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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: Neutral

Howard Halpern
April 26, 2007

SLP $12.52 — (AMEX)

	FY (08/05) A	FY (08/06) A	***FY (08/07) E***	***FY (08/08) E***
Net sales (in millions)	$4.75	$5.86	***$8.51***	***$10.55***
Earnings per share	$0.03	$0.08	***$0.21***	***$0.30***

52-Week range*	$16.48 – $1.90	Fiscal year ends:	August
Shares outstanding a/o 04/24/07*	7.74 million	Revenue/shares (ttm)*	$0.89
Approximate float*	3.98 million	Price/Sales (ttm)*	14.1X
Market Capitalization	$97 million	Price/Sales (2008)E*	10.8X
Tangible Book value/shr	$0.87	Price/Earnings (ttm)*	78.3X
Price/Book*	14.4X	Price/Earnings (2008)E*	41.7X

* All per share figures reflect the 2-1 stock split effective August 14, 2006.

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 downgrading our rating from Speculative Buy to Neutral on Simulations Plus, Inc. (AMEX: SLP), pending updated Management guidance. This is expected to occur upon SLP's third quarter 2007 earnings release during early July 2007.

Between January 3, 2007 and April 25, 2007, in excess of three times the float or 11.170 million shares have traded. The heavy volume coincided with upward share price momentum. During the same time period (January 3, 2007 and April 25, 2007), SLP share price was as low as $5.05 and as high as $16.48. We believe price consolidation is likely over the next quarter or so.

On April 10, 2007, the Company announced that second quarter fiscal 2007 net sales increased by 71% to $2.534 million versus $1.482 million in the same period last year. Net income increased to $0.668 million or $0.07 per diluted share versus $0.248 million or $0.03 per diluted share in the second quarter of fiscal 2006.

Based on results for the first half of fiscal 2007, we are adjusting our net sales and net income forecasts to $8.505 million and $1.844 million or $0.21 per diluted share, respectively. Our prior forecasts called for net sales and net income of $7.846 million and $1.571 million or $0.18 per diluted share, respectively.

We are adjusting our estimates for fiscal 2008. Given current licensing trends, renewals, and potential for new customers, our revised net sales and net income forecasts are $10.545 million and $2.750 million or $0.30 per diluted share. Our prior forecasts called for net sales and net income of $9.695 million and $2.405 million or $0.28 per diluted share.

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

The Company

Simulations Plus, Inc. (AMEX: SLP), founded in 1996, went public during June of 1997 through a $5.0 million initial public offering. The Company, which has 36 employees (34 full-time and 2 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 discovery chemistry, 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 compounds 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 (sum) ensemble models from their own data;
    - **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 improve productivity with software that thinks like a medicinal chemist;
    - **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.

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

Recent Developments

On January 31, 2007, the Company announced it released extensions to ADMET Predictor™ to enhance anti-HIV activity discovery capabilities. The new models predict the ability of potential new drug molecules to interfere with the replication of the human immunodeficiency virus Type 1 (HIV-1) by interfering with an essential enzyme know as HIV integrase.

On February 12, 2007, Simulations Plus announced that a top five pharmaceutical company signed a five-year extension to a master services agreement. This is a contract extension that adds to an agreement signed two years ago. Management stated that while the revenues from this agreement are expected to be modest in comparison to software sales this client, it shows the demand for SLP's expertise in training for users of its software and consulting services.

On April 3, 2007, the Company announced that it unveiled at the American Chemical Society National meeting, a powerful new molecular design capability to ClassPharmer™. Management stated that this new design capability for generating new molecular structures for early discovery should provide significant improvement to the daunting task of finding good, new, drug-like molecules. The Company's CEO believes this is an exciting new capability that SLP was working on for a few months and that it will enhance the value of both ClassPharmer™ and ADMET Predictor™ in early drug discovery.

Financial Results ***(All per share figures reflect the 2-1 stock split effective August 14, 2006)***

For the three-month period ended February 28, 2007, versus the three-months ended February 28, 2006:

- Net sales increased to $2.534 million versus $1.482 million. Taglich Brothers' estimate called for net sales of $1.875 million;
- Gross margins increased to 78.01% versus 73.88%;
- SG&A expenses increased to $0.936 million versus $0.688 million. However, as a percentage of net sales SG&A expenses declined to 36.94% versus 46.41%;
- Research and development expenses increased to $0.216 million versus $0.120 million. Investors should note that the Company capitalized R&D costs in the amount of $0.132 million versus $0.103 million in the same period last year;
- Operating income improved to $0.856 million versus $0.300 million; and
- Net income of $0.668 million or $0.07 per diluted share versus net income of $0.248 million or $0.03 per diluted share. Taglich Brothers' estimate called for net income of $0.395 million or $0.05 per diluted share.

