

Taglich Brothers, Inc.

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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

December 22, 2005

SLP \$4.80 — (AMEX)

	FYE (08/03)A	FYE (08/04)A	FYE (08/05) A	FYE (08/06) E
Net sales (in millions)	\$5.49	\$5.21	\$4.75	\$5.94
Earnings per share	\$0.67*	\$0.21	\$0.07	\$0.19
52-Week range	\$6.70 – \$2.85	Fiscal year ends:	August	
Shares outstanding as of December 7, 2005	3.65 million	Revenue/shares (ttm)	\$1.19	
Trading float	1.55 million	Price/Sales (ttm)	4.04X	
Insiders	2.10 million	Price/Sales (2006)E	3.01X	
Tangible Book value/share a/o 08-31-05	\$1.08	Price/Earnings (ttm)	68.6X	
Price/Book	4.44X	Price/Earnings (2006)E	25.3X	

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

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 maintaining our Speculative Buy rating on Simulations Plus (AMEX: SLP) and setting a twelve-month price target of \$5.35 per share. Our prior twelve-month price target was \$5.55 per share.

The Company reported fiscal 2005 revenue of \$4.753 million versus \$5.207 million in fiscal 2004. Operating income for the year was \$0.296 million versus \$0.626 million in fiscal 2004. Net income was \$0.262 million or \$0.07 per diluted share versus \$0.836 million or \$0.21 per diluted share.

Based on public comments made by Management during the Company's earnings conference call, recently completed acquisitions, and our outlook, we have adjusted our fiscal 2006 forecast for net sales and net income to \$5.935 million and \$0.705 million or \$0.19 per diluted share, respectively. Our prior forecast called for net sales of \$7.050 million and net income of \$0.748 million or \$0.19 per diluted share, respectively.

During August and September 2005, the Company acquired all the assets of Sage Infromatics LLC and Bioreason, Inc., respectively. These two acquisitions broadened Simulations Plus' portfolio of software offerings (ChemTK™ and ClassPharmer™), as well as adding approximately 30 new customers and approximately 1,800 names to its database of potential customers.

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

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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 30 employees (27 full-time and 3 part-time), which include 11 professionals in research and development, five are Ph.D.'s and one is a Ph.D. candidate. In addition, four have one or more Master's degree. SLP is seeking additional scientists to expand its team.

Investors should be aware that during September 2005, John DiBella, M.S, transferred to the Company's marketing and sales team as a field representative. Mr. DiBella was formerly a Life Sciences Product Manager for Simulations Plus. Also, effective October 1, 2005, David Miller, Ph.D. joined the Company's Life Sciences team as Senior Scientist and Product Manager for the ChemTK™ and ClassPharmer™ product lines. Dr. Miller was formerly the President of Sage Informatics LLC.

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

- Simulations Plus, which develops absorption, distribution, metabolism, elimination and toxicity (ADMET) 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 increasing the likelihood of eliminating multi-million dollar clinical trial failures and speeding up the time to market of effective new medications.
- 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.

Simulations Plus

The following factors are 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 subroutines.

Software Offerings

The Company's software products are used by major pharmaceutical companies, and a 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 Absorption, Distribution, Metabolism, Elimination, and Toxicity (ADMET), which is the study of drug candidates during pre-clinical development. 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:

- **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 heterogeneous variations in physiology and transit times. On December 8, 2005, the Company announced the release of Version 5.0, which includes the PBKPlus™ Module (an extension module for GastroPlus that enables researchers to predict the amount of drug that reaches different body tissues and organs). Management believes this provides the best known method for predicting human pharmacokinetics from animal and in vitro data.

- **DDDPlus™** is an important tool for formulation scientists, which enables them to predict how changes in formulation or changes in experimental setup are likely to affect dissolution rate. Dissolution rate is a critical parameter in the development of new dosage forms, in making generic versions of existing drugs, and in quality control for production. Management believes this tool can be a valuable asset for formulation scientists as they search for optimum formulations that provide desirable properties at minimum cost, as well as optimum experimental conditions under which to measure disintegration and dissolution to best mimic what happens in humans.
- **ADMET Predictor™** is 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, generates predictions for approximately 50 properties, including seven toxicity predictions, and also provides estimates which can be used as inputs for GastroPlus.

According to Management, this offering is one of the few programs available in the world that provides accurate predictions of ionization constants for molecules. New capabilities introduced in 2005, provide six different toxicity models based on data sets released to the public domain by the U.S. Environmental Protection Agency and the U.S. Food and Drug Administration in 2004. During June 2005, the Company announced it upgraded the software by including two new solubility models with enhanced scope that provide a comparison of predicted solubility from models built on large datasets, which includes both drug-like molecules and other chemicals, and solubility predicted from models built only on actual drug molecules. On October 28, 2005, the Company announced the release of a new toxicity prediction for the hERG (human Ether-a-go-go Related Gene) potassium channel. This gene is responsible for the normal repolarization of the cardiac action potential. Blockage or any other impairment of these channels in the heart cells leads to cardiac arrhythmia and sudden death. The FDA requires that every drug be tested for hERG blockage before it is approved for market distribution.

