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Initial Research Report

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

Simulations Plus, Inc.

Rating: Speculative Buy

Howard Halpern

July 26, 2004

SLP $3.58 — (AMEX)

	FYE (08/02)	FYE (08/03)	***FYE (08/04) E***	***FYE (08/05) E***
Net sales (in millions)	$4.4	$5.5	***$6.0***	***$7.2***
Earnings per share	$0.14	$0.67*	***$0.20***	***$0.28***

52week price range	$7.55 – $2.45	Fiscal year ends:	August
Shares outstanding as of July 7th 2004	3.55 million	Revenue/shares (ttm)	$1.38
Trading float	1.49 million	Price/Sales (ttm)	2.59X
Insiders	2.06 million	Price/Sales (2005)	1.71X
Tangible Book value/share a/o 05-31-04	$1.08	Price/Earnings (ttm)	15.6X – excludes valuation allowance
Price/Book	3.31X	Price/Earnings (2005)	12.8X

* Includes a valuation allowance of $1.291 million or approximately $0.30 per diluted share in fiscal 2003

Simulations Plus, Inc., base in Lancaster, California, is a developer of drug discovery and development simulation 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 initiating coverage of Simulations Plus, Inc. (AMEX: SLP) with a Speculative Buy rating and establishing a twelve-month price target of $6.50 per share. Our price target is based on our fiscal 2005 net sales and net income forecasts.

The Company's simulation software product portfolio consisting of GastroPlus™, QMPRPlus™, and QMPRchitect™ for pharmaceutical research has experienced a compound annual sales growth of over 51.5% between fiscal year end 2000 and 2003.

Management's growth strategy for its simulation software portfolio includes 1) Marketing to a wider audience including researchers in biotechnology, drug delivery, and large pharmaceutical companies; 2) Increasing the activity related to its ADME Partners™ global licensing program for large pharmaceutical companies; 3) Enhancing existing products; and 4) Developing new complementary simulation software products to aid in the drug development process.

We believe reported results to date in fiscal 2004 in conjunction with the Company's overall growth strategy should bring net sales to $6.0 million with net income of $0.827 million or $0.20 per diluted share, for the current fiscal year. For the fiscal year ending August 31, 2005, we expect net sales to grow to $7.2 million with net income reaching $1.180 million or $0.28 per diluted share.

**** Please view our disclaimer located on page 19.***

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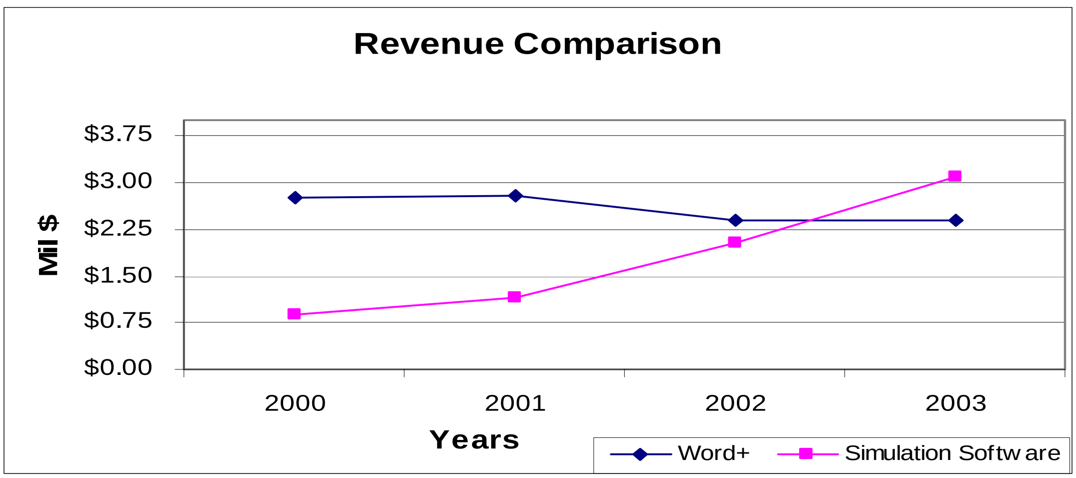
The Company

Simulations Plus, Inc. (AMEX: SLP), founded in 1996, went public during June of 1997 through a $5.0 million initial public offering. The Company has 26 employees, which includes 11 professionals in research and development, three are Ph.D.'s and one is a Ph.D. candidate. In addition, four have one or more Master's degree.

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

- Simulations Plus, which develops absorption, distribution, metabolism, and excretion (ADME) simulation software for researchers in the pharmaceutical and biotechnology industries. The Company's software assists pharmaceutical scientists to predict certain key potential drug dynamics, such as absorption, thereby reducing the likelihood of eliminating multi-million dollar clinical trial failures and speeding up the time to market of effective new medications. Also, the Company utilizes its simulated software in order to conduct contract research work for the pharmaceutical industry. In addition, using its simulation technology, software products are offered to the educational market, primarily the Company's FuturLab™ product.

  Revenue is generated in this area primarily from licensing of its portfolio of software products (GastroPlus™, QMPRPlus™, and QMPRchitect™), for pharmaceutical research. Net sales have experienced a compound annual growth rate of over 51.5% between fiscal year end 2000 and 2003. In comparison, sales from its wholly owned subsidiary called Words+ have declined slightly over the same time period, as shown in the chart below:



Source: Company SEC Filings

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

Simulation Plus

In the late 1990s, Management began to focus on the higher growth potential of simulation and modeling software that included neural net structure-to-property prediction for pharmaceutical discovery and drug development. In order to bring some prospective to this complex area, it is important to understand what is involved in developing simulation programming for drug discovery and development:

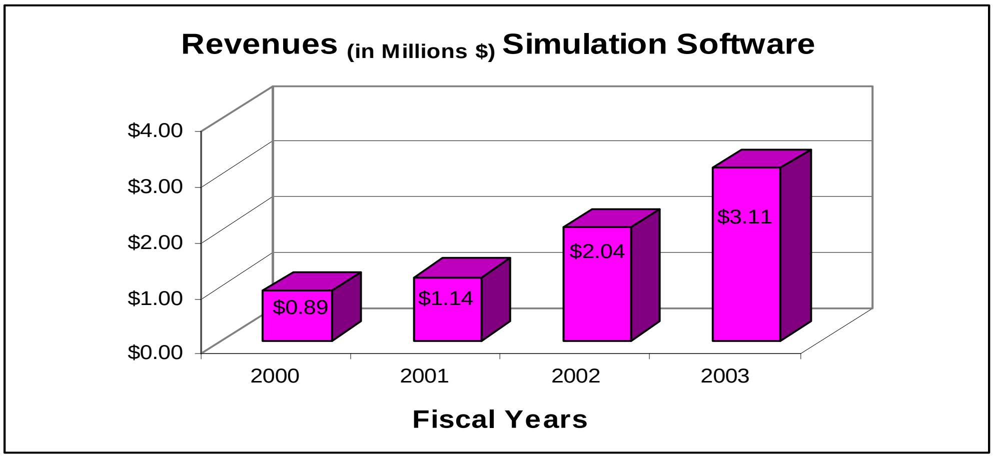
- Identifying and understanding the underlying chemistry, physics, biology, and physiology of the processes to be simulated;

- Breaking those processes down into the lowest practical level of individual sub-processes at which the behaviors can be mathematically represented;

- Developing appropriate mathematical relationships/equations; and

- Converting them into computer sub-routines. The software sub-routines represent the individual processes that are integrated into an overall simulation program. The predictions of the program(s) are compared to known results in order to calibrate the simulations and to demonstrate the validity of the models as useful tools for predicting new results.

