SIMULATIONS PLUS INC
Form 10KSB
November 15, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-KSB

[x] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended August 31, 2002 or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1937

For the transition period from _____ to _____

Commission file number: 000-21665

Simulations Plus, Inc.
(Exact name of registrant as specified in its charter)

California
(State or other jurisdiction of Incorporation or Organization)

95-4595609
(I.R.S. Employer identification No.)

1220 W. Avenue J
Lancaster, CA 93534
(Address of principal executive offices including zip code)

(661) 723-7723
(Registrant's telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT: NONE.

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
COMMON STOCK, PAR VALUE $0.001 PER SHARE

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No

Check if disclosure of delinquent filers pursuant to Item 405 of Regulation S-B is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [ ]

The issuer's revenues for the fiscal year ended August 31, 2002 were approximately $4,444,000.

AS OF NOVEMBER 11, 2002, THE AGGREGATE MARKET VALUE OF THE VOTING STOCK

HELD BY NON-AFFILIATES OF THE ISSUER WAS APPROXIMATELY $1,805,000 BASED UPON THE AVERAGE CLOSING BID AND ASKED PRICE OF SUCH STOCK ON SUCH DATE.

SIMULATIONS PLUS, INC.
FORM 10-KSB
FOR THE FISCAL YEAR ENDED AUGUST 31, 2002

Table of Contents

FORWARD-LOOKING STATEMENTS

The following discussion should be read in conjunction with the financial statements and the notes thereto appearing elsewhere in this Annual Report ("Annual Report") on Form 10-KSB for the year ended August 31, 2002 (the "Form 10-KSB"). In addition to historical information, this Annual Report contains forward-looking statements. The forward-looking statements contained herein are subject to certain risks and uncertainties that could cause actual results to differ materially from those reflected in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in the section entitled "Management's Discussion and Analysis or Plan of Operation." Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date hereof. Simulations Plus, Inc. undertakes no obligation to publicly revise these forward-looking statements, or to reflect events or circumstances that arise after the date hereof. Readers should carefully review the risk factors described in other documents the Company has filed and will continue to file from time to time with the Securities and Exchange Commission.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

GENERAL

Simulations Plus, Inc. (the "Company" or "Simulations Plus") and its wholly owned subsidiary, Words+, Inc. ("Words+") produce two types of products: (1) Simulations Plus, incorporated in 1996, develops and produces simulation and mathematical modeling software for use in pharmaceutical research and for education, and also provides contract research services to the pharmaceutical industry, and (2) Words+, founded in 1981, produces computer software and specialized hardware for use by persons with disabilities, as well as a personal productivity software program called "Abbreviate!" for the retail market.

DESCRIPTION OF SIMULATION SOFTWARE

The development of simulation software involves (1) identifying and understanding the underlying chemistry, physics, biology, and physiology of the processes to be simulated, (2) breaking those processes down into the lowest practical level of individual sub-processes at which the behaviors can be well-represented mathematically, (3) developing appropriate mathematical relationships/equations, and (4) converting them into computer subroutines. The software subroutines representing these individual processes are then integrated into an overall simulation program, with appropriate coordination between modules and design of user-friendly interface for inputs and outputs. The predictions of these programs are then 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 types of simulation software produced by the Company are based on the equations of chemistry and physics that describe or "model" the behavior of things in the real world.

The Company's GastroPlus(TM) pharmaceutical software simulates the movement, dissolution/precipitation, chemical/metabolic degradation and absorption of orally-dosed drug compounds in the gastrointestinal tract of humans and several laboratory animal species, and with additional inputs, it also simulates the metabolism, renal clearance, and blood plasma concentration-time history of the drug after it reaches the central circulation.

A second type of software consists of statistically significant models that allow prediction of various properties of a chemical compound from just its

molecular structure. These models are not simulations, but instead are formed from a variety of mathematical functions and relationships, including linear, nonlinear, and artificial neural network models.

The Company's QMPRPlus(TM) program is the second type of program, and it provides estimates for the values of several important physicochemical characteristics of new drug-like molecules with only the structures of the molecules as input. Recent additions to this program include the prediction of permeability in a special line of cells called MDCK cells. This predictive model was developed during the previous fiscal year under a funded collaboration with the Affymax Research Institute, at that time a division of Glaxo Wellcome. The Company recently announced the release of a powerful "4D Data Mining" module for QMPRPlus, which further extends the utility of the software. Both the MDCK module and the 4D Data Mining module are additional-cost options to the program.

GastroPlus and QMPRPlus are used by almost every major and a number of smaller pharmaceutical companies in North America, Europe, and Japan. The number of licensees continues to grow each quarter, and growing revenues reflect the cumulative effect of annual license renewals added to new sales.

The Company is now completing the development of two new additional-cost modules, one for GastroPlus and one for QMPRPlus. The Training Module for QMPRPlus will allow users to build their own artificial neural network models using a highly sophisticated, state-of-the-art model-building engine that automates the process of finding the most effective artificial neural network models for a particular database, using the fast descriptor engine that is part of QMPRPlus.

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

PHARMACEUTICAL SIMULATION SOFTWARE

PRODUCTS:

GastroPlus:

The Company's pharmaceutical software products provide cost-effective solutions to a number of critical problems in pharmaceutical research, and also serve in the education of pharmacy and medical students. The Company's pharmaceutical software products and services to date are focused on the area of pharmaceutical research known as ADMET (Absorption, Distribution, Metabolism, Elimination, and Toxicity). The Company released its first pharmaceutical software product, GastroPlus, in August 1998 and immediately received enthusiastic interest from researchers in large pharmaceutical companies such as Astra, Glaxo Wellcome, Pfizer, Pharmacia, The Roche Group, SmithKline Beecham and Zeneca. Since then, the majority of the world's largest pharmaceutical companies and a steadily growing number of smaller companies have licensed the software. Some of these companies have merged to become single companies (e.g., AstraZeneca and GlaxoSmithKline have merged, and Pfizer is now in the process of acquiring

Pharmacia), which give the appearance of fewer customers, but the Company's software is licensed on an annual basis by geographic location, so the actual loss in sales has resulted from these mergers are minor. In fact, several of these mergers have resulted in increased licenses and new geographic locations.

The Optimization Module for GastroPlus was released in November 1998. Two additional modules, IVIV Correlation and PKPlus(TM) were released in November 2000. The Metabolism and Transporter Module was released in June 2001.

In August 2002, the Company completed the development of, and is now selling licenses for, an important new extension module for GastroPlus called PDPlus(TM). Prior versions of GastroPlus have dealt with absorption and pharmacokinetics (what happens to the drug when it gets into the body). PDPlus now adds pharmacodynamics for the drug (what happens to the body when the drug gets into the body) - i.e., what kind of therapeutic and side effects it produces. This is an important new capability because it opens up the market to researchers who deal in later stage clinical trials, and who routinely perform PK/PD (pharmacokinetic/pharmacodynamic) analyses. Until now, these analyses were performed using models that treated absorption and its related processes with simplified models - often so simplified that calculations were in error. With PDPlus in GastroPlus, researchers will be able to perform highly sophisticated simulations and analyses to determine the complex interactive effects of factors that change the amount of drug that is absorbed, and how fast it is metabolized after it is absorbed. These can result in significant variations in pharmacodynamic effect. Without the ability to predict these effects, clinical trial costs can soar when trials must be repeated to determine proper dosing levels. PDPlus will enable researchers to better understand the complex interplay among absorption, pharmacokinetics/metabolism, and pharmacodynamics, and to better estimate dosing levels to use in clinical trials prior to the start of those trials.

The majority of new sales now include additional extra-cost modules, contributing significantly to revenue growth. GastroPlus has now become the "gold standard" for simulation of oral drug absorption and pharmacokinetics, and is in use throughout the industry in North America, Japan, and Europe. Recent sales have included a number of drug delivery companies (companies that design the actual tablet or capsule for a drug compound that was developed by another company). Although these companies are considerably smaller than the pharmaceutical giants, they can realize significant savings in cost and time through accurate simulation of their drug delivery technologies. The Company believes this part of the industry, which includes hundreds of companies, represents major growth potential for GastroPlus.

In 1998, the Company executed a License Agreement with Therapeutic Systems Research Laboratories, Inc. ("TSRL"), Ann Arbor, Michigan, to obtain exclusive rights to TSRL's technology and database, including measurements of drug permeability from nearly 60 laboratory experiments to measure the intestinal permeability of drug compounds in human and/or rat small intestines. As a part of this License Agreement, the Company is also entitled to ongoing consulting assistance in the development and further enhancement of the GastroPlus absorption simulation model from TSRL staff, including Dr. Gordon Amidon. The Company believes that the strategic advantage of exclusive access to TSRL's technology and expertise, combined with the Company's now well-developed expertise in absorption and pharmacokinetics simulation, have resulted in GastroPlus becoming the de facto standard for oral drug absorption simulation and analysis within the pharmaceutical industry. The Company is aware that other

companies have developed oral absorption software; however, based on customer feedback, management believes there is no significant competition for GastroPlus at this time. The Company believes that the addition of the Metabolism and Transporter Module last year, the new PDPlus module, and ongoing upgrades of the core simulation, are advances in the state-of-the-art of oral drug absorption, pharmacokinetics, and pharmacodynamics analysis. The Company's recognized expertise in oral absorption and pharmacokinetics is evidenced by the fact that Company staff members have been invited speak at many scientific meetings worldwide in the past three years, and they continue to be invited to present at a variety of meetings worldwide. Numerous technical papers and presentations by customers and university researchers have provided independent testimony to the effectiveness of the Company's software products and underlying science. Also, the Company conducts contracted studies for a number of companies who prefer to have the studies run by the Company's scientists than to acquire the software and train someone to use it, as well as for larger companies who have the software, but need additional expertise for particularly challenging problems.