- **ADMET Modeler™** allows researchers to build artificial neural network ensemble models from their own data. In addition, it allows for the identification of critical descriptors and training ensemble artificial neural network models. According to Management, through the automation provided in the proprietary software of ADMET Modeler, a reduction in the time to build high quality ensemble artificial neural network models has occurred from months to hours or days. All ADMET Predictor models were built with ADMET Modeler.
- **ChemTK™** was acquired during August 2005, by the Company through the acquisition of the assets of Sage Infomatics, LLC. This program takes as input a set of molecular structures and one or more measured properties for each of those structures (typically activity against a target protein from high throughput screening, but any property can be used). It then constructs classes or clusters of molecules that have common substructures. This enables chemists to see what patterns of atoms within a molecule are most strongly associated with beneficial and adverse effects.
- **ClassPharmer™** was acquired by the Company through the acquisition of the assets of Bioreason, Inc. from its former creditors, during November 2005. The acquisition also included two patents governing classification algorithms, a database of over 5,000 measurements of potential toxicity in a particular cell culture, and a database of over 1,800 pharmaceutical industry contacts. This software program is similar in nature to ChemTK™, but with more sophisticated and patented classification algorithms and various convenience features. According to the Company's 2005 10-K filing, Management's strategy is to integrate those offerings into one single package, which will become ClassPharmer™ 4.0.

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

The Company, under its research and development program, is striving to develop new simulation software products to add to its portfolio. Management publicly stated that SLP will continually add new molecular descriptors and new predicted ADMET properties to ADMET Predictor™.

Software that is being developed by the Company includes a Formulation Module (a Multiple Particle Size Dissolution Model) that will allow formulation researchers to assess the effects of different particle size distributions on dissolution for GastroPlus™ in calendar 2006. An improved DDDPlus that will be incorporating additional functionality in accordance with comments and suggestions received from approximately 60 companies who evaluated the initial release. Management expects it to be released in early calendar 2006. Also, MembranePlus™ which is a simulation of in-vitro permeability experiments. This program has accelerated with the hiring of a new Ph.D. scientist who has focused on this program.

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 addition, companies that provide screening, testing, and research services; however, most are not based on simulation software. Management believes there are software companies whose products compete directly, while other are closely related.

Market Drivers

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

- \$50 billion annual pharmaceutical industry R&D expenditures worldwide;
- The call for model-based drug development. At an R&D Leader's Forum conference, several high-level speakers from the FDA and industry emphasized the need for this type of drug development;
- 16% projected annual growth of pharmaceutical R&D spending over the next four years, which should be helped by the increased emphasis on outsourcing;
- \$900 million to \$1.6 billion 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 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 as much as 16 years and \$1.6 billion to develop a safe and effective drug for humans;
- A consistent growth trend over the 10-years from 1993 – 2003, in biomedical research spending by the National Institutes of Health and by Pharmaceutical companies; and
- A consistent yearly decrease over the 10-years from 1993 – 2003, in the number of submissions of new molecular entities and the number of biologics license application submissions to the FDA.

Words+, Inc. Subsidiary

Since 1981, the Words+, Inc. subsidiary 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 severely 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.

The Company offers a Windows CE tablet-computer-based augmentative communication system, called the SAM Tablet, based on a version of the Say-it! SAM software. In March 2005, it introduced the SAM Tablet XP1, the Company's Windows XP-based tablet product. At the Closing The Gap conference in Minneapolis, MN (which is focused on various assistive technology resources for children and adults with special needs), the Company announced that it should release before the end of 2005, SAM for personal computers. This release will allow SAM to be distributed on virtually any Windows XP desktop or laptop computer. It is Management's belief that the SAM offerings are in strong demand in this market and that this addition fills a significant gap in the Words+ subsidiary product line.

On June 29, 2005, the Company announced that, by mutual agreement, effective June 30, 2005, royalty payments to SAM Communications, LLC, as well as the product support obligations provided by SAM Communications was terminated. The Company stated that royalty payments to SAM totaled approximately \$0.070 million over the last twelve months. Management estimates that future savings could be as much or more over the next twelve months.

In addition, during the Company's fourth quarter and year end earnings conference call, Management indicated that SLP is working with the Georgia Institute of Technology to provide cell phone capability for its EZ Keys offering. Management anticipates it should be ready during fiscal 2006. The EZ Keys offering for the cell phone will be designed to allow the severely disabled (e.g., Stephen Hawking) to conduct text message and voice conversations.

