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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

May 12, 2008

SLP $1.66 — (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	***$9.80***	***$11.20***
Earnings per share	$0.04	$0.08	***$0.14***	***$0.17***

52-Week range	$8.63 – $1.50	Fiscal year ends:	August
Shares outstanding a/o 04/10/08	16.23 million	Revenue/shares (ttm)	$0.49
Approximate float	8.14 million	Price/Sales (ttm)	3.4X
Market Capitalization	$27 million	Price/Sales (2009)E	2.7X
Tangible Book value/shr	$0.55	Price/Earnings (ttm)	20.8X
Price/Book	3.0X	Price/Earnings (2009)E	9.8X

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

Key Investment Considerations:

We are reiterating our Speculative Buy rating on shares of Simulations Plus, Inc. (AMEX: SLP), as we are forecasting positive year-over-year growth trends. However, we have contracted those positive trends and believe that contraction was also a contributing factor to the most recent decline in shares of SLP (see chart on page 11). We are lowering our twelve-month price target to $2.95 per share versus our prior target of $5.00 per share (primarily due to our reduced growth outlook).

On April 9, 2008, SLP announced it received a purchase order from the FDA to renew one of the licenses for its GastroPlus™ simulation software and to add the newly introduced ADMET Predictor™ Module for GastroPlus™.

On April 15, 2008, SLP announced net sales for Q2'08 decreased by 14% to $2.18 million versus $2.53 million in Q2'07, due to a large order that shifted to the first quarter of 2008. For the first six months of 2008, net sales increased by 4.3% to $4.16 million from $3.99 million. Net income was $0.565 million or $0.03 per diluted share versus $0.668 million or $0.04 per diluted share in the same period last year. For the six months, net income was $0.808 million versus $0.741 million (both periods reporting EPS of $0.04 per diluted share).

We are adjusting our estimates for fiscal 2008, given Management's public guidance. Our revised net sales and net income forecasts are $9.798 million (prior was $11.819) and $2.500 million or $0.14 per diluted share (prior was $2.303 million or $0.12 per dilute share. Also, we are adjusting our fiscal 2009 forecast, which calls for net sales of $11.200 million (prior was $15.335 million) and net income of $3.210 million or $0.17 per diluted share (prior was $3.235 million or $0.17 per diluted share). The increase in our net income estimates is primarily due to a reduction in the Company's tax rate (see recent financials section for details).

**** 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. 10 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. During March 2008, Version 2.4 was released, which incorporates the new Enslein Metabolism Module for the prediction of kinetic rate constants for metabolism via hydroxylation (the most common form of metabolism). This new version also allows smaller companies to license separate modules when all the capabilities of the program are not required;

    - **ClassPharmer™** - enhances the hits-to-lead-to-clinic process which aids in finding drug leads with novel and unpatented structural motifs, reduces screening costs with more efficient follow-up screening strategies, and improves productivity with software that thinks like a medicinal chemist. On October 17, 2007, the Company released Version 4.4. The upgrade includes features requested by users, as well as extensions to the molecule design capability. Investors should be aware that Version 4.5 is in final beta testing and documentation. The new version adds the detection of Activity Cliffs (i.e., small changes in molecular structure that produces large changes in activity or some other property);

    - **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 included the ability to call ADMET Predictor software directly from within GastroPlus. Additionally, the upgrade included 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 (PBPK).

- 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 March 18, 2008, the Company announced it released a major upgrade (Version 2.4) to its ADMET Predictor™ software for predicting properties of molecules from only their structures. The team leader for this offering stated that this upgraded version includes the Enslein Metabolism Module™ that SLP has been working on for almost a year with Kurt Enslein of Enslein Research, Inc., in Rochester, NY. This module predicts parameters that allow estimating the rate of the most common type of metabolism for drugs, known as hydroxylation. The Company's CEO stated this module provides a unique new capability, which has the potential for major cost savings to the pharmaceutical industry. According to the press release, the cost to measure kinetic (rate) parameters for a single compound in a single enzyme can be in the thousands of dollars. With the Enslein Metabolism Module, scientists can obtain reasonable ballpark estimates for metabolic rate for five different enzymes. According to Management hundreds of thousands of compounds can be processed per hour.