QMPRPlus (Quantitative Molecular Permeability Relationships):

QMPRPlus, which can be used as a companion program to GastroPlus or by itself, takes as inputs the structures of molecules, and provides estimates for human intestinal permeability, octanol-water partition coefficient (logP), solubility, diffusivity, blood-brain barrier penetration, plasma protein binding, and volume of distribution. The ability to predict these properties prior to running wet lab experiments allows screening of undesirable compounds much faster and at much lower cost than using traditional experimental methods.

Most of the estimated parameters from QMPRPlus are inputs to GastroPlus. QMPRPlus thereby extends the utility of GastroPlus into early drug discovery, during which pharmaceutical companies may not have even made many of the molecules that have been identified as potential drug candidates. During the fiscal year 2001, the Company completed the development of a new intestinal permeability model for a special line of cell culture experiments using Manin-Darby Canine Kidney (MDCK) cells under contract to the Affymax Research Institute, at that time a division of Glaxo Wellcome. This unique model, based on high quality data for approximately 400 compounds, was presented at the American Chemical Society meeting in San Diego during the first week of April 2001. The Company also completed the development of a powerful "4D Date Mining" module in April 2002. This module provides important data visualization and statistical analysis tools to enable researchers to better understand the complex relationships that can exist among hundreds of different dimensions of "chemical space" that describe a large group of molecules during screening. As an additional enhancement to QMPRPlus, the Company completed the development of a blood-brain barrier permeation model during the last fiscal year as well as models for plasma protein binding and volume of distribution, and it updated all earlier models with new artificial neural network ensembles (groups of artificial neural networks whose outputs are averaged to obtain better prediction than any single network can provide). By providing estimates of physicochemical properties from structure alone, QMPRPlus, by itself or coupled with GastroPlus, allows researchers to rank order large numbers of candidate compounds in terms of their potential for human intestinal absorption. Because pharmaceutical companies are dealing with many millions of compounds per year, and because the area of ADMET has become a bottleneck, high throughput screening on the computer ("IN SILICO") is becoming not just a convenience, but a necessity. It is one of the fastest growing new technologies in pharmaceutical research, and the Company believes it has positioned itself well to take

advantage of the growing expenditures in this area.

Contract Research Services:

The Company offers contract research services to the pharmaceutical industry in the area of gastrointestinal absorption, pharmacokinetics, and related technologies. The Company continues to perform study contracts for a variety of pharmaceutical and biotechnology companies of all sizes. These studies provide an additional source of revenue for the Company, as well as a means to introduce the Company's software products to new customers. These studies are also beneficial to the Company to validate and enhance its products by studying actual data in the pharmaceutical industry. During the past fiscal year, the Company completed several study contracts for customers and provided assistance to several government agencies. Additional study contracts are now underway.

PRODUCT DEVELOPMENT:

In the area of simulation software for pharmaceutical research, the Company is pursuing the development of additional modules for GastroPlus and QMPRPlus. Although all of our development work cannot be disclosed for competitive reasons, some of our development efforts include:

(1) Multiple Particle Size Dissolution Model

The current dissolution model in GastroPlus uses a single "effective" particle size. While this model has well represented most tablets, capsules, and suspensions we have dealt with to date, formulation researchers know that real dosage forms do not consist of particles that are all one size. Instead, there is a distribution of particle sizes over some range from smaller than the average size to larger than the average size. Smaller particles dissolve faster than larger particles. For some drugs, this results in dissolution behavior that is not well modeled with a single effective particle size. This new model will allow formulation researchers to assess the effects of different particle size distributions on dissolution and absorption.

(2) Biopharmaceutical Properties Module

This module allows researchers to estimate drug properties from structures within GastroPlus software.

(3) QMPRPlus upgrades

The number of molecular descriptors has been increased in beta versions of QMPRPlus by about 25%. These new descriptors include over 60 electrotopological indices that the Company believes will be valuable in building new models for pharmacokinetic and metabolism properties, as well as certain other descriptors that will be described at a later date. The prediction of ionization constants (pKa's) is being added to QMPRPlus at this time, and is expected to be released in early calendar year 2003.

(4) QMPRchitect(TM) module

A new Training Module called QMPRchitect is well along in development for QMPRPlus. This module will allow researchers to build their own artificial neural network models from their own data using a highly sophisticated, state-of-the-art process for identifying critical descriptors and training

artificial neural network ensemble models in the most efficient way. Users can have such new models included in the output of QMPRPlus along with the existing predicted ADME properties. In addition, researchers will be able to add their own data to existing models to provide a larger database of information for known compounds, and then to retrain the models to include this new data. Through the automation provided in the proprietary software for this module, alpha versions of the software have demonstrated a reduction in the time to build powerful ensemble artificial neural network models from 2-3 months to one or two days, with no sacrifice in model quality. The company has received strong indications of interest from customers for this new, additional capability, which has been presented in North America, Europe, and Japan. The Company expects to release this new module in the second quarter of fiscal 2003.

MARKETING AND DISTRIBUTION:
The Company markets its pharmaceutical simulation software products, and research services based on its simulations, to pharmaceutical and biotech companies, and to various companies that serve them, through attendance and presentations at scientific meetings, exhibits at trade shows, seminars at pharmaceutical companies and government agencies, through its web pages on the Internet, and to its compiled database of prospect and customer names. The Company's scientific team is also its sales and marketing team. The Company believes that this is more effective than a separate sales team for several reasons: (1) customers appreciate talking directly with developers who can answer a wide range of technical questions about methods and features, (2) our scientists benefit from direct customer contact through gaining an appreciation for the environment and problems of the customer, and (3) the relationships we build through scientist-to-scientist contact are stronger than through salesperson-to-scientist contacts. The Company also uses its web pages on the Internet for such activities as providing product information, providing software updates, and as a forum for user feedback and information exchange. The Company has cultivated significant market share in North America, Europe, and in Japan.

In August 1998, the Company signed a distribution agreement with Teijin Systems Technology Ltd. (TST), a division of Teijin Limited of Tokyo, Japan. On April 1, 2001 TST merged with the Infocom Corporation of Japan. Although a new agreement has not yet been signed, for the interim, the companies have continued to operate more or less as before. One exception is that now Infocom pays the travel costs for Simulations Plus personnel to assist in Infocom's marketing and sales activities in Japan. Under the terms of the TST agreement, TST received exclusive distribution rights to Simulations Plus' GastroPlus and QMPRPlus software for pharmaceutical research and education in Japan. Sales in Japan have been strong, generating approximately 20% of pharmaceutical software revenues.

PRODUCTION:
The Company's major pharmaceutical software products are designed and developed entirely by its development team at its Lancaster, California facility. The chief materials and components used in the manufacture of simulation software products include CD-ROMs and instruction manuals, which are also produced in-house. Robotic CD burner technology along with in-house graphic art and engineering talent enable the Company to run this production in the most cost-efficient way.

COMPETITION:
In providing software-based research services to the pharmaceutical industry, and in marketing simulation software for these purposes, the Company competes

against a number of established companies that provide screening, testing and research services and products to these industries that are not based on simulation software. There are also software companies whose products do not compete directly, but are sometimes closely related. The Company's competitors in this field include companies with financial, personnel, research and marketing resources that are greater than those of the Company. While management believes there is currently no significant competitive threat to GastroPlus or QMPRPlus, competition should be expected at some time in the future. The Company is aware of a few other companies that are presently developing simulation software or simulation-software-based services to the pharmaceutical industries for the purposes of screening compounds.

Major pharmaceutical companies conduct drug discovery and development efforts through their internal development staffs and through outsourcing some of this work. Smaller companies need to outsource a greater percentage of this research.

The Company is not aware of any significant competition in the area of gastrointestinal absorption simulation. The Company is aware of one other company, Lion Biosciences AG in Germany, which recently acquired Trega Biosciences of San Diego, that offers an absorption simulation called iDEA(TM). Information obtained by the Company indicates that this simulation requires specific experimental data that must be obtained through experiments with actual compound material for accurate results. The Company believes it has identified all former and current pharmaceutical companies who have licensed the iDEA software, including the original consortium members that participated in its development when it was part of Navicyte and Trega. At this time, every such company has licensed GastroPlus in at least one, if not all, of its divisions.

The Company believes the key factors in competing in this field are its ability to develop simulation software and related products and services to effectively predict the ADME-related behaviors of new drug-like compounds, its ability to develop and maintain a proprietary database of results of physical experiments that will serve as a basis for simulated studies and empirical models, and its ability to develop and maintain relationships with research and development departments of pharmaceutical companies and government agencies. There can be no assurances that the Company will be successful in providing these key factors.

EDUCATIONAL SIMULATION SOFTWARE

PRODUCTS:

The Company's educational software products, which have won awards from educational software testers, include simulations of laboratory experiments for Physical Science and Chemistry courses under the umbrella name FutureLab(TM). The Company released its first three FutureLab(TM) titles in May 1997 (OPTICS FOR PHYSICAL SCIENCE, GRAVITY FOR PHYSICAL SCIENCE, and CIRCUITS FOR PHYSICAL SCIENCE), and a new title, IDEAL GAS FOR CHEMISTRY in November 1997, all for Windows-based computers. In August 1998, after a conversion effort that took over one year for some labs, the Company released new versions of all of these titles as well as UNIVERSAL GRAVITATION FOR PHYSICAL SCIENCE for both Windows and Macintosh computers. Macintosh computers were said in 1997 to account for 40% or more of the educational market.

FutureLab(TM) educational software programs simulate science experiments for high school and college level science and engineering classes. These simulations enable students to conduct experiments on a personal computer instead of in a

traditional laboratory, thereby increasing safety, decreasing costs, and providing expanded learning opportunities by allowing simulations of situations not possible in a traditional laboratory environment. FutureLab(TM) software has received recognition from Computers in Physics magazine, which declared it a winner in its Eighth Annual Software Contest, as well as from two educational institutions who perform rigorous educational software evaluation.