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 (including Words+) and a number of smaller competitors. According to the Company, the other five major competitors each have revenues ranging from \$3.0 million to over \$30.0 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.

Financial Results

For the twelve-month period ended August 31, 2005, versus the twelve-month ended August 31, 2004:

- Net sales decreased to \$4.753 million versus \$5.207 million. Taglich Brothers estimate called for net sales of \$5.047 million;
- Gross margins decreased to 68.27% versus 70.09%;
- SG&A expenses decreased to \$2.423 million versus \$2.508 million;
- Research and development increased to \$0.525 million versus \$0.515 million;
- Operating income decreased to \$0.296 million versus operating income of \$0.626 million; and
- Net income was \$0.262 million or \$0.07 per diluted share versus net income of \$0.836 million or \$0.021 per diluted share. Taglich Brothers estimate called for net income of \$0.434 million or \$0.11 per diluted share.

Management attributes 8.7% decline in year-over-year net sales to a decrease of approximately 27.6% (or \$0.788 million) from pharmaceutical and educational software. The impact to pharmaceutical software and services revenue was primarily due to:

- 1) Two customers that signed multi-year software licenses in fiscal 2004 for \$0.860 million; therefore, no revenue was recognized from those licenses in fiscal 2005;
- 2) Three smaller customers did not renew their annual licenses, resulting in a net decrease in sales of \$0.080 million, although this was more than offset by eight new customer that generated revenues of \$0.259 million; and
- 3) Income from study contracts decreased by \$0.065 million.

Mitigating the overall decline in net sales was an approximately 14.2% year-over-year sales gain from the Company's Word+, Inc., subsidiary. The increase was powered by the Say-it SAM™ product, which was offset by lower sales for the Freedom™ product and larger discounts taken by Medicare/Medicaid.

Investors should be aware that the Company's sales cycle for its pharmaceutical software products tends to average about six months. The long sales cycle is because customers frequently need to obtain approvals from multiple decision makers prior to the purchase order being placed. Overall, the long sales cycle tends to make quarterly numbers appear to be lumpy, that is why we believe investors might be better served by viewing the Company's results over a longer time frame.

Gross margins decreased by 182 basis points primarily due to lower sales of its higher margin pharmaceutical and educational software. The decrease in SG&A expenses versus the same period last year of \$0.085 million, which was the result of lower salaries and payroll-related expenses in the Company's Word+, Inc., subsidiary that amounted to a decline of \$0.205 million. SG&A expenses for pharmaceutical and educational software increased by \$0.120 million, primarily from selling expenses related to commissions, trade shows, and travel.

Balance Sheet Snapshot as of August 31, 2005

The Company had cash of \$1.754 million versus \$0.734 million as of its fiscal year ended August 31, 2004. Working capital was \$2.584 million versus \$2.605 million as of August 31, 2004. Total assets, which stood at \$5.561 million, are primarily comprised of cash, inventory, accounts receivable (that totaled \$1.098 million) and a deferred tax asset of \$1.312 million.

Also, the Company had total liabilities of \$0.690 million, an accumulated deficit of \$0.285 million, and total shareholders equity of \$4.862 million. At the end of fiscal 2004, the Company had total liabilities of \$0.518 million with an accumulated deficit of \$0.548 million, and total shareholders equity of \$4.446 million.

The Company declined to renew a \$0.5 million revolving line of credit that expired in May 2005. According to Management, it was not necessary to renew because the Company did not use the revolving line of credit during the prior year and did not expect to need it in the near future. However, the Company would consider re-applying for the line of credit when there is a need for it. Management believes that existing capital and anticipated funds from operations will be sufficient to meet cash needs for working capital and capital expenditures for the foreseeable future.

Outlook

We believe the Company's primary simulation software products (GastroPlus™, ADMET Predictor™, ADMET Modeler™, DDDPlus™, and recently acquired ChemTK™ and ClassPharmer™) need to gain exposure to a wider audience within the community of researchers in the Pharmaceutical, Biotechnology, and Drug Discovery Industries of the Healthcare Sector. This should be accomplished through continued exposure at large conferences around the world and an increase in the Company's sales personnel.

Additionally, as a result of the established relationships with large pharmaceutical companies, other researchers within those companies are likely to be exposed to Simulations Plus product offerings. This could lead to increased activity related to its ADMET Partners global licensing program for large pharmaceutical companies.

