



For: Touchstone Applied Science Associates Inc.
4 Hardscrabble Heights
Brewster, NY 10509-0382

NEWS RELEASE

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For further Information:

At TASA:

Andrew L. Simon, President & CEO
845-277-8100
asimon@tasa.com

At The Investor Relations Company:

Mike Arneth or Brien Gately
847-296-4200
marneth@tirc.com or bgately@tirc.com

FOR IMMEDIATE RELEASE

TOUCHSTONE APPLIED SCIENCE ASSOCIATES REPORTS STRONG FIRST QUARTER RESULTS

- **EPS Rises by 50 Percent to 3 cents**
- **Revenues Increase Over 27 Percent**
- **New Subsidiary Lands Assignment**
- **Gross Margin Expands**

Brewster, N.Y., March 15, 2005 – Touchstone Applied Science Associates (OTCBB: TASA), citing the impact of continued growth in its custom assessment services business, today reported net income for the first quarter of fiscal 2005 of \$93,000, or 3 cents per share on 2,974,518 fully diluted shares outstanding, compared with \$62,000, or 2 cents per share on 2,797,209 fully diluted shares outstanding in the comparable quarter a year ago. Revenues in the first quarter of fiscal 2005 were \$2.7 million, an increase of more than 27 percent over revenues of \$2.1 million in the first quarter of fiscal 2004.

A Strong First Quarter

“Because of the seasonality of the education business, the first quarter has traditionally been our weakest,” said Andrew L. Simon, TASA president and chief executive officer. “However, as our revenue mix shifts toward custom services, our revenue stream increased in the November-January period. The net effect of this shift is that for the second consecutive year, we were profitable for this period.

“The layering of multi-year custom assessment assignments as well as increased levels of activities for our clients was reflected in more than a 79 percent gain in revenues,” Simon added.

Key Metrics

Reflecting TASA's focus on the efficiency of its operations, gross margin in the first quarter increased by 100 basis points to 49 percent from 48 percent in the first quarter last year.

TASA's costs remained in line with budget. Simon stated that both selling expenses and general and administrative expenses increased but that the extent of the increase was generally in proportion to the growth in revenues. He noted that approximately one-third of the increase in general and administrative expenses was related to compliance with Section 404 of the Sarbanes-Oxley act, which requires the company to evaluate its internal financial controls and certify the adequacy of those controls.

TASA generated positive cash flow in the first quarter and has been cash flow-positive for seven consecutive quarters.

Custom Assessment Services Growth Continues

Simon said there has been a marked shift in the demand toward custom assessment services, driven by the “No Child Left Behind” legislation. “States have a need to accurately measure themselves against the standards set by NCLB and are increasingly turning to custom testing. TASA’s position as a leading provider of custom assessment services with a reputation for exceptional service has allowed us to benefit from this trend. Our backlog of custom assessment business is growing each year as we bid on, and win, more contracts. Our BETA subsidiary has enjoyed increasing success. AEC, our new subsidiary, has received its first assignment since we acquired it in January of this year.”

Timing Affects Proprietary Products

Simon also reported that the company experienced an expected decline in revenue from proprietary products and services in the first quarter. He explained that the decline was primarily the result of the timing of customer orders. Several major school districts ordered sufficient quantities of TASA’s DRP tests last year to meet their needs through the first half of this year. Additionally, a number of states placed orders in the first quarter last year for the company’s MAC II test. Since the test materials are reusable, those orders did not repeat in this year’s first quarter.

Simon stated he expects sales of its proprietary products to rebound in the second half of this year. “We expect to introduce a new electronic version of the DRP test late this spring. Additionally, we anticipate an increase in test scoring revenues as the year progresses. We quadrupled our test scoring capacity over the past two years and have aggressively pursued additional scoring assignments. We also anticipate new orders for our proprietary testing materials.”

Balance Sheet Remains Strong

The company’s balance sheet remained strong at the end of the first quarter. Working capital increased to \$3.2 million from \$3.1 million at October 31, 2004. The current ratio stood at 3.3:1. Long-term debt was \$113,000 and represented 1.6 percent of total capital. Stockholders’ equity stood at \$6.9 million as of the end of the first quarter.