PRODUCT DEVELOPMENT:
In the area of educational simulations, the Company decided to freeze R&D activities after finishing the latest title, TITRATION FOR CHEMISTRY. Current sales from FutureLab continue through a network of over 30 distributors; however, revenues are not sufficient to provide support for continued development of educational software.

MARKETING AND DISTRIBUTION:
The Company markets its science experiment simulation software products through software resellers and its Internet web page. As of August 1999, the Company reduced its marketing efforts in this area in order to concentrate its resources on the pharmaceutical software market. The Company is relying on its resellers to provide the majority of the marketing and sales efforts for its educational software products. FutureLab sales have continued through these distributors.

PRODUCTION:
The Company's educational software products were designed and developed entirely by its development team at its Lancaster, California facility. The chief materials and components used in simulation software products include CD-ROMs and instruction books which are produced in-house.

COMPETITION:
The educational software industry in which the Company operates is competitive. The Company competes against publishers and suppliers of textbook educational materials that have been, and will continue to be, the primary educational resource used in these markets. The Company also competes against educational software publishers who provide software products that are interactive, but most are not true simulation software. Most educational software publishers compete in the grades below 9th grade, addressing primarily reading and math skills. The Company competes primarily in the middle school, high school, and college markets addressing primarily science and math subjects. A smaller number of software publishers are addressing these markets, although existing competitors may broaden their product lines to these markets, and additional competitors may enter these markets.

DISABILITY PRODUCTS

PRODUCTS:
The Company's wholly owned subsidiary, Words+, Inc. has been in business since 1981. Words+ is a technology leader in designing and developing augmentative and alternative communication (AAC) computer software and hardware devices for persons who cannot speak due to physical disabilities. Words+ also produces computer access products that enable physically disabled persons 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. Words+ developed and produces the software for the computerized communication system used by world-famous theoretical astrophysicist Professor Stephen Hawking, Lucasian Professor of Mathematics at the University of Cambridge in England, and the

author of the best-selling book A BRIEF HISTORY OF TIME. Words+ markets its products throughout the United States and to other countries worldwide through a direct sales staff and through independent dealers and resellers. Words+ introduced a fully integrated, portable, lightweight personal-computer-based communication system called TuffTalker(TM) that achieved favorable market acceptance. In fiscal 2001, Words+ developed a dedicated device version of its Freedom 2000 communication system that satisfies Medicare's requirements for a communication system that does not have normal computer functions. This system, designated Freedom 2001E, and based on Panasonic notebook computers, provides only communication functionality, and cannot be used as a standard computer. This is a requirement of Medicare, which has a policy of not funding computers. The Company believes this is an unfortunate policy, because disabling the standard computer functions of the system actually results in a higher cost and less functionality for the user. Management believes that Medicare will someday realize that having computer functions such as e-mail and Internet access are also forms of communication and if they can be provided at no additional cost, they should not be disabled in the best interests of the disabled user.

E Z Keys for Windows(TM) XP

One of the Company's primary software products is E Z KEYS FOR WINDOWS ("E Z KEYS(TM)"), which is a program thAt operates on a Windows-based personal computer. When coupled with specially designed input devices, E Z KEYS enables even severely physically disabled persons to operate a personal computer, to generate voice messages through a voice synthesizer, and to operate most Windows-based software application programs, including e-mail and general Internet usage. Input motion by the user can be through a standard keyboard, joystick, or mouse, or it can be as slight as the blink of an eye -- or even simple eye movement by persons who cannot blink. E Z KEYS is one of the two Words+ programs used by Professor Stephen Hawking for computer access and communication. During the past fiscal year, the Company completed a 19-month-long development program with significant assistance from Microsoft and released E Z Keys for Windows XP, designed for the new Microsoft Windows XP operating system.

Talking Screen for Windows(TM)

TALKING SCREEN FOR WINDOWS ("TALKING SCREEN(TM)") is a software program that operates on a Windows-based personal computer and is designed for persons, usually children, who cannot read and write at the level necessary to adequately operate E Z KEYS. TALKING SCREEN provides a system of pages of pictographic and photographic symbols by which the user can produce speech output messages through a voice synthesizer, play recorded sounds and video files, and operate controllers for lights, electrical appliances and other equipment. Like E Z KEYS, TALKING SCREEN can be operated through a wide range of alternative input devices. A Windows XP version of Talking Screen is nearly completed, with final release expected during the first quarter of fiscal 2003.

Freedom 2000(TM)

Freedom 2000 allows persons with disabilities who read at a second-grade level and above to speak and write through alternative input methods (rather than traditional keyboard and mouse). Freedom 2000 with E Z KEYS gives the users the

ability not only to speak and write, but also to play games and control various items in their environment, such as TV's and telephones. High-level users are

also able to deliver lectures to large groups, use the Internet, and send e-mail. A lighter weight version of the Freedom 2000, called Freedom 2000 LITE(TM), was introduced in October 1999. Although it has a smaller display, the 4.9 lb. Freedom 2000 LITE is more attractive to ambulatory users than the 8.0 lb. Freedom 2000, especially attractive with a near eight-hour battery life.

Freedom 2001E(TM) - Dedicated Device

As of January 1, 2001, the U.S. Medicare program initiated coverage of augmentative and alternative communication (AAC) devices. In addition, effective July 1, 2001, the agency eliminated the 24-month waiting period previously required for patients with amyotrophic lateral sclerosis (ALS - or "Lou Gehrig's disease") to receive Medicare benefits. These important developments were expected to result in a significant increase in the overall AAC market in the U.S., as potentially tens of thousands of patients will be eligible to receive funding for communication devices. Unfortunately, the increase has not materialized. Although new sales are being generated, the Company has observed that now that Medicare provides funding, most state Medicaid agencies are reducing their funding by pushing clients to Medicare as much as possible, adding to the bureaucratic delays in processing requests. Words+ developed a unique version of its Freedom 2000 communication system, called the Freedom 2001, to meet the requirements of the Medicare policy for dedicated communication systems.

TuffTalker(TM)

TuffTalker is the ideal communication system for users who want computer access virtually anywhere. It is fully encased in magnesium alloy and has a shock-mounted hard disk drive that can withstand the rigors of the typical AAC environment while delivering superior computer performance in a compact, completely mobile package with touch screen access. The Company announced the TuffTalker in July 2000 and it currently generates approximately 10% of AAC revenues.

TuffTalker Plus(TM)

TuffTalker Plus is a fully integrated, highly rugged ("militarized") communication system that offers users extreme durability, power, and convenience. It features a large active matrix color liquid crystal display (LCD) with a convenient, easy-to-use touch screen. The LCD is also anti-reflective, making it easy to view in bright sunlight. It also features switch inputs for use with Morse Code, Joystick, Headmouse, Tracker 2000, single or multiple switches, or IST Switch.

MessageMate

Since 1992, the Company has produced a highly successful series of products called MessageMates, which are hand-held, dedicated communication devices that store recorded speech or sound on integrated circuit chips. The user plays these recorded sounds by touching one of the keys on the membrane keyboard, or by using a switch (such as the IST Switch described below) and scanning to select a position on the keyboard. MessageMates are small, lightweight (1 to 1.75 lbs.), easy-to-use communication devices with up to ten minutes of recorded messages. They are known for their extremely rugged design and long battery life. The MessageMate 20 holds twenty messages, the MessageMate 40 holds forty messages, the Multi-Level MessageMate holds up to 144 messages, and the Mini-MessageMate holds eight messages. Since MessageMates use recorded messages and sounds, they can be used in any language. The Company has significant sales of MessageMates in foreign markets, including Japan.

In December 1999, the Company completed the development of and released a new Message Builder feature for the MessageMate, which is an enhancement of the

existing MessageMate product. It enables users to select prerecorded words or phrases one at a time, and then plays the entire message formed by them.

Infrared/Sound/Touch (IST) Switch

Many Words+ customers cannot operate a keyboard or mouse. For some of these persons, the Company has designed and produces a special device called the Infrared/Sound/Touch Switch ("IST Switch"), that enables the person to operate a personal computer or a dedicated communication device with the slightest movement or pressure, including, for example, eye blink, or just eye movement. The IST is activated by infrared reflection, touch, or sound, and transmits a momentary "on" signal to the computer upon detecting these signals. This switch has been in production in ever-improving forms since 1983, and thousands of physically disabled persons around the world have used it.

Miscellaneous

Words+ also sells a number of other miscellaneous and peripheral devices, some of which it designs and produces and others it buys and resells. These include:

- Micro CommPac - Company-designed and produced communication hardware package designed for use with a notebook computer that provides switch interface and audio amplification.
- Simplicity Wheelchair Mount - Company-designed and produced wheelchair mount for portable computers and other devices.
- Mayer-Johnson symbols - produced by the Mayer-Johnson company of San Diego, these pictographic symbols are used in electronic form with the Company's Talking Screen for Windows software.
- Imaginart symbols - produced by the Imaginart company of Bisbee, Arizona, these symbols are printed as adhesive-backed paper symbols and are often used with MessageMates.

PRODUCT DEVELOPMENT:

The Company's wholly owned subsidiary, Words+, Inc. has been an industry technology leader for over 20 years in introducing and improving augmentative and alternative communication and computer access software and devices for disabled persons and intends to continue to be at the forefront of the development of new products. The Company will continue to enhance its major software products, E Z Keys and Talking Screen, as well as its growing line of hardware products. The Company is finalizing the development of its Talking Screen software for the Windows XP operating system. The Company may also consider acquisitions of other products, businesses and companies that are complementary to its existing augmentative and alternative communication and computer access business lines.

MARKETING AND DISTRIBUTION:

The Company markets augmentative and alternative communication products through a network of employee representatives and independent dealers and resellers.