The growth in SLP simulation software products has grown as the number of licenses increase each quarter. Overall, the Company's revenue has reflected the cumulative effect of annual license renewals added to new sales, which on a historic basis is easily identifiable as demonstrated by the chart below:



Source: Company Filings

The foundation for the development by the Company of its simulation software products for pharmaceutical research was a licensing agreement with Therapeutic Systems Research Laboratories, Inc. (TSRL) in 1998. TSRL is a pharmaceutical and oral drug delivery research laboratory with a broad spectrum of technical and scientific expertise, which was founded in 1986 by award-winning research scientist, Dr. Gordon L. Amidon. Dr. Amidon is recognized as one of the world leaders in the areas of transport phenomena, pro-drug strategies, and drug absorption.

The licensing agreement provides Simulation Plus with exclusive rights to TSRL's technology and database, which includes data from nearly sixty experiments measuring the intestinal permeability of drug compounds in human volunteers and/or rat small intestines. It is Management's belief that the strategic advantage of having exclusive access to TSRL's database, technology, and expertise, as well as ongoing consulting by Dr. Amidon and SLP's own well-developed expertise in absorption, pharmacokinetics, and pharmacodynamics simulations, has resulted in GastroPlus™ becoming the de facto standard for oral drug absorption simulation and analysis within the pharmaceutical industry.

Software Offerings

The Company's simulation software products are used by major pharmaceutical companies, as well as a growing number of second- and third-tier pharmaceutical and drug delivery companies in the United States, Europe, and Japan. The software offerings for pharmaceutical and drug delivery research are focused on the area known as ADMET (Absorption, Distribution, Metabolism, Elimination, and Toxicity). The study of ADMET, which profiles drug candidates during pre-clinical development, is a major element within the drug discovery/development process. It is at this particular time in the process when a critical decision must be made to go forward and spend time and the money, or in the alternative, stop the process and move on to another drug candidate, thus saving both time and money.

SLP provides the following software offerings, which researchers can use as part of the overall decision making process (i.e., to move forward or move on to another compound) during the drug discovery phase of drug development.

<table>
<tr><th>Established Software Products</th><th>Description</th></tr>
<tr><td>GastroPlus™</td><td>Simulates absorption, pharmacokinetics (the process by which a drug is absorbed, distributed, metabolized, and eliminated by the body), and pharmacodynamics (for orally dosed and injected drugs).

The benefits are:
▪ Rapid analysis and understanding of the behavior of drug candidates in animals and humans;
▪ Rapid ability to test hypotheses regarding formulation and ionization effects on solubility and absorption, etc.;
▪ Ability to quickly estimate best dosing for toxicity studies in animals; and
▪ Ability to fit specific PK and PKA model dynamics to data in humans and animals.

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.</td></tr>
<tr><td>QMPRPlus™</td><td>An advanced modeling program that enables pharmaceutical researchers to rapidly estimate a number of ADMET properties of new chemical entities from their molecular structure. It takes as inputs the structures of molecules, and then provides estimates for (which can be used as inputs for GastroPlus):

▪ Human intestinal permeability
▪ Blood-brain barrier penetration
▪ Octanol-water partition coefficient
▪ Plasma protein binding
▪ Solubility and Diffusivity
▪ Volume of distribution
▪ Ionization constants (PKA's)
▪ Estrogen acceptor toxicity
▪ Simulation fraction absorption in 1, 10, 100, 1000 milligrams

An important feature for researchers is that it has the ability to predict the properties (above) prior to running wet-lab experiments, thus allowing the screening of undesirable compounds much faster and at much lower cost than using traditional experimental methods. QMPRPlus allows property predictions at a rate of over 250,000 compounds per hour for 2-dimensional structures and about half that speed for 3-dimensional structures on a state-of-the-art notebook computer. According to Management, this type of speed provides a dramatic improvement in compound screening in early discovery.</td></tr>
<tr><td>QMPRchitect™</td><td>After two years of development, this program was released during July of 2003. This offering allows researchers to:
▪ Build their own ensemble artificial neural network models from their own data; and
▪ Identify critical descriptors and training ensemble artificial neural network models.
According to Management, through the automation provided in the proprietary software of QMPRchitect, a reduction in the time to build high quality ensemble artificial neural network models has occurred from months to hours or days. This program can be used on a stand-alone basis or with QMPRPlus. It is used to build all the probability prediction in QMPRPlus.</td></tr>
</table>

Source: Company filings and Web-site.

In addition to the three cornerstone simulation software products, the Company offers contract research services to the pharmaceutical industry in the specific areas of gastrointestinal absorption, pharmacokinetics, and related technologies.

The studies conducted through the contract research work provide SLP with not only an additional source of revenue, but a means to introduce new software products to customers. The studies are also beneficial to validate and enhance products by studying actual data in the pharmaceutical industry.

The Company also produces a set of science experiment simulation computer programs for middle and high school students under the FutureLab™ name. These simulations incorporate the equations of chemistry and physics for each experiment (optics, electrical circuits, gravity, universal gravitation, ideal gases, etc.) and allow students to design and conduct their own experiments in a virtual laboratory environment. Although development of FutureLab software was discontinued in 1998, low-level sales have continued through distributors in the U.S., U.K. Australia, and New Zealand.

The Company, under its research and development program will strive to develop new simulation software products to add to its portfolio. In addition, the Company will continually add new molecular descriptors and new predicted ADMET properties to QMPRPlus(TM).

The following chart describes some of the simulation software products underdevelopment:

Name	Description
PBPKPlus Module	An extension module for GastroPlus, currently in beta testing. The module is being designed to provide researchers the ability to predict the amount of drug that reaches different body tissues and organs. This should open up the market to researchers who deal in later stage clinical trials and those who routinely perform PBPK (physiologically based pharmacokinetic) and PD (pharmacodynamic) analysis using the sophisticated absorption model in GastroPlus. These analyses are being performed using models that treat absorption and its related processes with simplified models.
DDDPlus™	The Dose Disintegration and Dissolution Plus project, which is currently in alpha testing, started in 2000 and proceeded at a relatively slow pace until 2003. Upon completion it will simulate how different tablets and capsules disintegrate and dissolve during in-vitro experiments. The program will include the effects of changing formulation excipients (additives that are not the active drug). Therefore, it is believed that this tool should be a valuable asset for formulation scientists as they search for optimum formulations that provide desirable properties at minimal cost.
MembranePlus™	This product, currently in beta testing will be based on simulation of laboratory permeability experiments. It will be used to better understand what could be revealed about how drug molecules permeate membranes under different conditions. Management believes this will enable better estimation of permeability's in different regions of the human GI tract from these laboratory experiments. According to the Company, the program is being developed in collaboration with Shinji Yamachita of Setsunan University in Japan.

