett-Packard personal digital assistant (PDA). The subsidiary's President stated that its supply of the previous model of the PDA was depleted last summer. The Company has been working on the new model for many months, but a combination of issues took longer than expected to be resolved. The Company showed prototype models at the Closing the Gap conference in Minneapolis during October 2007 and received a very enthusiastic reception. Currently, the subsidiary has ramped up production and the first units have been shipped to dealers and customers. Investors should note that the number of units shipped in the first month of fiscal 2008, exceeds the total number of units of this type sold in all of last fiscal year.

Financial Results ***(All per share figures reflect the 2-1 stock split effective October 2, 2007)***

For the three-month period ended November 30, 2007, versus the three-months ended November 30, 2006:

- Net sales increased to $1.984 million versus $1.456 million. Taglich Brothers' estimate called for net sales of $2.350 million;
- Gross margins increased to 75.50% versus 69.69%;
- SG&A expenses increased to $0.930 million versus $0.757 million. As a percentage of net sales SG&A expenses declined to 46.89% versus 51.96%;
- Research and development expenses increased to $0.226 million versus $0.184 million. Investors should note that the Company capitalized R&D costs in the amount of $0.174 million versus $0.134 million in the same period last year;
- Operating income increased by 431% to $0.405 million versus $0.094 million; and
- Net income improved to $0.243 million or $0.01 per diluted share versus net income of $0.073 million or $0.00 per diluted share. Taglich Brothers' estimate called for net income of $0.375 million or $0.02 per diluted share.

Management attributed the 36.2% growth in year-over-year net sales to a 74.5% (or $0.614 million) increase from pharmaceutical software and services. The growth was primarily attributable to a large order that shifted to the first quarter of the current fiscal year (last fiscal year the order was received during the second quarter). Management publicly stated during the January 14, 2008 earnings conference call that second quarter 2008 should not be negatively impacted by the previously mentioned revenue shift. Additionally contributing to growth was increased licenses from new customers, as well as for new modules to existing customers, expansion of additional licenses to renewal customers, and increased use of the Company's contract consulting services.

Mitigating the growth in net sales was a decrease of 13.8% (or $0.087 million) from the Company's Words+ subsidiary. The decrease was primarily due to lower sales of the Company's PDA version of the Say-it! SAM speech output device. Management stated that the inventory of the previously discontinued PDA was depleted during the prior quarter, resulting in an inability to accept orders for these units until the new device was close to production. According to the Company's first quarter 10-Q, the new PDA devices have started to ship in quantity as of December 2007. Also, sales of the Company's Freedom products increased; however, some declines in sales of other products outweighed this increase.

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 increased by 581 basis points primarily due to the growth in sales of its higher margin pharmaceutical and educational software, as well as contract consulting service studies. Gross margin for pharmaceutical and educational software was 86.9% compared to 45.4% for Words+. Gross margin for Words+ was negatively impacted by a special discount provided for the dealer demo units on new Say-it! SAM units, lower total revenues during the quarter for this subsidiary, as well as shipping material cost increases.

The overall $0.173 million increase in SG&A expenses versus the first quarter of fiscal 2007 was the result of travel, trade shows, investor relations, accrued bonus to a secretary, professional fees, salaries and payroll-related expenses (i.e., health insurance, 401K and payroll taxes). The increases in those items outweighed decreases in commission expense and equipment rentals. Investors should note that as a percentage of net sales, SG&A expenses for the current period declined to 46.89% versus 51.96% in the first quarter of fiscal 2007.

The Company experienced a $0.042 million increase in research and development spending. The increase was primarily attributable to increases in salaries resulting from staff additions in the Life Sciences department, as well as salary increases for existing staff.

The provision for income taxes during the quarter increased to $0.162 million from $0.021 million in the same period last year. The expiration of the Extraterritorial Income Exclusion resulted in an increase of the Company's overall combined tax rate of 40.00% versus 22.00%. In addition, Congress has yet to extend the Research and Development Tax Credit, which expired on December 31, 2007. As a result, the Company is projecting a tax rate of 40% going forward. However, according to Management there is a bill in Congress currently under consideration, which would extend the Research and Development Tax Credit permanently. Investors should note that if the bill passes, the Company will re-evaluate its tax rates at that time to determine if a change (downward) is necessary.

