

EXECUTIVE SUMMARY

Educational Assessment is a big business and growing fast. Testing the academic capabilities of students from kindergarten through 12th grade is reported to be growing at a 14% annual rate.

Questar Assessment, Inc. provides a comprehensive suite of customized educational assessment solutions to states, schools, and school districts. Schools and educational authorities rely on Questar's services and consultation to help make educational funding decisions, analyze school performance, and identify opportunities to help students improve academic skills.

The company's financials reflect the cyclicity of its business (fiscal second and third quarters generate the bulk of revenues due to the school calendar). Management believes long-term prospects for revenue and cash flow growth are excellent.

The company, previously Touchstone Applied Science Associates, has made a series of acquisitions that gave it increasing depth and breadth. That phase of management's strategic plan was capped off in mid-2006 with the acquisition of Questar Educational Systems, which was three times its size. The much larger combined company,

which retained the Questar name and strong brand recognition, offers a full range of capabilities, from high-level test design and analysis to high-volume test scoring and distribution.

With expanded capabilities, a larger sales force, operational efficiencies and leverage, the new Questar is well-positioned to compete for a wider range of contracts. The company is extremely flexible, able to handle every aspect of an assessment project, but also able to work seamlessly with other vendors as a contractor or as a subcontractor.

Questar boasts a seasoned team of industry experts, from operational managers to nationally recognized authorities in content creation, psychometric evaluation and test result analysis. A number of senior managers have contractual equity-based performance incentives. The management team is led by Andrew L. Simon, president and chief executive, who has headed the company since 1994. Questar operates facilities in Brewster, New York and Apple Valley, Minn.

Management is pursuing its mission to provide the education market with innovative and responsive assessment products and services. Through

exceptional and personalized customer support, the company partners with clients to promote and enhance student learning. In fiscal third quarter 2007, a seasonally strong quarter, QUSA's EPS increased to 12 cents from 9 cents the prior year. EPS for the nine months was 39 cents compared with 0 cents for the nine months of 2006. EBITDA was up significantly \$2.2 million in third quarter 2007 and \$7.3 million for the nine months of 2007.

KEY STATISTICS (AS OF 9/17/07)

Recent Price
\$6.10

52-Week Range
\$2.21-\$7.50

Avg. Daily Vol.
6000

Market Capitalization
\$34M

Shares Outstanding
5.1 million

Estimated Float
2.3 million shares

INVESTMENT APPEALS

Measuring Value Creation –

Questar management believes because of its current accounting circumstances, gauging the company's progress by revenue growth and EBITDA provides the clearest picture of what is happening with its day-to-day operations.

For the next several quarters, it will be amortizing the full potential value of long-term contracts obtained in the 2006 Questar acquisition.

These are non-cash items. Questar is also amortizing other non-cash miscellaneous items resulting from the acquisition. In addition, management is pursuing an aggressive amortization schedule to move through these accounting events as quickly as possible. In 2007 alone, the company plans to amortize \$2.45 million of intangibles.

Recurring Revenue –

A trend toward creating customized assessment programs rather than off-the-shelf testing products fosters long-term contracts with large customers, including renewals and new contracts. Multi-year contracts are often renewable. Some of the company's contracts have been renewed continuously since the early 1980s.

Strong client relationships and quality service help foster repeat business, contract renewals and new projects from states.

Reorganization Maximizes Capabilities –

Following the acquisition, management examined operations and launched a comprehensive plan to rationalize it and organize Questar for maximum efficiency. The two companies had complementary capabilities with little overlap, but still the reorganization was designed to ensure there are no operational silos or service gaps. The company allocated specific tasks most appropriate to each of its two facilities.

The sales and RFP bidding processes were revamped to focus the company's business development resources on contracts with optimal revenue and margin opportunities. Other changes to the bidding and proposal process are designed to smooth a revenue stream that is subject to seasonality.

Entrepreneurial Corporate Culture –

Questar requires limited physical assets to conduct its business. Management asserts the company's primary value resides in its people, a fact true throughout the assessment industry. It believes Questar is viewed industry-wide as the premier educational assessment company for which to work. Questar has helped ensure employee satisfaction and stability through performance-based pay contracts and a stimulating entrepreneurial environment as a member of a recognized leader in the assessment field.

Flexible Operating Costs, Low Overhead –

Growth is driven by a relatively small number of highly trained full time employees. When there is a need to have tests scored, QUSA calls on a pool of accredited educators who

WHAT IS EDUCATIONAL ASSESSMENT?