Management attributed the 71.0% growth in year-over-year net sales to a 104.6% (or $0.924 million) increase from pharmaceutical and educational software. The growth was primarily attributable to 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 services.

Also contributing to growth in net sales was an increase of 21.4% (or $0.128 million) from the Company's Words+ subsidiary. The increase was primarily due to higher sales of Say-it-SAM!, TuffTalker, and Freedom products, which offset lower software sales and MessageMates products.

Investors should be aware that the Company's sales cycle for its pharmaceutical software products tends to average about six months. The long sales cycle is because customers frequently need to obtain approvals from multiple decision makers prior to the purchase order being placed. Also, of note, the multi-year licenses that were sold during the quarter were only unlocked (allowed to be used) for the first year of the term with the second year of the license being placed in deferred revenue until it is unlocked at the same time next fiscal year.

Gross margins increased by 413 basis points primarily due to the growth in sales of its higher margin pharmaceutical and educational software, which outweighed a decrease in profit margin on Words+ products. Gross margin for pharmaceutical and educational software was 87.8% compared to 53.6% for Words+.

The overall $0.248 million increase in SG&A expenses versus the same period last year was the result of investor relations, accrued bonus to officers, and salaries and payroll-related expenses (i.e., health insurance, 401K, and payroll taxes), which outweighed decreases in professional fees. Investors should note that as a percentage of net sales, SG&A expenses for the current period declined to 36.94% versus 46.41% in the same period last year.

For the second quarter of fiscal 2007, the Company experienced a $0.096 million increase in research and development spending. The increase was primarily attributable to staff additions in the Life Sciences department.

Balance Sheet Snapshot as of February 28, 2007

The Company had cash of $3.219 million versus $1.685 million as of its fiscal year ended August 31, 2006. Working capital was $4.340 million versus $3.050 million as of August 31, 2006. Total assets, which stood at $7.653 million, are primarily comprised of cash, inventory, accounts receivable (that totaled $1.432 million) and a deferred tax asset of $0.701 million.

Also, the Company had total liabilities of $1.047 million, retained earnings of $1.132 million, and total shareholders' equity of $6.607 million. At the end of fiscal 2006, the Company had total liabilities of $0.845 million with an accumulated deficit of $0.390 million, and total shareholders' equity of $5.669 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™) need 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 should 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. In addition, Management has publicly stated that it will add to its scientific staff. According to the Company's 10-K filing, it increased the number of Ph.D.'s on its staff by four (nine at the end of fiscal 2006 versus five at the end of fiscal 2005). We believe at least one additional Ph.D. has been hired during the first three months of calendar 2007. 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:

- The Company's customer base, which continues to grow, should build the base for future license renewals;
- Since fiscal 2006, the Company started 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;
- Year-over-year revenue in fiscal 2007 is expected to increase by at least $2.0 million, due to growth in the Company's customer base. During the second quarter earnings press release, the Company's CEO stated that half way through fiscal 2007, revenues are already are about $1.7 million ahead of last year. However, Management has decided not to update guidance until the end of the third quarter of fiscal 2007;
- During December 2006, the Company announced:
  - F. Hoffmann-LaRoche renewed and expanded its global licenses of GastroPlus™ for two additional years. Based on SEC filings, the prior global licenses from this customer was approximately $1.5 million (over a three year term) or approximately $0.500 million per year;
  - Received a purchase order from a top five pharmaceutical company for expanded global licenses. According to Management, this is a renewal of a global license that slipped from the first quarter of fiscal 2006 to the second quarter of fiscal 2006. Based on SEC flings, the prior revenue from this global license was approximately $0.300 million;
- On January 9, 2007, the Company received a purchase order from the U.S. Food and Drug Administration to license its GastroPlus™ simulation software;
- On February 12, 2007, a top 5 pharmaceutical company signed a five-year extension to a master services agreement. This is a contract extension that adds to an agreement signed two years ago;
- 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 so far in 2007, the Company had undertaken 2, 3, and 5 contract studies, respectively;

- They are seeking accretive acquisitions to enhance and expand the product portfolio; and
- A second $0.100 million six-month Phase I Small Business Innovation Research proposal to the National Institutes of Health was submitted, and was told that the outstanding review received on the first proposal submitted in December 2006 means it is very likely to be funded in June 2007.