Outlook

“The outlook for fiscal 2005 remains positive,” said Simon. “We are experiencing strong growth in our customer base. We expect the performance of our proprietary products business to rebound in the second half of fiscal 2005. Our custom assessment services business is stronger than ever. Our strategy of increased bidding is producing results as the number of contracts in our backlog is increasing steadily. BETA’s performance should remain strong throughout the year, based on market indicators. We expect AEC to add to that growth as the year progresses. The ‘No Child Left Behind’ act will continue to be a major factor stimulating demand for assessment services of all types. TASA, with its reputation for innovative products and exceptional service, is well positioned to benefit from the continued national focus on educational assessment.”

Conference Call Today at 10 A. M. EST

Management will host a conference call this morning to discuss first quarter results. The call is scheduled to begin at 10 a.m. Eastern, 9 a.m. Central, 8 a.m. Mountain and 7 a.m. Pacific. Participants may dial: (201) 689-8359 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=00002385>

A playback of the call will be available shortly after the call and concludes through March 29, 2005. The playback number is (201) 612-7415, using account number 3055 and conference ID 142819.

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. Visit the company's website at 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

	January 31, <u>2005</u> (Unaudited)	October 31, <u>2004</u>
<u>ASSETS</u>		
Current assets:		
Cash and temporary investments	\$1,572,656	\$1,751,487
Accounts receivable, net of allowance for doubtful accounts of \$14,232 and \$4,417, respectively	1,765,557	1,526,559
Inventories	426,196	431,196
Prepaid expenses and other current assets	290,380	338,354
Restricted cash	22,924	21,954
Deferred income taxes	<u>536,440</u>	<u>536,440</u>
 Total current assets	 4,614,153	 4,605,990
Property, plant and equipment - net of accumulated depreciation of \$322,788 and \$284,567, respectively	587,657	525,319
Other assets:		
Test passage bank and test development, net of accumulated amortization of \$3,274,629 and \$3,174,865, respectively	2,294,639	2,227,077
Goodwill	316,233	198,159
Deferred income taxes	315,403	361,948
Other assets	<u>303,434</u>	<u>326,289</u>
 Total assets	 <u>\$8,431,519</u>	 <u>\$8,244,782</u>

**TOUCHSTONE APPLIED SCIENCE ASSOCIATES, INC.
AND SUBSIDIARIES**

CONSOLIDATED BALANCE SHEETS (Continued)

	January 31, <u>2005</u> (Unaudited)	October 31, <u>2004</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Current liabilities:		
Lines of credit	\$ --	\$ --
Current maturities of long-term debt	28,923	28,606
Accounts payable	366,473	119,448
Accrued expenses	<u>1,004,886</u>	<u>1,350,546</u>
Total current liabilities	1,400,282	1,498,600
Long-term debt:		
Long-term debt, net of current portion	<u>113,078</u>	<u>120,291</u>
Total liabilities	<u>1,513,360</u>	<u>1,618,891</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, 2,779,750 and 2,627,703 shares issued and outstanding, respectively	278	263
Additional paid-in capital	5,807,968	5,609,480
Subscriptions receivable	--	(920)
Retained earnings	<u>1,109,913</u>	<u>1,017,068</u>
Total stockholders' equity	<u>6,918,159</u>	<u>6,625,891</u>
Total liabilities and stockholders' equity	<u>\$8,431,519</u>	<u>\$8,244,782</u>

**TOUCHSTONE APPLIED SCIENCE ASSOCIATES, INC.
AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended January 31,	
	<u>2005</u>	<u>2004</u>
	(Unaudited)	(Unaudited)
Net revenue	\$2,652,829	\$2,087,794
Cost of goods sold	<u>1,347,672</u>	<u>1,089,043</u>
Gross profit	<u>1,305,157</u>	<u>998,751</u>
Operating expenses:		
Selling expenses	341,424	275,104
General and administrative expenses	<u>805,951</u>	<u>616,263</u>
Total operating expenses	<u>1,147,375</u>	<u>891,367</u>
Income from operations	157,782	107,384
Other income (expense):		
Interest income (expense), net	<u>2,579</u>	<u>(549)</u>
Income before income taxes	160,361	106,835
Income taxes	<u>67,516</u>	<u>44,713</u>
Net income	<u>\$ 92,845</u>	<u>\$ 62,122</u>
Weighted average shares outstanding:		
Basic	2,715,490	2,603,453
Diluted	2,974,518	2,797,209
Earnings per share:		
Basic	\$.03	\$.02
Diluted	\$.03	\$.02

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