



For: Touchstone Applied Science Associates Inc.  
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## NEWS RELEASE

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## FOR IMMEDIATE RELEASE

### TOUCHSTONE APPLIED SCIENCE ASSOCIATES REPORTS FISCAL 2006 SECOND QUARTER AND SIX-MONTH RESULTS

- **Revenues Increase 46 Percent in Second Quarter**
- **Year-To-Date Revenues Up 30 Percent**
- **Large Contract Start-Up Costs Impact Margins**
- **Sales Force Expanded in Anticipation of Growth Opportunities**
- **Major Acquisition Completed After Quarter-End**

**Brewster, New York, June 14, 2006** – Citing the impact of higher expenses related to large contract startup costs, Touchstone Applied Science Associates, Inc. (OTCBB: TASA) today reported a net loss for its fiscal second quarter ended April 30, 2006 of \$250,878, or nine cents per fully diluted share, compared with net income of \$105,891, or four cents per fully diluted share, in the same period a year earlier. Revenues for the fiscal second quarter rose to \$3.482 million vs. \$2.380 million in the second quarter of last year, an increase of 46 percent.

For the six-months ended April 30, 2006, the company posted a net loss of \$410,853 or a loss of 14 cents per fully diluted share, compared with net income of \$217,238, or seven cents per fully diluted share in the first six months of the previous year. Revenues for the six months increased 30 percent to \$6.556 million from \$5.033 million in the first six months of last year.

“Our results for the quarter were impacted by higher expenses related primarily to the startup of larger contracts,” said Andrew L. Simon, president and chief executive officer. “We have made a concerted effort to bid on larger contracts and have had success. However, these larger contracts have higher front end costs. As we grow, and establish a broader revenue base, such startup costs will not have as great an impact as they did in the second quarter. However, we are in a transitional period during which startup costs of a single large contract can have a significant effect on earnings.

“We expect that the acquisition of Questar Educational Systems, Inc., which we completed on June 1, will go a long way toward reducing the impact of any one contract on our earnings. The Questar acquisition makes TASA a much more significant force in the assessment arena and expands our revenue base threefold. Additionally, with Questar, the company should be able to win more significant, mainstream assessment contracts based on our ability to perform all aspects involved in the assessment process,” Simon added.

Reflecting higher contract startup costs, cost of goods sold in both the second quarter and six months increased significantly. In the second quarter, cost of goods sold rose approximately 121 percent to \$2.269 million from \$1.029 million in the second quarter last year. For the six months, cost of goods

sold was \$4.233 million, compared with \$2.376 million in the first six months last year, the executive noted.

In addition, selling expenses in the second quarter grew 34 percent to \$543,235 from \$404,710 in the comparable period a year ago. For the six months, selling expenses were up by 20 percent to \$892,952 from \$746,134 in the first six months last year. The company has made a significant investment in building its sales force in anticipation of organic and acquisition-related growth opportunities. Simon stated "Because the sales process in our industry requires a long lead time, we felt it necessary to expand our sales force now in anticipation of future revenue growth opportunities."

General and administrative expenses rose in the second quarter 36 percent to approximately \$1.076 million from \$788,572 in the same period a year earlier. For the six months, general and administrative expenses grew by 31 percent to \$2.105 million from \$1.595 million in the same period last year. The increases in both the quarter and six months were due to two factors: the expensing of employee stock option compensation attributable to options granted between February 2005 and April 2006 pursuant to changes in accounting policies adopted by TASA; and the impact on general and administrative expenses of the acquisitions of AEC and ADI, both of which took place during the previous fiscal year.

"Our results for the quarter reflect our preparations for the acquisition of Questar which, by any measure, is a transforming event for TASA," Simon stated. "We did experience a substantial increase in revenues during the second fiscal quarter and first six months of 2006 but that improvement was offset by higher expenses required to position ourselves for future growth. We view these higher costs as investments in our future and expect to more than recover them over time, as we are able to bid on and win larger mainstream assessment contracts nationwide. Therefore, the results we generated in the quarter and six months are not likely to be indicative of our future performance.

"With the acquisition of Questar, we have achieved the critical mass needed to bid as primary contractor on large contracts. As we realize the benefits of joining the two companies, we expect to see the volatility in our earnings stream reduced as events such as the startup of a single major contract will have less of a financial impact," Simon added.

Simon said the integration of Questar into TASA should be smooth and rapid. "We have worked with Questar previously and know them well. TASA's corporate culture and that of Questar are very similar. We respect the abilities of Questar's management team and took steps, as part of the acquisition, to ensure that they remain on board. That should help to make the integration as seamless as possible. With a combined contract backlog of approximately \$100 million, it is important that we continue to execute for our customers at the same high level they have always enjoyed."

#### **Conference call today at 11:00 a.m. EST**

Management will host a conference call this morning to discuss first quarter fiscal 2006 results. The call is scheduled to begin at 11 a.m. Eastern, 10 a.m. Central, 9 a.m. Mountain and 8 a.m. Pacific. Participants may dial: 1-201-689-8470 for the live call. The call will also be webcast live and archived for three months. The webcast can be accessed at:

<http://www.viavid.net/detailpage.aspx?sid=00003267>

## **About TASA**

TASA, based in Brewster, N.Y., provides consulting services, including test design and development, and psychometric services to states, school districts and textbook publishers through its custom assessment units. TASA also designs, develops, calibrates, publishes, markets and sells educational assessment tests primarily to elementary and secondary schools throughout the United States. In addition, the Company provides test printing, distribution, scanning, scoring and reporting services to states, schools and districts as well as to third parties. Further, TASA offers on-line testing services to schools and educational entities in the K-12 market and customized assessment engines for curriculum providers. For more information, visit the Company's website at [www.tasa.com](http://www.tasa.com).