Source: Company Filings

Growth Strategy

Management's strategy to grow the Company's simulation software sales for the pharmaceutical, biotechnology, and drug delivery markets includes:

- Aggressively marketing its existing product offerings to a wider audience. The Company has increased its direct sales staff (to three full time people from one full time person and one part-time person) in order to make in-house presentations to interested parties. In addition the Company has leveraged the use of its sales staff via the Internet through the use of WebX Interactive Demonstrations to potential customers;

- Increasing the activity related to its ADME Partners™ global licensing program for large pharmaceutical companies. The program, launched in 2002, combines the convenience of unlimited licenses for each research site with on-demand expert consulting;

- Continuing research and development activities in order to add additional-cost product extensions to GastroPlus™, QMPRPlus™ and QMRchitect™; and

- Developing new core products, specifically for drug delivery companies, as well as commencing the following new activities:

    - The submission of an SBIR grant proposal to develop a drug-drug interaction simulation program. This program will simulate the interaction between two or more drugs and show the potential effects of such interactions on the human body; and

    - A toxicity prediction module for QMPRPlus based on newly released databases from the Food and Drug Administration (FDA) database and Environmental Protection Agency (EPA).

Competitive Environment

The Company competes for budget dollars versus the number of established companies that provide software-based research services to the pharmaceutical industry. In particular, companies that provide screening, testing and research services; however, most are not based on simulation software. Management believes there are software companies whose products do not compete directly, but are sometimes closely related. In addition, the Company feels that there is currently no significant competitive threat to its primary products GastroPlus, QMPRPlus, and QMRchitect™; however, competition is likely to materialize sometime in the future.

The Company not only competes with other software suppliers, but with in-house development teams. In general, major pharmaceutical companies conduct drug discovery and development efforts through their internal development staffs and through outsourcing to contract research organizations with smaller companies needing to outsource a greater percentage of its research.

Management is not aware of any significant competition in the area of gastrointestinal absorption simulation. However, one company called Lion Biosciences AG, based in Germany did offer an absorption simulation package called iDEA™. In late 2002, Lion announced that it was discontinuing its drug discovery business, which included the iDEA package, in order to concentrate on delivering comprehensive informatics for the life sciences industry. Lion is likely to continue its efforts to commercialize intellectual property and technologies (i.e., iDEA), which has already been developed by its own drug discovery operations. In addition, two other companies offer absorption simulation software:

- Cyprotex in the United Kingdom; and

- Bayer Technology Services AG in Germany.

According to Management, at this point in time, none of the Company's customers have indicated significant interest in competitive products. Management has stated in the Company's filing that both new licenses and license renewals for GastroPlus have continued to grow in spite of new competition.

Competitive Advantages

Investors should be keenly aware that the key factors helping Simulations Plus to compete in this field are its ability to:

- Develop simulation and modeling software, as well as related products and services to effectively predict the ADMET related behaviors of new drug-like compounds;
- Develop and maintain a proprietary database of results of physical experiments that will serve as a basis for simulated studies and empirical models;
- Continue to attract and retain a highly skilled scientific and engineering team; and
- Develop and maintain relationships with research and development departments of pharmaceutical companies, universities, and government agencies.

Market Drivers

The Company sights the following as drivers within the Pharmaceutical Industry:

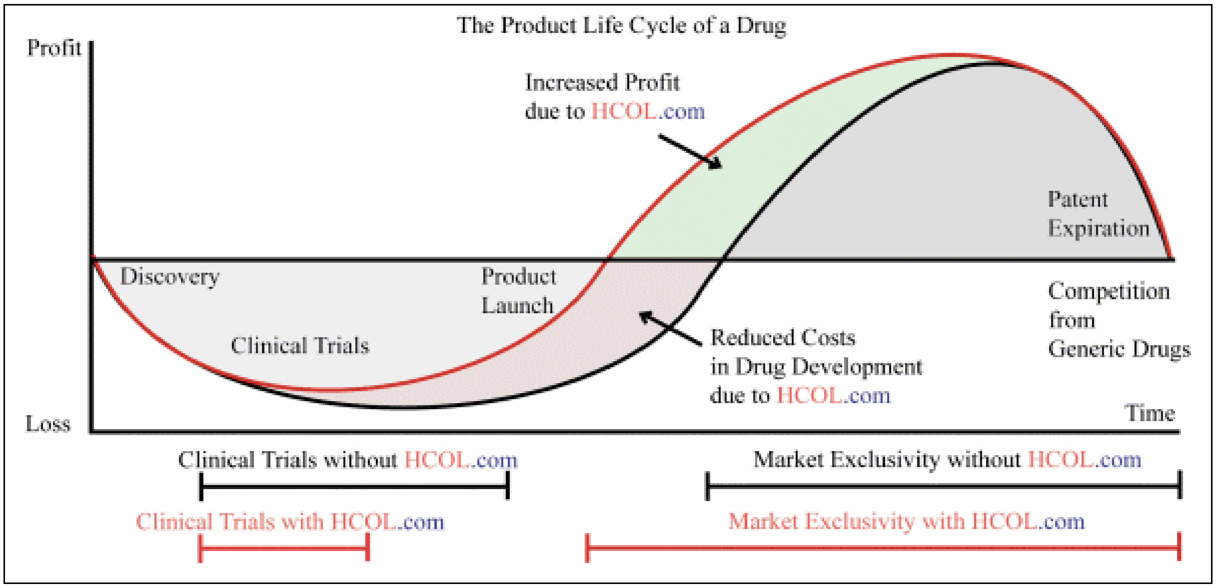
- $50 billion annual pharmaceutical industry R&D expenditures worldwide;
- 16% projected annual growth of pharmaceutical R&D spending over the next four years;
- $350 to $900 million is the average cost to bring new drug to market; and
- Pressure to reduce the use of animals in pharmaceutical research.

Other key metrics, based on data from the Pharmaceutical Research and Manufacturers of America and in a White Paper, published by the FDA called Challenge and Opportunity on the Critical Path to New Medical Products (published March 2004), include:

- Only one in 5,000 compounds tested in the laboratory becomes a new drug;
- It takes on average 12-15 years and half a billion dollars to develop a safe and effective drug for humans;
- A consistent growth trend over the last 10-years in biomedical research spending by the National Institutes of Health budget and by Pharmaceutical companies research and development investment; and
- A consistent yearly decrease over the last 10-years in the number of submissions of new molecular entities and the number of biologics license application submission to the FDA.

It should also be noted that in 2000, the industry in the United States spent an estimated $26 billion in research and development, which was an increase from $15 billion in 1995.

We believe that another important factor for the Company's simulation software products is its ability to give researchers data and results that will allow for decisions to be made on whether to proceed with a given compound or move on to another compound/chemical entity. The decision(s) will ultimately save time and money over the long and arduous process of bringing a drug from the time it is discovered and developed to the marketplace (see the details of the process in the chart on the top of the next page).