Balance Sheet Snapshot as of November 30, 2007

The Company had cash of $4.584 million versus $4.538 million as of its fiscal year ended August 31, 2007. Working capital was $6.645 million versus $6.187 million as of August 31, 2007. Total assets, which stood at $9.214 million, are primarily comprised of cash, inventory, accounts receivable (that totaled $2.380 million) and a deferred tax asset of $0.201 million. As of August 31, 2007, total assets stood at $8.895 million.

Also, the Company had total liabilities of $1.139 million, retained earnings of $2.100 million, and total shareholders' equity of $8.075 million. At the end of fiscal 2007, the Company had total liabilities of $1.231 million with retained earnings of $1.856 million, and total shareholders' equity of $7.665 million.

Management believes 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 recent examples:

- During October 2007, the Company's Chairman and CEO was co-chair of a scientific session and gave a presentation to a large group of scientists from around the world at the International Society for the Study of Xenobiotics conference in Sendai, Japan. According to SLP's public statements, a number of requests for copies of the presentation slides were made, as well as excellent responses from giving additional presentations at pharmaceutical sides in Japan.

- During November 2007, the Company attended the American Association of Pharmaceutical Scientists annual meeting. At the meeting there were more than ten posters and podium presentations that referenced Simulations Plus software, including one entire session wherein every presenter showed results obtained from GastroPlus analysis. According to Management, the number of leads generated at that one meeting far exceeds what had been seen in the past.

In addition, Management continues to publicly state that it will add to its scientific staff. According to the Company's SEC filings, the number of Ph.D.'s on its staff is 10, with one Ph.D. candidate. The increase in its professional staff is important since they all have 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 likely to be exposed to Simulations Plus product offerings. This could lead to increased activity related to its ADMET Partners global licensing program for large pharmaceutical companies.

Management has publicly stated that:

- Since fiscal 2006, the Company has been booking multi-year licenses on an annual basis. Management believes this should eliminate the extreme lumpiness in reported top and bottom line results the Company experienced in the past;

- The Company's customer base, which continues to grow, should build the base for future license renewals. It is important to note that during 2007 the Company received purchase orders for licenses from the U.S. Food and Drug Administration (FDA) for its GastroPlus™ simulation software, as well as new licenses for its DDDPlus software from the FDA. Also, the U.S. National Institutes of Health ordered the Company's ClassPharmer™ product offering;

- It is actively interviewing candidates to expand its Life Sciences team. In September 2005, work on MembranePlus™ was put on hold as a result of the scientist responsible for that project being reassigned to take over GastroPlus™. MembranePlus™ is 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. A new product such as MembranePlus™ would not only expand the product portfolio but would have the potential to grow revenue from existing customers, as well as obtain a wider customer base;

- On November 29, 2007, Simulations Plus announced that F. Hoffmann-LaRoche issued a purchase order to renew their global software license for another year. Investors should note that last year's order was in Q2'07 and this year the order occurred in Q1'08. Based on our estimates, we believe this order expanded from approximately $0.500 million per year to over $0.600 million per year;

- On December 11, 2007, announced that a top three pharmaceutical company issued a purchase order to renew their global software license and to convert it from a single year license to a multi-year license. Management stated that it believes this multi-year multi-site renewal commitment confirms that this company has embraced SLP's technology so that their research scientists will use the software for another three years;

- Demand for consulting services increased due to a shortage of expertise in simulation and modeling personnel within pharmaceutical and biotechnology companies. The evidence of internal growth in this area is that in fiscal 2005, 2006, and 2007, the Company had undertaken 2, 3, and most likely in excess of 15 contract studies, respectively. Also, on October 4, 2007, the Company publicly stated that they have been approached by a number of new companies for consulting studies that use GastroPlus™. 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. This not only brings in revenue, but is leveraged by the Company as a marketing tool, since doing consulting services has the potential to lead to software license revenue;

- They are seeking accretive acquisitions to enhance and expand the product portfolio, as well as seeking new collaborations. This point was reiterated during the Company's full year and first quarter fiscal 2008 earnings conference calls. Management is seeking acquisitions for both the pharmaceutical software side and Words+ side of the business. Also, they stated that negotiations are ongoing, but it is taking much longer than anticipated; however, it is Management's belief that something will be concluded in the near future. The intent is to increase revenues and earnings by acquiring products and technologies that complement Simulations Plus and Words+; and

- After completing a Phase I SBIR grant, the Company has applied for a Phase II follow-on grant of $0.750 million over two years. Investors should note that SBIR grant funds 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.