*Statements contained in this release that are not historical facts are "forward-looking" statements as contemplated by the Private Securities Litigation Reform Act of 1995, as amended. Such forward-looking statements are subject to risks and uncertainties, which are enumerated in the Company's reports filed with The Securities and Exchange Commission. These risks and uncertainties could cause actual results to differ materially from those projected or implied in the forward-looking statements.*

**...Tables Follow...**

TOUCHSTONE APPLIED SCIENCE ASSOCIATES, INC.  
AND SUBSIDIARIES

**CONSOLIDATED BALANCE SHEETS**

	April 30, <u>2006</u> (Unaudited)	October 31, <u>2005</u>
<b><u>ASSETS</u></b>		
Current assets:		
Cash and temporary investments	\$ 344,643	\$ 1,289,630
Accounts receivable, net of allowance for doubtful accounts of \$2,683	3,411,974	2,886,915
Inventories	495,680	467,762
Prepaid expenses and other current assets	434,499	397,420
Restricted cash	32,540	20,347
Deferred income taxes	<u>571,417</u>	<u>571,417</u>
Total current assets	5,290,753	5,633,491
Property, plant and equipment - net of accumulated depreciation of \$607,480 and \$488,863, respectively	924,124	675,999
Other assets:		
Test passage bank and test development, net of accumulated amortization of \$3,798,118 and \$3,579,751, respectively	2,810,675	2,750,239
Goodwill	1,969,542	1,969,542
Deferred income taxes	759,554	492,677
Other assets	<u>240,788</u>	<u>252,931</u>
Total assets	<u>\$11,995,436</u>	<u>\$11,774,879</u>

TOUCHSTONE APPLIED SCIENCE ASSOCIATES, INC.  
AND SUBSIDIARIES

**CONSOLIDATED BALANCE SHEETS (Continued)**

	April 30, <u>2006</u> (Unaudited)	October 31, <u>2005</u>
<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>		
Current liabilities:		
Line of credit	\$ 700,000	\$ --
Current maturities of long-term debt	274,744	166,750
Accounts payable	823,966	489,428
Accrued expenses	1,194,501	1,427,963
Other liabilities	166,729	317,529
Deferred gain on sale of building – current portion	<u>125,439</u>	<u>125,439</u>
Total current liabilities	3,285,379	2,527,109
Long-term debt		
Long-term debt, net of current portion	1,239,939	1,396,212
Deferred gain on sale of building, net of current portion	<u>773,536</u>	<u>836,255</u>
Total liabilities	<u>5,298,854</u>	<u>4,759,576</u>
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.0001 par value, 5,000,000 shares authorized, -0- shares-issued and outstanding	--	--
Common stock, \$.0001 par value, 20,000,000 shares authorized, 2,913,738 and 2,909,738 shares issued and outstanding, respectively	291	291
Additional paid-in capital	6,256,519	6,164,387
Retained earnings	<u>439,772</u>	<u>850,625</u>
Total stockholders' equity	<u>6,696,582</u>	<u>7,015,303</u>
Total liabilities and stockholders' equity	<u>\$11,995,436</u>	<u>\$11,774,879</u>

TOUCHSTONE APPLIED SCIENCE ASSOCIATES, INC.  
AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF OPERATIONS**

	Six Months Ended April 30,		Three Months Ended April 30,	
	<u>2006</u> (Unaudited)	<u>2005</u> (Unaudited)	<u>2006</u> (Unaudited)	<u>2005</u> (Unaudited)
Net revenue	\$6,555,717	\$5,033,112	\$3,481,703	\$2,380,283
Cost of goods sold	<u>4,232,592</u>	<u>2,376,321</u>	<u>2,269,113</u>	<u>1,028,649</u>
Gross profit	<u>2,323,125</u>	<u>2,656,791</u>	<u>1,212,590</u>	<u>1,351,634</u>
Operating expenses:				
Selling expenses	892,952	746,134	543,235	404,710
General and administrative expenses	<u>2,104,823</u>	<u>1,594,523</u>	<u>1,076,004</u>	<u>788,572</u>
Total operating expenses	<u>2,997,775</u>	<u>2,340,657</u>	<u>1,619,239</u>	<u>1,193,282</u>
(Loss) income from operations	(674,650)	316,134	(406,649)	158,352
Other income (expense):				
Gain on sale leaseback of building	62,720	62,720	31,360	31,360
Interest (expense) income, net	<u>(42,262)</u>	<u>3,914</u>	<u>(22,058)</u>	<u>1,335</u>
(Loss) income before (benefit from) provided for income taxes	(654,192)	382,768	(397,347)	191,047
(Benefit from) provision for income taxes	<u>(243,339)</u>	<u>165,530</u>	<u>(146,469)</u>	<u>85,156</u>
Net (loss) income	<u>\$ (410,853)</u>	<u>\$ 217,238</u>	<u>\$ (250,878)</u>	<u>\$ 105,891</u>
Weighted average shares outstanding:				
Basic	2,911,351	2,747,813	2,913,018	2,780,875
Diluted	2,911,351	2,943,456	2,913,018	2,976,518
Basic (loss) earnings per share	\$ (.14)	\$ .08	\$ (.09)	\$ .04
Diluted (loss) earnings per share	\$ (.14)	\$ .07	\$ (.09)	\$ .04

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