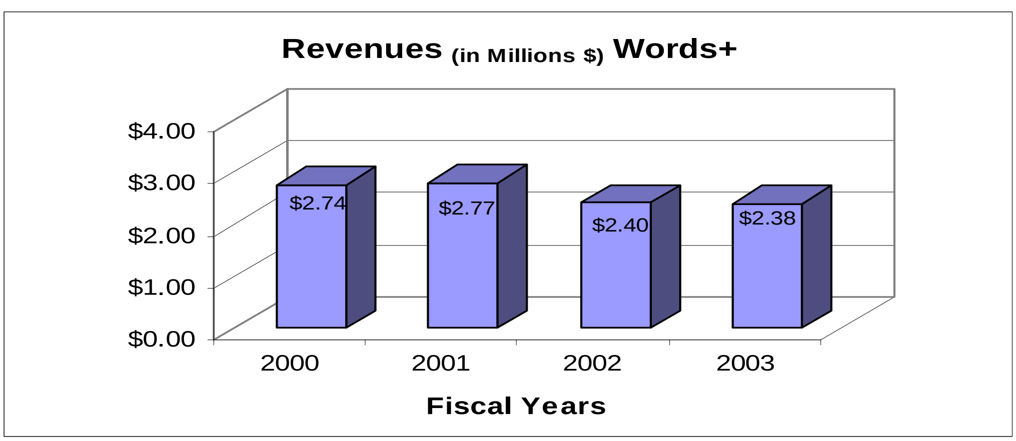
Source: Health Care Online, Inc.

Words+, Inc. Subsidiary

The foundation that has provided the infrastructure for the growth in the Company's simulation software products for pharmaceutical research is the wholly owned Words+, Inc., subsidiary. Since 1981, Words+ has been a technology leader in designing and developing augmentative and alternative communication (AAC) computer software and hardware devices for people that are unable to speak because of a physical disability. According to Management, a large percentage of the language strategies and methods accessed by disabled users that are used today were introduced in the 1980's by Words+. In addition, this subsidiary produces computer access products that enable physically disabled people to operate personal computers, as well as to communicate through synthesized voice, print, and e-mail, through movements as slight as the blink of an eye.

According to the Company, Words+ developed and produced the software for the computerized communication system used since 1985, by world-famous theoretical astrophysicist Professor Stephen Hawking, Lucasian Professor of Mathematics at the University of Cambridge in England.

Over the past four years, the Words+ operation has not seen a year-over-year increase since 2001, as seen in the chart below.



Source: Company filings

<u>*Growth Strategy*</u>

Management will pursue the following strategy in order to stabilize and modestly grow the operations of Words+:

- Reduce expenses to a point that should ensure profitable results (i.e., workforce reduction of approximately 30%, as announced on July 2, 2004);
- Improve the manufacturing and fulfillment operations, as well as realign product lines in relation to essential markets;
- Increase dealer effectiveness by utilizing training and monitoring programs and expanding the overall dealer network;
- Increase product awareness through:
    - Workshops, conferences, and Communications Aid Manufacturers Association (ACMA) tours;
    - Creation of alliances with key clinicians and educators; and
    - E-mail, web-sites, and multi-media presentations (i.e., CD-ROM Video).
- Consider additional acquisitions of businesses or products that are complementary to its existing product portfolio. It should be noted that Words+ most recent purchase was Say-it! SAM technologies from SAM Communications, LLC of San Diego. This acquisition added the industries smallest, lightest augmentative communication system, based on a Compaq iPAQ personal digital assistant (PDA). PDA-based communication devices have been very successful in the augmentative communication market and using this product as a platform enabled Words+ to move into this market segment faster and at lower cost than developing the product on its own; and
- Expand product offerings, such as Abbreviate! for PDAs, and tablet-computer-based augmentative communications systems.

Software Product Offerings

Name	Description
E Z Keys for Windows™	Operates on a Windows-based personal computer and when coupled with specially designed input devices enables even severely physically disables people to: ▪ Operate a personal computer; ▪ Generate voice messages via a voice synthesizer; and ▪ Operate most software application programs (e.g., e-mail, and Internet usage.
Talking Screen for Windows™	Operates on a Windows-based personal computer and is designed for persons (in most cases children) that are unable to read/write at the level necessary to operate the E Z Keys program. This program provides a system of pages of pictographic and photographic symbols that allows the user: ▪ To produce speech output messages through a voice synthesizer; ▪ Play recorded sounds/video files; and ▪ Operate controllers for lights, electrical appliances, and other equipment.
Abbreviate!	This is utility program that runs in the background and monitors all keystrokes as a person works with Widows-based programs in order to expand predefined abbreviations. When a user types an abbreviation that they have created, the program instantly replaces the abbreviation with the appropriate text.

Hardware Product Offerings

Since a majority of the customers served by Words+ are unable to operate a keyboard or mouse, an Infrared/Sound/Touch (IST) Switch was designed. The IST Switch enables a person to operate a personal computer or a dedicated communication device with the slightest movement or pressure (e.g. the blink of an eye blink, or just movement of an eye). The IST is activated by infrared reflection, touch, or sound, and transmits a momentary on-signal to the computer upon detection. The switch, which is constantly being improved has been in production since 1983 and is used in most of the hardware products described in the chart on the next page.

Name	Description
Say-it! SAM	A lightweight portable augmentative communication device based on a personal digital assistant (PDA), which was developed by SAM Communications, LLC, with Words+ being the exclusive worldwide distributor exclusive of the United Kingdom. The system provides a user with quality synthesized speech, as well as recorded speech and sounds.
Freedom 2000™ **and** **2001™ Dedicated Device**	This device allows people with disabilities who read at least at a 2nd grade level to speak and write through alternative input methods. High-level users can deliver lectures to large groups, use the Internet, and send e-mail. The dedicated device offered beginning January 1, 2001, was in coordination with the U.S. Medicare program, which initiated coverage of augmentative and alternative communication devices.
TuffTalker™ **and** **TuffTalker Plus™**	This device is a communications system for users who want computer access at all times. The device is encased in magnesium alloy and has a shock-mounted hard disk drive that can withstand the rigors of the typical AAC environment while delivering computer performance in a compact, completely mobile package with touch screen access. The Plus device is a fully integrated, highly rugged communications system that offers users extreme durability, power, and convenience. The features include: ▪ Large active anti-reflective matrix color LCD screen ▪ Switch inputs (single/multiple) for use with Morse Code ▪ A joystick ▪ A headmouse
MessageMate	Since 1992, Words+ has produced these hand-held and dedicated devices for communication that store recorded speech or sounds on an integrated circuit chips. Typically, a person using the devices can play the recorded sounds by simply touching one of the keys on the membrane keyboard, or by using a switch and scanning to select a position on the key board. Sales of this device occur worldwide since it can be used in any language.

Competition

The Augmentative and Alternative Communication Industry (AAC) in which the Company operates is highly competitive and some of the competitors have greater financial and personnel resources. The industry is made up of six major competitors and a number of smaller competitors. According to the Company, the five major competitors each have revenues ranging from $3.0 million to nearly $20.0 million, which means there is no single large company that dominates the industry.

Management believes that the competition is based primarily on the quality of products, quality of customer training and technical support, and quality and size of the sales force. Investors should be aware that while price may be a consideration, it is unlikely to be as important to the customer as obtaining the product most suited to their particular needs, along with strong after-sale support. The Words+ subsidiary is believed by Management to be a leader in the industry in terms of developing and producing the most technologically advanced products and in providing quality customer training and technical support.

Only a few products compete with Abbreviate! in the retail market; however, the Management is not aware of any other product that works with virtually any windows software platform without the need to create special links.

