Taglich Brothers, Inc.

The Standard of Excellence in the Microcap Market

Member: NASD, SIPC

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

SLP $3.48 — (AMEX)

May 10, 2005

	FYE (08/03)A	FYE (08/04)A	***FYE (08/05) E***	***FYE (08/06) E***
Net sales (in millions)	$5.5	$5.2	***$4.7***	***$5.2***
Earnings per share	$0.67*	$0.21	***$0.06***	***$0.11***

52week price range	$6.70 – $3.21	Fiscal year ends:	August
Shares outstanding as of April 14th 2005	3.63 million	Revenue/shares (ttm)	$1.19
Trading float	1.53 million	Price/Sales (ttm)	2.92X
Insiders	2.10 million	Price/Sales (2006)	2.76X
Tangible Book value/share a/o 02-28-05	$1.07	Price/Earnings (ttm)	17.4X
Price/Book	3.25X	Price/Earnings (2006)	31.6X

* 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 $5.05 per share. Our prior twelve-month price target was $6.50 per share. The change in our price target is primarily as a result of our reduced net sales per share forecast for the next four quarters.

The Company reported that second quarter fiscal 2005 revenue was $1.032 million versus $1.369 million in the second quarter of fiscal 2004. The operating loss for the quarter was $0.006 million versus an operating profit of $0.021 million in the same period last year. Net income was $0.009 million or $0.00 per diluted share versus $0.033 million or $0.01 per diluted share.

Based on results for the first six months of the year, comments made by Management in the Company's 10-Q filings, and our outlook, we have adjusted our fiscal 2005 forecasts for net sales and net income to $4.75 million and $0.262 million or $0.06 per diluted share, respectively. Our prior forecasts called for net sales of $6.00 million and net income of $1.02 million or $0.25 per diluted share, respectively.

We are also reducing our fiscal 2006 forecasts. We believe net sales will approach $5.23 million and net income will be approximately $0.450 million or $0.11 per diluted share. Our prior forecasts called for net sales of $7.12 million and net income of $1.242 million or $0.30 per diluted share, respectively.

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

The Company

Simulations Plus, Inc. (AMEX: SLP), founded in 1996, went public during June of 1997 through a $5.0 million initial public offering. The Company had at the end of fiscal 2004, 26 employees (23 full-time and 3 part-time), which included 10 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. The Company announced in its earnings press release that one additional person was added to its Business Development team and that an additional scientist will be added before the end of April bringing the total number of employees to 28 professionals. Also, SLP will be seeking to add two additional scientists to its team.

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

- Simulations Plus, which develops absorption, distribution, metabolism, and excretion (ADMET) 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.

- 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 sub-routines.

<u>*Software Offerings*</u>

The Company's simulation 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™**, which simulates absorption, pharmacokinetics (PK; the process by which a drug is absorbed, distributed, metabolized, and eliminated by the body), and pharmacodynamics (PD; the combination of therapeutic and adverse effects on the body for orally dosed and injected drugs). In the drug development phase, GastroPlus is designed to aid researchers in dosage formulation, the effects of various controlled release profiles, and evaluation of heterogeneic variations in physiology and transit times.

- **DDDPlus ™** is a new tool, which was released in February 2005, for formulation scientists that 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. The release of this software product is the result of a two-year development program.

- **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, and then 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. Also, in January 2005, the Company released ADMET Predictor 1.0, which added new capabilities for toxicity prediction. The new capabilities provide six different toxicity models based on data sets released to the public domain by the U.S. Environmental Proctection Agency and the U.S. Food and Drug Administration in 2004.

- **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.

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 Company, under its research and development program, is striving 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 ADMET Predictor™.

Software that is being developed by the Company includes the PBPKPlus Module (an extension module for GastroPlus that enables researchers to predict the amount of drug that reaches different body tissues and organs) and MembranePlus™ (which is a simulation of in-vitro permeability experiments). Management expects the latter software offerings to be released in 2005.

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.

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;
- $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 16 years and as much as $1.6 billion 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 and by Pharmaceutical companies; 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 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 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.

In October 2004, it demonstrated a new Windows CE tablet-computer-based augmentative communication system, called the SAM Tablet, based on a version of the Say-it! SAM software. Management had received enthusiastic responses from both potential customers and Words+ dealers regarding this new device. The Company also showed an improved table-mount for PC's and other devices. It is Management's belief that tablet-based communication systems are in strong demand in this market and that this addition fills a significant gap in the Words+ subsidiary product line.

