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

SLP $5.15 — (AMEX)

December 20, 2004

	FYE (08/02)	FYE (08/03)	FYE (08/04)	***FYE (08/05) E***
Net sales (in millions)	$4.4	$5.5	$5.2	***$6.3***
Earnings per share	$0.14	$0.67*	$0.21	***$0.27***

52week price range	$7.55 – $3.21	Fiscal year ends:	August
Shares outstanding as of November 24th 2004	3.58 million	Revenue/shares (ttm)	$1.34
Trading float	1.49 million	Price/Sales (ttm)	3.84X
Insiders	2.09 million	Price/Sales (2005)	3.22X
Tangible Book value/share a/o 08-31-04	$1.09	Price/Earnings (ttm)	24.5X
Price/Book	4.72X	Price/Earnings (2005)	19.1X

* 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 and 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™, ADMET Predictor™, and ADMET Modeler™ for pharmaceutical research has experienced a compound annual sales growth of over 32.2% between fiscal year end 2000 and 2004.

Management's growth strategy for its simulation software portfolio includes marketing to a wider audience, enhancing existing products, as well as developing new complementary simulation software products to aid in the drug development process.

The Company reported that fiscal 2004 full year revenue was $5.207 million versus $5.485 million in fiscal 2003. Net income for the year was $0.836 million or $0.21 per diluted share versus $2.506 million or $0.67 per diluted share.

Based on reported results for 2004, the Company's overall growth strategy, and our outlook, we have adjusted our fiscal 2005 forecasts for net sales and net income to $6.32 million and $1.07 million or $0.27 per diluted share, respectively. Our prior forecasts called for net sales of $7.2 million and net income of $1.180 million or $0.28 per diluted share.

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

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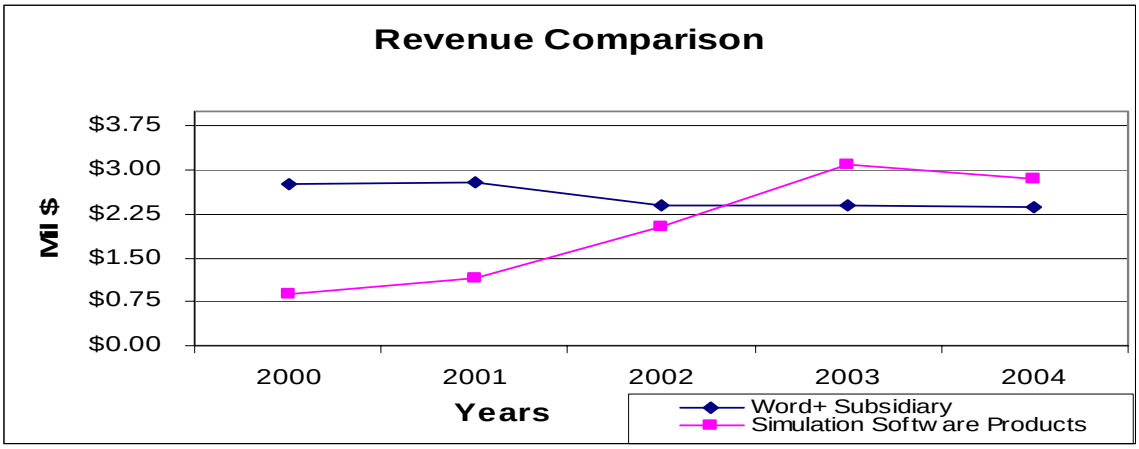
The Company

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 26 employees (23 full-time and 3 part-time), which includes 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.

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 software in order to conduct contract research work for the pharmaceutical industry.

  Revenue is generated in this area primarily from licensing of its portfolio of software products (GastroPlus™, ADMET Predictor™, and ADMET Modeler™), for pharmaceutical research. Net sales have experienced a compound annual growth rate of over 32.2% between fiscal year end 2000 and 2004. 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.