On April 3, 2008, the Company announced that a top three pharmaceutical company named its GastroPlus™ software an "application of choice". The client also issued a purchase order for additional software licenses at several of its research sites, which expands the number of users in their existing global multi-year software license agreement that began in December 2007. The Company's Vice President of Marketing and Sales stated that this is a clear indication of the acceptance of SLP's software at the highest scientific and business levels at this specific top tier company. The achievement of being a designated vendor with this company means SLP's software is more widely available to research scientists at the organization, and streamlines purchasing procedures whenever they obtain products or services from SLP.

On April 9, 2008, SLP announced it received a purchase order from the FDA to renew one of the licenses for its GastroPlus™ simulation software and to add the newly introduced ADMET Predictor™ Module for GastroPlus™. According to SLP's CEO, the Company enjoys an excellent relationship with FDA-scientists in labs across the country; therefore, Management has the ability to provide tools that help the agency in its work of evaluating and approving new medicines.

On April 17, 2008, the Company announced GlaxoSmithKline renewed its global multi-year license for Simulations Plus software and added a new site at its Parsippany, NJ location.

Financial Results

For the three-month period ended February 29, 2008, versus the three-months ended February 28, 2007:

- Net sales decreased to $2.181 million versus $2.534 million. Taglich Brothers' estimate called for net sales of $3.145 million;
- Gross margins increased to 79.10% versus 78.01%;
- SG&A expenses decreased to $0.832 million versus $0.936 million. As a percentage of net sales SG&A expenses increased to 38.19% versus 36.94%;
- Research and development expenses increased to $0.252 million versus $0.216 million. Investors should note that the Company capitalized R&D costs in the amount of $0.215 million versus $0.132 million in the same period last year;
- Operating income declined by 18% to $0.702 million versus $0.856 million; and
- Net income was $0.565 million or $0.03 per diluted share versus net income of $0.668 million or $0.04 per diluted share. Taglich Brothers' estimate called for net income of $0.610 million or $0.03 per diluted share.

Management attributed the 13.9% decline in year-over-year net sales to an approximately 14.3% (or $0.258 million) decrease from pharmaceutical software and services. The reduction 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). If this order had been received in the same fiscal quarter, revenues would have experienced an increase from the same period last year. According to Management, in spite of the shift of the order into the first quarter, new pharmaceutical software sales in the second quarter made up for a major portion of the difference.

Also contributing to the decline in sales was a decrease of 13.2% (or $0.096 million) from the Company's Words+ subsidiary. The decrease was primarily due to lower sales of the Company's TuffTalker and Freedom products with EZKeys software (which are based on MS-Windows XP). According to the Company's second quarter 10-Q filing, recently, two major manufacturers introduced XP-based software in the market, resulting in stiff competition for the Words+ portfolio of Windows XP based products. Investors should note that the Company stated that revenues from its Say-it! SAM speech output device increased significantly (however, the increase could not offset the decrease in revenue from other products in the subsidiary).

We believe it is important to add some perspective to top line results, since as previously mentioned an order shift did occur between the second and first quarters of fiscal 2008. On a six month basis, top line results did increase by approximately 3.4% to $4.163 million from $3.990 million for the first six months of fiscal 2007.

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 109 basis points primarily due to a reduction in royalty expenses for pharmaceutical and educational software. Also, contributing to the improvement was a positive sales shift mix for the Company's Words+ subsidiary.

The overall $0.104 million decrease in SG&A expenses versus the second quarter of fiscal 2007 was the result of lower costs related to travel, accrued bonus to the CEO, bad debts, professional fees, and expenses at its Words+ subsidiary. Mitigating the decrease were increases in commissions, investor relations, hiring expense, salaries, and payroll-related expenses (i.e., health insurance, 401K and payroll taxes). Investors should note that as a percentage of net sales, SG&A expenses for the period increased to 38.19% versus 36.94% in the second quarter of fiscal 2007.