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 nearly $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 three-month period ended February 28, 2005, versus the three-months ended February 28, 2004:

- Net sales declined to $1.032 million versus $1.369 million;
- Gross margins decreased to 64.06% versus 66.41%;
- SG&A expenses decreased to $0.535 million versus $0.734 million;
- Research and development decreased to $0.131 million versus $0.154 million;
- Operating loss of $0.006 million versus operating income of $0.021 million; and
- Net income was $0.009 million or $0.00 per diluted share versus net income of $0.033 million or $0.01 per diluted share.

Management attributes the 24.6% year-over-year net sales decrease primarily to the lack of an equivalent $0.5 million two-year pharmaceutical software order that occurred in the second quarter of last year. No equivalent long-term contract occurred during the three month period ended February 28, 2005. Investors should also be aware that the current quarter did include orders that had been expected in the prior quarter; however, in total, revenues generated were less than expected.

Investors should be aware that the level of pharmaceutical revenue in the quarter was primarily sustained with orders from new customers, as well as orders that slipped from the first quarter into the current quarter. This should over time expand the foundation for future annual license renewals.

Sales decreased for simulation software to $0.410 million versus $0.642 million in the second quarter of fiscal 2004, while the Company's Words+ subsidiary's revenues were nearly flat at $0.622 million versus $0.626 million. In the quarter, lower sales of the Company's Freedom and MessageMate products were nearly offset by increases in sales of Say-it! SAM and TuffTalker products.

Gross margins decreased by 235 basis points primarily due to a change in the product sales mix. Lower pharmaceutical software sales negatively impacted gross margins. The decline in SG&A expenses versus the same period last year of $0.199 million was the result of lower insurance, legal, and accounting expenses that outweighed increases in investor relation's fees.

Taglich Brothers estimates for the second quarter of fiscal 2005 called for net sales of $1.670 million and net income of $0.07 million or $0.07 per diluted share.

Balance Sheet Snapshot as of February 28, 2005

The Company had cash of $1.009 million versus $0.734 million as of its fiscal year ended August 31, 2004. Working capital was $2.405 million versus $2.605 million as of August 31, 2004. Total assets, which stood at $5.044 million, are primarily comprised of accounts receivable (that totaled $1.508 million) and a deferred tax asset of $1.396 million.

Also, the Company had total liabilities of $0.481 million, an accumulated deficit of $0.516 million, and total shareholders equity of $4.564 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 has available a $0.5 million revolving line of credit (which expires in May 2005) from a bank at prime plus 1.5%. As of February 28, 2005, the Company had not borrowed against its 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 the Company's primary simulation software products (GastroPlus, ADMET Predictor, ADMET Modeler, and recently released DDDPlus ™) 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 ADME Partners global licensing program for large pharmaceutical companies.

It is important for investors to be aware that in addition to annual license renewals, the Company will continue to pursue multi-year, global contracts. However, we have not included the potential for multi-year contracts in our current 2005 forecast.

We believe the 2004 restructuring of the Words+ subsidiary will continue to bear fruit in fiscal 2005. Also the recent introduction of the SAM Tablet, based on a version of the Say-it! SAM software is likely to benefit fiscal 2005 results.

Projections

Based on results for the first six months of fiscal 2005, comments made by Management in the Company's 10-Q filings, and our outlook, we have adjusted our fiscal 2005 forecast of net sales to $4.748 million versus our prior forecast of $6.001 million. The primary reason for our reduced expectations is the 32.6% decline in net sales for simulations software products during the first six months of the fiscal year. At this time, unless a few big multi-year orders are received, we do not anticipate net sales growth for simulations software products in fiscal 2005. However, we anticipate net sales for the Words+ subsidiary should grow by approximately 2.4% to $2.408 million.

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 2005 and 2006, versus actual results achieved in 2004. Our estimates are based on the Company's reported results for fiscal 2004 and the first quarter of fiscal 2005.