We believe that the Words+ subsidiary can still grow in fiscal 2008. During fiscal 2007, the Company's Words+ subsidiary developed a new design for its PDA-based Say-it! SAM augmentative communication device, including a completely new PDA and a custom injection-molded case available in multiple colors. This new device includes a new audio amplifier and speaker system. This offering was demonstrated at the Closing the Gap conference in Minneapolis during October 2007 and received strong interest from those in attendance. According to Management, the number of units shipped in the first month of fiscal 2008, exceeds the total number of units of this type sold in all of last fiscal year. Also, the addition of a new California sales representative and a marketing effort being conducted by the national sales consultant should benefit results in future periods.

On December 18, 2007 and during the Company's first quarter fiscal 2008 earnings conference call (on January 14, 2008), Management offered public guidance for top line expectations. The Company should generate at least an additional $3.0 million in net sales versus fiscal 2007 results, which means fiscal 2008 net sales should be at least $11.8 million.

Projections

We are adjusting our fiscal 2008 forecasts based on first quarter results, current licensing trends and renewals, potential for new customers, and growth of contract consulting services. Our net sales forecast calls for sales to $11.819 million versus our prior estimate of $11.540 million. Our upward adjustment for fiscal 2008 also incorporates Management's public guidance and their belief that the pharmaceutical industry surpassed the aerospace industry in terms of research and development spending; as well as the general urgency to change how business is done in the pharmaceutical industry since there has been an unsustainable path of higher and higher spending with fewer and few new drugs to show for it.

Our revised forecast (which does not include the potential for accretive acquisitions) would be a 33.43% increase versus fiscal 2007 results. We anticipate net sales growth for simulations software products in fiscal 2008 of approximately 49.6% $8.610 million. Our net sales expectation for the Words+ subsidiary for fiscal 2008 is $3.209 million, which is approximately a 3.4% increase versus fiscal 2007. Our expectations incorporate new products and Management's public comments.

Our initial net sales forecast for fiscal 2009, which includes licensing trends and renewals, potential for new customers, growth of contract consulting services, as well as expanded product offerings, calls for growth of 29.75% to $15.335 million versus our fiscal 2008 estimate. We anticipate net sales growth for simulations software products in fiscal 2009 of approximately 38.1% to $11.891 million. Our net sales expectation for the Words+ subsidiary for fiscal 2009 is $3.445 million, which is approximately a 7.4% increase versus fiscal 2008.

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

Cost Structure

	2007A	2008E		2009E
	Actual	Prior	Revised	Initial
Gross Margin	76.49%	77.73%	77.40%	77.70%
SG&A expenses (as a Percent of Net Sales)	39.04%	36.70%	38.76%	37.89%
Research and Development (as a Percent of Net Sales)	9.20%	7.28%	7.75%	5.87%
Operating Margin	28.26%	33.75%	30.89%	33.94%
Pre-tax Margin	29.63%	35.31%	32.58%	35.24%

Source: Company filings and Taglich Brothers estimates

Based on our net sales and cost structure estimates, EBITDA should approach $4.213 million and $5.765 million in fiscal 2008 and 2009, respectively, versus EBITDA of $3.032 million in fiscal 2007. Our revised net income forecast for fiscal 2008 is $2.303 million or $0.12 per diluted share. Our prior forecast called for net income of $2.275 million or $0.12 per diluted share. For fiscal 2009, our initial net income forecast is $3.235 million or $0.17 per diluted share. Our EPS forecasts are based on average fully diluted shares of 18.445 million and $18.485 million, respectively. Based on Management's public statement in the first quarter 10-Q filing, our forecasts incorporate an income tax of approximately 40%.

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.