We believe that the Words+ subsidiary will be slightly profitable in fiscal 2007. Aiding Management's efforts in this subsidiary is expansion of platforms for SAM™ software and internationalization of the software into the French and German markets. 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.

Projections

Based on results for the first half of fiscal 2007 and current licensing trends and renewals, we are adjusting our net sales forecast for fiscal 2007 to $8.505 million versus our prior estimate of $7.846 million. Our estimate incorporates the continued renewal of software licenses (i.e., F. Hoffmann-LaRoche renewal) and expansion of existing customers through new product offerings, as well as enhancements to existing products, and the hiring of additional professionals in its Life Sciences department. We anticipate net sales growth for simulations software products in fiscal 2007 of approximately 78.3% to $5.680 million. Our net sales expectation for the Words+ subsidiary for fiscal 2007 is $2.825 million, which is approximately a 5.9% increase versus fiscal 2006.

We are adjusting our fiscal 2008 net sales forecast for net sales forecast to $10.545 million versus our prior estimate of $9.695 million. Our revised forecast would be a 24.0% increase versus our fiscal 2007 forecast. Our estimate is based on current licensing trends, renewals, and potential for new customers, as well as expansion of licenses with existing customers for additional sites and/or new products. We anticipate net sales growth for simulations software products in fiscal 2008 of approximately 33.3% to $7.572 million. Our net sales expectation for the Words+ subsidiary for fiscal 2007 is $2.973 million, which is approximately a 5.3% increase versus fiscal 2006.

The table on below illustrates the cost structure we anticipate for fiscal 2007 and 2008, versus actual results achieved in 2006.

Cost Structure

	2006A	2007E		2008E	
	Actual	**Prior**	**Revised**	**Prior**	**Revised**
Gross Margin	72.60%	74.88%	75.56%	75.71%	76.39%
SG&A expenses (as a Percent of Net Sales)	50.76%	41.00%	39.90%	37.08%	36.98%
Research and Development (as a Percent of Net Sales)	7.60%	9.03%	8.82%	7.63%	7.64%
Operating Margin	14.23%	24.85%	26.85%	30.99%	31.77%
Pre-tax Margin	15.18%	26.28%	28.31%	32.64%	33.28%

Source: Company filings and Taglich Brothers estimates

Based on our net sales and cost structure estimates, EBITDA should approach $2.797 million in fiscal 2007 and $3.380 million in fiscal 2008, versus EBITDA of $1.196 million in fiscal 2006. Our revised net income forecast for fiscal 2007 is $1.844 million or $0.21 per diluted share in fiscal 2007. Our prior forecast called for net income of $1.571 million or $0.18 per diluted share. Our net income forecast for fiscal 2008 is $2.750 million or $0.30 per diluted share versus our prior estimate of $2.405 million or $0.28 per diluted share. Our EPS forecasts are based on average fully diluted shares of 8.906 million and 9.055 million, respectively.

Our net income estimate for fiscal 2007 and 2008 assumes that the Company will pay or record taxes at 23.42% and 21.65%, respectively. In fiscal 2005 and 2006, the Company recorded tax rates of 24.66% and 23.96%. We estimate that the Company has federal net operating loss (NOL) carryforwards of approximately $2.0 million, which expire through 2024. Investors should be aware that the Company in future periods may reassess its deferred tax valuation, which could impact bottom line results. Since this involves the judgment of Management, we have not included any such changes to the deferred tax valuation in our estimates.

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 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 36.0% and 34.0% of net sales for the first six months of fiscal 2007 and 2006, respectively. For simulation software sales, two customers accounted for 22.0% of net sales for the first six months of fiscal 2007, and five customers represented approximately 80.0% of the net accounts receivable. For the Words+ subsidiary, one government agency accounted for 28.0% of net sales during the first six months of fiscal 2007, and one customer represented approximately 37.0% 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

Walter Woltosz, the Company's Co-founder, Chairman of the Board, President, CEO, and Virginia Woltosz, the Company's Co-founder, Corporate Secretary, and Treasurer owns, approximately 48.55% (as of April 23, 2006) 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. Of the approximately 3.960 million shares owned by the Woltosz's, a sale of 204,200 shares occurred between April 12th and 24th 2007 for prices between $15.64 and $12.24 per share.

