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**FOR IMMEDIATE RELEASE**

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**NEWS RELEASE**

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**TOUCHSTONE APPLIED SCIENCE ASSOCIATES REPORTS  
THIRD QUARTER FISCAL 2005 RESULTS**

- **Revenues Increase 3.2 Percent**
- **Gross Margin Rises to 51 Percent**
- **Strong Fourth Quarter Anticipated**
- **Effects of Sarbanes-Oxley 404 Compliance Increase Costs**

**Brewster, New York, September 14, 2005** – Touchstone Applied Science Associates (OTCBB: TASA) reported today that while its revenue and gross operating margins showed gains, earnings for the third quarter ended July 31, 2005 decreased, primarily due to increased professional fees and costs associated with implementation of Section 404 of the Sarbanes-Oxley Act. Net income for the company's third quarter was \$148,184, or 5 cents per diluted share, compared with net income of \$193,756, or 7 cents per diluted share, in the comparable quarter a year earlier. Net revenue in the quarter rose 3.2 percent to \$2,975,833 from \$2,883,158 in the same period last year. Weighted average diluted shares outstanding at July 31, 2005 were 3,052,577 vs. 2,867,736 in the third quarter of the prior year.

For the nine-month period ended July 31, 2005, TASA reported net income of \$365,422, or 12 cents per diluted share, vs. net income of \$424,522, or 15 cents per diluted share. Net revenue for the first nine months of Fiscal 2005 rose by 4.5 percent to \$8,008,945 from \$7,667,820 in the comparable period last year. Weighted average diluted shares outstanding for the nine-month periods of 2005 and 2004 were 2,964,884 and 2,857,832, respectively.

**Management Comments**

"We made substantial progress in the third quarter," said Andrew L. Simon, TASA president. "Our custom testing business continued to grow, and the efforts we made over the past several quarters to halt the decline in our proprietary business have taken effect. It is significant to note that \$684,123 of contract revenue has been deferred and was not recognized as of July 31, 2005. The deferral results from a difference between billing dates and service completion dates. We anticipate completion of these services in the fourth fiscal quarter. When recognized, this deferred revenue will have a significant positive impact on our results of operations.

Our gross margin improved to 51 percent in the quarter, up significantly from 47 percent in the same quarter a year ago. Our reputation for providing a high level of service and the quality of the products we offer has allowed us to price in a way that preserves our margins while continuing to win new business. Expenses were higher, in part as a result of the acquisitions of ADI and AEC we made earlier this year. As those two units grow, the impact of the expenses related to them should decline.

“We expect the fourth quarter of our fiscal year to be strong. This is based on expected improvement in the proprietary products business as we enter its seasonally strongest period and as we experience the full quarter’s impact from contracts we secured earlier in the year,” Simon added.

“Our backlog of contracted business remains strong at \$23.8 million in future revenues. New business efforts are also paying off. Over the past six months we have added new contracts totaling approximately \$13.2 million in future revenues. New business includes a three-year, \$1.8 million contract with the state of Idaho, which is the first in which all four of our operating units are participating,” according to Simon.

### **Custom Testing Remains Strong**

“The revenue performance of our custom testing unit remained strong, increasing by 5.9 percent in the third quarter and 17.8 percent for the nine-month period. The results would have been even stronger had we recognized the additional \$684,123 in deferred revenues in third-quarter results as opposed to the fourth quarter, as now anticipated. The addition of ADI and AEC earlier this year puts us in a strong position to bid on additional business,” Simon commented.

### **Proprietary Testing Rebounds**

“We have successfully arrested the decline in proprietary products sales, primarily through the efforts of a strengthened management team and more aggressive sales and marketing. We are now in a position where we can focus on renewing growth in this area. We are continuing to invest in development of new products and expect to launch our new ‘Reading Power Essentials’ and electronic DRP products this month,” Simon noted.

### **Infrastructure Costs and Investing in the Future**

Simon said that TASA is well-positioned for continued growth. “We have made great strides in strengthening our management team and developing a comprehensive suite of assessment products and services. The investments we have made this year, most notably the acquisitions and strengthened management team, are already beginning to yield results.”

Simon also noted that costs, particularly those associated with regulatory requirements, continue to be a challenge. “We are experiencing increases in our costs. Some of those, such as infrastructure costs associated with the acquisitions and efforts to strengthen our proprietary operations, we view as investments in our future.

“Other costs, such as those associated with compliance with the provisions of Sarbanes-Oxley and related higher accounting fees, while necessary, are an additional burden that generates no corresponding future revenue benefit. The cost of compliance with Sarbanes-Oxley Section 404, for example, amounted to 3 cents per share through the first nine months of Fiscal 2005,” Simon stated.

### **Balance Sheet**

TASA’s balance sheet remained strong as of the end of the third quarter. Working capital stood at \$3.1 million, up from \$3.0 million at the end of Fiscal 2004. The company’s current ratio at quarter-end was 2.43:1. Long-term debt at the end of the third quarter was \$1,476,639, up from \$120,291 at the end of Fiscal 2004. The increase is primarily the result of borrowings to finance the acquisition of ADI in June, 2005. Stockholders’ equity stood at \$6.9 million compared with \$6.0 million at October 31, 2004.