At the present time the Company has 36 sales representatives worldwide: 1 salary/commission salesperson in California, 10 independent distributors and 11 independent resellers in the U.S., and 14 sales representatives overseas - 4 in Australia, and 1 each in Canada, England, Ireland, Norway, The Netherlands, New Zealand, Japan, Korea, Finland and Malaysia. The Company also has four inside sales/support persons who answer telephone inquiries on the Company's 800 line and who provide technical support. Additional outside sales persons and independent dealers and resellers are being actively recruited at this time.

The Company directs its marketing efforts to speech pathologists, occupational therapists, rehabilitation engineers, special education teachers, disabled persons and relatives of disabled persons. The Company maintains a mailing list of over 10,000 persons made up of these professionals, consumers and relatives, and mails various marketing materials to this list. These materials include the Company's catalog of products and announcements regarding new and enhanced products.

The Company participates in industry conferences held worldwide that are attended by speech pathologists, occupational and physical therapists, special education teachers, parents and consumers. The Company and others in the industry demonstrate their products at these conferences and present technical papers that describe the application of their technologies and research studies on the effectiveness of their products. The Communication Aids Manufacturers Association (CAMA), co-founded by the Company's CEO over ten years ago, organizes cooperative tours of company representatives in this field that travel throughout the world providing seminars and workshops for professionals, consumers and parents in the field. The Company advertises in selected publications of interest to persons in this market.

The Company estimates that for approximately 50% of its sales of augmentative and alternative communication software and hardware, some or all of the purchases, are funded by third parties such as Medicaid, Medicare, school special education budgets, private insurance or other governmental or charitable assistance. Medicare began providing coverage of augmentative communication devices on January 1, 2001. An estimated 50,000 people in need of AAC technology are thought to be eligible for Medicare coverage.

The Company's personnel provide advice and assistance to customers and prospective customers on obtaining third-party financial assistance for purchasing the Company's products. Third party funding has grown slowly but continuously for 20 years. The addition of Medicare coverage for AAC devices in 2001 was the largest single increase in third party funding in the Company's history.

PRODUCTION:
Disability software products are either loaded onto computer hard disk drives by the Company or copied to diskettes or CD-ROM, which is performed in-house. Microprocessors that are part of dedicated devices are purchased by the Company and incorporated into its products, such as MessageMates, by the Company. Most software customers also buy their notebook personal computers from the Company, which the Company purchases at wholesale prices and resells at a markup. Cases, printed circuit boards, labels and other components of products such as MessageMates and CommPacs are designed by the Company. The Company outsources the extrusion, machining and manufacturing of certain components. All final assembly and testing operations are done by the Company at its facility.

The Company's products are shipped from its Lancaster, California facility either directly to the customer or to the salesperson, dealer or reseller. For major products, the outside salesperson, dealer or reseller either delivers the product or visits the customer after delivery to provide training.

COMPETITION:
The AAC industry in which the Company operates is highly competitive and some of the Company's competitors have greater financial and personnel resources than

the Company. The industry is made up of six major competitors including the Company, and a number of smaller ones. The Company believes that the five other major competitors each have revenues ranging from $3 Million to under $20 Million, so that there are no large companies in this industry.

The Company believes that the competition in this industry is based primarily on the quality of products, quality of customer training and technical support, and quality and size of sales forces. Price is a competitive factor but the Company believes price is not as important to the customer as obtaining the product most suited to the customer's needs, along with strong after-sale support. The Company believes that it is a leader in the industry in developing and producing the most technologically advanced products and in providing quality customer training and technical support. The prices of the Company's products are among the highest in the industry and the Company has one of the smallest sales forces

and dealer networks in the industry. The Company believes that potential exists for significant increases in the sales of its disability products. However, there are few barriers to entry in the form of proprietary or patented technology or trade secrets in this industry. While the Company believes that cost of product development and the need for specialized knowledge and experience in this industry would present some deterrence for new competition, other companies may enter this industry, including companies with substantially greater financial resources than the Company. Furthermore, companies already in this industry may increase their market share through increased technology development and marketing efforts.

PERSONAL PRODUCTIVITY SOFTWARE

PRODUCT - ABBREVIATE!:
At the COMDEX show in November 1997, Words+ released a low cost productivity software program called "Abbreviate!". The Company extracted the "abbreviation expansion" technology incorporated into the E Z KEYS software used by Professor Stephen Hawking and thousands of others around the world, and turned it into a program that can be used by anyone with the ability to use a standard keyboard. "Abbreviate!" was named PC Week magazine's "Tool of the Week" in their December 1, 1997 issue, and won Win95 magazine's Editor's Choice Award in March 1998. While many word processors provide a similar "Quick Correct" feature, the advantage "Abbreviate!" has over such features is that it runs in the background and works with virtually all Windows applications, and in all versions of Windows, including Windows XP. Thus, "Abbreviate!" allows the user to create a personal library of frequently used abbreviations, each with its own special keystroke combination, for use in virtually any program, e.g., e-mail, word processing, database, spreadsheet, and Internet chat rooms, search engines, and message boards. "Abbreviate!" enjoys steady ongoing sales to medical transcriptionists through several distributors. This document was prepared using "Abbreviate!". As an example, typing the following:

"The avg scit in teh phl ind has a graduate deg in chemy, bioy, or physics."

could result (with "Abbreviate!") in producing:

"The average scientist in the pharmaceutical industry has a graduate degree in chemistry, biology, or physics."

Or typing "pff" could produce

"Please feel free to contact us again if we can be of help in any way."

MARKETING AND DISTRIBUTION:
The Company is currently selling "Abbreviate!" through a variety of Internet channels, including its own web site (www.abbreviate.cc), and through distributors. The Company has also contacted large software manufacturers and distributors in an effort to secure distribution agreements for "Abbreviate!".

PRODUCTION AND DISTRIBUTION:
The "Abbreviate!" personal productivity software program is currently manufactured at the Company's Lancaster, California facility. If sales volume warrants and higher volume capacity is required, the Company will investigate outside sources for fulfillment.

COMPETITION:
A few products compete with "Abbreviate!" in the retail market; however, the Company is not aware of any other product that works with virtually any software in Windows 95/98/NT/XP without the need to create special links to the software. The Company has priced "Abbreviate!" significantly less than competitors SmarType and InstantText. The Company enlisted the help of several medical transcriptionists as beta testers for the product, and the feedback received from those testers and additional medical transcriptionists, who are familiar with competitive products, has been favorable. Medical transcriptionists have been one of the largest market segments for Abbreviate! sales over the years.

TRAINING AND TECHNICAL SUPPORT

The Company believes customer training and technical support are important factors in customer satisfaction for both its pharmaceutical and disability products, and the Company believes it is an industry leader in providing customer training and technical support. For pharmaceutical software, the Company provides in-house seminars at the customer's site to demonstrate GastroPlus and QMPRPlus. During FY 2002 and 2001, the company delivered such seminars in numerous locations around the world. The Company has conducted on-site seminars to thousands of scientists at many pharmaceutical and related research companies in North America, Europe and Japan. These seminars serve as initial training in the event the potential customer decides to license or evaluate our software. Strong technical support is provided after the sale in the form of on-site training (at customer's expense), telephone, fax, and e-mail assistance to users, as well as an ongoing process of software upgrades to ensure the product remains at the cutting edge of technology. Software licenses are on an annual basis, and include all upgrades to the modules licensed by the customer during the license year.

For Disability Products, the Company's salesperson, dealer or reseller provides initial training to the customer for major systems -- typically two to four hours. This training is typically provided not only to the user of the product but also to the person's speech pathologists, teachers, parents and others who will be assisting the user. This initial training for the purchase of full systems is often provided as a part of the price of the product. The Company and its dealers charge a fee for additional training and service calls.

Technical support for both Simulation Software and Disability Products is provided by the Company's inside sales and support staff based at its

headquarters facilities in Lancaster, California. The Company provides free telephone support offering unlimited toll-free numbers in the U.S. and Canada, and E-mail support for all of its simulation software and disability products worldwide.

EMPLOYEES

As of August 31, 2002, the Company employed 29 full-time and 3 part-time employees, including 7 in research and development, 5 in marketing and sales, 11 in administration and accounting, 8 in production and 1 in repair. Three current employees hold Ph.D.'s and one is a Ph.D. candidate in their respective science or engineering disciplines and four additional employees hold one or more Master's degrees. With only one exception, the entire senior management team and Board of Directors hold graduate degrees. The Company believes that its future success will depend, in part, on its ability to continue to attract, hire and retain qualified personnel. The competition for such personnel in the pharmaceutical industry and in the augmentative and alternative communication device and computer software industry is intense. None of the Company's employees is represented by a labor union, and the Company has never experienced a work stoppage. The Company believes that its relations with its employees are good.

ITEM 2. DESCRIPTION OF PROPERTIES

The Company moved its office location from Palmdale, California to Lancaster, California in July 1998, expanding its office space from approximately 11,800 square feet to approximately 15,600 square feet. The lease on the office space currently occupied by the Company expired on August 31, 2001. The Company renewed for an additional two-year term with 4% increase each year from the previous year.

ITEM 3. LEGAL PROCEEDINGS

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.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of fiscal 2002.

PART II

ITEM 5. MARKET FOR COMMON STOCK AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock is currently traded on the OTC Bulletin Board under the symbol "SIMU". According to records of the Company's transfer agent, the Company had about 71 stockholders of record and approximately 600 beneficial

owners as of August 31, 2002. The following table sets forth the low and high sale prices for the Common Stock on the OTCBB for each of the last two fiscal years. The quotations quoted for the over the counter market reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not represent actual transactions. The Company has not paid cash dividends on its common stock. The Company currently intends to retain its earnings for future growth, therefore does not anticipate paying cash dividends in the foreseeable future. Any further determination as to the payment of dividends will be at the discretion of the Company's Board of Directors and will depend among other things, on the Company's financial condition, results of operations, capital requirements and such other factors as the Board of Directors deem relevant.