On December 2, 2005, Management expressed its optimism about fiscal 2006 based on the following:

- All multi-year licenses expire by November 2006. Management's expects all of those licenses to be renewed. Of note, one license expires after the end of the current fiscal year. During the Company's earning conference call, Management publicly indicated that the largest concentration of multi-year license renewals should occur during its fiscal second and third quarters of 2006;
- A customer base that continues to grow, which should build the base for future license renewals. During the Company's full year earnings conference call, Management stated that the Sage Informatics and Bioreason acquisitions not only added software offerings to its portfolio (ChemTK™ and ClassPharmer™), but increased by approximately 30 its customer base, as well as adding approximately 1,800+ names to its database of potential customers;
- The software products from the recent acquisitions generated approximately \$1 million in gross sales over the previous twelve month period. Management believes it can do as well or better in fiscal 2006 and has already begun to receive payments from the purchased accounts receivable for ClassPharmer™ software licenses; and
- In fiscal 2006, the Company intends to sell multi-year licenses on an annual basis. Management believes this should eliminate the extreme lumpiness the Company has experienced in the past; and
- Management publicly stated that it believe the Company should generate sales in excess of \$5.8 million for fiscal 2006.

We believe that the Words+ subsidiary will continue to experience sales growth in fiscal 2006. Also positively impacting this subsidiary is the termination of royalty payments to SAM Communications, LLC. In addition, the introduction of a SAM for the personal computer should allow for distribution on virtually any Windows XP desktop or laptop computer.

Projections

Based on public comments made by Management during the Company's earnings conference call, recently completed acquisitions, and our outlook, we have adjusted our fiscal 2006 forecast of net sales to \$5.935 million versus our prior forecast of \$7.050 million. The change in our estimate is primarily due the Company's statements on how it intends to recognize revenues from multi-year licenses (see outlook section).

We anticipate net sales growth for simulations software products in fiscal 2006 of approximately 43.5% to \$2.969 million. Our anticipated net sales growth for the Words+ subsidiary for fiscal 2006 is 10.5% to \$2.966 million. The table below illustrates the cost structure we anticipate for fiscal 2006, versus actual results achieved in 2004 and 2005.

Cost Structure

	2004	2005	2006E	
	Actual	Actual	Prior	Revised
Gross Margin	70.09%	68.27%	70.21%	70.10%
SG&A expenses (as a Percent of Net Sales)	48.17%	51.00%	52.28%	45.08%
Research and Development (as a Percent of Net Sales)	9.89%	11.04%	7.37%	10.11%
Operating Margin	12.03%	6.23%	12.55%	14.91%
Pre-tax Margin	13.42%	7.32%	13.69%	15.75%

Source: Company filings and Taglich Brothers estimates

Based on our net sales and cost structure estimates, EBITDA should approach \$1.105 million in fiscal 2006 versus EBITDA of \$0.503 million in fiscal 2005. Our net income forecast is now \$0.705 million or \$0.19 per

diluted share in fiscal 2006 versus our prior forecast of \$1.085 million or \$0.19 per diluted share. Our EPS forecast for fiscal 2006 is based on average fully diluted shares of 3.725 million.

Our net income estimate for fiscal 2006 assumes that the Company will pay or record taxes at the 24.6% rate, which is similar to the 24.66% rate recorded in fiscal 2005. The Company has federal net operating loss (NOL) carryforwards of approximately \$2.86 million, which expire through 2024. Also, the Company has state net operating loss carryforwards of \$1.251 million that begin to expire in 2006. Investors should be aware that the Company in future periods may reassess its deferred tax valuation, which could impact bottom line results. Since this involves the judgment of Management, we have not included any such changes to the deferred tax valuation in our estimates.

Risks

Growth Management

Investors need to be aware that as the Company becomes increasingly successful, it must meet the challenges associated with growth. If the Company is not successful in meeting these challenges, its business will be adversely impacted.

Additionally, Management believes that future success will depend on the ability to attract, hire, and retain qualified personnel in order to expand the Company's overall intellectual knowledge base.

Sales Cycle

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

Technology

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

Customer Concentration

International sales accounted for 25.3% and 30.8% of net sales for the fiscal years ended August 31, 2005 and 2004, respectively. For simulation software sales, one customer accounted for 24.0% of net sales for the year ended August 31, 2005, and four customers represented approximately 65.0% of the net accounts receivable. For the Words+ subsidiary, one government agency accounted for 20.0% of net sales during the fiscal year 2005, and one customer represented approximately 25.0% of the net accounts receivable.

Revenue Recognition

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

The end users receive certain elements of its products over a period of time. These elements include free post-delivery telephone and e-mail support and the right to receive unspecified upgrades/enhancements. In accordance with SOP 97-2, Management has evaluated these agreements and recognized the entire license fee on the date the

software is delivered to and accepted by the customer. In order to recognize the fee in this manner, the Company must meet all the criteria required, including:

- 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. 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.