Simulations Plus

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 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. 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, 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:

- **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. 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.

- **ADMET Predictor™ (Formerly known as QMPRPlus™)**, which 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 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 (PKD's)	Receptor acceptor toxicity

Simulation of fraction absorbed in 1, 10, 100, 1000 milligram doses

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.

- **ADMET Modeler ™ (Formerly known as QMPRchitect ™)**, which allows researchers to:
    - Build and 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 ADMET Modeler, 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 ADMET Predictor. It is used to build all the property predictions in ADMET Predictor.

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. According to the Company's 10-K filing, during the three month period ending August 31, 2004, SLP received its largest study for contract research work. It is Management's belief that results of the study saved a customer from conducting a human trial that would have inevitably failed.

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™.

The following are some of the simulation software products underdevelopment:

- **PBPKPlus Module,** which is an extension module for GastroPlus that enables researchers to predict the amount of drug that reaches different body tissues and organs. According to the Company's 10-K filing, this module was demonstrated at the American Association of Pharmaceutical Scientists conference in early November 2004. Management expects the module to be fully released for sale in late calendar 2004.
- **DDDPlus™,** is expected to simulate how different tablets and capsules disintegrate and dissolve during in-vitro experiments. The Company, which demonstrated a near final version at the American Association of Pharmaceutical Scientists conference in early November 2004, expects to release the full version by the end of calendar 2004.
- **MembranePlus™,** is a simulation of in vitro permeability experiments. It will be used to better understand how drug molecules permeate membranes under different conditions. Management believes this will enable better estimation of permeabilities in different regions of the human GI tract from these laboratory experiments. According to the Company's 10-K filing, this offering is expected to be released in early calendar 2005.

Growth Strategy

Management's strategy to grow the Company's simulation software sales for the pharmaceutical, biotechnology, and drug delivery markets includes: 1) Marketing to a wider audience. The Company has increased its 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, 2) Continuing research and development activities in order to add additional-cost product extensions to GastroPlus™, ADMET Predictor™ and ADMET Modeler™, and 3) Developing new core products.

We believe that the Company's growth strategy is bearing fruit, as evidenced by the following announcement:

- On December 7, 2004, SLP announced it received a one-year multi-site order for its GastroPlus™ software from a top-five pharmaceutical company. The software licenses are for six research sites in the U.S, Europe, and Japan. Management believes that this customer intends to turn this one-year agreement into a multi-year global contract that may include other software product lines.

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, ADMET Predictor™, and ADMET Modeler™; however, competition is likely to materialize sometime in the future.

Market Drivers

The Company cites 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, 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 upwards of $800 million 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.

In 2000, the industry spent an estimated $26 billion (domestically) in research and development, which was an increase from $15 billion in 1995.

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.

According to the Company's 10-K filing, at the Closing the Gap conference held during 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. According to Management, this new device received enthusiastic responses from both potential customers and Words+ dealers. 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.

Growth Strategy

Management's pursuit of growth for this subsidiary will include increasing dealer effectiveness by utilizing training and monitoring programs and expanding the overall dealer network, as well as through increased product awareness, which will be accomplished through the use of:

- Workshops, conferences, and Communications Aid Manufacturers Association tours;
- Creation of alliances with key clinicians and educators; and
- E-mail, web-sites, and multi-media presentations (i.e., CD-ROM Video).

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. 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.

Financial Results

For the twelve-month period ended August 31, 2004, versus the twelve-months ended August 31, 2003:

- Net sales of $5.207 million versus $5.485 million;
- Gross margin of 70.09% versus 71.96%;
- SG&A expenses increased to $2.508 million versus $2.302 million;
- Research and development increased to $0.515 million versus $0.380 million; and
- Net income was $0.836 million or $0.21 per fully diluted share versus net income of $2.506 million or $0.67 per fully diluted share. It is important for investors to be aware that fiscal 2003 results were positively impacted by a tax benefit of $1.291 million or approximately $0.30 per diluted share due to the release of a valuation allowance for deferred tax assets.