Accounting Pronouncements

In December 2004, the FASB issued Statement of Accounting Standard No. 123R, Share-Based Payment, a revision of SFAS No. 123, Accounting for Stock-Based Compensation. SFAS 123R requires all companies to measure compensation expense for all share-based payments (including employee stock options and options issued pursuant to employee stock purchase plans) based upon the fair value of the stock-based awards at the date of grant, and is effective for the Company for fiscal year beginning September 1, 2006. As a result of adopting SFAS No. 123R on September 1, 2006, SLP's stock-based compensation was $0.010 million for the six months ended February 28, 2007.

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 simulations, which began in the first quarter of fiscal 1999, are not expected to show significant seasonal behavior, even though a significant portion of the pharmaceutical industry has extended summer holidays. However, since the Company is likely to generate revenue through large multi-year licenses for its pharmaceutical software, sales are likely to show quarterly spikes.

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. Approximately 17.0% of the Company's products for the disabled are funded by Medicare or Medicaid programs. However, 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. Management believes the documentation from the purchase of certain secured assets of Bioreason clearly shows the rights to the disputed accounts. Although Management is pursuing the Company's rights aggressively, there can be no assurance that the outcome will be favorable. According to SEC filings, Management expects resolution of this issue in calendar 2007.

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 second quarter of fiscal 2007, the Company experienced a 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.

Federal Reserve

Investors should be aware that if the Federal Reserve were to resume increasing interest rates (during their August, September, October, and December 2006 meetings, as well as January, February, and March 2007 meetings, the Federal Reserve Board of Governors did not increase the federal funds target rate by 25 basis points as it did in its previous seventeen meetings), it is likely to have a negative impact on valuation multiples.

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

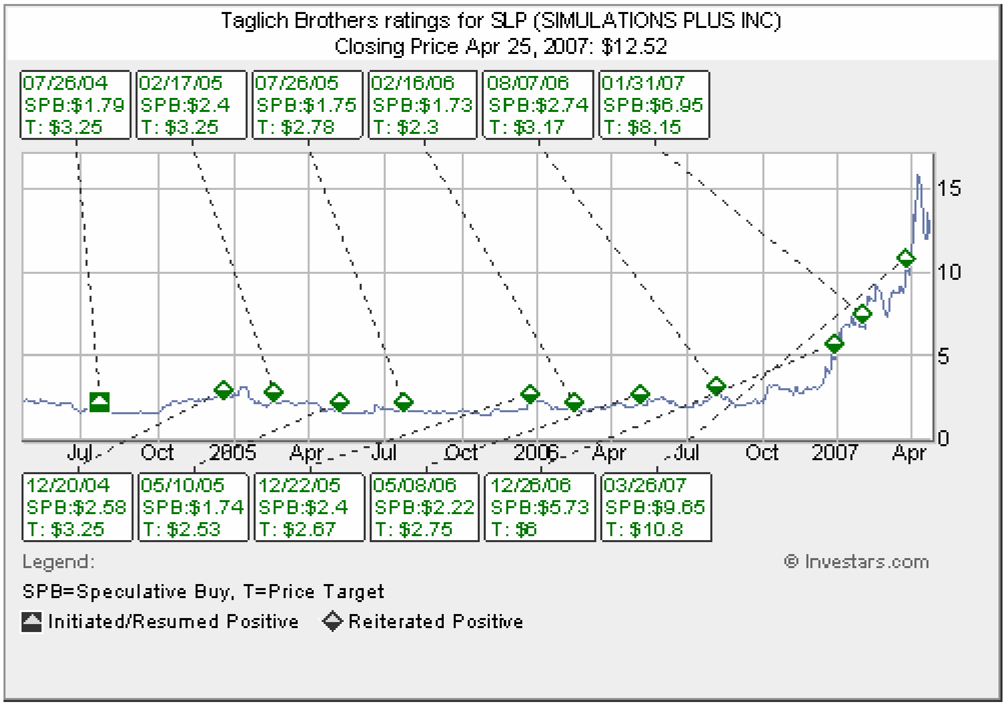
Liquidity is a potential concern. Based on our calculations, the average daily-volume during calendar 2004 increased to approximately 8,340 shares from 7,685 shares in calendar 2003. During calendar 2005 average daily-volume decreased to 4,424 shares a day. During calendar 2006, average daily-volume increased to 21,398 shares a day. During the first three months of 2007 average daily volume increased to 115,106 shares traded a day. Investors need to be aware that by nature a thinly traded equity can have significant price volatility.