Seasonality

During the past three 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's subsidiary purchases most of the notebook computers for its durability 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.

According to the Company's 2005 10-K filing, it has been contacted by a former Bioreason salesperson in France regarding his status and status of certain contracts after the acquisition of certain secured assets of Bioreason from its creditors.

Federal Reserve

Investors should be aware that if the Federal Reserve continues increasing interest rates (over the last thirteen meetings it has increased rates 25 basis points each time), it is likely to have a negative impact on valuation multiples.

Miscellaneous Risk

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

Trading Volume

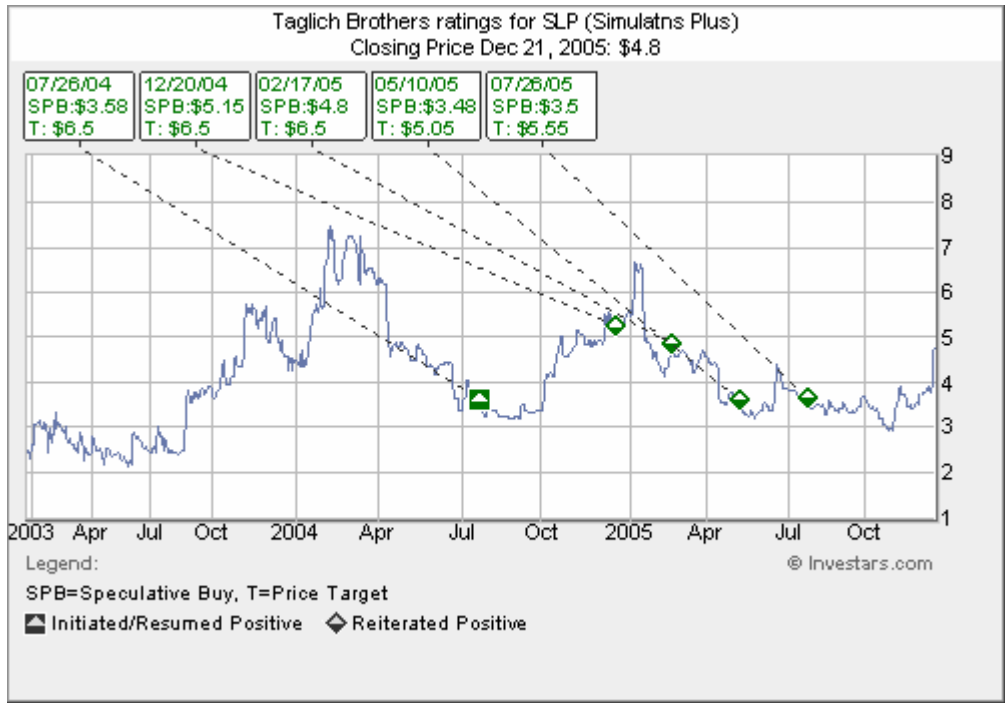
Liquidity is a potential concern. Based on our calculations, the average daily-volume during calendar 2004 increased to approximately 8,340 shares from 7,685 shares in calendar 2003. During the first eleven months of calendar 2005 average daily-volume decreased to 4,267 shares a day. Investors need to be aware that by nature a thinly traded equity can have significant price volatility.

Valuation/Conclusion

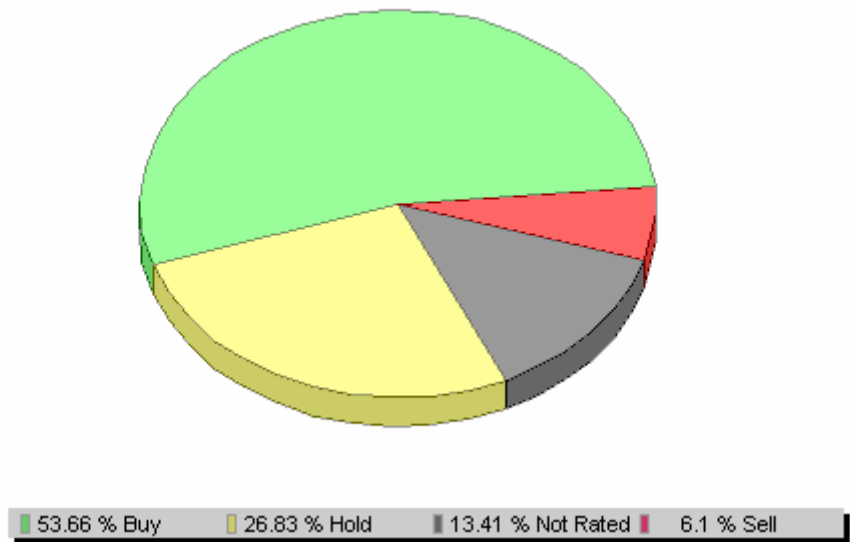
We are maintaining coverage of Simulations Plus, Inc. (AMEX: SLP) with a Speculative Buy recommendation and setting our twelve-month price target at \$5.35 per share from our prior price target of \$5.55 per share.