Financial Results

For the three-month period ended May 31, 2004, versus the three-months ended May 31, 2003:

- Net sales of $1.233 million versus $1.261 million;
- Gross margin of 68.96% versus 67.13%;
- SG&A expenses increased to $0.622 million versus $0.540 million;
- Research and development increased to $0.118 versus $0.074 million; and
- Net income was $0.133 million or $0.03 per fully diluted share versus net income of $0.227 million or $0.06 per fully diluted share.

The 2.17% year-over-year net sales decrease was primarily due to:

- Timing delays in some customer orders for pharmaceutical and educational software products, which the Company expected to receive in the third quarter, but were received in the beginning of the fourth quarter. Overall sales decreased to $0.603 million versus $0.615 million in the same period last year.

- A decrease in service contract revenue for the Company's Words+ subsidiary, which could not be offset by an increase in product and dedicated communications device sales. Overall sales for the Words+ subsidiary decreased to $0.630 million versus $0.646 million in the same period last year.

Gross margins increased by 183 basis points primarily due to the Company's Words+ subsidiary, which successfully increased product prices and obtained discounts from suppliers. SG&A expenses increased by $0.082 million, as a result of higher:

- Accounting Fees
- Printer leasing
- Commission expense
- Insurance
- Investor relations which includes costs for listing on Amex
- Equipment repairs

In addition, research and development expenses increased by $0.072 million, which was primarily due to staff expansion and salary increases.

Balance Sheet Snapshot as of May 31, 2004

The Company had cash of $0.402 million versus $0.261 million as of its fiscal year ended August 31, 2003. Working capital for the quarter was $1.925 million, which is an increase of $0.642 million versus fiscal 2003. Working capital as of August 31, 2003 was $1.283 million. Total assets, which stood at $4.345 million, are primarily comprised of accounts receivable (that totaled $1.516 million and a deferred tax asset of $1.291 million).

Also, at the end of the quarter, the Company had total liabilities of $0.532 million, an accumulated deficit of $1.153 million, and total shareholders equity of $3.812 million. At the end of fiscal 2003, the Company had total liabilities of $0.688 million with an accumulated deficit of $1.384 million, and total shareholders equity of $3.279 million.

The Company had available a $0.5 million revolving line of credit from a bank at prime plus 1.5%. As of May 31, 2004, the Company had not borrowed against the revolving line of credit. 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 that Simulations Plus will continue to demonstrate growth as its three primary simulation software products (GastroPlus, QMPRPlus, and QMPRchitect) 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 such as the recently concluded June 2004 Pharmaceutical Sciences World Congress in Kyoto, Japan. Management commented publicly on June 23, 2004, that the Company's products received keen interest at the Congress where several world-renown presenters expressed the need for the industry to pursue PBPK modeling.

Also, enhancing the Company's prospects is that the Company should have at least three full time sales people that can demonstrate the sophisticated software applications to its target audience no later then the start of fiscal 2005. To date the Company has shown the ability to growth sales in this area with one full time person and one person spending about half their time on demonstrating and selling the simulation software products.

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 offering. This could lead to increased activity related to its ADME Partners global licensing program for large pharmaceutical companies, which was discussed earlier. The following is a listing of some of the Company's prominent established customers.

Pfizer	**Shire Laboratories**	**Schering AG**
Eli Lilly	**Roche**	**Dainippon Pharmaceutical Co.**
AstraZeneca	**Novartis**	**GlaxoSmithKine**

In addition to annual license renewals, the Company will continue to purse multi-year, global contracts. In the Company's June 23, 2004 press release on preliminary third quarter results, Management remains hopeful that one or more multi-year contracts can be concluded before the end of August 2004.

We believe a proactive decision made on April 16, 2004, related to the Words+ subsidiary, when Jeffrey Dahlen as its President. This decision was taken by the Company in order to facilitate the growth of this operation, since Mr. Dahlen brings a level of innovation and enthusiasm to the table that should be instrumental in restoring growth and profitability.

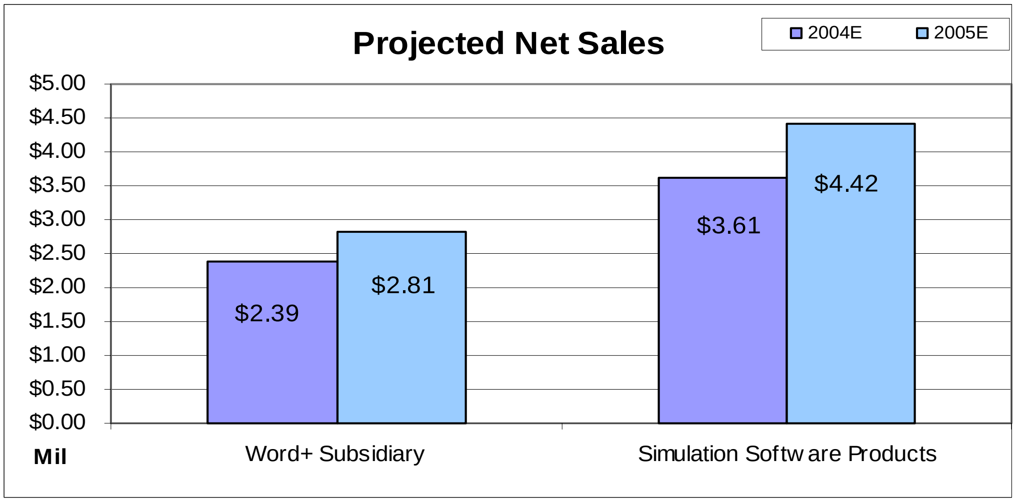
On July 2, 2004, Mr. Dahlen announced a restructuring of the Words+, which includes workforce reductions and the streamlining of operations in order to generate operating efficiencies. According to Momoko Beran, the Company's CFO, the actions undertaken should result in savings approaching $0.1 million for the fourth quarter of fiscal 2004.

Projections

Based on results for the first nine months of fiscal 2004 and the recently announced restructuring activities at Words+, we anticipate net sales to be $6.001 million for fiscal 2004. As the chart below shows, our forecast for the Words+ subsidiary calls for net sales of approximately $2.39 million with sales of simulation products of approximately $3.61 million.

For fiscal 2005, we believe net sales should grow by approximately 20% to $7.225 million, primarily based on the outlook we have going forward along with the growth strategies outlined earlier for both the Words+ subsidiary and Simulation Software products. Net sales for the Words+ subsidiary should grow by approximately 17.6% to $2.81 million, with simulations software growing by 22.4% to $4.42 million.

The chart below shows our expectations for net sales over the next two fiscal years.



Taglich Brothers' estimates

It is important for investors to be aware that quarterly net sales results will fluctuate primarily due to the timing of the receipt of customer orders for its pharmaceutical software products. We believe that the best way to identify growth in the Company sales is to look at a given twelve-month period, which should eliminate the variance that might occur in any one particular quarter.

The table below illustrates the cost structure we anticipate for fiscal 2004 and 2005, versus actual results achieved in 2003. Our estimates are based on the Company's recently reported results during the first nine months of fiscal 2004 along with the anticipated improvements in the Words+ subsidiary. On June 23, 2004, Management commented in a press release that the Words+ subsidiary is benefiting from price increases and should return to profitability in the fourth quarter of fiscal 2004.