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

Technology

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

Customer Concentration

International sales accounted for 30% and 29% of net sales for the first quarter of fiscal 2008 and 2007, respectively. For simulation software sales, three customers accounted for 56% of net sales for fiscal 2008 compared to one customer accounting for 22% of net sales in the same period last year. Three customers represented approximately 63% of the net accounts receivable in the first quarter of fiscal 2008, while four customers accounted for 75% of the net accounts receivable in the first quarter of fiscal 2007. For the Words+ subsidiary, two government agencies accounted for 29% of net sales during the first quarter of fiscal 2008, and two customers represented approximately 45% of the net accounts receivable. During the same period last year, one government agency accounted for approximately 28% of net sales and one customer represented approximately 30% of the net accounts receivable.

Revenue Recognition

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

The end users receive certain elements of its products over a period of time. These elements include free post-delivery telephone and e-mail support and the right to receive unspecified upgrades/enhancements. In accordance with SOP 97-2, Management has evaluated these agreements and recognized the entire license fee on the date the software is delivered to and accepted by the customer. In order to recognize the fee in this manner, the Company must meet all the criteria required, including: 1) the post contract customer support (PCS) fee is included in the initial licensing fee; 2) the PCS included with the license is for one year or less; 3) the estimated cost of providing the PCS during the arrangement is insignificant; and 4) unspecified upgrades/enhancements during the PCS arrangements have been and are expected to continue to be minimal and infrequent.

Changes to the elements in a software arrangement, the ability to identify VSOE for those elements, the fair value of the respective elements, the costs associated with providing PCS, and changes to a product's estimated life cycle could materially impact the amount of earned and unearned revenue. Going forward, Management has stated that multi-year software licenses will be unlocked and invoiced at the beginning of each license year, which will require recognizing revenues one year at a time.

Shareholder Control

We estimate that Walter Woltosz, the Company's Co-founder, Chairman of the Board, President, and CEO, and Virginia Woltosz, the Company's Co-founder, Corporate Secretary, and Treasurer own approximately 42% of the outstanding voting stock. Therefore, Mr. Walter and Virginia Woltosz should be able to control the outcome, or greatly influence the outcome, on all matters requiring stockholder approval, including the election of directors, amendment of certificate of incorporation, and any merger, consolidation or sale of all or substantially all of the Company's assets or other transactions resulting in a change of control.

Seasonality

Historically, the third and fourth fiscal quarters have generated higher revenues and bottom line results compared to the first and second fiscal quarters of the year (the Company's fiscal year ends August 31). Management believes that sales of its Words+ products to schools are slightly seasonal, with greater sales to schools during the March to May and June to August periods.

Management believes that sales of pharmaceutical products exhibit minimal seasonal fluctuation. However, the tendency is for the first fiscal quarter to almost always be below the average for all quarters. According to the Company's fiscal 2007 10-K filing, this trend has continued for nine out of the last ten years.

Intellectual Property Rights

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

Government Regulation

The Company's pharmaceutical software products are tools used in research and development and do not need to obtain approval by the Food and Drug Administration or other government agency. Changes in government regulations regarding the use of augmentative communication aids and other assistive technology under such funding could affect the Company's operations of its Words+ subsidiary. On January 1, 2001, Medicare began funding augmentative communication devices for the first time and over the Company's 22-year history, the trend has been toward increasing funding from government agencies. There can be no assurance that government funding for such devices will continue, or if it does continue, that the Company's products will continue to meet the requirements imposed for funding of such devices.

Vendor(s)

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

Legal Issues

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

On April 6, 2006, the Company received notice from a liquidator for the former French subsidiary of Bioreason (Bioreason SARL), saying that the liquidator had initiated legal action against SLP in the French courts with respect to ClassPharmer distribution rights to European customers, and is claiming commissions and legal fees with respect to European customers. Management has been working through the Company's U.S. attorneys and a law firm in Paris. SLP filed a counterclaim for its rights and lost sales against Bioreason SARL's assets by sending a debt recovery declaration to the liquidator on June 15, 2006.