Cost Structure

	2004	**2005E**		**2006E**	
	Actual	**Prior**	**Revised**	**Prior**	**Revised**
Gross Margin	70.09%	72.55%	66.87%	72.66%	69.29%
SG&A expenses (as a Percent of Net Sales)	48.17%	48.93%	52.38%	48.49%	52.63%
Research and Development (as a Percent of Net Sales)	9.89%	8.14%	10.43%	8.36%	9.57%
Operating Margin	12.03%	15.47%	4.06%	15.81%	7.08%
Pre-tax Margin	13.42%	17.00%	5.51%	17.46%	8.61%

Source: Company filings and Taglich Brothers estimates

Based on our net sales and cost structure estimates, EBITDA should approach $0.402 million in fiscal 2005 versus EBITDA of $0.850 million in fiscal 2004. Our net income forecast is now $0.262 million or $0.06 per diluted share in fiscal 2005 versus our prior forecast of $1.020 million or $0.25 per diluted share. Our EPS forecast for fiscal 2005 is based on average fully diluted shares of 4.128 million. For fiscal 2006, we estimate EBITDA of $0.570 million with net income of $0.450 million or $0.11 per diluted share. Our prior net income forecast was $1.242 million or $0.30 per diluted share.

Our net income estimate for fiscal 2005 and 2006 assumes that the Company will not pay or record taxes due to its net operating loss (NOL) carryforwards for the federal and state of approximately $2.69 million and $1.17 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.

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.

Technology

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 31.0% and 16.0% of net sales for the fiscal years ended August 31, 2004 and 2003, respectively. For simulation software sales, one customer accounted for 11.0% of net sales for the year ended August 31, 2004, and two customers represented approximately 32.0% of the net accounts receivable. For the Words+ subsidiary, one government agency accounted for 19.0% of net sales during the fiscal year 2004, and two government agencies represented approximately 18.0% 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 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'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.

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 three months of calendar 2005 average daily-volume decreased to 7,359 shares a day. Investors need to be aware that by nature a thinly traded equity can have significant price volatility.

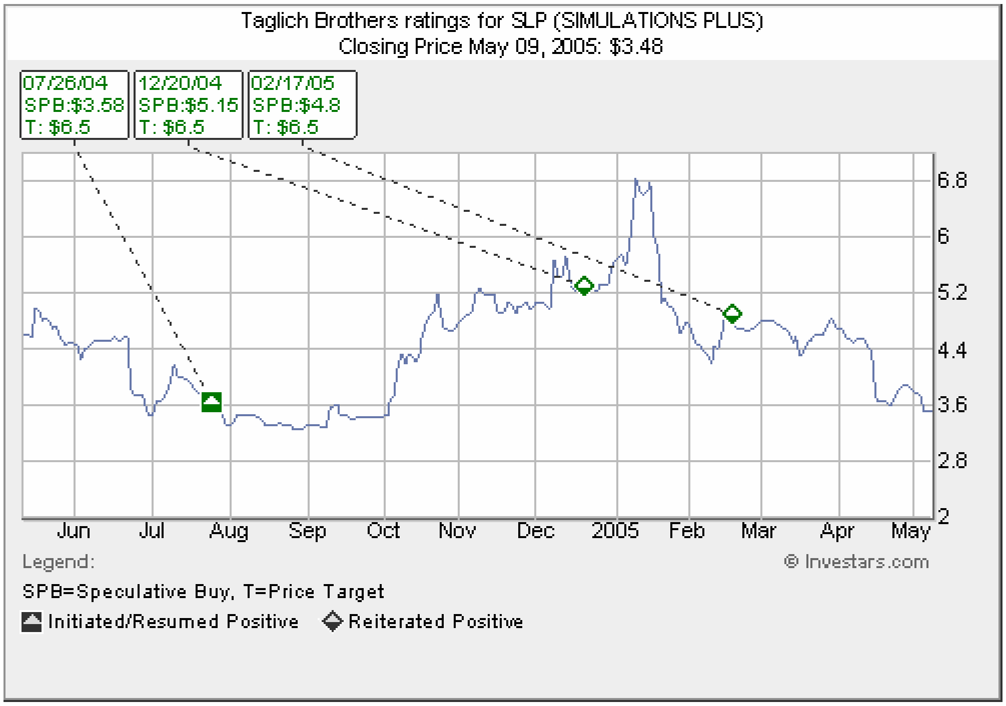
Valuation/Conclusion

We are maintaining coverage of Simulations Plus, Inc. (AMEX: SLP) with a Speculative Buy recommendation. However, we are lowering our twelve-month price target to $5.05 per share from our prior price target of $6.50 per share. The reduction in our price target is primarily due to the lowering of net sales per share forecast for the next four quarters to $1.18 per share from $1.49 per share.