Educational Assessment – testing students from kindergarten through 12th grade – plays an increasingly important role in measuring American students' skills, knowledge and educational progress. Summative testing measures students' absolute knowledge levels, and facilitates comparison with established state and national standards. Students either do or don't meet established benchmarks.

Results from these summative assessment programs are often used to determine: school district funding; penalties for not complying with required performance standards; and staffing recommendations. Industry estimates place the growth of summative testing an approximately 8% annually.

A second type of testing is called formative assessment, and is increasingly popular. This testing goes beyond measuring only absolute knowledge and is used to help design programs that address students' educational deficiencies and needs. Students are frequently re-tested at a later date to gauge the success of the remedial learning programs that were developed. This type of assessment is growing at an estimated 19% annually.

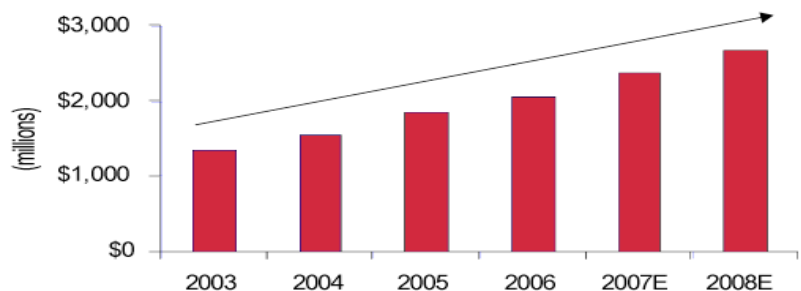
The implications of the assessment process tests and programs must be appropriately designed to be as fair and accurate as possible. The federal government has allocated billions of dollars to develop tests that drive accountability in America's education at a state level. Questar works with educational officials to develop assessment products with fair and accurate results.

perform their tasks as freelancers. Workers needed to process large test printing, sorting and mailing functions are hired on an as-needed basis from neighboring communities.

Sole Publicly Traded Pure Play in Educational Assessment – Questar offers the opportunity to participate

solely in the growing educational assessment industry. Competitors with similar industry focus are privately held. Publicly held competitors, few of which offer a full range of educational assessment capabilities, are generally diversified companies providing other services ranging from book publishing to tutoring.

K-12 Testing/Assessment



Market projected to grow 14% annual blended rate (8% summative and 19% formative)

Source: McGraw Hill

QUESTAR AND ITS COMPETITORS

A large number of companies compete in selected areas of the educational assessment field. Few of Questar's publicly held competitors have businesses exclusively dedicated to this industry. For example, CTB/McGraw-Hill, Pearson Educational Measurement and Harcourt Assessment are divisions of much larger publishing, education and media conglomerates. Other competitors provide scattered educational assessment products but may be primarily providers of tutoring services, teacher training and parental resources.

Smaller, mostly privately held firms are specialists in educational assessment and may offer specific capabilities, but few can provide a full range of capabilities. Management believes Questar provides the best, most reliable service in the industry

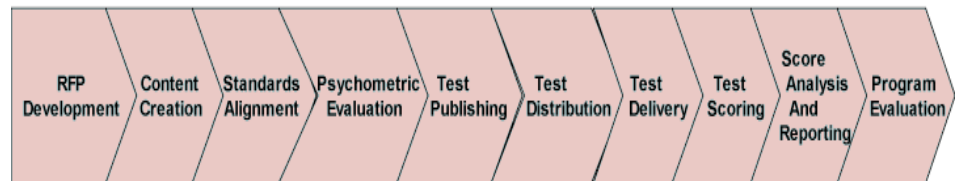
– a meaningful claim when one considers the downside of mistakes in or oversights in a field as important as student assessment.

The educational assessment industry is unusual in that while service providers compete for business, numerous contracts also require that they cooperate with each other to provide specific program aspects. Questar maintains excellent relations

with other service providers. Although it has the depth and breadth of capabilities to handle contract requirements by itself, it can also work as a contractor or subcontractor with other vendors, providing many opportunities to generate quality revenue, it says. Management still sees the company as a small to mid-size player, but one with many opportunities to increase its market share.

Questar Assessment Service

End-to-End Assessment Products and Services



ENTREPRENEURIAL MANAGEMENT APPROACH

Questar's management style is one of team cooperation, reflecting the commitment to integrate all facets of its business to provide completely customized service to its clients. In custom assessment projects (generally at the state level), there is no set solution or approach. Customers demand unique educational solutions that require management to demonstrate creativity and initiative, and a disciplined structure to flawlessly execute these contracts. Questar's management structure and capabilities facilitates both creativity and execution.