The Company experienced a $0.036 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 decreased to $0.137 million from $0.188 million in the same period last year. The reduction was primarily due to a change in the Company's estimated provision for income tax. SLP hired a new firm to review and prepare its income tax provision, as well as a tax credit specialist to investigate the Company's eligibility for various tax credits. **According to the second quarter 10-Q filing, although the research is not yet finalized, Management believes that the Company will be eligible for various tax credits and have reflected this eligibility in the estimated provision for income taxes. During the second quarter earnings conference call, Management expressed their belief that the income tax provision going forward should approximate 22%.**

Balance Sheet Snapshot as of February 29, 2008

The Company had cash of $5.507 million versus $4.538 million as of its fiscal year ended August 31, 2007. Working capital was $7.117 million versus $6.187 million as of August 31, 2007. Total assets, which stood at $9.994 million, were primarily comprised of cash, inventory, accounts receivable (that totaled $1.964 million) and a deferred tax asset of $0.160 million. As of August 31, 2007, total assets stood at $8.895 million.

Also, the Company had total liabilities of $1.095 million, retained earnings of $2.665 million, and total shareholders' equity of $8.900 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 (and we concur) that existing capital and anticipated funds from operations will be sufficient to meet cash needs for working capital and capital expenditures for the foreseeable future.

Outlook

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

This is most likely to be accomplished through continued exposure at large conferences around the world and an increase in the Company's sales personnel. According to the Company's SEC filings, members of its staff have been speakers or presenters at over 40 prestigious scientific meeting worldwide over the past three years. The following are examples:

- 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.
- During November 2007, the Company attended the American Association of Pharmaceutical Scientists annual meeting.
- During the Company's second quarter fiscal 2008 earnings conference call, Management indicated that during the spring of 2008 there are a number of conferences that SLP will be attending. Also, the CEO will be heading to China for the first time to present the Company's offerings at a conference.

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 ten, 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 exposed to Simulations Plus product offerings. This has lead to increased activity related to its ADMET Partners global licensing program for large pharmaceutical companies.
Management has publicly stated that:

- 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. During April 2008, the Company announced it received a renewal order from the FDA for one of its GastroPlus simulation software licenses, as well as an order for the newly introduced ADMET Predictor Module for GastroPlus;

- On December 11, 2007, 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. During April 2008, the Company announced that this customer named GastroPlus an application of choice, which means SLP's software is more widely available to research scientists at the organization, and streamlines purchasing procedures;

- Demand for consulting services continues to increase due to a shortage of personnel with expertise in simulation and modeling within pharmaceutical and biotechnology companies. On recent earnings conference calls, Management publicly stated that the Company is usually working on at least two or three consulting contracts at any given point in time. 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. Also, Management indicated that generic drug companies are increasing their usage of the Company's consulting services;

- 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 recent 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 (however, one potential European negotiation was discontinued) overall, it is taking much longer than anticipated to conclude an accretive deal. 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 had 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. During April 2008, the Company received notice that its proposal was returned unscored, with one reviewer providing a favorable review and another providing an unfavorable review. The unfavorable review included several statements that Management believes were incorrect and can be easily disproved; therefore, the proposal will be resubmitted at the next submittal date during August 2008.

We believe that Management is taking steps to grow the Words+ subsidiary in future periods. 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. According to Management's public statements on the Company's earnings conference calls, sales of this product are going very well; however, it was not able to offset slowing sales of XP based systems. While Management suggested on the earnings conference call that the decline in XP products sales may be due to competition in the marketplace; it is also investigating other potential factors (i.e., insurance delays). Also, during the quarter, the Company hired a full-time National Sales Manager in order to improve marketing and sales activities and dealer relationships.

On April 15, 2008 and during the Company's second quarter fiscal 2008 earnings conference call, Management offered revised public guidance for top line expectations. The Company should generate at least an additional $1.0 million in net sales versus fiscal 2007 results (prior was $3.0 million), which means fiscal 2008 net sales should be at least $9.8 million.

Projections

We are adjusting our fiscal 2008 forecasts based on first half results and Management's public guidance (which is supported by licensing trends and renewals, and growth of contract consulting services). Our net sales forecast calls for sales to $9.798 million versus our prior estimate of $11.819 million. Our reduced expectation for fiscal 2008 incorporates Management public comments and a year-over-year decline in the Company's Words+ subsidiary.

Our revised forecast (which does not include the potential for accretive acquisitions) would be a 10.62% increase versus fiscal 2007 results. We anticipate net sales growth for simulations software products in fiscal 2008 of approximately 19.5% $6.879 million. Our net sales expectation for the Words+ subsidiary for fiscal 2008 is $2.919 million, which is approximately a 5.9% decrease versus fiscal 2007. Our expectations incorporate new offerings and Management's public comments.