On May 23, 2007, the Company through its French Lawyer received a proposal for an amicable settlement, in which SLP would give up claims if Bioreason SARL would agree to waive any claims against Simulations Plus. This proposal was accepted by phone by the lawyer of Bioreason SARL, and the parties signed an agreement which was submitted to the French court. On July 13, 2007, SLP received another e-mail from its French Lawyer that the agent in charge of the liquidation of Bioreason SARL requested the hearing to be postponed until October 11, 2007, and her request was accepted by the French supervisory judge. However, on October 31, the French Lawyer informed SLP that the hearing had been again postponed until November 2007.

According to the Company's first quarter 10-Q filing, SLP is still waiting for the approval of the settlement agreement from the commercial division of French Ordinary Court.

Foreign Exchange Risks

Even though most of the Company's transactions are in U.S. dollars, revenues are generated from overseas customers. Specifically, the Company is compensated in Japanese yen by most Japanese customers. During the fiscal 2007, the Company experienced a very small gain from currency exchange. If foreign currency transactions increase significantly, then SLP may mitigate this effect through foreign currency forward contracts whose market-to-market gains or losses are recorded in other income or expense at the time of the transaction. To date, exchange rate exposure has not resulted in a material impact.

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

Trading Volume
Liquidity is a potential concern. Based on our calculations, the average daily-volume during calendar 2004 increased to approximately 8,340 shares from 7,685 shares in calendar 2003. During calendar 2005 average daily-volume decreased to 4,424 shares a day. During calendar 2006, average daily-volume increased to 21,398 shares a day. During calendar 2007 average daily volume increased to 197,967 shares traded a day. Investors need to be aware that by nature a thinly traded equity can have significant price volatility.

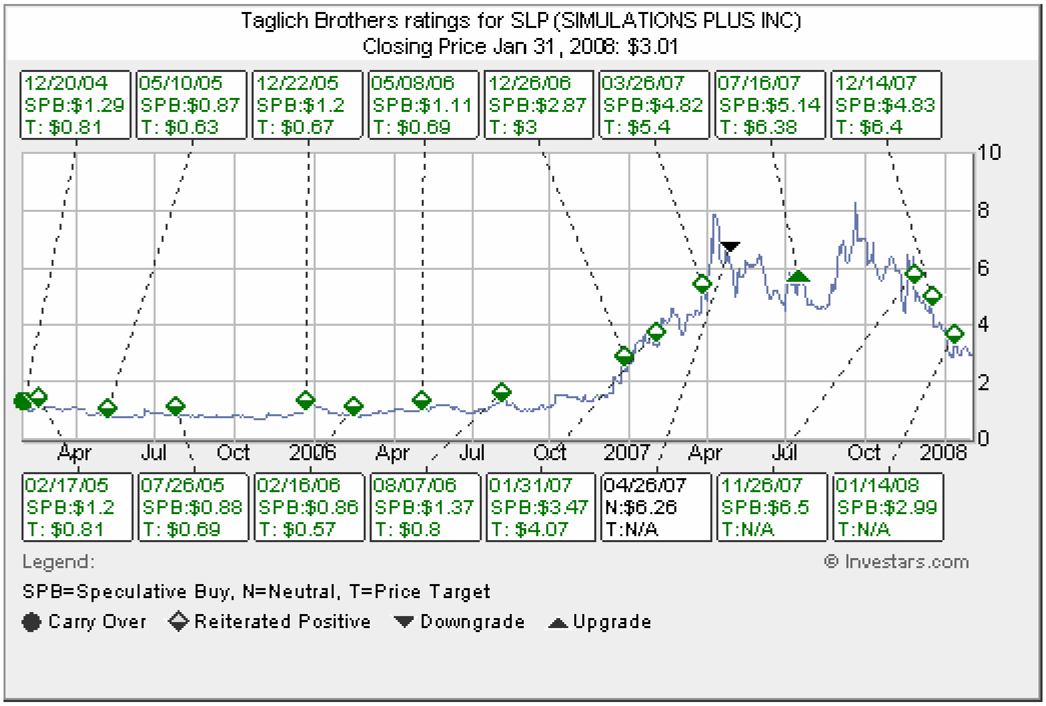
Valuation

We are reiterating our Speculative Buy rating on shares of Simulations Plus, Inc. (AMEX: SLP), as we are forecasting positive growth trends for fiscal 2008 and believe those trends will continue into fiscal 2009.