	LOW SALES PRICE	HIGH SALES PRICE
Fiscal 2002:		
Quarter ended August 31, 2002	1.100	1.700
Quarter ended May 31, 2002	1.150	1.650
Quarter ended February 28, 2002	0.850	2.000
Quarter ended November 30, 2001	0.950	1.200
Fiscal 2001:		
Quarter ended August 31, 2001	1.180	1.550
Quarter ended May 31, 2001	1.350	2.250
Quarter ended February 28, 2001	1.250	2.437
Quarter ended November 30, 1999	1.500	3.812

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

The following sets forth selected items from the Company's statements of operations (in thousands) and the percentages that such items bear to net sales for the fiscal years ended August 31, 2002 ("FY02"), August 31, 2001 ("FY01") and August 31, 2000 ("FY00").

	Year Ended August 31,				
	2002		2001		
Net sales	$4,444	100.0%	$3,915	100.0%	$3
Cost of sales	1,456	32.8	1,563	39.9	1

Gross profit	2,988	67.2	2,352	60.1	2
Selling, general, and administrative	2,105	47.4	2,200	56.2	2
Research and development	382	8.6	354	9.0	
Total operating expenses	2,487	56.0	2,554	65.2	2
Income (loss) from operations	501	11.3	(202)	(5.2)	(
Interest expense	(14)	(0.3)	(22)	(0.6)	
Gain on disposal of furniture & equip.	-	-	-	-	
Net income (loss) before taxes	487	11.0	(224)	(5.7)	(
Provision for income taxes	2	0.1	2	0.1	
Net income (loss)	485	10.9%	(226)	(5.8)%	(

FY2002 COMPARED WITH FY2001

NET SALES

Net sales for FY02 increased by $529,000 or 13.5%, to $4,444,000 compared to $3,915,000 for FY01. Simulations Plus, Inc.'s sales from pharmaceutical and educational software increased approximately $863,000, or 73.1%, and Words+, Inc.'s sales decreased approximately $334,000, or 12.2% for the year. Management attributes the increase in consolidated net sales to the significant sales increase in pharmaceutical software in FY02 compared with FY01, which outweighed the decrease in Words+ sales. The increase in pharmaceutical software sales is attributable to a combination of annual license renewals, new customers, new modules, two major upgrades and larger average orders per customer. The decrease in Words+ sales is attributed primarily to the tragic incidents on September 11, personnel changes in three key sales representatives, a decline in MessageMate sales, and overall sluggish economy during this time period.

COST OF SALES

The consolidated cost of sales for FY02 decreased by $107,000 or 6.8%, to $1,456,000 from $1,563,000 in FY2001. As a percentage of sales, cost of sales was 32.8% for FY02, compared to 39.9% for FY01, indicating a 7.1% decrease. For Simulations Plus, cost of sales decreased $49,000, or 14.5%, of which the significant portion of cost of sales is the systematic amortization of capitalized software development costs, which resulted in a 43.9% decrease in amortization cost. Although there is a significant increase in royalty expense

due to the increase in sales, the decrease in amortization outweighed the increase in royalty expense. For Words+, cost of sales decreased $58,000, or 4.7%. As a percentage of sales, cost of sales was 48.6% in FY02, compared to 44.8% in FY01. Management attributes the increase in cost of sales between FY02 and FY01 to an increase in TuffTalker sales, which has a lower profit margin, and a decrease in higher margin products such as MessageMate.

GROSS PROFIT

Consolidated gross profit increased $636,000, or 27.0%, to $2,988,000 in FY02 from $2,352,000 in FY01. The gross profit margin also increased 7.1%, to 67.2% in FY02, compared to 60.1% in FY01, primarily due to the decrease in amortization cost of pharmaceutical software. Although the material costs for Words+ products increased proportionally to net sales, the increase in gross profit generated by pharmaceutical software outweighed the decrease in Words+ products.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative ("SG&A") expenses for FY02 decreased by $95,000, or 4.3%, to $2,105,000, compared to $2,200,000 for FY01. As a percentage of total sales, SG&A decreased for the third straight year from 59.0% in FY00, 56.2% in FY01, to 47.4% in FY02. For Simulations Plus, SG&A expenses decreased $137,000, or 15.9%, primarily due to the $126,000 write-off of capitalized software development cost for HelixGen in FY01 while there is no such a write off in FY02. For Words+, expenses increased $42,000, or 3.2%, due to increases in selling expenses, such as catalogs and commissions to independent sales representatives, contract labor, depreciation expense, building repairs and maintenance. These increases outweighed decreases in other expenses such as travel expense, salaries and wages, and payroll related expenses.

RESEARCH AND DEVELOPMENT

The Company incurred approximately $477,000 of research and development costs for both companies during FY02. Of this amount, $95,000 was capitalized and $382,000 was expensed. For FY01, the Company incurred approximately $493,000 of research and development costs, of which approximately $139,000 was capitalized and approximately $354,000 was expensed. The 3.2% decrease in research and development expenditure from FY01 to FY02 was due to the fact that, although researchers' salaries have been increased, one of part time researcher has left the company and has not yet been replaced, resulting in a salary expense reduction in the aggregate amount.

INCOME (LOSS) FROM OPERATIONS

During FY02, the Company generated an income from operations of $501,000, as compared to a loss of $202,000 for FY01. Management attributes the increase in net income from operations to an increase in sales in pharmaceutical software and services and decreases in cost of sales, selling, general and administrative expenses outweighed the increase in research and development expense.

INTEREST EXPENSE

Interest expense for FY02 decreased by $8,000, or 36.4%, to $14,000, compared to $22,000 for FY01 due primarily to the decrease in the Company's revolving line of credit which was paid off by the end of FY02.

INCOME TAXES

Income taxes were $1,600 for FY02 as well as FY01. This represents the minimum corporation tax in the state of California for the two companies.

NET INCOME (LOSS)

Net income for FY02 increased $711,000, to a net income of $485,000, compared to the net loss of $226,000 for FY01. Management attributes this increase primarily to the increase in sales, along with decreases in cost of sales, selling, general and administrative expenses, and interest expense.

FY01 COMPARED WITH FY00

NET SALES

Net sales for FY01 increased by $286,000 or 7.9%, to $3,915,000 compared to $3,629,000 for FY00. Simulations Plus, Inc.'s sales from pharmaceutical and educational software increased approximately $246,000, or 26.3%, and Words+, Inc.'s sales increased approximately $40,000, or 1.5% for the year. Management attributes the increase in consolidated net sales to the sales increase in pharmaceutical software in FY01 compared with FY00 and a slight increase in Words+ sales.

The increase in pharmaceutical software sales is attributable to a combination of annual license renewals, new customers, two new products, four major upgrades and larger average orders per customers. The increase in Words+ sales is due primarily to the revenue from TuffTalker(TM) which its initial sales began in September 2000. Approximately $240,000 was generated from TuffTalker sales during FY01; however, this increase was offset by reductions in other product sales, which management believes was caused by customers delaying purchase decisions until Medicare/Medicaid funding could be secured under new policies for those programs this year.

COST OF SALES

The consolidated cost of sales for FY01 increased by $140,000 or 9.8% to $1,563,000 from $1,423,000 in FY00. As a percentage of sales, cost of sales was 39.9% for FY01, compared to 39.2% for FY00, indicating a 0.7% increase. For Simulations Plus, cost of sales increased $48,000, or 16.5%, of which the significant portion of cost of sales is the systematic amortization of capitalized software development costs, which resulted in a 28.1% increase in amortization cost. Two new modules for GastroPlus, IVIV Correlation and PKPlus, were released on November 7, 2000 and their development costs have been amortized systematically since then. For Words+, cost of sales increased $92,000, or 8.1%. As a percentage of sales, cost of sales was 44.8% in FY01, compared to 42.0% in FY00. Management attributes the increase in cost of sales between FY01 and FY00 to an increase in TuffTalker sales, which has a lower profit margin, and a decrease in higher margin products.

GROSS PROFIT

The consolidated gross profit increased $146,000, or 6.6%, to $2,352,000 in FY01 from $2,206,000 in FY00. Although gross profit increased, gross profit margin decreased 0.7%, to 60.1% in FY01, compared to 60.8% in FY00, primarily due to the increase in amortization cost of pharmaceutical software and increased material costs for Words+ products, proportionally outweighing the increase in net sales.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative ("SG&A") expenses for FY01 increased by $57,000, or 2.7% to $2,200,000, compared to $2,143,000 for FY00. As a percentage of total sales, SG&A decreased for the third straight year from 62.3% in FY99, 59.0% in FY00 to 56.2% in FY01. For Simulations Plus, SG&A expenses increased $109,000, or 14.5%, primarily due to the $126,000 write-off of capitalized

software development cost for HelixGen in FY01. Although HelixGen development is still considered an on-going project, management postponed its development to focus on development of other pharmaceutical software products. Without this write-off expense, the selling, general and administrative expenses for FY01 would have decreased by $17,000, or 2.1%. For Words+, expenses decreased $52,000, or 3.7%, due to reductions in depreciation expense, telephone expense, insurance, and some selling expenses, such as promotion, commissions to independent sales representatives. These reductions outweighed increases in

other expenses such as travel expense, trade shows, salaries and wages, and payroll related expenses.

RESEARCH AND DEVELOPMENT

The Company incurred approximately $493,000 of research and development costs for both companies during FY01. Of this amount, $139,000 was capitalized and $354,000 was expensed. For FY00, the Company incurred approximately $432,000 of research and development costs, of which approximately $132,000 was capitalized and approximately $300,000 was expensed. The 14.1% increase in research and development expenditure from FY00 to FY01 was due to additions to staff, resulting in increased salary expenses.