Based on our updated forecast for fiscal 2008 and absent any acquisitions, we are reducing our net sales forecast for fiscal 2009. Our forecast calls for growth of 14.30% to $11.200 million (prior was $15.335 million) versus our fiscal 2008 estimate (and still includes the potential for new customers, growth of contract consulting services, as well as expanded product offerings). We anticipate net sales growth for simulations software products in fiscal 2009 of approximately 20.0% to $8.252 million. Our net sales expectation for the Words+ subsidiary for fiscal 2009 is $2.948 million, which is approximately a 1.0% 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**	**Prior**	**Revised**
Gross Margin	76.49%	77.40%	78.45%	77.70%	78.62%
SG&A expenses (as a Percent of Net Sales)	39.04%	38.76%	38.20%	37.89%	35.18%
Research and Development (as a Percent of Net Sales)	9.20%	7.75%	9.67%	5.87%	8.57%
Operating Margin	28.26%	30.89%	30.58%	33.94%	34.86%
Tax rate	44.14%	40.18%	22.46%	40.15%	22.46%
Pre-tax Margin	29.63%	32.58%	32.90%	35.24%	36.96%

Source: Company filings and Taglich Brothers estimates

Based on our net sales and cost structure estimates, EBITDA should approach $3.588 million and $4.525 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 $2.500 million or $0.14 per diluted share. Our prior forecast called for net income of $2.303 million or $0.12 per diluted share. For fiscal 2009, our revised net income forecast is $3.210 or $0.17 per diluted share. Our prior forecast called for net income of $3.235 million or $0.17 per diluted share. Our EPS forecasts are based on average fully diluted shares of 18.325 million and $18.346 million, respectively.

Based on Management's public statement in the second quarter earnings conference call and 10-Q filing, our forecasts incorporate an income tax of approximately 22% (see recent financial section page 5 for details). Investors should note that the primary change in the bottom line for fiscal 2008 is the reduction in the tax rate to 22% from our prior forecast of 40.18%.

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 43% and 36% of net sales for the first half of fiscal 2008 and 2007, respectively. For simulation software sales, two customers accounted for 20% of net sales for the first half of fiscal 2008 compared to two customers accounting for 10% of net sales in the same period last year. Four customers represented approximately 63% of the net accounts receivable in the first half of fiscal 2008, while five customers accounted for 80% of the net accounts receivable in the first half of fiscal 2007. For the Words+ subsidiary, one government agency and one customer accounted for 26% of net sales during the first half of fiscal 2008, and two government agencies and two customers represented approximately 62% of the net accounts receivable. During the same period last year, one government agency and one customer accounted for approximately 41% of net sales and one government agency represented approximately 37% 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.

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 and during the first three months of 2008, average daily volume has decreased to 86,500 shares traded a day. Investors need to be aware that by nature a thinly traded equity can have significant price volatility.