Cost Structure

	2003A	2004E	2005E
Gross Margin	71.96%	69.68%	71.14%
SG&A expenses as a Percent of Net Sales	41.97%	47.68%	46.36%
Research and Development as a Percent of Net Sales	6.92%	9.17%	9.28%
Operating Margin	23.07%	12.83%	15.50%
Pre-tax Margin	22.94%	14.10%	16.33%

Source: Company filings and Taglich Brothers estimates

Based on our net sales and cost structure estimates, EBITDA should approach $0.978 million in fiscal 2004 and grow by 32.9%, reaching $1.300 million in fiscal 2005. Our net income forecast is $0.827 million or $0.20 per diluted share and $1.180 million or $0.28 per diluted share for fiscal 2004 and 2005, respectively. Our EPS forecasts are based on average fully diluted shares of 4.121 million and 4.225 million, respectively, for fiscal 2004 and 2005.

Our net income estimate for fiscal 2004, takes into consideration a tax rate of approximately 2.24%, to reflect state income taxes for the first two quarters of the fiscal year. In fiscal 2005, we are assuming that the Company will not paid or record taxes due to its net operating loss (NOL) carryforwards for the federal and state of approximately $2.5 million and $1.1 million, respectively, which expire through 2023. 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.

Management

Walter S. Woltosz, M.S. M.A.S. – Chairman and Chief Executive Officer: Walter S. Woltosz is the co-founder of the Company and has served as its Chief Executive Officer and Chairman of the Board of Directors since its incorporation in July 1996. Mr. Woltosz is also a co-founder of SLP's, Words+ subsidiary, and had served as its Chief Executive Officer and President since its incorporation in 1981. Prior to his founding of Words+, Mr. Woltosz pioneered the application of computer simulation and numerical optimization techniques to the design of rocket motors and rocket propellants. He earned a Masters of Science degree in Aerospace Engineering from Auburn University and Master of Administrative Science from the University of Alabama in Huntsville.

Momoko A. Beran MBA – Chief Financial Officer: Momoko A. Beran joined Words+ in June 1993 as Director of Accounting and was named the Company's Chief Financial Officer in July 1996.

Ronald F. Creeley – Vice President, Marketing and Sales: Ronald F. Creeley joined the Company in February 1997 as its Vice President, Marketing and Sales. Prior to joining the Company, he served as Marketing Director at Union Pen Company, Time Resources, and New England Business Services, Inc.

Jeffrey A. Dahlen, B.E.E. – President, Words+ Inc.: Jeffrey A. Dahlen rejoined the Company in April 2003 as Vice President of Research and Development for Words+ after five years with iAT. Mr. Dahlen was appointed President of Words+ Inc. on April 16, 2004. He is a graduate of Stanford University in Electrical Engineering and has 20 years' of experience in both software and hardware design, including development of extremely high speed processing hardware with the Jet Propulsion Laboratory at the California Institute of Technology.

Michael B. Bolger, Ph.D. – Director of Life Sciences: Michael B. Bolger joined the Company in October 1996 as the Company's Director of Life Sciences. Since 1980, Dr. Bolger has been an Associate Professor of Pharmaceutical Sciences at USC School of Pharmacy. He also founded and was Director of Medicinal Chemistry at CoCensys Inc. (1987 – 1993). At CoCensys, Dr. Bolger studied the chemistry and use of novel neuroactive steroids for treatment of anxiety, epilepsy, and sleep disorders. His experience also includes being an NIH (National Institute of Health) Postdoctoral Fellow in pharmacology at the UC San Diego School of Medicine. He is the author of 16 computer programs related to molecular chemistry, pharmacokinetics, cellular growth, and data reduction in pharmacology and related areas, including the Cyber Patient, drug shelf life, and HelixGen™ simulation programs the Company acquired in 1996. Dr. Bolger, who earned a B.A. in Biology and Chemistry for U.C. San Diego, leads the Life Sciences team that includes two individuals that earned Ph.D.'s:

- **Robert Fraczkiewicz, Ph.D. –** He is a Senior Scientist and Product Manager – QMPRPlus. Dr. Fraczkiewicz received his Ph.D. in Computational Chemistry from the University of Houston.
- **Boyd Steere, Ph.D. –** He is a Senior Scientist and Product Manager – QMPRchitect. Dr. Steere received his Ph.D. in Biochemsitry and Molecular Biology at UCLA.

Risks

<u>Growth Management</u>
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.

<u>Technology</u>
The Company's strongest area of growth is its simulation 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 gain acceptance of its current and future products by researchers in the industry.

Customer Concentration

International sales accounted for 16.0% and 26.0% of net sales for the fiscal years ended August 31, 2003 and 2002, respectively. One customer accounted for 20.0% of net sales for fiscal 2003 and accounts receivable from one customer represented 66.0% of the net accounts receivable balance at August 31, 2003.

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 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:

- The post contract customer support (PCS) fee is included in the initial licensing fee;
- The PCS included with the license is for one year or less;
- The estimated cost of providing the PCS during the arrangement is insignificant; and
- 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.

Seasonality

During the past two years, the third and fourth fiscal quarters 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 purchases components for its 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.

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 the first five months of 2004 has increased to approximately 10,340 shares from 7,685 shares in calendar 2003. Investors need to be aware that by nature a thinly traded equity can have significant price volatility.

Valuation/Conclusion

We are initiating coverage of Simulations Plus, Inc. (AMEX: SLP) with a Speculative Buy recommendation and a twelve-month price target of $6.50 per share based on our forecasts for net sales per share and earnings per share for fiscal 2005 (ending August 31, 2005).

In our view, a fair valuation for this equity should emerge as investors see evidence of consistently growing net sales and net income, which should be accomplished based on:

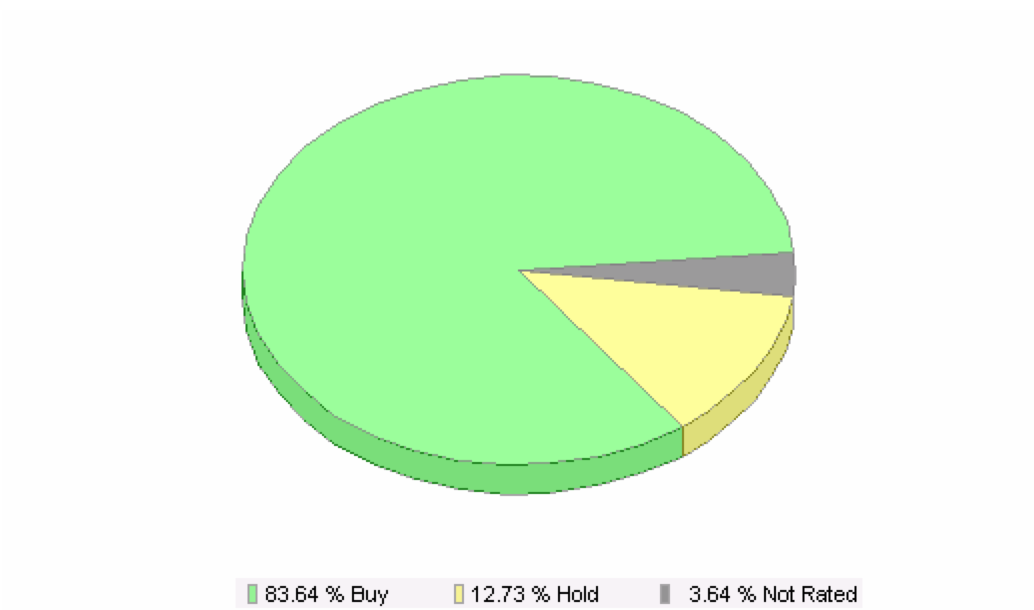
- Increased licensing revenue from longer-term agreement for its core simulation software offering to researchers in the pharmaceutical and drug discovery/development areas;
- Successful realignment of the Words+ subsidiary by its recently appointed President Jeffrey Dahlen. He is in the process of realigning product lines in relation to essential markets, as well as instituting program to increase product awareness; and
- Development of new simulation software product offerings for the Company's target market.