LOSS FROM OPERATIONS

During FY01, the Company incurred a loss from operations of approximately $202,000, as compared to a loss of $237,000 for FY00. Management attributes the reduction in net loss from operations to an increase in sales, which outweighed increases in cost of sales, selling, general and administrative expenses, and research and development expense. Without the required HelixGen write-off, the loss from operations would have been $76,000.

INTEREST EXPENSE

Interest expense between FY01 and FY00 was constant. Interest expense is incurred due to the Company's revolving line of credit and interest on capitalized lease obligations.

GAIN ON DISPOSAL OF FURNITURE & EQUIPMENT

There was no gain on disposal of furniture & equipment for FY01 while there was such a gain in FY00. During FY00, the Company claimed a loss of stolen computers to our insurance company, and the proceeds less depreciated book value resulted in this gain of $3,000.

INCOME TAXES

Income taxes were $1,600 for FY01 as well as FY00. This represents the minimum corporation tax in the state of California for the two companies.

NET LOSS

Net loss for FY01 decreased $32,000, or 12.4%, to a net loss of $226,000, compared to the net loss of $258,000 for FY00. Management attributes this decline primarily to the increase in sales outweighed the increases in cost of sales, selling, general and administrative expenses, research and development expenses, and decrease in gain on a disposal asset. Without the required

HelixGen write-off, the net loss would have been $100,000.

SEASONALITY

Sales of the Company's pharmaceutical and disability products exhibit very little discernable seasonal fluctuation. The following table sets forth net sales information for each of the Company's last 12 calendar quarters. In each of the last three years, the highest quarters and the lowest quarters have been in three different quarters. This unaudited net sales information has been prepared on the same basis as the annual information presented elsewhere in this Annual Report on Form 10-KSB and, in the opinion of management, reflects all adjustments (consisting of normal recurring entries) necessary for a fair presentation of the information presented. Net sales for any quarter are not necessarily indicative of sales for any future period.

Net Sales

FY	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
			(in thousands)		
2002	1,007	1,107	1,120	1,210	4,444
2001	1,058	1,062	974	821	3,915
2000	814	1,092	743	980	3,629

In general, management believes sales of its Words+ products to schools are seasonal, with greater sales to schools during the Company's third and fourth fiscal quarter (March-May and June-August). Sales of pharmaceutical simulations, which began in the first quarter of FY99, are not expected to show significant seasonal behavior. Although a significant portion of the pharmaceutical industry receives extended summer holidays, the fourth quarter was the strongest quarter for fiscal year 2002, but was the lowest in the previous year.

LIQUIDITY AND CAPITAL RESOURCES

The Company's principal sources of capital have been cash flows from its operations, a bank line of credit, a government grant, cash loans from the officers on an as-needed basis, and accruing and not paying portions of salaries to certain executive officers and managers.

The Company has available a $100,000 revolving line of credit from a bank. Interest is payable on a monthly basis at the bank's prime rate, which has a floor of 7.5%, plus 3.5%. The interest rate was 11.0% at August 31, 2002 and 10.5% at August 31, 2001. At August 31, 2002, the outstanding balance under the revolving line of credit was zero, and it was $99,000 at August 31, 2001. The revolving line of credit is not secured by any of the assets of the Company but is personally guaranteed by Mr. Walter S. Woltosz, the Company's Chief Executive

Officer, President and Chairman of the Board of Directors.

Beginning in August 1998, certain executive officers and managers accepted reduced salaries on a temporary basis in order to protect the cash assets of the Company. The unpaid portions of salaries have been accrued over 3 years and recently some of them have been paid back as management deems the Company's cash flow and cash reserves were sufficient to make such payment without adverse effects to the Company's financial position. All executive officers and managers are now receiving their regular salaries. At August 31, 2002, the remaining unpaid salaries due to the Company's executive officers were $281,849 plus accrued bonus of $54,057 (see Item 10 - EMPLOYMENT AND OTHER COMPENSATION AGREEMENTS section)

The Company believes that existing capital and anticipated funds from operations and revolving line of credit will be sufficient to meet its anticipated cash needs for working capital and capital expenditures for the foreseeable future. If cash generated from operations becomes insufficient to satisfy the Company's capital requirements, the Company may have to sell additional equity or debt securities or obtain expanded credit facilities. In the event such financing is needed in the future, there can be no assurance that such financing will be available to the Company, or, if available, that it will be in amounts and on terms acceptable to the Company. If cash flows from operations are insufficient to continue operations at the current level, and if no additional financing is obtained, then management will restructure the Company in a way to preserve its pharmaceutical and disability businesses while maintaining expenses within operating cash flows.

Since July 2, 1999, trading in the shares of the Company's Common Stock has been conducted on the Nasdaq's "Electronic Bulletin Board." Consequently, the liquidity of the Company's securities may be impaired, not only in the number of securities which can be bought and sold, but also through delays in the timing of the transactions, reductions in security analysts' and the new media's coverage of the Company, and lower prices for the Company's securities than otherwise may be attained.

Because the company's securities are listed on the bulletin board, they are subject to Rule 15g-9 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), which imposes additional sales practice requirements on broker-dealers which sell such securities to persons other than established customers and "accredited investors" (generally, individuals with net worths in excess of $1,000,000 or annual incomes exceeding $200,000, or $300,000 together with their spouses). For transactions covered by this rule, a broker-dealer must make a special suitability determination for the purchaser and have received the purchaser's written consent to the transaction prior to the sale. Consequently, the rule may adversely affect the ability of broker-dealers to sell the Company's securities acquired hereby in the secondary market.

Securities and Exchange Commission ("Commission") regulations define a "penny stock" to be any non-Nasdaq equity security that has a market price (as therein defined) of less than $5.00 per share or with an exercise price of less than $5.00 per share, subject to certain exceptions. For any transaction involving a penny stock, unless exempt, the rules require delivery, prior to any transaction in a penny stock, of a disclosure schedule prepared by the Commission relating to the penny stock market. Disclosure is also required to be made about commissions payable to both the broker-dealer and the registered representative and current quotations for the securities. Finally, monthly statements are

required to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks.

The foregoing required penny stock restrictions will not apply to the Company's securities if such securities are listed on Nasdaq and have certain price and volume information provided on a current and continuing basis or meet certain minimum tangible assets or average revenue criteria. There can be no assurance that the Company's securities will qualify for exemption from these restrictions. In any event, even if the Company's securities were exempt from such restrictions, it would remain subject to Section 15(b)(6) of the Exchange Act, which gives the Commission the authority to prohibit any person that is engaged in unlawful conduct while participating in a distribution of penny stock from associating with a broker-dealer or participating in the distribution of a penny stock, if the Commission finds that such a restriction would be in the public interest. If the Company's securities were subject to the rules on penny stocks, the market liquidity for the Company's securities would be severely adversely affected.

ITEM 7. FINANCIAL STATEMENTS

The response to this item is submitted as a separate section of this Form 10KSB (see pages F1 - F23.)

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

PART III

ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

NAME	AGE	POSITION WITH THE COMPANY	SINCE
Walter S. Woltosz	56	Chairman of the Board, Chief Executive Officer and President of the Company and Words+	1996
Virginia E. Woltosz	51	Senior Vice President, Secretary and Director of the Company and Words+	1996
Dr. David Z. D'Argenio	53	Director and Consultant to the Company	1997
Dr. Richard R. Weiss	69	Director	1997
Ronald F. Creeley	51	Vice President, Marketing and Sales of the Company and Words+	1997
Momoko A. Beran	50	Chief Financial Officer of the Company and Words+	1996

Walter S. Woltosz is a co-founder of the Company and has served as its Chief Executive Officer and President and as Chairman of the Board of Directors since its incorporation in July 1996. Mr. Woltosz is also a co-founder of Words+ and

has served as its Chief Executive Officer and President since its incorporation in 1981.

Virginia E. Woltosz is a co-founder of the Company and has served as its Senior Vice President and Secretary since its incorporation in July 1996. Mrs. Woltosz is also a co-founder of Words+ and has served as its Vice President, Secretary and Treasurer since its incorporation in 1981. Virginia E. Woltosz is the wife of Walter S. Woltosz.

Dr. David Z. D'Argenio started to serve as a Director of the Company in June 1997. He is currently Professor and Chairman of Biomedical Engineering at the University of Southern California ("USC"), and has been on the faculty at USC since 1979. He also serves as the Co-Director of the Biomedical Simulations Resource Project at USC, a project funded by the National Institutes of Health since 1985.

Dr. Richard R. Weiss started to serve as a Director of the Company in June 1997. From October 1994 to the present, Dr. Weiss has acted as a consultant to a number of aerospace companies and to the U.S. Department of Defense through his own consulting entity, Richard R. Weiss Consulting Services. From June 1993 through July 1994, Dr. Weiss was employed by the U.S. Department of Defense as its Deputy Director, Space Launch & Technology.

Ronald F. Creeley joined the Company in February 1997 as its Vice President, Marketing and Sales. Prior to joining the Company, Mr. Creeley had been Marketing Director at Union Pen Company, Time Resources, and New England Business Services, Inc., with experience in marketing and research.

Momoko A. Beran joined Words+ in June 1993 as Director of Accounting and was named the Company's Chief Financial Officer in July 1996. In November 1999, the Board of Directors assigned Mrs. Beran the additional duties of Vice President, Operations, for Words+, Inc.

ITEM 10. EXECUTIVE COMPENSATION

The following table sets forth certain information concerning compensation paid or accrued for the fiscal year ended August 2002, 2001 and 2000 by the Company to or for the benefit of the Company's President and Vice President, Sales and Marketing. No other executive officers of the Company received total annual compensation for the fiscal year ended August 31, 2002, 2001 and 2000 that exceeded $100,000. As permitted under the rules of the Securities and Exchange Commission, no amounts are shown in the table below with respect to any perquisites paid to named officer because the aggregate amount of such perquisites (e.g., auto allowance) did not exceed the lesser of (i) $50,000 or (ii) 10% of the total annual salary and bonus of a named officer.