The 5.1% year-over-year net sales decrease was primarily due to an exceptionally large three-year licensing order for a modified ADME Partners package in fiscal 2003. Also impacting net sales were timing delays in some customer orders. Overall sales decreased for simulation software to $2.856 million versus $3.106 million in fiscal 2003.

The Company's Words+ subsidiary was virtually flat compared to last year at $2.351 million versus $2.379 million.

Gross margins decreased by 187 basis points primarily due to a shift in the product mix that resulted from lower sales of pharmaceutical software products. SG&A expenses increased by $0.206 million, as a result of higher:

- Accounting Fees
- Printer leasing
- Commission expense
- Taxes paid on pharmaceutical software sales in Japan
- Insurance
- Investor relations which includes costs for listing on Amex
- Equipment repairs
- Employee bonuses

In addition, research and development expenses increased by $0.135 million, which was primarily due to staff expansion and salary increases.

Taglich Brothers estimates for fiscal 2004 called for revenue of $6.001 million and net income of $0.827 million or $0.20 per diluted share.

Balance Sheet Snapshot as of August 31, 2004

The Company had cash of $0.734 million versus $0.261 million as of its fiscal year ended August 31, 2003. Working capital was $2.605 million, which was an increase of $1.322 million versus fiscal 2003. Working capital as of August 31, 2003 was $1.283 million. Total assets, which stood at $4.964 million, are primarily comprised of accounts receivable (that totaled $1.705 million) and a deferred tax asset of $1.396 million.

Also, the Company had total liabilities of $0.518 million, an accumulated deficit of $0.548 million, and total shareholders equity of $4.446 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 has available a $0.5 million revolving line of credit from a bank at prime plus 1.5%. As of August 31, 2004, 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 that Simulations Plus will continue to demonstrate growth as its three primary simulation software products (GastroPlus, ADMET Predictor, and ADMET Modeler) 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.

Also, enhancing the Company's prospects are three full-time people (an increase from one full-time person and one person spending about half their time on demonstrating and selling products in prior years) that can demonstrate the sophisticated software applications to its target audience.

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, which was discussed earlier. The following is a listing of some of the Company's prominent established customers.

Pfizer	**GlaxoSmithKline**	**Schering AG**
Eli Lilly	**Roche**	**AstraZeneca**
Abbott laboratories	**Novartis**	**Sanofi-Aventis**

On December 7, 2004, the Company announced it received a one-year, multi-site order for its GastroPlus™ software from a top-five pharmaceutical company. Management believes that this customer intends to turn this one-year agreement into a multi-year global contract that may include other software product lines.

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

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

Projections

Based on reported results for fiscal 2004, the Company's overall growth strategy, and our outlook as described above, we have adjusted our fiscal 2005 forecast of net sales to $6.320 million versus our prior forecast of $7.225 million. Net sales for the Words+ subsidiary should grow by approximately 8.6% to $2.552 million, with simulations software growing by 31.9% to $3.768 million.

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 2005, versus actual results achieved in 2003 and 2004. Our estimates are based on the Company's reported results for fiscal 2004.

Cost Structure

	2003	**2004**	**2005E**	
	Actual	**Actual**	**Prior**	**Revised**
Gross Margin	71.96%	69.68%	71.14%	72.55%
SG&A expenses as a Percent of Net Sales	41.97%	47.68%	46.36%	46.99%
Research and Development as a Percent of Net Sales	6.92%	9.17%	9.28%	9.58%
Operating Margin	23.07%	12.83%	15.50%	15.98%
Pre-tax Margin	22.94%	14.10%	16.33%	16.93%

Source: Company filings and Taglich Brothers estimates

Based on our net sales and cost structure estimates, EBITDA should approach $1.19 million in fiscal 2005 versus EBITDA of $0.850 million in fiscal 2004. Our net income forecast is $1.070 million or $0.27 per diluted share in fiscal 2005 versus our prior forecast of $1.180 million or $0.28 per diluted share. Our EPS forecast for fiscal 2005 is based on average fully diluted shares of 3.955 million versus our prior estimate of 4.225 million.