Valuation

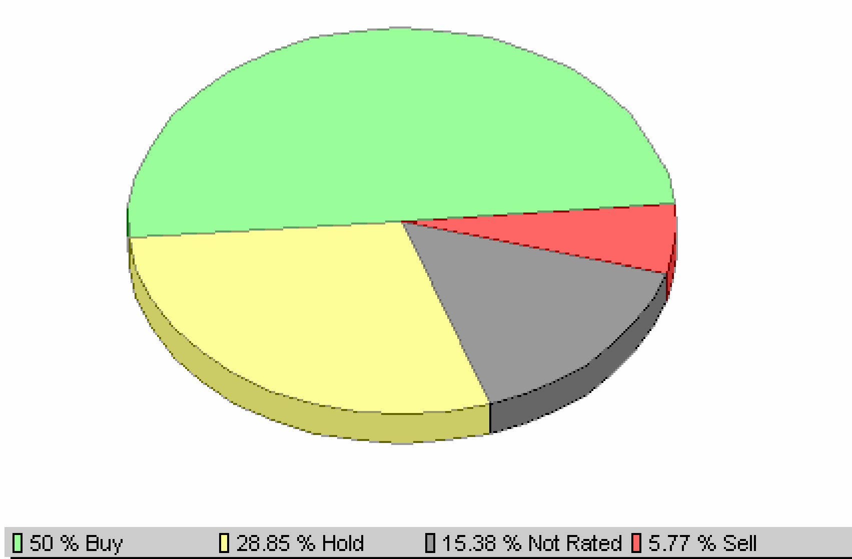
We are downgrading our rating from Speculative Buy to Neutral on Simulations Plus, Inc. (AMEX: SLP), pending updated Management guidance. This is expected to occur upon SLP's third quarter 2007 earnings release during early July 2007.

Between January 3, 2007 and April 25, 2007, in excess of three times the float or 11.170 million shares have traded. The heavy volume coincided with upward share price momentum. During the same time period (January 3, 2007 and April 25, 2007), SLP share price was as low as $5.05 and as high as $16.48. We believe price consolidation is likely over the next quarter or so.

At this point in time, we believe these shares are only suitable for investors that can withstand the risks associated with a growth company. A shortfall and/or a slowing in growth could cause SLP's expanded valuation multiples to contract, which would most likely result in a reduction in the share price.



Taglich Brothers Current Ratings Distribution



<u>Investment Banking Services for Companies Covered in the Past 12 Months</u>

Rating	#	%
Buy	1	3.45%
Hold	0	0%
Sell	0	0
Not Rated	0	0

Meaning of Ratings

Buy

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

Speculative Buy

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

Neutral

We will remain neutral pending certain developments.

Underperform

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

Sell

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

Some notable Risks within the Microcap Market

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

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

Public Companies mentioned in this report:

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

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 2004 Fiscal Year End	August 2005 Fiscal Year End	August 2006 Fiscal Year End	Nov. 2006 1st Qtr End	Feb. 2007 2nd Qtr End
ASSETS					
Current assets:					
Cash	$ 734	$ 1,754	$ 1,685	$ 2,103	$ 3,219
Accounts receivable, net	1,705	1,098	1,589	1,214	1,432
Contracts receivable, net	-	-	194	186	146
Inventory	359	281	237	234	274
Deferred tax	186	60	109	190	190
Prepaid expense and other current assets	116	81	81	57	66
Total current assets	**3,100**	**3,274**	**3,895**	**3,984**	**5,327**
Long term receivables, net of present value discount	-	-	-	-	-
Capitalized computer software development costs, net	576	937	1,374	1,400	1,417
Property and Equipment, net	66	87	96	102	105
Contracts receivable	-	-	37	47	-
Customer relationships	-	-	100	92	84
Deferred tax	1,210	1,252	991	890	701
Other assets	11	11	18	18	18
Total assets	**$ 4,964**	**$ 5,561**	**$ 6,513**	**$ 6,534**	**$ 7,653**
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Accounts payable	153	91	215	141	311
Accrued payroll and other expenses	219	399	364	374	425
Accrued bonuses to officers	78	39	99	10	106
Accrued income taxes	2	2	2	-	-
Accrued warranty and service costs	32	28	35	35	35
Current portion of deferred revenue	11	132	129	157	111
Other current liabilities	-	-	0	-	-
Current portion of capitalized lease obligations	-	-	-	-	-
Total current liabilities	**495**	**690**	**845**	**717**	**987**
Capital lease obligations, net of current portion	3	-	-	-	-
Deferred Revenue	20	9	-	63	60
Stockholders' equity:					
Common stock, no par value; authorized 20,000,000 shares;	4	4	4	4	4
Additional paid-in capital	4,990	5,144	5,274	5,287	5,471
Accumulated deficit	(548)	(285)	390	464	1,132
Total stockholders' equity	**4,446**	**4,862**	**5,669**	**5,755**	**6,607**
Total liabilities and stockholders' equity	**$ 4,964**	**$ 5,561**	**$ 6,513**	**$ 6,534**	**$ 7,653**
SHARES OUT	7,129	7,298	7,441	7,449	7,612