Name and Principal Position	Paid Salary	Accrued Salary	Bonus	401(k) Match Company Paid	Fiscal Year
Walter S. Woltosz	$153,500.04 (1)	-0-	$27,028.50 (2)	-0-	2002
President and Chief	$126,500.08	$23,499.92	-0-	$4,060.06	2001

Executive Officer	$101,666.74	$48,333.26	-0-	$2,866.76	2000
Ronald F. Creeley	$117,980.41 (1)	-0-	-0-	$2,359.59	2002
Vice President, Sales	***	***	***	***	2001
and Marketing	$101,000.00 (1)	-0-	$1,364.78	$1,380.00	2000

(1) Includes deferred salary paid.
(2) Accrued bonus due and payable within 10 days after the filing of this annual report.
*** Total compensation less than $100,000.

EMPLOYMENT AND OTHER COMPENSATION AGREEMENTS

The Company had an employment agreement with Walter Woltosz commencing September 1, 1999 that extended until August 31, 2002. The agreement provided for an annual salary of $150,000. Pursuant to such agreement, Mr. Woltosz was entitled to such health insurance and other benefits that are not inconsistent with that which the Company customarily provides to its other management employees and to reimbursement of customary, ordinary and necessary business expenses incurred in connection with the rendering of services to the Company. The agreement also provides that the Company may terminate the agreement upon 30 days written notice if termination is without cause and that the Company's only obligation to Mr. Woltosz would be for a payment equal to the greater of (i) 12 months of salary or (ii) the remainder of the term of the employment agreement from the date of notice of termination. Further, the agreement provides that the Company may terminate the agreement for cause (as defined) and that the Company's only

obligation to Mr. Woltosz would be limited to the payment of Mr. Woltosz' salary and benefits through and until the effective date of any such termination.

The Board of Directors renewed this employment agreement with an increase of 10% in salary effective as of September 1, 2002 for three years. All other terms remain the same.

As part of the agreement with the original underwriter and as partial compensation for the sale of Words+ to Simulations Plus in 1996, commencing with the Company's fiscal year ending 1997 and for each fiscal year thereafter, Walter and Virginia Woltosz are entitled to receive bonuses not to exceed $150,000 and $60,000, respectively, equal to 5% of the Company's net annual income before taxes. For FY02, the net income before tax was $540,570, therefore, the Company accrued bonuses, the total amount of $54,057, for Walter Woltosz and Virginia Woltosz. These bonuses are due and payable within 10 days after the filing of this annual report.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding beneficial ownership of the Company's Common Stock as of August 31, 2002 by (i) each person who is known to own beneficially more than 5% of the outstanding shares of the Company's Common Stock, (ii) each of the Company's directors and executive officers, and (iii) all directors and executive officers of the Company as a group:

BENEFICIAL OWNER (1)(2)	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP	PERCENT OF CLASS
Walter S. and Virginia E. Woltosz (3)	2,081,000	57.31%
Momoko Beran (4)	105,100	2.89%
Ronald F. Creeley (5)	104,400	2.88%
Dr. David Z. D'Argenio (6)	3,153	*
Dr. Richard R. Weiss (7)	3,153	*
	2,296,806	63.26%

* Less than 1%

(1) Such persons have sole voting and investment power with respect to all Shares of Common Stock shown as being beneficially owned by them, subject to community property laws, where applicable, and the information contained in the footnotes to this table.

(2) The address of each director and executive officer named is c/o the Company, 1220 W. Avenue J, Lancaster, California 93534.

(3) Own an aggregate of 2,071,000 plus 10,000 shares of common stock underlying an option exercisable within the next 60 days of the date of this Annual Report. Does not include stock option for 40,000 shares, which are not exercisable within the next 60 days of the date of this Annual Report.

(4) Owns 300 shares of common stock exercised from options granted under the 1996 Stock Option plan, plus 104,800 shares of common stock underlying an option exercisable within the next 60 days of the date of this Annual Report. Does not include stock options for 95,400 shares, which are not exercisable within the next 60 days of the date of this Annual Report.

(5) Owns 1,000 shares of common stock, plus 103,400 shares of common stock underlying an option exercisable within the next 60 days of the date of this Annual Report. Does not include stock options for 96,600 shares, which are not exercisable within the next 60 days of the date of this Annual Report.

(6) Owns 1,000 shares of common stock, plus 2,153 shares of common stock underlying an option exercisable within the next 60 days of the date of this Annual Report. Does not include stock options for 950 shares, which are not exercisable within the next 60 days of the date of this Annual Report.

(7) Owns 1,000 shares of common stock, plus 2,153 shares of common stock underlying an option exercisable within the next 60 days of the date of this Annual Report. Does not include stock options for 950 shares, which are not exercisable within the next 60 days of the date of this Annual Report.

STOCK OPTIONS

The following table discloses certain information regarding the options held at

August 31, 2002 by the Chief Executive Officer and each other named executive officer.

	Number of Options at August 31, 2002		Value of Options at August 31, 2002 (1)	
	Exercisable	Unexercisable	Exercisable	Unexercisable
Walter S. Woltosz	5,000	20,000	-0-*	-0-*
Virginia E. Woltosz	5,000	20,000	-0-*	-0-*
Momoko Beran	82,900	117,300	$7,149	$7,671
Ronald F. Creeley	81,600	118,400	$7,212	$7,608
Dr. David Z. D'Argenio	2,153	1,000	$76	$96
Dr. Richard R. Weiss	2,153	1,000	$76	$96

(1) Based on a per share price of $1.52 at August 31, 2002 less applicable option exercise prices.
* Granted at $1.54, 110% of market price of the issue date

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

As of August 31, 2002, the accrued compensation due to the Company's President was $190,583, and bonus payable, 5% of net income before the tax based on the underwriting agreement, was $27,029. Neither amount accrues interest.

As of August 31, 2002, the accrued compensation due to the Company's Vice President of Human Resources was $8,333, and bonus payable, 5% of net income before the tax based on the underwriting agreement, was $27,029. Neither amount accrues interest.

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

(a) The following exhibits are filed as part of this report as required by Item 601 of Regulation S-B:

EXHIBIT NUMBER	DESCRIPTION
3.1	Articles of Incorporation of the Registrant (1)
3.2	Amended and Restated Bylaws of the Registrant (1)
4.1	Articles of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 hereof) and Bylaws of the Registrant (incorporated by reference to Exhibit 3.2 hereof)
4.2	Form of Common Stock Certificate (1)
4.3	Share Exchange Agreement (1)
10.1	Simulations Plus, Inc. 1996 Stock Option Plan (the "Option Plan") and terms of agreements relating thereto (1)+
10.2	Subscription Agreement with Patricia Ann O'Neil (1)
10.3	Security Agreement with Patricia Ann O'Neil (1)
10.4	Promissory Note made by the Registrant in favor of Patricia Ann O'Neil (1)

10.5	Warrants to purchase 150,000 shares of Common Stock of the Registrant issued to Patricia Ann O'Neil (1)
10.6	First Amendment to Agreement with Patricia Ann O'Neil (1)
10.7	Subscription Agreement with Fernando Zamudio (1)
10.8	Security Agreement with Fernando Zamudio (1)
10.9	Promissory Note made by the Registrant in favor of Fernando Zamudio (1)
10.10	Warrant to purchase 100,000 shares of Common Stock of the Registrant issued to Fernando Zamudio (1)
10.11	Employment Agreement by and between the Registrant and Walter S. Woltosz (1) +
10.12	Performance Warrant Agreement by and between the Registrant and Walter S. Woltosz + Virginia E. Woltosz (2) +
10.13	Software Acquisition Agreement by and Between the Registrant and Michael B. Bolger (1)
10.14	Sublease Agreement dated May 7, 1993 by and between the Registrant and Westholme Partners (along with Consent to Sublease and master lease agreement) (1)
10.15	Lease Agreements dated August 22, 1996 by and between Words+, Inc. and Abbey-Sierra LLC (1)
10.16	Form of 10% Amended and Restated Promissory Note issued in connection with the Registrant's Private Placement (2)
10.17	Form of Subscription Agreement relative to the Registrant's Private Placement (1)
10.18	Form of Lock-Up Agreement with Bridge Lenders (2)
10.19	Form of Indemnification Agreement (1)
10.20	Form of Lock-Up Agreement with the Woltosz' (2)
10.21	Letter of Intent by and between the Registrant and Therapeutic Systems Research Laboratories (1)
10.22	Form of Representative's Warrant to be issued by the Registrant in favor of the Representative (2)
10.23	Form of Warrant issued to Bridge Lenders (2)

10.24	License Agreement by and between the Registrant and Therapeutic Systems Research Laboratories (3)
10.25	Grant Award Letter from National Science Foundation (4)
10.26	Distribution Agreement with Teijin Systems Technology LTD. (4)
10.27	Lease Agreements by and between Simulations Plus, Inc. and Martin Properties, Inc. (4)
10.28	Software OEM Agreement for Assistive Market Developer by and between Words+, Inc. and Digital Equipment Corporation. (4)
10.29	Purchase Agreement by and between Words+, Inc. and Epson America, Inc. (4)
10.30	License Agreement with Absorption Systems, LP. (5)
10.31	Service contract with The Kriegsman Group. (5)
10.32	Letter of Engagement with Banchik & Associates. (5)
10.33	Letter of Intent for Cooperative Alliance with Absorption Systems, LP. (5)
10.34	OEM/Remarketing Agreement between Words+, Inc. and Eloquent Technology, Inc. (6)
10.35	Lease Option Agreement by and between Simulations Plus, Inc. and Martin Properties, Inc. (8)
10.36	Auto Rental Lease Agreement by and between Simulations Plus, Inc. and Walter and Virginia Woltosz (8)
10.37	Registration Statement - 1,250,000 shares of the Company's 1966 Stock Options. (9)
10.38	Employment Agreement by and between the Company and Walter S. Woltosz

	(10)	
99.1	S.906 - Certification of Chief Executive Officer. (10)	
99.2	S.906 - Certification of Chief Financial Officer. (10)	

---

(1) Incorporated by reference to the Company's Registration Statement on Form SB-2 (Registration No. 333-6680) filed on March 25, 1997 (the "Registration Statement").
(2) Incorporated by reference to Pre-Effective Amendment No. 1 to the Registration Statement filed on May 27, 1997.
(3) Incorporated by reference to the Company's Form 10-KSB for the fiscal year ended August 31, 1997.
(4) Incorporated by reference to the Company's Form 10-KSB for the fiscal year ended August 31, 1998.
(5) Incorporated by reference to the Company's Form 10-KSB for the fiscal year ended August 31, 1999.
(6) Incorporated by reference to the Company's Form 10-KSB for the fiscal year ended August 31, 2000.
(7) Incorporated by reference to the Company's Form 8-K filed on March 1, 2001.
(8) Incorporated by reference to the Company's Form 10-KSB for the fiscal year ended August 31, 2001.
(9) Incorporated by reference to the Company's Registration Statement on Form S-8 (Registration No. 333-91592) filed on June 28, 2002 (the "Registration Statement").
(10) Filed herewith.

