



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

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## FOR IMMEDIATE RELEASE

### TOUCHSTONE APPLIED SCIENCE ASSOCIATES, INC. REPORTS AUDITED RESULTS FOR FISCAL 2005

- **Revenues Increase 4.5 Percent**
- **Gross Profit Margin Widens**
- **Custom Assessment Business Continues to Grow**
- **Investments in Future Growth, Sarbanes Oxley Expenses Increase Cost Structure**
- **Higher Costs Result in Lower EPS**

**Brewster, New York, January 30, 2006** - Touchstone Applied Science Associates, Inc. (OTCBB: TASA), today reported it posted net income for the fiscal year ended October 31, 2005 of \$ 474,964, or 16 cents per diluted share, compared with net income of \$822,603, or 29 cents per diluted share, a year earlier. Net revenues for Fiscal 2005 were \$11.7 million, an increase of 4.5 percent over net revenues of \$11.2 million in Fiscal 2004. Fully diluted weighted average shares outstanding were 3,023,262 and 2,870,327 in Fiscal 2005 and Fiscal 2004, respectively.

In the fourth quarter of Fiscal 2005, net revenue was \$3.7 million compared with \$3.5 million in the fourth quarter a year ago. Fourth quarter net income was \$109,542, or 4 cents per diluted share. This compares with net income of \$398,081, or 14 cents per diluted share in the same period a year ago.

The Company noted that gross margin for FY 2005 increased to 49 percent from 48 percent in the prior year. The increase was attributable to a combination of more aggressive pricing of contracts and the benefits of capital investments that led to improved operating efficiency.

### Management Comments

"Fiscal 2005 was a year of change for TASA," Andrew L. Simon, president and chief executive officer, noted. "The continuing shift by states toward custom assessment products that meet their specific and differing needs was reflected in our sales mix and earnings for the year. Our proprietary product business remained soft while our custom business further increased as a percentage of total revenue. Revenue generated by BETA, our leading custom reporting unit, rose by 5 percent. We also experienced increases in revenue from ADI and AEC, our two new custom reporting units.

"To adapt to the changing environment, we made adjustments to the way we conduct business. We strengthened our management team with the addition of a Chief Operating Officer for TASA Proprietary and a Vice President of Sales. We also strengthened other elements of our sales organization. We made two strategic acquisitions, AEC and ADI, which rounded out our assessment capabilities. With those acquisitions we are now able to offer a full range of services and are

positioned to benefit from the broader range of academic subject assessments, such as science, scheduled to be implemented in the next few years,” Simon added.

Simon stated that TASA also reconfigured its proprietary business during the year. “We looked carefully at every aspect of the proprietary business and identified an opportunity. As mentioned previously in our announcement of January 13, 2006, we are maximizing the use of our assets by increasing the emphasis on marketing our ability to print, distribute, scan and score assessment materials. There is a substantial and continuing demand for these services. We expect that demand to grow further in the future.”

### **Costs Escalate**

Simon stated that positioning the company to adapt to the changing environment involved additional costs. “As mentioned in prior announcements, the changes we made in Fiscal 2005 affected our cost structure and, in turn, our results for the year. We view the added costs as investments that will yield returns in the form of increased revenues and earnings in the future.

“Additionally, we were burdened with significant additional costs related to compliance with Section 404 of The Sarbanes-Oxley Act, which relates to testing and reporting on the adequacy of internal controls. These costs negatively impacted our earnings by approximately four cents per share in Fiscal 2005. They are a particularly onerous burden for a company our size and do not contribute to our growth,” Simon said.

### **Business Backlog, Bidding Activity Remain Strong**

Simon noted that TASA added to its backlog in Fiscal 2005 with additional business from Idaho, Indiana and Michigan. Total new contracts for the FY 2005 year amounted to \$13 million and the backlog at year-end stood at about \$20 million. He said that backlog alone should generate approximately \$9 million of revenue during Fiscal 2006 without taking into consideration any new contracts or any proprietary catalogue products and services that may be won or any other sources. He added that TASA currently has under consideration bids for contracts worth approximately \$17 million.

“With the addition of AEC and ADI along with other changes made in Fiscal 2005, we are able to be more aggressive in our bidding and to bid on an integrated basis. We believe this will appeal to states because it minimizes the number of entities with which they have to contract. Although it would be premature to make assumptions about additional contracts, it is notable that our ability to consistently provide a high level of service was a major factor in the additional business we gained in Indiana and Michigan during 2005 and into the future. We intend to further expand our bidding efforts in 2006.

### **Outlook**

“We expect TASA to be stronger in 2006,” Simon stated. “As I mentioned earlier, our backlog of existing business is solid and provides a solid base from which to generate accelerated growth. We have bids out on an amount of new business nearly equal to our existing backlog. We are also bidding on larger contracts as a result of our enhanced capabilities. We continue to examine every aspect of our business, both to identify areas in which we can optimize use of our existing assets and to identify new opportunities for revenue and earnings.

“In addition, we are seeking opportunities to complement our internal growth with strategic acquisitions. We were successful in making two acquisitions during 2005. In addition to rounding out

our capabilities, those transactions provided experience we believe will make us more effective in our pursuit of other possibilities. We will, however, continue to be disciplined in our approach to acquisitions and act only when they make economic sense and help us deliver increased value for our shareholders,” Simon concluded.