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

	FY2004A	FY2005A	FY2006A	**FY2007E**	**FY2008E**
Net sales	5,207	4,753	5,855	**8,505**	**10,545**
Cost of sales	1,557	1,508	1,605	**2,078**	**2,490**
Gross Profit	3,650	3,244	4,250	**6,427**	**8,055**
Gross Margins	70.09%	68.27%	72.60%	**75.56%**	**76.39%**
Operating Expenses:					
Selling, general, and administrative	2,508	2,424	2,972	**3,393**	**3,900**
Research and development	515	525	445	**750**	**805**
Total Operating Expenses	3,023	2,948	3,417	**4,143**	**4,705**
EBITDA	850	503	1,196	**2,797**	**3,830**
Operating Income (loss)	626	296	833	**2,284**	**3,350**
Operating Margin	12.03%	6.23%	14.23%	**26.85%**	**31.77%**
Other income (expense)					
Interest income	73	43	21	**114**	**160**
Interest expense	(1)	(1)	(0)	**-**	**-**
Gain (Loss) on exhange of currency	-	(7)	23	**7**	**-**
Loss on sale of assets	-	15	11	**3**	**-**
Total Other Income (expense)	72	52	56	**124**	**160**
Pre-Tax Income (loss)	699	348	889	**2,408**	**3,510**
Pre-Tax Margins	13.42%	7.32%	15.18%	**28.31%**	**33.28%**
Income Tax Expense (Benefit)	(138)	86	213	**564**	**760**
Release of valuation allowance	-	-	-	**-**	**-**
Tax Rate	-19.73%	24.66%	23.96%	**23.42%**	**21.65%**
Net income (loss)	$ 836	$ 262	$ 676	**$ 1,844**	**$ 2,750**
Earnings per share -- Diluted	$ 0.11	$ 0.03	$ 0.08	**$ 0.21**	**$ 0.30**
Avg Shares Outstanding	7,790	7,961	8,144	**8,906**	**9,055**
Percent of Revenue					
Selling, general, and administrative	48.17%	51.00%	50.76%	39.90%	36.98%
Research and development	9.89%	11.04%	7.60%	8.82%	7.64%
YEAR / YEAR GROWTH					
Total Revenues	-5.07%	-8.72%	23.19%	45.26%	23.99%
Earnings per share	-67.95%	-69.33%	152.01%	149.50%	46.68%

Simulations Plus, Inc.
Income Statement Model
For the Year Ended August 31, 2005
(in thousands)

	Q1(11/04)A	Q2 (02/05)A	Q3 (05/05)A	Q4 (08/05)A	**FY2005A**
Net sales	1,066	1,032	1,424	1,230	**4,753**
Cost of sales	322	371	428	387	**1,508**
Gross Profit	744	661	996	843	**3,244**
Gross Margins	*69.80%*	*64.06%*	*69.93%*	*68.54%*	**68.27%**
Operating Expenses:					
Selling, general, and administrative	632	535	645	612	**2,424**
Research and development	114	131	134	146	**525**
Total Operating Expenses	746	667	779	757	**2,948**
EBITDA	41	51	272	139	**503**
Operating Income (loss)	(1)	(6)	218	86	**296**
Operating Margin	*-0.12%*	*-0.55%*	*15.28%*	*6.96%*	**6.23%**
Other income (expense)					
Interest income	17	15	7	5	**43**
Interest expense	(0)	-	(0)	(0)	**(1)**
Gain (Loss) on exhange of currency	2	-	(5)	(4)	**(7)**
Loss on sale of assets	5	-	3	7	**15**
Total Other Income (expense)	24	15	6	8	**52**
Pre-Tax Income (loss)	23	9	223	93	**348**
Pre-Tax Margins	*2.11%*	*0.86%*	*15.67%*	*7.59%*	**7.32%**
Income Tax Expense (Benefit)	-	-	50	36	**86**
Release of valuation allowance	-	-	-	-	**-**
Tax Rate	*0.00%*	*0.00%*	*22.40%*	*38.35%*	**24.66%**
Net income (loss)	$ 23	$ 9	$ 173	$ 58	**$ 262**
Earnings per share -- Diluted	$ 0.00	$ 0.00	$ 0.02	$ 0.01	$ 0.03
Avg Shares Outstanding	8,287	8,230	7,916	7,411	**7,961**
Percent of Revenue					
Selling, general, and administrative	59.26%	51.90%	45.25%	49.74%	51.00%
Research and development	10.66%	12.72%	9.41%	11.84%	11.04%
YEAR / YEAR GROWTH					
Total Revenues	-6.35%	-24.62%	15.51%	-16.10%	-8.72%