Our price target is based on the following valuation models, discounted by 35% to account for microcap risk along with Company specific risks discussed earlier:

- A 6.6X, price-to-sales multiple, which is the trailing twelve-month multiple (as of 12/22/05) for the Software and Programming Industry (according to investor.reuters.com), applied to our net sales estimate of \$1.59 per share for fiscal 2006; and
- A 31.5X, price-to-earnings multiple, which is the trailing twelve-month multiple (as of 12/22/05) for the Software and Programming Industry (according to investor.reuters.com), applied to our EPS estimate of \$0.19 per share for fiscal 2006;



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:

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

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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 2003 Fiscal Year End	August 2004 Fiscal Year End	August 2005 Fiscal Year End
ASSETS			
Current assets:			
Cash	\$ 261	\$ 734	\$ 1,754
Accounts receivable, net	1,423	1,705	1,098
Inventory	192	359	281
		186	60
Prepaid expense and other current assets	65	116	81
Total current assets	1,940	3,100	3,274
Long term receivables, net of present value discount	271	-	-
Capitalized computer software development costs, net	374	576	937
Property and Equipment, net	80	66	87
Deferred tax	1,291	1,210	1,252
Other assets	12	11	11
Total assets	\$ 3,968	\$ 4,964	\$ 5,561
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	175	153	91
Accrued payroll and other expenses	236	219	399
Accrued bonuses to officers	134	78	39
Accrued compensation due to officers	-	-	-
Accrued income taxes	43	2	2
Accrued warranty and service costs	45	32	28
Current portion of deferred revenue	15	11	132
Other current liabilities	-	-	-
Current portion of capitalized lease obligations	10	-	-
Total current liabilities	657	495	690
Capital lease obligations, net of current portion	-	3	-
Deferred Revenue	31	20	9
Stockholders' equity:			
Common stock, no par value; authorized 20,000,000 shares;	3	4	4
Additional paid-in capital	4,660	4,990	5,144
Accumulated deficit	(1,384)	(548)	(285)
Total stockholders' equity	3,279	4,446	4,862
Total liabilities and stockholders' equity	\$ 3,968	\$ 4,964	\$ 5,561
SHARES OUT	3,412	3,564	3,649

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

	<u>FY2003A</u>	<u>FY2004A</u>	<u>FY2005A</u>	<u>FY2006E</u>
Net sales	5,485	5,207	4,753	5,935
Cost of sales	<u>1,538</u>	<u>1,557</u>	<u>1,508</u>	<u>1,775</u>
Gross Profit	<u>3,947</u>	<u>3,650</u>	<u>3,244</u>	<u>4,160</u>
<i>Gross Margins</i>	71.96%	70.09%	68.27%	70.10%
Operating Expenses:				
Selling, general, and administrative	2,302	2,508	2,424	2,675
Research and development	380	515	525	600
Total Operating Expenses	<u>2,681</u>	<u>3,023</u>	<u>2,948</u>	<u>3,276</u>
EBITDA	1,461	850	503	1,105
Operating Income (loss)	1,265	626	296	885
<i>Operating Margin</i>	23.07%	12.03%	6.23%	14.91%
Other income (expense)				
Interest income	0	73	43	50
Interest expense	(5)	(1)	(1)	-
Gain (Loss) on exchange of currency	-	-	(7)	-
Loss on sale of assets	<u>(2)</u>	<u>-</u>	<u>15</u>	<u>-</u>
Total Other Income (expense)	<u>(7)</u>	<u>72</u>	<u>52</u>	<u>50</u>
Pre-Tax Income (loss)	1,258	699	348	935
<i>Pre-Tax Margins</i>	22.94%	13.42%	7.32%	15.75%
Income Tax Expense (Benefit)	43	(138)	86	230
Release of valuation allowance	<u>(1,291)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Tax Rate</i>	NMF	-19.73%	24.66%	24.60%
Net income (loss)	\$ 2,506	\$ 836	\$ 262	\$ 705
Earnings per share -- Diluted	<u>\$ 0.67</u>	<u>\$ 0.21</u>	<u>\$ 0.07</u>	<u>\$ 0.19</u>
Avg Shares Outstanding	3,740	3,895	3,981	3,725
Percent of Revenue				
Selling, general, and administrative	41.97%	48.17%	51.00%	45.08%
Research and development	6.92%	9.89%	11.04%	10.11%
YEAR / YEAR GROWTH				
Total Revenues	23.42%	-5.07%	-8.72%	24.88%