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

Management will host a conference call this morning to discuss Fiscal 2005 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: (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.viaavid.net/detailpage.aspx?sid=00002CF9>

### **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

	<u>October 31,</u>	
	<u>2005</u>	<u>2004</u>
<u>ASSETS</u>		
Current assets:		
Cash and temporary investments	\$ 1,289,630	\$ 1,751,487
Accounts receivable, net of allowance for doubtful accounts of \$2,683 and \$4,417, respectively	2,886,915	1,526,559
Inventories	467,762	431,196
Prepaid expenses and other current assets	397,420	338,354
Restricted cash	20,347	21,954
Deferred income taxes	<u>571,417</u>	<u>536,440</u>
 Total current assets	 5,633,491	 4,605,990
 Property, plant and equipment - net of accumulated depreciation of \$488,863 and \$284,567, respectively	 675,999	 525,319
Other assets:		
Test passage bank and test development, net of accumulated amortization of \$3,579,751 and \$3,174,865, respectively	2,750,239	2,227,077
Goodwill	1,969,542	198,159
Deferred income taxes	492,677	807,672
Other assets	<u>252,931</u>	<u>326,289</u>
 Total assets	 <u>\$11,774,879</u>	 <u>\$8,690,506</u>

TOUCHSTONE APPLIED SCIENCE ASSOCIATES, INC.  
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (Continued)

	October 31,	
	2005	2004
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Current liabilities:		
Lines of credit	\$ --	\$ --
Current maturities of long-term debt	166,750	28,606
Accounts payable	489,428	119,448
Accrued expenses	1,427,963	1,350,546
Deferred income	317,529	--
Deferred gain on sale of building – current portion	<u>125,439</u>	<u>125,439</u>
Total current liabilities	2,527,109	1,624,039
Long-term debt:		
Long-term debt, net of current portion	1,396,212	120,291
Deferred gain on sale of building, net of current portion	<u>836,255</u>	<u>961,692</u>
Total liabilities	<u>4,759,576</u>	<u>2,706,022</u>
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.0001 par value, 5,000,000 shares authorized, 0 shares-issued and outstanding, respectively	--	--
Common stock, \$.0001 par value, 20,000,000 shares authorized, 2,909,738 and 2,627,703 shares issued and outstanding, respectively	291	263
Additional paid-in capital	6,164,387	5,609,480
Subscriptions receivable	--	(920)
Retained earnings	<u>850,625</u>	<u>375,661</u>
Total stockholders' equity	<u>7,015,303</u>	<u>5,984,484</u>
Total liabilities and stockholders' equity	<u>\$11,774,879</u>	<u>\$8,690,506</u>

TOUCHSTONE APPLIED SCIENCE ASSOCIATES, INC.  
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	<u>Fiscal Years Ended October 31,</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Net revenue	\$11,686,649	\$11,185,254	\$9,761,638
Cost of goods sold	<u>5,990,327</u>	<u>5,795,758</u>	<u>5,075,148</u>
Gross profit	<u>5,696,322</u>	<u>5,389,496</u>	<u>4,686,490</u>
Operating expenses:			
Selling expenses	1,432,287	1,278,178	1,453,190
General and administrative expenses	<u>3,566,373</u>	<u>2,819,770</u>	<u>2,189,318</u>
Total operating expenses	<u>4,998,660</u>	<u>4,097,948</u>	<u>3,642,508</u>
Income from operations	697,662	1,291,548	1,043,982
Other income (expense):			
Gain on sale/leaseback of building	125,439	125,439	41,813
Interest expense, net	<u>(24,069)</u>	<u>(1,936)</u>	<u>(403,940)</u>
Income before income taxes	799,032	1,415,051	681,855
Income taxes	<u>324,068</u>	<u>592,448</u>	<u>326,540</u>
Income from continuing operations	<u>474,964</u>	<u>822,603</u>	<u>355,315</u>
Income (loss) from discontinued operations			
Income (loss) from operations net of income tax expense (benefit) of \$ --, \$--, and \$(248,127), respectively	--	--	(372,190)
Income on disposal, net of income tax expense (benefit) of \$ --, \$-- and \$309,349	<u>--</u>	<u>--</u>	<u>552,408</u>
Income from discontinued operations	<u>--</u>	<u>--</u>	<u>180,218</u>
Net income	<u>\$ 474,964</u>	<u>\$ 822,603</u>	<u>\$ 535,533</u>

TOUCHSTONE APPLIED SCIENCE ASSOCIATES, INC.  
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS (Continued)

	<u>Fiscal Years Ended October 31,</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Weighted average shares outstanding:			
Basic	2,807,275	2,614,662	2,596,252
Diluted	3,023,262	2,870,327	2,661,014
 Basic earnings per share			
Continuing operations	\$ .17	\$ .31	\$ .14
Discontinued operations	<u>    --</u>	<u>    --</u>	<u>    .07</u>
	<u>\$ .17</u>	<u>\$ .31</u>	<u>\$ .21</u>
 Diluted earnings per share			
Continuing operations	\$ .16	\$ .29	\$ .13
Discontinued operations	<u>    --</u>	<u>    --</u>	<u>    .07</u>
	<u>\$ .16</u>	<u>\$ .29</u>	<u>\$ .20</u>