Simulations Plus, Inc.
Income Statement Model
For the Year Ended August 31, 2006
(in thousands)

	Q1(11/05)A	Q2 (02/06)A	Q3 (05/06)A	Q4 (08/06)A	**FY2006A**
Net sales	819	1,482	1,788	1,766	**5,855**
Cost of sales	332	387	433	452	**1,605**
Gross Profit	487	1,095	1,355	1,314	**4,250**
Gross Margins	*59.50%*	*73.88%*	*75.76%*	*74.39%*	**72.60%**
Operating Expenses:					
Selling, general, and administrative	629	688	796	860	**2,972**
Research and development	97	120	119	110	**445**
Total Operating Expenses	726	807	914	970	**3,417**
EBITDA	(181)	380	544	452	**1,196**
Operating Income (loss)	(239)	287	441	344	**833**
Operating Margin	*-29.16%*	*19.39%*	*24.64%*	*19.48%*	**14.23%**
Other income (expense)					
Interest income	3	6	4	8	**21**
Gain (Loss) on exhange of currency	(5)	4	10	14	**23**
Loss on sale of assets	0	3	5	3	**11**
Total Other Income (expense)	(2)	13	19	26	**56**
Pre-Tax Income (loss)	(241)	300	460	370	**889**
Pre-Tax Margins	*-29.38%*	*20.24%*	*25.71%*	*20.93%*	**15.18%**
Income Tax Expense (Benefit)	(42)	52	74	130	**213**
Release of valuation allowance	-	-	-	-	**-**
Tax Rate	*17.46%*	*17.17%*	*16.00%*	*35.13%*	**23.96%**
Net income (loss)	$ (199)	$ 248	$ 386	$ 240	**$ 676**
Earnings per share -- Diluted	$ (0.03)	$ 0.03	$ 0.05	$ 0.03	$ 0.08
Avg Shares Outstanding	7,299	8,180	8,226	8,200	**8,144**
Percent of Revenue					
Selling, general, and administrative	76.79%	46.41%	44.48%	48.70%	50.76%
Research and development	11.87%	8.08%	6.64%	6.80%	7.60%
YEAR / YEAR GROWTH					
Total Revenues	-23.22%	43.62%	25.54%	43.58%	23.19%

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)E	Q4 (08/07)E	**FY2007E**
Net sales	1,456	2,534	2,285	2,230	**8,505**
Cost of sales	441	557	530	550	**2,078**
Gross Profit	1,015	1,977	1,755	1,680	**6,427**
Gross Margins	*69.69%*	*78.01%*	*76.80%*	*75.35%*	**75.56%**
Operating Expenses:					
Selling, general, and administrative	757	936	825	875	**3,393**
Research and development	184	216	175	175	**750**
Total Operating Expenses	940	1,153	1,000	1,050	**4,143**
EBITDA	194	979	875	750	**2,797**
Operating Income (loss)	75	824	755	630	**2,284**
Operating Margin	*5.12%*	*32.53%*	*33.03%*	*28.26%*	**26.85%**
Other income (expense)					
Interest income	16	25	35	38	**114**
Gain (Loss) on exhange of currency	3	4	-	-	**7**
Loss on sale of assets	0	3	-	-	**3**
Total Other Income (expense)	19	32	35	38	**124**
Pre-Tax Income (loss)	94	856	790	668	**2,408**
Pre-Tax Margins	*6.44%*	*33.79%*	*34.56%*	*29.96%*	**28.31%**
Income Tax Expense (Benefit)	21	188	185	170	**564**
Release of valuation allowance	-	-	-	-	-
Tax Rate	*22.00%*	*22.00%*	*23.43%*	*25.44%*	**23.42%**
Net income (loss)	$ 73	$ 668	$ 605	$ 498	**$ 1,844**
Earnings per share -- Diluted	$ 0.01	$ 0.07	$ 0.07	$ 0.06	$ 0.21
Avg Shares Outstanding	8,549	9,015	9,025	9,035	**8,906**
Percent of Revenue					
Selling, general, and administrative	51.96%	36.94%	36.12%	39.24%	39.90%
Research and development	12.61%	8.54%	7.66%	7.85%	8.82%
YEAR / YEAR GROWTH					
Total Revenues	77.87%	71.00%	27.78%	26.26%	45.26%
Earnings per share	NMF	143.92%	42.72%	88.60%	149.50%