Our net income estimate for fiscal 2005 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 a total of 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 a total of 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 the first eleven months of 2004 has increased to approximately 8,539 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

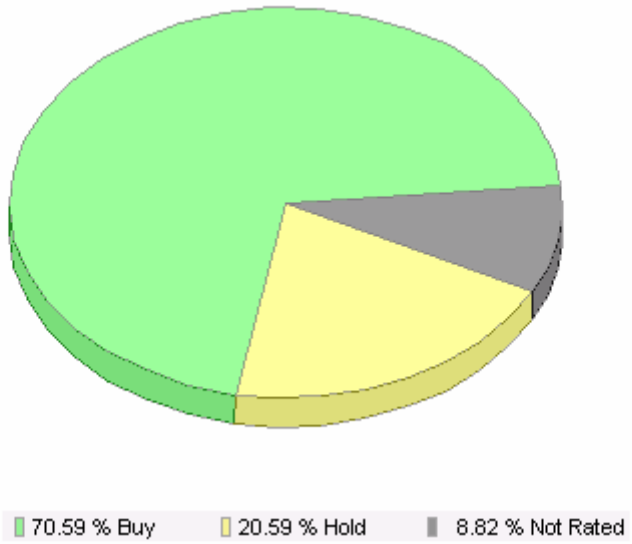
We are maintaining coverage of Simulations Plus, Inc. (AMEX: SLP) with a Speculative Buy recommendation and a twelve-month price target of $6.50 per share based on our forecasts for net sales per share and earnings per share for fiscal 2005 (ending August 31, 2005).

Our price target is based on averaging the following valuation models, discounted by 25% to account for microcap risk along with Company specific risks discussed earlier:

- A 7.0X, price-to-sales multiple, which is the trailing twelve-month multiple (as of 12/20/04) for the Software and Programming Industry (according to investor.reuters.com), applied to our net sales estimate of $1.60 per share for fiscal 2005; and

- A 35.8X P/E multiple, which is the trailing twelve-month multiple (as of 12/20/04) for the Software and Programming Industry (according to investor.reuters.com), applied to our net income estimate on an after-tax basis for fiscal 2005 of $0.18 per share (our after-tax estimate is based on an assumed 34% tax rate applied to our current 2005 estimate is $0.27 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:

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 2002 Fiscal Year End	August 2003 Fiscal Year End	August 2004 Fiscal Year End
ASSETS			
Current assets:			
Cash	$ 36	$ 261	$ 734
Accounts receivable, net	928	1,423	1,705
Inventory	209	192	359
			186
Prepaid expense and other current assets	37	65	116
Total current assets	**1,210**	**1,940**	**3,100**
Long term receivables, net of present value discount	-	271	-
Capitalized computer software development costs, net	301	374	576
Property and Equipment, net	62	80	66
Deferred tax	-	1,291	1,210
Other assets	13	12	11
Total assets	**$ 1,586**	**$ 3,968**	**$ 4,964**
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Line of credit	-	-	-
Accounts payable	146	175	153
Accrued payroll and other expenses	310	236	219
Accrued bonuses to officers	54	134	78
Accrued compensation due to officers	199	-	-
Accrued income taxes	-	43	2
Accrued warranty and service costs	31	45	32
Current portion of deferred revenue	-	15	11
Other current liabilities	-	-	-
Current portion of capitalized lease obligations	11	10	-
Total current liabilities	**751**	**657**	**495**
Capital lease obligations, net of current portion	10	-	3
Deferred Revenue	57	31	20
Stockholders' equity:			
Common stock, no par value; authorized 20,000,000 shares;	3	3	4
Additional paid-in capital	4,655	4,660	4,990
Accumulated deficit	(3,890)	(1,384)	(548)
Total stockholders' equity	**768**	**3,279**	**4,446**
Total liabilities and stockholders' equity	**$ 1,586**	**$ 3,968**	**$ 4,964**
SHARES OUT	3,408	3,412	3,564