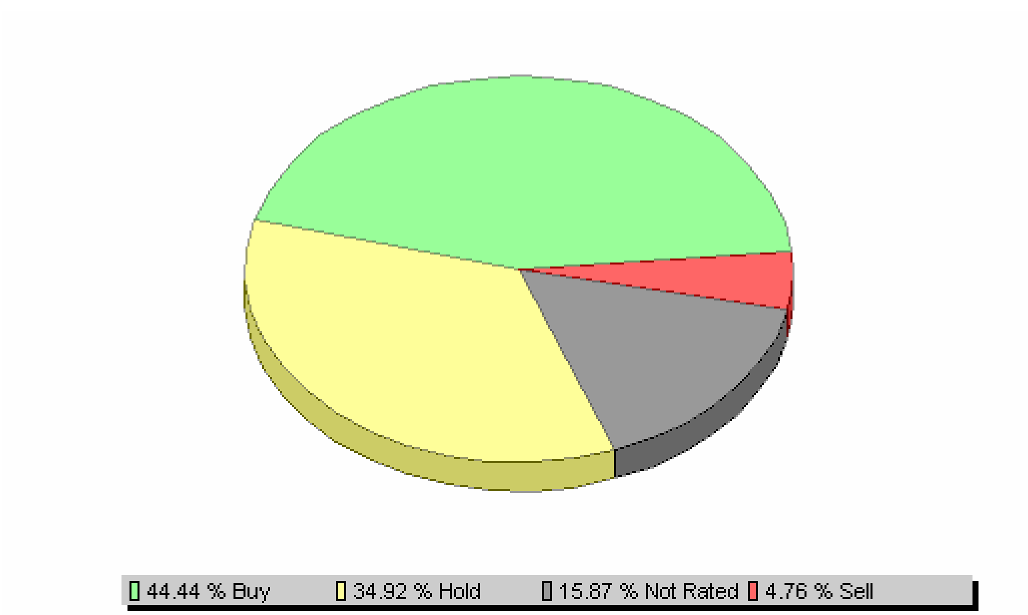
We are lowering our twelve-month price target to $5.00 per share versus our prior target of $6.40 per share (primarily due to a contraction of multiples – i.e., price to sales and EBITDA). Our price target is based on our sales and EBITDA forecasts for the next four quarters.

Our price target is based on the following valuation models discounted by 25% to account for microcap risk along with Company specific risks discussed earlier:

- A 5.9X price-to-sales multiple, which is the Company's current trailing-twelve month multiple, applied to our net sales estimate of $0.67 per share for the next four quarters; and
- A 39.0X price-to-EBITDA multiple, which is our anticipated EBITDA growth for fiscal 2008 versus fiscal 2007, applied to our EBITDA estimate of $0.24 per share for the next four quarters.



Taglich Brothers Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months		
Rating	#	%
Buy	0	0
Hold	2	10.00%
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)

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

	August 2006 Fiscal Year End	August 2007 Fiscal Year End	Nov. 2007 1st Qtr End
ASSETS			
Current assets:			
Cash	$ 1,685	$ 4,538	$ 4,584
Accounts receivable, net	1,589	2,060	2,380
Contracts receivable, net	194	47	-
Inventory	237	231	237
Deferred tax	109	241	201
Prepaid expense and other current assets	81	74	69
Total current assets	**3,895**	**7,191**	**7,471**
Long term receivables, net of present value discount	-	-	-
Capitalized computer software development costs, net	1,374	1,528	1,586
Property and Equipment, net	96	90	77
Contracts receivable	37	-	-
Customer relationships	100	69	62
Deferred tax	991	-	-
Other assets	18	18	18
Total assets	**$ 6,513**	**$ 8,895**	**$ 9,214**
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	215	201	225
Accrued payroll and other expenses	364	492	508
Accrued bonuses to officers	99	201	21
Accrued income taxes	2	71	37
Accrued warranty and service costs	35	38	35
Current portion of deferred revenue	129	-	-
Other current liabilities	0	-	-
Total current liabilities	**845**	**1,004**	**826**
Deferred tax liability	-	-	313
Stockholders' equity:			
Common stock, no par value; authorized 20,000,000 shares;	4	4	4
Additional paid-in capital	5,274	5,804	5,971
Accumulated deficit	390	1,857	2,100
Total stockholders' equity	**5,669**	**7,665**	**8,075**
Total liabilities and stockholders' equity	**$ 6,513**	**$ 8,895**	**$ 9,214**
SHARES OUT	14,883	15,761	15,981