Simulations Plus, Inc.
Income Statement Model
For the Year Ended August 31, 2008
(in thousands)

	Q1(11/07)E	Q2 (02/08)E	Q3 (05/08)E	Q4 (08/08)E	**FY2008E**
Net sales	1,780	3,170	2,820	2,775	**10,545**
Cost of sales	505	680	645	660	**2,490**
Gross Profit	1,275	2,490	2,175	2,115	**8,055**
Gross Margins	*71.63%*	*78.55%*	*77.13%*	*76.21%*	**76.39%**
Operating Expenses:					
Selling, general, and administrative	800	1,140	985	975	**3,900**
Research and development	185	250	185	185	**805**
Total Operating Expenses	985	1,390	1,170	1,160	**4,705**
EBITDA	410	1,220	1,125	1,075	**3,830**
Operating Income (loss)	290	1,100	1,005	955	**3,350**
Operating Margin	*16.28%*	*34.70%*	*35.63%*	*34.42%*	**31.77%**
Other income (expense)					
Interest income	40	40	40	40	**160**
Total Other Income (expense)	40	40	40	40	**160**
Pre-Tax Income (loss)	330	1,140	1,045	995	**3,510**
Pre-Tax Margins	*18.53%*	*35.96%*	*37.05%*	*35.86%*	**33.28%**
Income Tax Expense (Benefit)	90	190	250	230	**760**
Release of valuation allowance	-	-	-	-	**-**
Tax Rate	*27.29%*	*16.66%*	*23.93%*	*23.11%*	**21.65%**
Net income (loss)	$ 240	$ 950	$ 795	$ 765	**$ 2,750**
Earnings per share -- Diluted	$ 0.03	$ 0.10	$ 0.09	$ 0.08	$ 0.30
Avg Shares Outstanding	9,040	9,050	9,060	9,070	**9,055**
Percent of Revenue					
Selling, general, and administrative	44.95%	35.95%	34.95%	35.12%	36.98%
Research and development	10.40%	7.90%	6.55%	6.67%	7.64%
YEAR / YEAR GROWTH					
Total Revenues	22.21%	25.12%	23.41%	24.45%	23.99%
Earnings per share	209.69%	41.71%	30.94%	53.02%	46.68%

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

	FY2004A	FY2005A	FY2006A	6 Mos 2007A
Cash Flows from Operating Activities				
Net Income (loss)	$ 836	$ 262	$ 676	$ 741
Depreciation and amortization of property and equipment	43	43	48	24
Amortization of capitalized software development	181	164	287	223
Amortization of customer relationships	-	-	28	17
Bad debt expense	-	-	-	48
Stock-based compensation	-	-	-	10
Contribution of equipment at book value	-	-	-	1
Loss on sale of assets	-	(15)	(11)	(3)
	1,060	454	1,028	1,060
Changes In:				
Accounts receivable	(12)	608	(275)	195
Inventory	(152)	77	44	(37)
Deferred tax	(105)	84	211	209
Other assets	(50)	35	(8)	15
Accounts payable	(22)	(62)	124	95
Accrued payroll and other expenses	(20)	177	(34)	60
Accrued bonuses to officers	(56)	(39)	60	7
Income taxes	(41)	-	-	(2)
Accrued warranty and service costs	(12)	(5)	7	0
Deferred revenue	(15)	110	(12)	41
Net Changes in Working Capital	(485)	985	119	583
Net cash Provided by Operations	575	1,438	1,148	1,643
Cash Flows from Investing Activities				
Purchase of property and equipment	(44)	(71)	(62)	(35)
Purchases of Bioreason's assets	-	-	(826)	-
Capitalized computer software development costs	(221)	(475)	(480)	(266)
Proceeds from sale of assets	-	23	21	4
Cash Flows from Investing Activities	(265)	(522)	(1,347)	(296)
Cash Flows from Financing Activities				
Payments on capitalized lease obligations	(4)	-	-	-
Proceeds from the exercise of stock options	168	104	131	187
Net cash provided by Financing	164	104	131	187
Net change in Cash	474	1,020	(69)	1,534