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

	<u>Q1(11/03)A</u>	<u>Q2 (02/04)A</u>	<u>Q3 (05/04)A</u>	<u>Q4 (08/04)A</u>	<u>FY2004A</u>
Net sales	1,139	1,369	1,233	1,466	5,207
Cost of sales	<u>352</u>	<u>460</u>	<u>383</u>	<u>363</u>	<u>1,557</u>
Gross Profit	<u>787</u>	<u>909</u>	<u>850</u>	<u>1,103</u>	<u>3,650</u>
<i>Gross Margins</i>	69.11%	66.41%	68.96%	75.25%	70.09%
Operating Expenses:					
Selling, general, and administrative	606	734	622	547	2,508
Research and development	143	154	118	100	515
Total Operating Expenses	<u>749</u>	<u>888</u>	<u>740</u>	<u>646</u>	<u>3,023</u>
EBITDA	98	89	150	512	850
Operating Income (loss)	38	21	111	457	626
<i>Operating Margin</i>	3.32%	1.55%	8.96%	31.16%	12.03%
Other income (expense)					
Interest income	20	19	22	11	73
Interest expense	(0)	(0)	(0)	(0)	(1)
Loss on sale of assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Income (expense)	<u>20</u>	<u>19</u>	<u>22</u>	<u>11</u>	<u>72</u>
Pre-Tax Income (loss)	58	40	133	468	699
<i>Pre-Tax Margins</i>	5.08%	2.95%	10.75%	31.91%	13.42%
Income Tax Expense (Benefit)	11	8	-	(157)	(138)
Release of valuation allowance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Tax Rate</i>	19.30%	19.30%	0.00%	-33.53%	-19.73%
Net income (loss)	\$ 47	\$ 33	\$ 133	\$ 625	\$ 836
Earnings per share -- Diluted	<u>\$ 0.01</u>	<u>\$ 0.01</u>	<u>\$ 0.03</u>	<u>\$ 0.16</u>	<u>\$ 0.21</u>
Avg Shares Outstanding	4,128	4,209	4,046	3,895	3,895
Percent of Revenue					
Selling, general, and administrative	53.20%	53.61%	50.44%	37.29%	48.17%
Research and development	12.59%	11.25%	9.57%	6.80%	9.89%
YEAR / YEAR GROWTH					
Total Revenues	5.68%	22.21%	-2.17%	-27.66%	-5.07%

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

	<u>Q1(11/04)A</u>	<u>Q2 (02/05)A</u>	<u>Q3 (05/05)A</u>	<u>Q4 (08/05)A</u>	<u>FY2005A</u>
Net sales	1,066	1,032	1,424	1,230	4,753
Cost of sales	<u>322</u>	<u>371</u>	<u>428</u>	<u>387</u>	<u>1,508</u>
Gross Profit	<u>744</u>	<u>661</u>	<u>996</u>	<u>843</u>	<u>3,244</u>
<i>Gross Margins</i>	69.80%	64.06%	69.93%	68.54%	68.27%
Operating Expenses:					
Selling, general, and administrative	632	535	645	612	2,424
Research and development	114	131	134	146	525
Total Operating Expenses	<u>746</u>	<u>667</u>	<u>779</u>	<u>757</u>	<u>2,948</u>
EBITDA	41	51	272	139	503
Operating Income (loss)	(1)	(6)	218	86	296
<i>Operating Margin</i>	-0.12%	-0.55%	15.28%	6.96%	6.23%
Other income (expense)					
Interest income	17	15	7	5	43
Interest expense	(0)	-	(0)	(0)	(1)
Gain (Loss) on exchange of currency	2	-	(5)	(4)	(7)
Loss on sale of assets	<u>5</u>	<u>-</u>	<u>3</u>	<u>7</u>	<u>15</u>
Total Other Income (expense)	<u>24</u>	<u>15</u>	<u>6</u>	<u>8</u>	<u>52</u>
Pre-Tax Income (loss)	23	9	223	93	348
<i>Pre-Tax Margins</i>	2.11%	0.86%	15.67%	7.59%	7.32%
Income Tax Expense (Benefit)	-	-	50	36	86
Release of valuation allowance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Tax Rate</i>	0.00%	0.00%	22.40%	38.35%	24.66%
Net income (loss)	\$ 23	\$ 9	\$ 173	\$ 58	\$ 262
Earnings per share -- Diluted	<u>\$ 0.01</u>	<u>\$ 0.00</u>	<u>\$ 0.04</u>	<u>\$ 0.02</u>	<u>\$ 0.07</u>
Avg Shares Outstanding	4,144	4,115	3,958	3,705	3,981
Percent of Revenue					
Selling, general, and administrative	59.26%	51.90%	45.25%	49.74%	51.00%
Research and development	10.66%	12.72%	9.41%	11.84%	11.04%
YEAR / YEAR GROWTH					
Total Revenues	-6.35%	-24.62%	15.51%	-16.10%	-8.72%