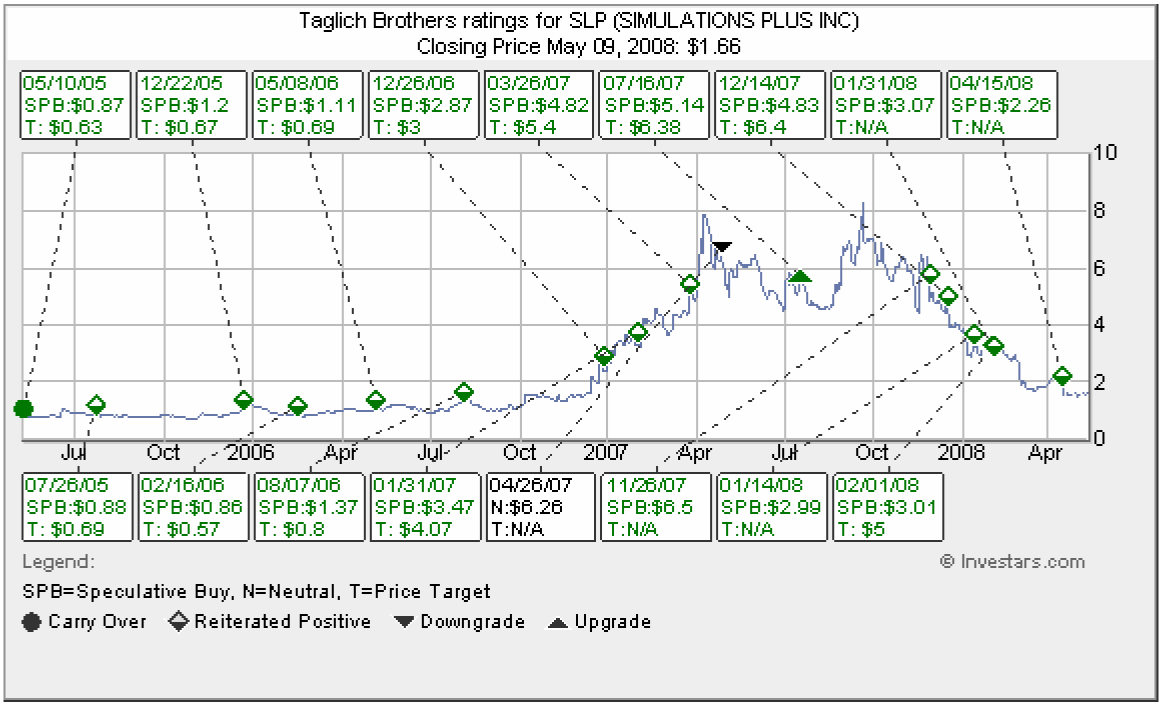
Valuation

We are reiterating our Speculative Buy rating on shares of Simulations Plus, Inc. (AMEX: SLP), as we continue to forecast positive growth trends for fiscal 2008 and believe those trends will continue into fiscal 2009. However, as previously discussed the growth trends have contracted from our prior report and it is likely the reduced guidance for fiscal 2008 was a contributing factor to the most recent price decline in shares of SLP (see chart on next page).

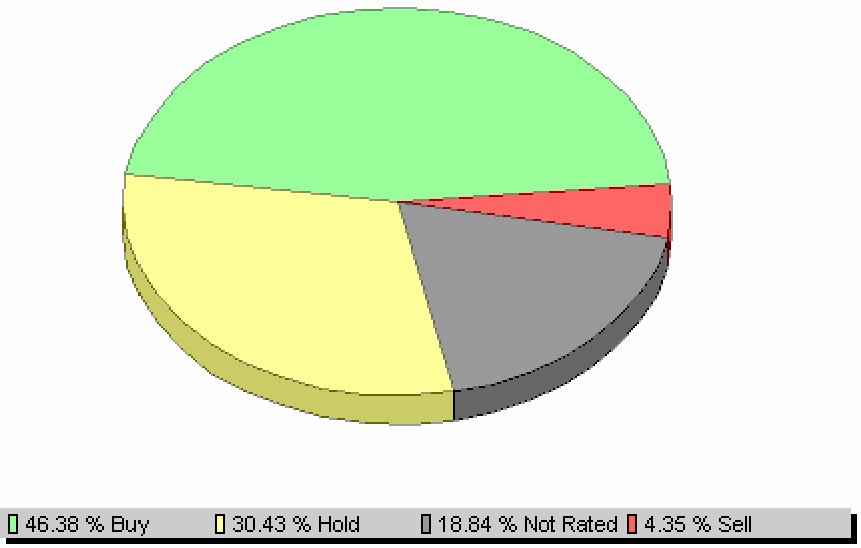
We are lowering our twelve-month price target to $2.95 per share versus our prior target of $5.00 per share (primarily due to a contraction of our estimates for sales and EBITDA). Our price target is based on our sales, EBITDA, and fully taxed earnings per shares forecasts for the twelve month period ending May 31, 2009.

Our price target is based on the following valuation models discounted by 20% to account for microcap risk along with Company specific risks discussed earlier:

- A 5.2X price-to-sales multiple, which is the trailing twelve month multiple (as of May 9, 2008) for the Software and Programming Industry according to reuters.com, applied to our estimate of $0.60 per share for the twelve month period ending May 31, 2009;
- A 19.8X price-to-EBITDA multiple, which is the trailing twelve month multiple (as of May 9, 2008) for the Software and Programming Industry according to reuters.com, applied to our estimate of $0.24 per share for the twelve month period ending May 31, 2009; and
- A 21.8X price to earnings multiple, which is the trailing twelve month multiple (as of May 9, 2008) for the Software and Programming Industry according to reuters.com, applied to our fully taxed EPS estimate of $0.14 per share for the twelve month period ending May 31, 2009 (our EPS estimate for the next four quarter is $0.16 per share but only is taxed at a 21.5% rate, we adjusted our figure to reflect a 40% tax rate).