(b) Reports on Form 8-K

None.

SIGNATURES

In accordance with Section 13or15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Lancaster, State of California, on November 14, 2002.

SIMULATIONS PLUS, INC.

By /s/ MOMOKO A. BERAN

Momoko A. Beran
Chief Financial Officer

In accordance with Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of Registrant and in the capacities indicated on November 14, 2002.

SIGNATURE	TITLE
/s/ WALTER S. WOLTOSZ Walter S. Woltosz	Chairman of the Board of Directors and Chief Executive Officer

/s/ VIRGINIA E. WOLTOSZ Virginia Woltosz	Senior Vice President, Secretary and Director of the Company and Words+
/s/ DR. DAVID Z. D'ARGENIO Dr. David Z. D'Argenio	Director and Consultant to the Company
Dr. Richard Weiss	Director
/s/ MOMOKO A. BERAN Momoko A. Beran	Chief Financial Officer of the Company

STATEMENT PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002
BY
PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER
REGARDING FACTS AND CIRCUMSTANCES RELATING TO EXCHANGE ACT FILINGS

I, Walter Woltosz, certify that:

1. I have reviewed this annual report on Form 10-KSB of November 5, 2002;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 5, 2002

/s/ WALTER WOLTOSZ
Walter S. Woltosz
Chief Executive Officer

STATEMENT PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002
BY
PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER
REGARDING FACTS AND CIRCUMSTANCES RELATING TO EXCHANGE ACT FILINGS

I, Momoko Beran, certify that:

1. I have reviewed this annual report on Form 10-KSB of November 5, 2002;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its

consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 5, 2002

/s/ MOMOKO BERAN
Momoko A. Beran
Chief Financial Officer

SIMULATIONS PLUS, INC. AND SUBSIDIARY
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
AUGUST 31, 2002 AND 2001

SIMULATIONS PLUS, INC. AND SUBSIDIARY
CONTENTS
AUGUST 31, 2002

Page

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders of
Simulations Plus, Inc.

We have audited the accompanying consolidated balance sheet of Simulations Plus, Inc. (a California corporation) and subsidiary as of August 31, 2002, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the two years in the period ended August 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Simulations Plus, Inc. and subsidiary as of August 31, 2002, and the results of their operations and their cash flows for each of the two years in the period ended August 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

SINGER LEWAK GREENBAUM & GOLDSTEIN LLP

Los Angeles, California
October 18, 2002

CONSOLIDATED BALANCE SHEET
August 31, 2002

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	$ 36,072
Accounts receivable, net of allowance for doubtful accounts of $11,212	928,237
Inventory	208,605
Prepaid expenses and other current assets	36,606
Total current assets	1,209,520
CAPITALIZED COMPUTER SOFTWARE DEVELOPMENT COSTS, net of accumulated amortization of $1,632,394	300,775
PROPERTY AND EQUIPMENT, net	62,439
OTHER ASSETS	13,257
TOTAL ASSETS	$1,585,991

The accompanying notes are an integral part of these financial statements.

SIMULATIONS PLUS, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET
August 31, 2002

LIABILITIES AND SHAREHOLDERS' EQUITY	
CURRENT LIABILITIES	
Accounts payable	$ 145,697
Accrued payroll and other expenses	309,764
Accrued bonuses to officers	54,058
Accrued compensation due to officers	198,916
Accrued warranty and service costs	30,996
Current portion of capitalized lease obligations	11,236
Total current liabilities	750,667
CAPITALIZED LEASE OBLIGATIONS, net of current portion	9,964
DEFERRED REVENUE	57,476
Total liabilities	818,107
COMMITMENTS AND CONTINGENCIES	
SHAREHOLDERS' EQUITY	
Preferred stock, $0.001 par value	

10,000,000 shares authorized	
no shares issued and outstanding	--
Common stock, $0.001 par value	
20,000,000 shares authorized	
3,408,331 shares issued and outstanding	3,409
Additional paid-in capital	4,654,756
Accumulated deficit	(3,890,281)
Total shareholders' equity	767,884
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 1,585,991

The accompanying notes are an integral part of these financial statements.

SIMULATIONS PLUS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
For the Years Ended August 31,

	2002	2001
NET SALES	$ 4,443,842	$ 3,914,583
COST OF SALES	1,456,332	1,562,830
GROSS PROFIT	2,987,510	2,351,753
OPERATING EXPENSES		
Selling, general, and administrative	2,105,253	2,199,611
Research and development	382,143	354,090
Total operating expenses	2,487,396	2,553,701
INCOME (LOSS) FROM OPERATIONS	500,114	(201,948)
OTHER INCOME (EXPENSE)		
Interest income	165	109
Interest expense	(13,764)	(22,161)
Total other income (expense)	(13,599)	(22,052)
INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES	486,515	(224,000)
PROVISION FOR INCOME TAXES	1,600	1,600

NET INCOME (LOSS)	$ 484,915	$ (225,600)
BASIC AND DILUTED EARNINGS (LOSS) PER SHARE	$ 0.14	$ (0.07)
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING		
BASIC	3,408,331	3,394,299
DILUTED	3,525,038	3,394,299

The accompanying notes are an integral part of these financial statements.

SIMULATIONS PLUS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the Years Ended August 31,

	Common Stock		Additional Paid-In	Accumulated	
	Shares	Amount	Capital	Deficit	Total
BALANCE, AUGUST 31, 2000	3,385,831	$ 3,386	$ 4,632,278	$(4,149,596)	$ 486,068
EXERCISE OF STOCK OPTIONS	22,500	23	22,478		22,501
NET LOSS				(225,600)	(225,600)
BALANCE, AUGUST 31, 2001	3,408,331	3,409	4,654,756	(4,375,196)	282,969
NET INCOME				484,915	484,915
BALANCE, AUGUST 31, 2002	3,408,331	$ 3,409	$ 4,654,756	$(3,890,281)	$ 767,884

The accompanying notes are an integral part of these financial statements.

SIMULATIONS PLUS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended August 31,

	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ 484,915	$(225,600)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation and amortization of property and equipment	64,158	65,300
Amortization of capitalized software development costs	127,672	228,551
Impairment of capitalized software development costs	--	126,296
(Increase) decrease in		
Accounts receivable	(483,837)	98,169
Inventory	(26,247)	(24,041)
Other assets	(11,583)	13,498
Increase (decrease) in		
Accounts payable	(118,607)	25,247
Accrued payroll and other expenses	(16,640)	16,274
Accrued bonuses to officers	54,057	--
Accrued warranty and service costs	(14,460)	1,436
Deferred revenue	51,640	(33,032)
Net cash provided by operating activities	111,068	292,098
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(35,329)	(30,700)
Capitalized computer software development costs	(94,146)	(139,375)
Net cash used in investing activities	(129,475)	(170,075)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net decrease in line of credit	(98,959)	(122)
Payments on capitalized lease obligations	(13,214)	(15,285)
Proceeds from the exercise of stock options	--	22,501
Net cash provided by (used in) financing activities	(112,173)	7,094

The accompanying notes are an integral part of these financial statements.

	For the Years Ended August 31,	
	2002	2001
Net increase (decrease) in cash and cash equivalents	$(130,580)	$ 129,117
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	166,652	37,535
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 36,072	$ 166,652
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
INTEREST PAID	$ 13,764	$ 22,161
INCOME TAXES PAID	$ 1,600	$ 1,600

The accompanying notes are an integral part of these financial statements.

SIMULATIONS PLUS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2002

NOTE 1 - ORGANIZATION AND LINES OF BUSINESS

Organization

Simulations Plus, Inc. was incorporated on July 17, 1996. On August 29, 1996, the shareholders of Words+, Inc. exchanged their 2,000 shares of Words+, Inc. common stock for 2,200,000 shares of Simulations Plus, Inc. common stock, and Words+, Inc. became a wholly owned subsidiary of Simulations Plus, Inc. (collectively, the "Company"). The effect of the stock-for-stock exchange is presented retroactively in the accompanying consolidated financial statements.

Lines of Business

The Company designs and develops computer software and manufactures augmentative communication devices and computer access products that provide a voice for those who cannot speak and allow physically disabled persons to operate a standard computer. In addition, the Company designs and develops pharmaceutical simulation software to promote cost-effective solutions to a number of problems in pharmaceutical research and in the education of pharmacy and medical students. The Company also developed and sells interactive, educational softwa