We have established a twelve-month price target based on averaging the following valuation models, discounted by 30% to account for microcap risk along with Company specific risks discussed earlier:

- A 6.9X, price-to-sales multiple, which is the trailing twelve-month multiple (as of 7/13/04) for the Software and Programming Industry (according to investor.reuters.com), applied to our net sales estimate of $1.69 per share for fiscal 2005; and

- A 37.1X P/E multiple, which is the trailing twelve-month multiple (as of 7/22/04) for the Software and Programming Industry (according to investor.reuters.com), applied to our net income estimate on a post-tax basis for fiscal 2005 of $0.18 per share (our post tax estimate is based on an assumed 34% tax rate applied to our current 2005 estimate is $0.28 per share).

Taglich Brothers Current Ratings Distribution



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:

AstraZeneca PLC	(NYSE: AZN)
Eli Lilly	(NYSE: LLY)
GlaxoSmithKline PLC	(NYSE: GSK)
Pfizer Inc.	(NYSE: PFE)
Shire Pharmaceuticals Group PLC	(NASDAQ: SHPGY)

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 2002 Fiscal Year End	August 2003 Fiscal Year End	Nov. 2003 1st Qtr End	Feb. 2004 2nd Qtr End	May 2004 3rd Qtr End
ASSETS					
Current assets:					
Cash	$ 36	$ 261	$ 351	$ 57	$ 402
Accounts receivable, net	928	1,423	1,282	1,379	1,516
Inventory	209	192	236	230	365
Prepaid expense and other current assets	37	65	22	55	147
Total current assets	**1,210**	**1,940**	**1,891**	**1,721**	**2,431**
Long term receivables, net of present value discount	-	271	271	491	-
Capitalized computer software development costs, net	301	374	370	520	539
Property and Equipment, net	62	80	75	78	72
Deferred tax	-	1,291	1,291	1,291	1,291
Other assets	13	12	11	11	11
Total assets	**$ 1,586**	**$ 3,968**	**$ 3,908**	**$ 4,113**	**$ 4,345**
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Line of credit	-	-	-	-	-
Accounts payable	146	175	174	174	132
Accrued payroll and other expenses	310	236	284	259	324
Accrued bonuses to officers	54	134	-	-	-
Accrued compensation due to officers	199	-	-	-	-
Accrued income taxes	-	43	-	-	-
Accrued warranty and service costs	31	45	39	39	37
Current portion of deferred revenue	-	15	11	11	11
Other current liabilities	-	-	3	3	3
Current portion of capitalized lease obligations	11	10	-	-	-
Total current liabilities	**751**	**657**	**511**	**486**	**506**
Capital lease obligations, net of current portion	10	-	5	5	4
Deferred Revenue	57	31	29	26	23
Stockholders' equity:					
Common stock, no par value; authorized 20,000,000 shares;	3	3	3	4	4
Additional paid-in capital	4,655	4,660	4,697	4,897	4,962
Accumulated deficit	(3,890)	(1,384)	(1,338)	(1,305)	(1,153)
Total stockholders' equity	**768**	**3,279**	**3,363**	**3,596**	**3,812**
Total liabilities and stockholders' equity	**$ 1,586**	**$ 3,968**	**$ 3,908**	**$ 4,113**	**$ 4,345**
SHARES OUT	3,408	3,412	3,439	3,500	3,545

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

	FY2001	FY2002	FY2003	**FY2004E**	**FY2005E**
Net sales	3,915	4,444	5,485	**6,001**	**7,225**
Cost of sales	1,563	1,456	1,538	**1,819**	**2,085**
Gross Profit	2,352	2,988	3,947	**4,182**	**5,140**
Gross Margins	60.08%	67.23%	71.96%	**69.68%**	**71.14%**
Operating Expenses:					
Selling, general, and administrative	2,200	2,105	2,302	**2,862**	**3,350**
Research and development	354	382	380	**550**	**670**
Total Operating Expenses	2,554	2,487	2,681	**3,412**	**4,020**
EBITDA	92	692	1,461	**978**	**1,300**
Operating Income (loss)	(202)	500	1,265	**770**	**1,120**
Operating Margin	-5.16%	11.25%	23.07%	**12.83%**	**15.50%**
Other income (expense)					
Interest income	0	0	0	**77**	**60**
Interest expense	(22)	(14)	(5)	**(1)**	**(0)**
Loss on sale of assets	-	-	(2)	-	-
Total Other Income (expense)	(22)	(14)	(7)	**76**	**60**
Pre-Tax Income (loss)	(224)	487	1,258	**846**	**1,180**
Pre-Tax Margins	-5.72%	10.95%	22.94%	**14.10%**	**16.33%**
Income Tax Expense (Benefit)	2	2	43	**19**	**-**
Release of valuation allowance	-	-	(1,291)	-	-
Tax Rate	0.00%	0.00%	NMF	**2.24%**	**0.00%**
Net income (loss)	$ (224)	$ 487	$ 2,506	**$ 827**	**$ 1,180**
Earnings per share -- Diluted	$ (0.07)	$ 0.14	$ 0.67	$ 0.20	$ 0.28
Avg Shares Outstanding	3,394	3,525	3,740	**4,121**	**4,225**
Percent of Revenue					
Selling, general, and administrative	56.19%	47.37%	41.97%	47.68%	46.36%
Research and development	9.05%	8.60%	6.92%	9.17%	9.28%
YEAR / YEAR GROWTH					
Total Revenues	20.25%	13.52%	23.42%	9.42%	20.40%

Simulations Plus, Inc.
Income Statement Model
For the Year Ended August 31, 2003
(in thousands)