Taglich Brothers Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months

Rating	#	%
Buy	0	0
Hold	1	6.67%
Sell	0	0
Not Rated	0	0

Meaning of Ratings

Buy

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

Speculative Buy

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

Neutral

We will remain neutral pending certain developments.

Underperform

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

Sell

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

Some notable Risks within the Microcap Market

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

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

Public Companies mentioned in this report:

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

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

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

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

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

	August 2006 Fiscal Year End	August 2007 Fiscal Year End	Nov. 2007 1st Qtr End	Feb. 2008 2nd Qtr End
ASSETS				
Current assets:				
Cash	$ 1,685	$ 4,538	$ 4,584	$ 5,507
Accounts receivable, net	1,589	2,060	2,380	1,965
Contracts receivable, net	194	47	-	-
Inventory	237	231	237	281
Deferred tax	109	241	201	160
Prepaid expense and other current assets	81	74	69	215
Total current assets	**3,895**	**7,191**	**7,471**	**8,129**
Long term receivables, net of present value discount	-	-	-	-
Capitalized computer software development costs, net	1,374	1,528	1,586	1,680
Property and Equipment, net	96	90	77	112
Contracts receivable	37	-	-	-
Customer relationships	100	69	62	55
Deferred tax	991	-	-	-
Other assets	18	18	18	18
Total assets	**$ 6,513**	**$ 8,895**	**$ 9,214**	**$ 9,994**
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts payable	215	201	225	134
Accrued payroll and other expenses	364	492	508	427
Accrued bonuses to officers	99	201	21	58
Accrued income taxes	2	71	37	363
Accrued warranty and service costs	35	38	35	29
Current portion of deferred revenue	129	-	-	-
Other current liabilities	0	-	-	-
Total current liabilities	**845**	**1,004**	**826**	**1,012**
Deferred tax liability	-	-	313	83
Stockholders' equity:				
Common stock, no par value; authorized 20,000,000 shares;	4	4	4	5
Additional paid-in capital	5,274	5,804	5,971	6,230
Accumulated deficit	390	1,857	2,100	2,665
Total stockholders' equity	**5,669**	**7,665**	**8,075**	**8,900**
Total liabilities and stockholders' equity	**$ 6,513**	**$ 8,895**	**$ 9,214**	**$ 9,994**
SHARES OUT	14,883	15,761	15,981	16,229

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	**9,798**	**11,200**
Cost of sales	1,605	2,082	**2,112**	**2,395**
Gross Profit	4,250	6,776	**7,687**	**8,805**
Gross Margins	72.60%	76.49%	**78.45%**	**78.62%**
Operating Expenses:				
Selling, general, and administrative	2,972	3,458	**3,743**	**3,940**
Research and development	445	815	**948**	**960**
Total Operating Expenses	3,417	4,273	**4,691**	**4,900**
EBITDA	1,196	3,032	**3,588**	**4,525**
Operating Income (loss)	833	2,503	**2,996**	**3,905**
Operating Margin	14.23%	28.26%	**30.58%**	**34.86%**
Other income (expense)				
Interest income	21	114	**194**	**235**
Interest expense	(0)	(0)	**-**	**-**
Gain (Loss) on exhange of currency	23	2	**34**	**-**
Loss on sale of assets	11	5	**0**	**-**
Total Other Income (expense)	56	122	**228**	**235**
Pre-Tax Income (loss)	889	2,624	**3,224**	**4,140**
Pre-Tax Margins	15.18%	29.63%	**32.90%**	**36.96%**
Income Tax Expense (Benefit)	213	1,158	**724**	**930**
Release of valuation allowance	-	-	**-**	**-**
Tax Rate	23.96%	44.14%	**22.46%**	**22.46%**
Net income (loss)	$ 676	$ 1,466	**$ 2,500**	**$ 3,210**
Earnings per share -- Diluted	$ 0.04	$ 0.08	**$ 0.14**	**$ 0.17**
Avg Shares Outstanding	15,953	17,957	**18,325**	**18,346**
Percent of Revenue				
Selling, general, and administrative	50.76%	39.04%	38.20%	35.18%
Research and development	7.60%	9.20%	9.67%	8.57%
YEAR / YEAR GROWTH				
Total Revenues	23.19%	51.29%	10.62%	14.30%
Earnings per share	152.01%	92.72%	67.08%	28.25%