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

Management will host a conference call this morning to discuss third-quarter 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.viavid.net/detailpage.aspx?sid=000028F6>.

A playback of the call will be available shortly after the call and will be archived for three months. The playback number is (201) 612-7415, using account number 3055 and conference ID 168328.

### **About TASA**

TASA, based in Brewster, N.Y., designs, develops, calibrates, publishes, markets and sells educational assessment tests primarily to elementary and secondary schools throughout the United States. TASA also provides scanning, scoring and reporting services for all of its tests to states, schools and districts as well as to third parties. Through its custom assessment unit, the company provides consulting services, including test design and development, and psychometric services to states, school districts and textbook publishers. In addition, TASA offers on-line testing services to schools and educational entities in the K-12 market and customized assessment engines for curriculum providers. 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

	July 31, <u>2005</u> (Unaudited)	October 31, <u>2004</u> (As Restated)
<u>ASSETS</u>		
Current assets:		
Cash and temporary investments	\$ 1,378,951	\$ 1,751,487
Accounts receivable, net of allowance for doubtful accounts of \$870 and \$4,417, respectively	2,510,331	1,526,559
Inventories	477,043	431,196
Prepaid expenses and other current assets	389,124	338,354
Restricted cash	43,012	21,954
Deferred income taxes	<u>536,440</u>	<u>536,440</u>
Total current assets	<u>5,334,901</u>	<u>4,605,990</u>
Property, plant and equipment - net of accumulated depreciation of \$518,230 and \$284,567, respectively	668,759	525,319
Other assets:		
Test passage bank and test development, net of accumulated amortization of \$3,474,156 and \$3,174,865, respectively	2,596,309	2,227,077
Goodwill	1,958,132	198,159
Deferred income taxes	607,942	807,672
Other assets	<u>272,528</u>	<u>326,289</u>
Total assets	<u>\$11,438,571</u>	<u>\$8,690,506</u>

TOUCHSTONE APPLIED SCIENCE ASSOCIATES, INC.  
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (Continued)

	July 31, <u>2005</u> (Unaudited)	October 31, <u>2004</u> (As Restated)
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Current liabilities:		
Lines of credit	\$ --	\$ --
Current maturities of long-term debt	97,426	28,606
Accounts payable	184,758	119,448
Accrued expenses	1,100,711	1,350,546
Deferred revenue	684,123	--
Deferred gain on sale of building – current portion	<u>125,439</u>	<u>125,439</u>
Total current liabilities	<u>2,192,457</u>	<u>1,624,039</u>
Long-term debt:		
Long-term debt, net of current portion	1,476,639	120,291
Deferred gain on sale of building, net of current portion	<u>867,614</u>	<u>961,692</u>
Total liabilities	<u>4,536,710</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, 2,903,378 and 2,627,703 shares issued and outstanding, respectively	290	263
Additional paid-in capital	6,160,488	5,609,480
Subscriptions receivable	--	(920)
Retained earnings	<u>741,083</u>	<u>375,661</u>
Total stockholders' equity	<u>6,901,861</u>	<u>5,984,484</u>
Total liabilities and stockholders' equity	<u>\$11,438,571</u>	<u>\$8,690,506</u>

TOUCHSTONE APPLIED SCIENCE ASSOCIATES, INC.  
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	<u>Nine Months Ended July 31,</u>		<u>Three Months Ended July 31,</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
	(Unaudited)	(Unaudited) (As Restated)	(Unaudited)	(Unaudited) (As Restated)
Net revenue	\$8,008,945	\$7,667,820	\$2,975,833	\$2,883,158
Cost of goods sold	<u>3,836,898</u>	<u>4,126,310</u>	<u>1,460,577</u>	<u>1,524,146</u>
Gross profit	<u>4,172,047</u>	<u>3,541,510</u>	<u>1,515,256</u>	<u>1,359,012</u>
Operating expenses:				
Selling expenses	1,138,711	1,009,437	392,577	378,131
General and administrative expenses	<u>2,534,308</u>	<u>1,908,621</u>	<u>939,785</u>	<u>704,670</u>
Total operating expenses	<u>3,673,019</u>	<u>2,918,058</u>	<u>1,332,362</u>	<u>1,082,801</u>
Income from operations	499,028	623,452	182,894	276,211
Other income (expense):				
Gain on sale/leaseback of building	94,079	94,079	31,359	31,359
Interest income (expense) net	<u>(3,745)</u>	<u>(3,199)</u>	<u>(7,659)</u>	<u>(69)</u>
Income before income taxes	589,362	714,332	206,594	307,501
Income taxes	<u>223,940</u>	<u>289,810</u>	<u>58,410</u>	<u>113,745</u>
Net income	<u>\$ 365,422</u>	<u>\$ 424,522</u>	<u>\$ 148,184</u>	<u>\$ 193,756</u>
Weighted average shares outstanding:				
Basic	2,774,768	2,611,584	2,829,104	2,621,488
Diluted	2,964,884	2,857,832	3,052,577	2,867,736
Basic earnings per share	\$ .13	\$ .16	\$ .05	\$ .07
Diluted earnings per share	\$ .12	\$ .15	\$ .05	\$ .07