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

	FY2006A	FY2007A	**FY2008E**	**FY2009E**
Net sales	5,855	8,858	**11,819**	**15,335**
Cost of sales	1,605	2,082	**2,671**	**3,420**
Gross Profit	4,250	6,776	**9,148**	**11,915**
Gross Margins	72.60%	76.49%	**77.40%**	**77.70%**
Operating Expenses:				
Selling, general, and administrative	2,972	3,458	**4,581**	**5,810**
Research and development	445	815	**916**	**900**
Total Operating Expenses	3,417	4,273	**5,496**	**6,710**
EBITDA	1,196	3,032	**4,213**	**5,765**
Operating Income (loss)	833	2,503	**3,651**	**5,205**
Operating Margin	14.23%	28.26%	**30.89%**	**33.94%**
Other income (expense)				
Interest income	21	114	**180**	**200**
Interest expense	(0)	(0)	**-**	-
Gain (Loss) on exhange of currency	23	2	**19**	-
Loss on sale of assets	11	5	**0**	-
Total Other Income (expense)	56	122	**199**	**200**
Pre-Tax Income (loss)	889	2,624	**3,850**	**5,405**
Pre-Tax Margins	15.18%	29.63%	**32.58%**	**35.24%**
Income Tax Expense (Benefit)	213	1,158	**1,547**	**2,170**
Release of valuation allowance	-	-	-	-
Tax Rate	23.96%	44.14%	**40.18%**	**40.15%**
Net income (loss)	$ 676	$ 1,466	**$ 2,303**	**$ 3,235**
Earnings per share -- Diluted	$ 0.04	$ 0.08	**$ 0.12**	**$ 0.17**
Avg Shares Outstanding	15,953	17,957	**18,445**	**18,485**
Percent of Revenue				
Selling, general, and administrative	50.76%	39.04%	38.76%	37.89%
Research and development	7.60%	9.20%	7.75%	5.87%
YEAR / YEAR GROWTH				
Total Revenues	23.19%	51.29%	33.43%	29.75%
Earnings per share	152.01%	92.72%	52.93%	40.15%

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)E	Q3 (05/08)E	Q4 (08/08)E	**FY2008E**
Net sales	1,984	3,145	3,615	3,075	**11,819**
Cost of sales	486	730	760	695	**2,671**
Gross Profit	1,498	2,415	2,855	2,380	**9,148**
Gross Margins	*75.50%*	*76.78%*	*78.98%*	*77.40%*	**77.40%**
Operating Expenses:					
Selling, general, and administrative	930	1,210	1,330	1,110	**4,581**
Research and development	226	230	230	230	**916**
Total Operating Expenses	1,156	1,440	1,560	1,340	**5,496**
EBITDA	483	1,115	1,435	1,180	**4,213**
Operating Income (loss)	342	975	1,295	1,040	**3,651**
Operating Margin	*17.22%*	*30.99%*	*35.83%*	*33.82%*	**30.89%**
Other income (expense)					
Interest income	45	45	45	45	**180**
Total Other Income (expense)	64	45	45	45	**199**
Pre-Tax Income (loss)	405	1,020	1,340	1,085	**3,850**
Pre-Tax Margins	*20.44%*	*32.42%*	*37.07%*	*35.28%*	**32.58%**
Income Tax Expense (Benefit)	162	410	540	435	**1,547**
Release of valuation allowance	-	-	-	-	-
Tax Rate	*40.00%*	*40.21%*	*40.29%*	*40.09%*	**40.18%**
Net income (loss)	$ 243	$ 610	$ 800	$ 650	**$ 2,303**
Earnings per share -- Diluted	$ 0.01	$ 0.03	$ 0.04	$ 0.04	$ 0.12
Avg Shares Outstanding	18,430	18,440	18,450	18,460	**18,445**
Percent of Revenue					
Selling, general, and administrative	46.89%	38.48%	36.79%	36.10%	38.76%
Research and development	11.39%	7.32%	6.36%	7.48%	7.75%
YEAR / YEAR GROWTH					
Total Revenues	36.21%	24.12%	37.39%	37.51%	33.43%
Earnings per share	208.22%	-10.76%	1.80%	-1227.45%	52.93%