Simulations Plus, Inc.
Income Statement Model
For the Year Ended August 31, 2007
(in thousands)

	Q1(11/06)A	Q2 (02/07)A	Q3 (05/07)A	Q4 (08/07)A	**FY2007A**
Net sales	1,456	2,534	2,631	2,236	**8,858**
Cost of sales	441	557	551	533	**2,082**
Gross Profit	1,015	1,977	2,080	1,703	**6,776**
Gross Margins	*69.69%*	*78.01%*	*79.07%*	*76.17%*	**76.49%**
Operating Expenses:					
Selling, general, and administrative	757	936	885	880	**3,458**
Research and development	184	216	227	188	**815**
Total Operating Expenses	940	1,153	1,112	1,068	**4,273**
EBITDA	194	979	1,094	766	**3,032**
Operating Income (loss)	75	824	968	636	**2,503**
Operating Margin	*5.12%*	*32.53%*	*36.80%*	*28.43%*	**28.26%**
Other income (expense)					
Interest income	16	25	35	38	**114**
Gain (Loss) on exhange of currency	3	4	(1)	(4)	**2**
Loss on sale of assets	0	3	0	2	**5**
Total Other Income (expense)	19	32	35	36	**122**
Pre-Tax Income (loss)	94	856	1,003	671	**2,624**
Pre-Tax Margins	*6.44%*	*33.79%*	*38.12%*	*30.03%*	**29.63%**
Income Tax Expense (Benefit)	21	188	221	729	**1,158**
Release of valuation allowance	-	-	-	-	-
Tax Rate	*22.00%*	*22.00%*	*22.00%*	*108.53%*	**44.14%**
Net income (loss)	$ 73	$ 668	$ 782	$ (57)	**$ 1,466**
Earnings per share -- Diluted	$ 0.00	$ 0.04	$ 0.04	$ (0.00)	$ 0.08
Avg Shares Outstanding	17,097	18,030	18,361	18,340	**17,957**
Percent of Revenue					
Selling, general, and administrative	51.96%	36.94%	33.65%	39.33%	39.04%
Research and development	12.61%	8.54%	8.62%	8.41%	9.20%
YEAR / YEAR GROWTH					
Total Revenues	77.87%	71.00%	47.14%	26.63%	51.29%
Earnings per share	NMF	143.92%	81.51%	-121.37%	92.72%

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

	Q1(11/07)A	Q2 (02/08)A	Q3 (05/08)E	Q4 (08/08)E	**FY2008E**
Net sales	1,984	2,180	2,885	2,750	**9,798**
Cost of sales	486	456	595	575	**2,112**
Gross Profit	1,498	1,724	2,290	2,175	**7,687**
Gross Margins	*75.50%*	*79.10%*	*79.38%*	*79.09%*	**78.45%**
Operating Expenses:					
Selling, general, and administrative	930	832	1,005	975	**3,743**
Research and development	226	252	235	235	**948**
Total Operating Expenses	1,156	1,084	1,240	1,210	**4,691**
EBITDA	483	791	1,200	1,115	**3,588**
Operating Income (loss)	342	640	1,050	965	**2,996**
Operating Margin	*17.22%*	*29.35%*	*36.39%*	*35.08%*	**30.58%**
Other income (expense)					
Interest income	45	47	50	52	**194**
Total Other Income (expense)	64	62	50	52	**228**
Pre-Tax Income (loss)	405	702	1,100	1,017	**3,224**
Pre-Tax Margins	*20.44%*	*32.20%*	*38.13%*	*36.97%*	**32.90%**
Income Tax Expense (Benefit)	162	137	225	200	**724**
Release of valuation allowance	-	-	-	-	-
Tax Rate	*40.00%*	*19.52%*	*20.46%*	*19.67%*	**22.46%**
Net income (loss)	$ 243	$ 565	$ 875	$ 817	**$ 2,500**
Earnings per share -- Diluted	$ 0.01	$ 0.03	$ 0.05	$ 0.04	$ 0.14
Avg Shares Outstanding	18,430	18,280	18,290	18,300	**18,325**
Percent of Revenue					
Selling, general, and administrative	46.89%	38.19%	34.84%	35.46%	38.20%
Research and development	11.39%	11.56%	8.15%	8.55%	9.67%
YEAR / YEAR GROWTH					
Total Revenues	36.21%	-13.98%	9.64%	22.97%	10.62%
Earnings per share	208.22%	-16.59%	12.28%	-1529.16%	67.08%