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

	FY2002	FY2003	FY2004	**FY2005E**
Net sales	4,444	5,485	5,207	**6,320**
Cost of sales	1,456	1,538	1,557	**1,735**
Gross Profit	2,988	3,947	3,650	**4,585**
Gross Margins	67.23%	71.96%	70.09%	**72.55%**
Operating Expenses:				
Selling, general, and administrative	2,105	2,302	2,508	**2,970**
Research and development	382	380	515	**605**
Total Operating Expenses	2,487	2,681	3,023	**3,575**
EBITDA	692	1,461	850	**1,190**
Operating Income (loss)	500	1,265	626	**1,010**
Operating Margin	11.25%	23.07%	12.03%	**15.98%**
Other income (expense)				
Interest income	0	0	73	**60**
Interest expense	(14)	(5)	(1)	**(0)**
Loss on sale of assets	-	(2)	-	**-**
Total Other Income (expense)	(14)	(7)	72	**60**
Pre-Tax Income (loss)	487	1,258	699	**1,070**
Pre-Tax Margins	10.95%	22.94%	13.42%	**16.93%**
Income Tax Expense (Benefit)	2	43	(138)	**-**
Release of valuation allowance	-	(1,291)	-	**-**
Tax Rate	0.00%	NMF	-19.73%	**0.00%**
Net income (loss)	$ 487	$ 2,506	$ 836	**$ 1,070**
Earnings per share -- Diluted	$ 0.14	$ 0.67	$ 0.21	$ 0.27
Avg Shares Outstanding	3,525	3,740	3,895	**3,955**
Percent of Revenue				
Selling, general, and administrative	47.37%	41.97%	48.17%	46.99%
Research and development	8.60%	6.92%	9.89%	9.58%
YEAR / YEAR GROWTH				
Total Revenues	13.52%	23.42%	-5.07%	21.38%

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)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)E	Q2 (02/05)E	Q3 (05/05)E	Q4 (08/05)E	**FY2005E**
Net sales	1,450	1,625	1,650	1,595	**6,320**
Cost of sales	430	465	450	390	**1,735**
Gross Profit	1,020	1,160	1,200	1,205	**4,585**
Gross Margins	*70.34%*	*71.38%*	*72.75%*	*75.56%*	**72.55%**
Operating Expenses:					
Selling, general, and administrative	765	790	795	620	**2,970**
Research and development	160	165	170	110	**605**
Total Operating Expenses	925	955	965	730	**3,575**
EBITDA	140	250	280	520	**1,190**
Operating Income (loss)	95	205	235	475	**1,010**
Operating Margin	*6.54%*	*12.63%*	*14.27%*	*29.76%*	**15.98%**
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)	110	220	250	490	**1,070**
Pre-Tax Margins	*7.57%*	*13.55%*	*15.18%*	*30.69%*	**16.93%**
Income Tax Expense (Benefit)	-	-	-	-	**-**
Release of valuation allowance	-	-	-	-	**-**
Tax Rate	*0.00%*	*0.00%*	*0.00%*	*0.00%*	**0.00%**
Net income (loss)	$ 110	$ 220	$ 250	$ 490	**$ 1,070**
Earnings per share -- Diluted	$ 0.03	$ 0.06	$ 0.06	$ 0.12	$ 0.27
Avg Shares Outstanding	3,900	3,950	3,970	4,000	**3,955**
Percent of Revenue					
Selling, general, and administrative	52.75%	48.60%	48.18%	38.90%	46.99%
Research and development	11.05%	10.15%	10.30%	6.90%	9.58%
YEAR / YEAR GROWTH					
Total Revenues	27.33%	18.70%	33.80%	8.80%	21.38%

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

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