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

	<u>Q1(11/05)E</u>	<u>Q2 (02/06)E</u>	<u>Q3 (05/06)E</u>	<u>Q4 (08/06)E</u>	<u>FY2006E</u>
Net sales	1,285	1,500	1,675	1,475	5,935
Cost of sales	<u>390</u>	<u>445</u>	<u>500</u>	<u>440</u>	<u>1,775</u>
Gross Profit	<u>895</u>	<u>1,055</u>	<u>1,175</u>	<u>1,035</u>	<u>4,160</u>
<i>Gross Margins</i>	69.65%	70.35%	70.15%	70.18%	70.10%
Operating Expenses:					
Selling, general, and administrative	650	675	685	665	2,675
Research and development	150	150	150	150	600
Total Operating Expenses	<u>800</u>	<u>825</u>	<u>835</u>	<u>816</u>	<u>3,276</u>
EBITDA	150	285	395	275	1,105
Operating Income (loss)	95	230	340	220	885
<i>Operating Margin</i>	7.41%	15.35%	20.30%	14.88%	14.91%
Other income (expense)					
Interest income	<u>10</u>	<u>10</u>	<u>15</u>	<u>15</u>	<u>50</u>
Total Other Income (expense)	<u>10</u>	<u>10</u>	<u>15</u>	<u>15</u>	<u>50</u>
Pre-Tax Income (loss)	105	240	355	235	935
<i>Pre-Tax Margins</i>	8.18%	16.02%	21.20%	15.90%	15.75%
Income Tax Expense (Benefit)	25	55	85	65	230
Release of valuation allowance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Tax Rate</i>	23.77%	22.89%	23.95%	27.72%	24.60%
Net income (loss)	\$ 80	\$ 185	\$ 270	\$ 170	\$ 705
Earnings per share -- Diluted	<u>\$ 0.02</u>	<u>\$ 0.05</u>	<u>\$ 0.07</u>	<u>\$ 0.05</u>	<u>\$ 0.19</u>
Avg Shares Outstanding	3,710	3,720	3,730	3,740	3,725
Percent of Revenue					
Selling, general, and administrative	50.60%	45.00%	40.90%	45.10%	45.08%
Research and development	11.65%	10.00%	8.95%	10.20%	10.11%
YEAR / YEAR GROWTH					
Total Revenues	20.50%	45.38%	17.56%	19.94%	24.88%

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

	<u>FY2003A</u>	<u>FY2004A</u>	<u>FY2005A</u>
<i>Cash Flows from Operating Activities</i>			
Net Income (loss)	\$ 2,506	\$ 836	\$ 262
Depreciation and amortization of property and equipment	33	43	43
Amortization of capitalized software development	162	181	164
Loss on sale of assets	<u>2</u>	<u>-</u>	<u>(15)</u>
	2,704	1,060	454
<i>Changes In:</i>			
Accounts receivable	(765)	(12)	608
Inventory	40	(152)	77
Deferred tax	(1,291)	(105)	84
Other assets	(27)	(50)	35
Accounts payable	29	(22)	(62)
Accrued payroll and other expenses	(272)	(20)	177
Accrued bonuses to officers	79	(56)	(39)
Income taxes	43	(41)	-
Accrued warranty and service costs	14	(12)	(5)
Deferred revenue	(11)	(15)	110
Net Changes in Working Capital	<u>(2,162)</u>	<u>(485)</u>	<u>985</u>
Net cash Provided by Operations	<u>542</u>	<u>575</u>	<u>1,438</u>
<i>Cash Flows from Investing Activities</i>			
Purchase of property and equipment	(77)	(44)	(71)
Capitalized computer software development costs	(235)	(221)	(475)
Proceeds from sale of assets	<u>2</u>	<u>-</u>	<u>23</u>
Cash Flows from Investing Activities	<u>(311)</u>	<u>(265)</u>	<u>(522)</u>
<i>Cash Flows from Financing Activities</i>			
Net decrease in line of credit	-	-	-
Payments on capitalized lease obligations	(11)	(4)	-
Proceeds from the exercise of stock options	<u>5</u>	<u>168</u>	<u>104</u>
Net cash provided by Financing	<u>(6)</u>	<u>164</u>	<u>104</u>
Net change in Cash	225	474	1,020
Cash Beginning of Period	<u>36</u>	<u>261</u>	<u>734</u>
Cash End of Period	<u>\$ 261</u>	<u>\$ 734</u>	<u>\$ 1,754</u>