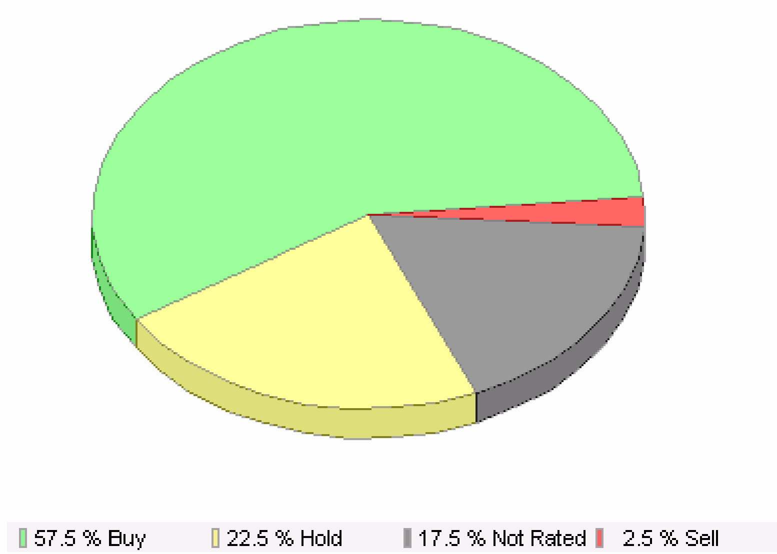
Our price target is based on the following valuation model, discounted by 30% to account for microcap risk along with Company specific risks discussed earlier:

- A 6.1X, price-to-sales multiple, which is the trailing twelve-month multiple (as of 5/09/05) for the Software and Programming Industry (according to investor.reuters.com), applied to our net sales estimate of $1.18 per share for the next four quarters.

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



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)

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	August 2004 Fiscal Year End	Nov. 2004 1st Qtr End	Feb 2005 2rd Qtr End
ASSETS					
Current assets:					
Cash	$ 36	$ 261	$ 734	$ 1,048	$ 1,009
Accounts receivable, net	928	1,423	1,705	1,390	1,508
Inventory	209	192	359	328	250
			186	186	-
Prepaid expense and other current assets	37	65	116	95	103
Total current assets	**1,210**	**1,940**	**3,100**	**3,047**	**2,871**
Long term receivables, net of present value discount	-	271	-	-	-
Capitalized computer software development costs, net	301	374	576	665	697
Property and Equipment, net	62	80	66	77	69
Deferred tax	-	1,291	1,210	1,210	1,396
Other assets	13	12	11	11	11
Total assets	**$ 1,586**	**$ 3,968**	**$ 4,964**	**$ 5,010**	**$ 5,044**
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Line of credit	-	-	-	-	-
Accounts payable	146	175	153	135	182
Accrued payroll and other expenses	310	236	219	238	240
Accrued bonuses to officers	54	134	78	78	-
Accrued compensation due to officers	199	-	-	-	-
Accrued income taxes	-	43	2	2	-
Accrued warranty and service costs	31	45	32	31	28
Current portion of deferred revenue	-	15	11	11	11
Other current liabilities	-	-	-	-	5
Current portion of capitalized lease obligations	11	10	-	-	-
Total current liabilities	**751**	**657**	**495**	**495**	**466**
Capital lease obligations, net of current portion	10	-	3	3	-
Deferred Revenue	57	31	20	17	14
Stockholders' equity:					
Common stock, no par value; authorized 20,000,000 shares;	3	3	4	4	4
Additional paid-in capital	4,655	4,660	4,990	5,017	5,076
Accumulated deficit	(3,890)	(1,384)	(548)	(525)	(516)
Total stockholders' equity	**768**	**3,279**	**4,446**	**4,495**	**4,564**
Total liabilities and stockholders' equity	**$ 1,586**	**$ 3,968**	**$ 4,964**	**$ 5,010**	**$ 5,044**
SHARES OUT	3,408	3,412	3,564	3,581	3,621