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	2,275	2,575	3,300	3,050	**11,200**
Cost of sales	555	530	675	635	**2,395**
Gross Profit	1,720	2,045	2,625	2,415	**8,805**
Gross Margins	*75.60%*	*79.42%*	*79.55%*	*79.18%*	**78.62%**
Operating Expenses:					
Selling, general, and administrative	935	905	1,075	1,025	**3,940**
Research and development	240	240	240	240	**960**
Total Operating Expenses	1,175	1,145	1,315	1,265	**4,900**
EBITDA	700	1,055	1,465	1,305	**4,525**
Operating Income (loss)	545	900	1,310	1,150	**3,905**
Operating Margin	*23.95%*	*34.95%*	*39.70%*	*37.70%*	**34.86%**
Other income (expense)					
Interest income	55	57	60	63	**235**
Total Other Income (expense)	55	57	60	63	**235**
Pre-Tax Income (loss)	600	957	1,370	1,213	**4,140**
Pre-Tax Margins	*26.37%*	*37.16%*	*41.52%*	*39.77%*	**36.96%**
Income Tax Expense (Benefit)	135	225	300	270	**930**
Release of valuation allowance	-	-	-	-	-
Tax Rate	*22.50%*	*23.51%*	*21.90%*	*22.26%*	**22.46%**
Net income (loss)	$ 465	$ 732	$ 1,070	$ 943	**$ 3,210**
Earnings per share -- Diluted	$ 0.03	$ 0.04	$ 0.06	$ 0.05	$ 0.17
Avg Shares Outstanding	18,335	18,345	18,350	18,355	**18,346**
Percent of Revenue					
Selling, general, and administrative	41.10%	35.15%	32.58%	33.61%	35.18%
Research and development	10.55%	9.32%	7.27%	7.87%	8.57%
YEAR / YEAR GROWTH					
Total Revenues	14.68%	18.14%	14.38%	10.91%	14.30%
Earnings per share	92.12%	29.12%	21.90%	15.10%	28.25%

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

	FY2006A	FY2007A	6 Mos. 2008A
Cash Flows from Operating Activities			
Net Income (loss)	$ 676	$ 1,466	$ 808
Depreciation and amortization of property and equipment	48	51	26
Amortization of capitalized software development	287	430	237
Amortization of customer relationships	28	32	14
Bad debt expense	-	63	63
Stock-based compensation	-	17	15
Contribution of equipment at book value	-	1	-
Loss on sale of assets	(11)	(4)	-
	1,028	2,055	1,163
Changes In:			
Accounts receivable	(275)	(351)	80
Inventory	44	6	(50)
Deferred tax	211	1,087	(64)
Other assets	(8)	8	(141)
Accounts payable	124	(14)	(67)
Accrued payroll and other expenses	(34)	127	(64)
Accrued bonuses to officers	60	103	(143)
Income taxes	-	70	292
Accrued warranty and service costs	7	3	(9)
Deferred revenue	(12)	(129)	-
Net Changes in Working Capital	119	909	(168)
Net cash Provided by Operations	1,148	2,964	995
Cash Flows from Investing Activities			
Purchase of property and equipment	(62)	(48)	(61)
Purchases of Bioreason's assets	(826)	-	-
Capitalized computer software development costs	(480)	(583)	(389)
Proceeds from sale of assets	21	7	13
Cash Flows from Investing Activities	(1,347)	(624)	(438)
Cash Flows from Financing Activities			
Proceeds from the exercise of stock options	131	513	412
Net cash provided by Financing	131	513	412
Net change in Cash	(69)	2,853	969
Cash Beginning of Period	1,754	1,685	4,538
Cash End of Period	$ 1,685	$ 4,538	$ 5,507