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	2,515	4,145	4,700	3,975	**15,335**
Cost of sales	615	960	975	870	**3,420**
Gross Profit	1,900	3,185	3,725	3,105	**11,915**
Gross Margins	*75.55%*	*76.84%*	*79.26%*	*78.11%*	**77.70%**
Operating Expenses:					
Selling, general, and administrative	1,065	1,575	1,735	1,435	**5,810**
Research and development	225	225	225	225	**900**
Total Operating Expenses	1,290	1,800	1,960	1,660	**6,710**
EBITDA	750	1,525	1,905	1,585	**5,765**
Operating Income (loss)	610	1,385	1,765	1,445	**5,205**
Operating Margin	*24.25%*	*33.41%*	*37.55%*	*36.35%*	**33.94%**
Other income (expense)					
Interest income	50	50	50	50	**200**
Total Other Income (expense)	50	50	50	50	**200**
Pre-Tax Income (loss)	660	1,435	1,815	1,495	**5,405**
Pre-Tax Margins	*26.24%*	*34.62%*	*38.62%*	*37.61%*	**35.24%**
Income Tax Expense (Benefit)	265	575	730	600	**2,170**
Release of valuation allowance	-	-	-	-	-
Tax Rate	*40.16%*	*40.07%*	*40.22%*	*40.14%*	**40.15%**
Net income (loss)	$ 395	$ 860	$ 1,085	$ 895	**$ 3,235**
Earnings per share -- Diluted	$ 0.02	$ 0.05	$ 0.06	$ 0.05	$ 0.17
Avg Shares Outstanding	18,470	18,480	18,490	18,500	**18,485**
Percent of Revenue					
Selling, general, and administrative	42.35%	38.00%	36.92%	36.10%	37.89%
Research and development	8.95%	5.43%	4.79%	5.66%	5.87%
YEAR / YEAR GROWTH					
Total Revenues	26.78%	31.80%	30.01%	29.26%	29.75%
Earnings per share	62.00%	40.75%	35.29%	37.37%	40.15%

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

	FY2006A	FY2007A	3 Mos. 2008A
Cash Flows from Operating Activities			
Net Income (loss)	$ 676	$ 1,466	$ 243
Depreciation and amortization of property and equipment	48	51	13
Amortization of capitalized software development	287	430	116
Amortization of customer relationships	28	32	7
Bad debt expense	-	63	63
Stock-based compensation	-	17	5
Contribution of equipment at book value	-	1	-
Loss on sale of assets	(11)	(4)	-
	1,028	2,055	447
Changes In:			
Accounts receivable	(275)	(351)	(335)
Inventory	44	6	(6)
Deferred tax	211	1,087	126
Other assets	(8)	8	5
Accounts payable	124	(14)	24
Accrued payroll and other expenses	(34)	127	16
Accrued bonuses to officers	60	103	(180)
Income taxes	-	70	(35)
Accrued warranty and service costs	7	3	(3)
Deferred revenue	(12)	(129)	-
Net Changes in Working Capital	119	909	(389)
Net cash Provided by Operations	1,148	2,964	59
Cash Flows from Investing Activities			
Purchase of property and equipment	(62)	(48)	-
Purchases of Bioreason's assets	(826)	-	-
Capitalized computer software development costs	(480)	(583)	(174)
Proceeds from sale of assets	21	7	-
Cash Flows from Investing Activities	(1,347)	(624)	(174)
Cash Flows from Financing Activities			
Proceeds from the exercise of stock options	131	513	162
Net cash provided by Financing	131	513	162
Net change in Cash	(69)	2,853	47
Cash Beginning of Period	1,754	1,685	4,538
Cash End of Period	$ 1,685	$ 4,538	$ 4,584