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

	FY2002	FY2003	FY2004	**FY2005E**	**FY2006E**
Net sales	4,444	5,485	5,207	**4,748**	**5,225**
Cost of sales	1,456	1,538	1,557	**1,573**	**1,605**
Gross Profit	2,988	3,947	3,650	**3,175**	**3,620**
Gross Margins	67.23%	71.96%	70.09%	**66.87%**	**69.29%**
Operating Expenses:					
Selling, general, and administrative	2,105	2,302	2,508	**2,487**	**2,750**
Research and development	382	380	515	**495**	**500**
Total Operating Expenses	2,487	2,681	3,023	**2,982**	**3,250**
EBITDA	692	1,461	850	**402**	**570**
Operating Income (loss)	500	1,265	626	**193**	**370**
Operating Margin	11.25%	23.07%	12.03%	**4.06%**	**7.08%**
Other income (expense)					
Interest income	0	0	73	**62**	**80**
Interest expense	(14)	(5)	(1)	**(0)**	**-**
Gain (Loss) on exhange of currency	-	-	-	**2**	
Loss on sale of assets	-	(2)	-	**5**	**-**
Total Other Income (expense)	(14)	(7)	72	**69**	**80**
Pre-Tax Income (loss)	487	1,258	699	**262**	**450**
Pre-Tax Margins	10.95%	22.94%	13.42%	**5.51%**	**8.61%**
Income Tax Expense (Benefit)	2	43	(138)	-	-
Release of valuation allowance	-	(1,291)	-	**-**	**-**
Tax Rate	0.00%	NMF	-19.73%	**0.00%**	**0.00%**
Net income (loss)	$ 487	$ 2,506	$ 836	**$ 262**	**$ 450**
Earnings per share -- Diluted	$ 0.14	$ 0.67	$ 0.21	$ 0.06	$ 0.11
Avg Shares Outstanding	3,525	3,740	3,895	**4,128**	**4,150**
Percent of Revenue					
Selling, general, and administrative	47.37%	41.97%	48.17%	52.38%	52.63%
Research and development	8.60%	6.92%	9.89%	10.43%	9.57%
YEAR / YEAR GROWTH					
Total Revenues	13.52%	23.42%	-5.07%	-8.81%	10.04%

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)A	**FY2004A**
Net sales	1,139	1,369	1,233	1,466	**5,207**
Cost of sales	352	460	383	363	**1,557**
Gross Profit	787	909	850	1,103	**3,650**
Gross Margins	*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	749	888	740	646	**3,023**
EBITDA	98	89	150	512	**850**
Operating Income (loss)	38	21	111	457	**626**
Operating Margin	*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	-	-	-	-	**-**
Total Other Income (expense)	20	19	22	11	**72**
Pre-Tax Income (loss)	58	40	133	468	**699**
Pre-Tax Margins	*5.08%*	*2.95%*	*10.75%*	*31.91%*	**13.42%**
Income Tax Expense (Benefit)	11	8	-	(157)	**(138)**
Release of valuation allowance	-	-	-	-	**-**
Tax Rate	*19.30%*	*19.30%*	*0.00%*	*-33.53%*	**-19.73%**
Net income (loss)	$ 47	$ 33	$ 133	$ 625	**$ 836**
Earnings per share -- Diluted	$ 0.01	$ 0.01	$ 0.03	$ 0.16	$ 0.21
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)

	Q1(11/04)A	Q2 (02/05)A	Q3 (05/05)E	Q4 (08/05)E	**FY2005E**
Net sales	1,066	1,032	1,250	1,400	**4,748**
Cost of sales	322	371	435	445	**1,573**
Gross Profit	744	661	815	955	**3,175**
Gross Margins	*69.80%*	*64.06%*	*65.20%*	*68.20%*	**66.87%**
Operating Expenses:					
Selling, general, and administrative	632	535	645	675	**2,487**
Research and development	114	131	125	125	**495**
Total Operating Expenses	746	667	770	800	**2,982**
EBITDA	41	51	100	210	**402**
Operating Income (loss)	(1)	(6)	45	155	**193**
Operating Margin	*-0.12%*	*-0.55%*	*3.62%*	*11.05%*	**4.06%**
Other income (expense)					
Interest income	17	15	15	15	**62**
Interest expense	(0)	-	-	-	**(0)**
Gain (Loss) on exhange of currency	2	-	-	-	**2**
Loss on sale of assets	5	-	-	-	**5**
Total Other Income (expense)	24	15	15	15	**69**
Pre-Tax Income (loss)	23	9	60	170	**262**
Pre-Tax Margins	*2.11%*	*0.86%*	*4.82%*	*12.14%*	**5.51%**
Income Tax Expense (Benefit)	-	-	-	-	**-**
Release of valuation allowance	-	-	-	-	**-**
Tax Rate	*0.00%*	*0.00%*	*0.00%*	*0.00%*	**0.00%**
Net income (loss)	$ 23	$ 9	$ 60	$ 170	**$ 262**
Earnings per share -- Diluted	$ 0.01	$ 0.00	$ 0.01	$ 0.04	$ 0.06
Avg Shares Outstanding	4,144	4,115	4,125	4,130	**4,128**
Percent of Revenue					
Selling, general, and administrative	59.26%	51.90%	51.58%	48.20%	52.38%
Research and development	10.66%	12.72%	10.00%	8.95%	10.43%
YEAR / YEAR GROWTH					
Total Revenues	-6.35%	-24.62%	1.35%	-4.51%	-8.81%