	Q1(11/02)	Q2 (02/03)	Q3 (05/03)	Q4 (08/03)	**FY2003**
Net sales	1,078	1,120	1,261	2,027	**5,485**
Cost of sales	333	372	414	419	**1,538**
Gross Profit	745	748	846	1,608	**3,947**
Gross Margins	*69.11%*	*66.80%*	*67.13%*	*79.33%*	**71.96%**
Operating Expenses:					
Selling, general, and administrative	503	599	540	660	**2,302**
Research and development	110	82	74	115	**380**
Total Operating Expenses	612	681	614	774	**2,681**
EBITDA	178	117	282	1,493	**1,461**
Operating Income (loss)	132	68	232	833	**1,265**
Operating Margin	*12.27%*	*6.04%*	*18.42%*	*41.12%*	**23.07%**
Other income (expense)					
Interest income	0	0	0	0	**0**
Interest expense	(2)	(1)	(3)	0	**(5)**
Loss on sale of assets	-	-	(2)	-	**(2)**
Total Other Income (expense)	(2)	(1)	(5)	0	**(7)**
Pre-Tax Income (loss)	131	67	227	834	**1,258**
Pre-Tax Margins	*12.13%*	*5.95%*	*17.99%*	*41.14%*	**22.94%**
Income Tax Expense (Benefit)	-	-	-	43	**43**
Release of valuation allowance	-	-	-	(1,291)	**(1,291)**
Tax Rate	*0.00%*	*0.00%*	*0.00%*	**NMF**	**NMF**
Net income (loss)	$ 131	$ 67	$ 227	$ 2,082	**$ 2,506**
Earnings per share -- Diluted	$ 0.04	$ 0.02	$ 0.06	$ 0.48	$ 0.67
Avg Shares Outstanding	3,431	3,782	3,717	4,341	**3,740**
Percent of Revenue					
Selling, general, and administrative	46.67%	53.48%	42.86%	32.55%	41.97%
Research and development	10.17%	7.28%	29.57%	30.25%	6.92%

Simulations Plus, Inc.
Income Statement Model
For the Year Ended August 31, 2004
(in thousands)

	Q1(11/03)A	Q2 (02/04)A	Q3 (05/04)A	Q4 (08/04)E	**FY2004E**
Net sales	1,139	1,369	1,233	2,260	**6,001**
Cost of sales	352	460	383	625	**1,819**
Gross Profit	787	909	850	1,635	**4,182**
Gross Margins	*69.11%*	*66.41%*	*68.96%*	*72.35%*	**69.68%**
Operating Expenses:					
Selling, general, and administrative	606	734	622	900	**2,862**
Research and development	143	154	118	135	**550**
Total Operating Expenses	749	888	740	1,035	**3,412**
EBITDA	98	89	150	640	**978**
Operating Income (loss)	38	21	111	600	**770**
Operating Margin	*3.32%*	*1.55%*	*8.96%*	*26.56%*	**12.83%**
Other income (expense)					
Interest income	20	19	22	15	**77**
Interest expense	(0)	(0)	(0)	(0)	**(1)**
Loss on sale of assets	-	-	-	-	**-**
Total Other Income (expense)	20	19	22	15	**76**
Pre-Tax Income (loss)	58	40	133	615	**846**
Pre-Tax Margins	*5.08%*	*2.95%*	*10.75%*	*27.23%*	**14.10%**
Income Tax Expense (Benefit)	11	8	-	-	**19**
Release of valuation allowance	-	-	-	-	**-**
Tax Rate	*19.30%*	*19.30%*	*0.00%*	*0.00%*	**2.24%**
Net income (loss)	$ 47	$ 33	$ 133	$ 615	**$ 827**
Earnings per share -- Diluted	$ 0.01	$ 0.01	$ 0.03	$ 0.15	$ 0.20
Avg Shares Outstanding	4,128	4,209	4,046	4,100	**4,121**
Percent of Revenue					
Selling, general, and administrative	53.20%	53.61%	50.44%	39.81%	47.68%
Research and development	12.59%	11.25%	9.57%	5.97%	9.17%
YEAR / YEAR GROWTH					
Total Revenues	5.68%	22.21%	-2.17%	11.54%	9.42%

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

	Q1(11/04)E	Q2 (02/05)E	Q3 (05/05)E	Q4 (08/05)E	**FY2005E**
Net sales	1,450	1,625	1,650	2,500	**7,225**
Cost of sales	440	520	450	675	**2,085**
Gross Profit	1,010	1,105	1,200	1,825	**5,140**
Gross Margins	*69.65%*	*68.00%*	*72.70%*	*73.01%*	**71.14%**
Operating Expenses:					
Selling, general, and administrative	765	790	795	1,000	**3,350**
Research and development	160	165	170	175	**670**
Total Operating Expenses	925	955	965	1,175	**4,020**
EBITDA	130	195	280	695	**1,300**
Operating Income (loss)	85	150	235	650	**1,120**
Operating Margin	*5.85%*	*9.25%*	*14.23%*	*26.01%*	**15.50%**
Other income (expense)					
Interest income	15	15	15	15	**60**
Interest expense	(0)	(0)	(0)	(0)	**(0)**
Loss on sale of assets	-	-	-	-	-
Total Other Income (expense)	15	15	15	15	**60**
Pre-Tax Income (loss)	100	165	250	665	**1,180**
Pre-Tax Margins	*6.88%*	*10.17%*	*15.13%*	*26.61%*	**16.33%**
Income Tax Expense (Benefit)	-	-	-	-	-
Release of valuation allowance	-	-	-	-	-
Tax Rate	*0.00%*	*0.00%*	*0.00%*	*0.00%*	**0.00%**
Net income (loss)	$ 100	$ 165	$ 250	$ 665	**$ 1,180**
Earnings per share -- Diluted	$ 0.02	$ 0.04	$ 0.06	$ 0.16	$ 0.28
Avg Shares Outstanding	4,150	4,205	4,260	4,285	**4,225**
Percent of Revenue					
Selling, general, and administrative	52.75%	48.60%	48.18%	40.00%	46.36%
Research and development	11.05%	10.15%	10.30%	7.00%	9.28%
YEAR / YEAR GROWTH					
Total Revenues	27.33%	18.76%	33.80%	10.59%	20.40%

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

	FY2001A	FY2002A	FY2003A	9 mos. 2004A
Cash Flows from Operating Activities				
Net Income (loss)	$ (226)	$ 485	$ 2,506	$ 231
Depreciation and amortization of property and equipment	65	64	33	27
Amortization of capitalized software development	229	128	162	141
Loss on sale of assets	-	-	2	-
Impairment of capitalized software development costs	126	-	-	-
	195	677	2,704	399
Changes In:				
Accounts receivable	98	(484)	(765)	177
Inventory	(24)	(26)	40	(174)
Deferred tax	-	-	(1,291)	-
Other assets	13	(12)	(27)	(82)
Accounts payable	25	(119)	29	(43)
Accrued payroll and other expenses	16	(17)	(272)	45
Accrued bonuses to officers	-	54	79	(134)
Income taxes	-	-	43	-
Accrued warranty and service costs	1	(14)	14	(8)
Deferred revenue	(33)	52	(11)	(12)
Net Changes in Working Capital	98	(566)	(2,162)	(230)
Net cash Provided by Operations	292	111	542	169
Cash Flows from Investing Activities				
Purchase of property and equipment	(31)	(35)	(77)	(24)
Capitalized computer software development costs	(139)	(94)	(235)	(144)
Proceeds from sale of assets	-	-	2	4
Cash Flows from Investing Activities	(170)	(129)	(311)	(164)
Cash Flows from Financing Activities				
Net decrease in line of credit	(0)	(99)	-	-
Payments on capitalized lease obligations	(15)	(13)	(11)	(3)
Proceeds from the exercise of stock options	23	-	5	139
Net cash provided by Financing	7	(112)	(6)	136
Net change in Cash	129	(131)	225	141
Cash Beginning of Period	38	167	36	261
Cash End of Period	$ 167	$ 36	$ 261	$ 402