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

	Q1(11/05)E	Q2 (02/06)E	Q3 (05/06)E	Q4 (08/06)E	**FY2006E**
Net sales	1,125	1,100	1,425	1,575	**5,225**
Cost of sales	340	325	475	465	**1,605**
Gross Profit	785	775	950	1,111	**3,620**
Gross Margins	*69.80%*	*70.45%*	*66.65%*	*70.50%*	**69.29%**
Operating Expenses:					
Selling, general, and administrative	645	625	715	765	**2,750**
Research and development	125	125	125	125	**500**
Total Operating Expenses	770	750	840	890	**3,250**
EBITDA	65	75	160	270	**570**
Operating Income (loss)	15	25	110	220	**370**
Operating Margin	*1.35%*	*2.25%*	*7.70%*	*13.99%*	**7.08%**
Other income (expense)					
Interest income	20	20	20	20	**80**
Interest expense	-	-	-	-	**-**
Total Other Income (expense)	20	20	20	20	**80**
Pre-Tax Income (loss)	35	45	130	240	**450**
Pre-Tax Margins	*3.13%*	*4.07%*	*9.10%*	*15.26%*	**8.61%**
Income Tax Expense (Benefit)	-	-	-	-	**-**
Release of valuation allowance	-	-	-	-	**-**
Tax Rate	*0.00%*	*0.00%*	*0.00%*	*0.00%*	**0.00%**
Net income (loss)	$ 35	$ 45	$ 130	$ 240	**$ 450**
Earnings per share -- Diluted	$ 0.01	$ 0.01	$ 0.03	$ 0.06	$ 0.11
Avg Shares Outstanding	4,135	4,150	4,155	4,160	**4,150**
Percent of Revenue					
Selling, general, and administrative	57.35%	56.80%	50.20%	48.56%	52.63%
Research and development	11.10%	11.40%	8.75%	7.95%	9.57%
YEAR / YEAR GROWTH					
Total Revenues	5.45%	6.59%	14.02%	12.54%	10.04%

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

	FY2002A	FY2003A	FY2004A	Q2 2005A
Cash Flows from Operating Activities				
Net Income (loss)	$ 485	$ 2,506	$ 836	$ 31
Depreciation and amortization of property and equipment	64	33	43	22
Amortization of capitalized software development	128	162	181	78
Loss on sale of assets	-	2	-	(5)
	677	2,704	1,060	125
Changes In:				
Accounts receivable	(484)	(765)	(12)	197
Inventory	(26)	40	(152)	108
Deferred tax	-	(1,291)	(105)	-
Other assets	(12)	(27)	(50)	13
Accounts payable	(119)	29	(22)	29
Accrued payroll and other expenses	(17)	(272)	(20)	23
Accrued bonuses to officers	54	79	(56)	(78)
Income taxes	-	43	(41)	(2)
Accrued warranty and service costs	(14)	14	(12)	(4)
Deferred revenue	52	(11)	(15)	(6)
Net Changes in Working Capital	(566)	(2,162)	(485)	281
Net cash Provided by Operations	111	542	575	406
Cash Flows from Investing Activities				
Purchase of property and equipment	(35)	(77)	(44)	(27)
Capitalized computer software development costs	(94)	(235)	(221)	(199)
Proceeds from sale of assets	-	2	-	9
Cash Flows from Investing Activities	(129)	(311)	(265)	(217)
Cash Flows from Financing Activities				
Net decrease in line of credit	(99)	-	-	-
Payments on capitalized lease obligations	(13)	(11)	(4)	-
Proceeds from the exercise of stock options	-	5	168	86
Net cash provided by Financing	(112)	(6)	164	86
Net change in Cash	(131)	225	474	275
Cash Beginning of Period	167	36	261	734
Cash End of Period	$ 36	$ 261	$ 734	$ 1,009