The company's psychometrics, test design, sales and operations leaders are experts in their fields. Each can operate with a high degree of independence and authority, yet also interrelate in a flexible and entrepreneurial manner based on specific client contract requirements. The result is a dynamic yet disciplined team approach to management and contract fulfillment.

Questar's senior executives reflect its commitment to the entrepreneurial spirit. Andrew L. Simon, CEO is a three-decade veteran of the educational assessment business. He helped capitalize the predecessor Touchstone Applied Science Associates in 1976 and remained active with the company until in 1994 he became its chairman of the board, president and CEO. James Williams joined the company in 2006 as chief financial officer. Williams helped found a technology company that was eventually acquired by Office Depot, where Williams spent five years in senior financial and operational roles for one of the company's major subsidiaries, Tech Depot, before joining Questar.

Several of the company's leaders in test design, evaluation and psychometrics formed their own entrepreneurial businesses and joined Questar when their successful companies were acquired.

QUESTAR'S GROWTH OPPORTUNITY

Increasingly, U.S. educators rely on customized assessment products to analyze educational levels and help ensure students are comparable to and competitive with their peers on a national and global basis. To accurately assess students' capabilities, a wide range of variables must be taken into account during test design and administration, including language, cultural and societal variations, learning disabilities, and so on.

Questar and Touchstone were long recognized as industry leaders. Prior to its acquisition of Questar, Touchstone added globally recognized experts in the field of content creation, psychometrics (psychological profiling of student populations), program evaluation and Web-based scoring and results delivery. It acquired highly respected firms in these fields. The acquisition of Questar added intellectual capabilities, plus high-volume scanning, scoring and distribution. The new Questar immediately became a one-stop resource for the entire spectrum of educational assessment.

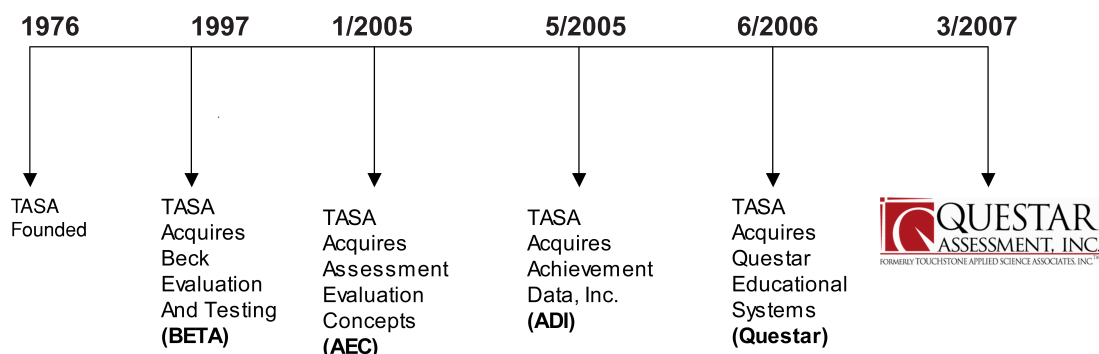
Management believes the fact that the new Questar is a recognized thought leader in developing assessment products and has a full range of service capabilities gives the company a distinct advantage over competitors which can fulfill only certain aspects of the assessment process. For instance, publishing companies with educational assessment businesses

have the ability to process massive amounts of paper, but may lack capabilities in test design or program management. Companies with specialties in learning or tutoring provide specific test development services, but have no paper- or Web-based processing capabilities.

In management's opinion, educational assessment is relatively insulated from changes in government or political administrations. Republicans and Democrats alike are committed to the concept of education assessment. Even if the mix of summative versus formative assessment changes based on various political scenarios, management notes that the company's full range of capabilities give it the flexibility needed to make adjustments. Funding shortfalls could have an impact on the assessment industry; however, the company notes that, historically, few public expenditures take precedence over education spending.

There is a trend toward more "formative" testing, which helps educators design programs to address learning and educational shortfalls. Legislators and educators are emphasizing the need for tests that help assess educational shortfalls and challenges so they can be addressed. This is one reason formative testing is growing at nearly 20% annually. Questar is well-positioned to develop and administer formative tests and to expertly analyze the results.

Questar Assessment, Inc. Convergence & Emergence Timeline



OUTLOOK AND KEY FINANCIAL GOALS

Following the combination of the two companies, Questar's primary focus has been and will continue to be maximizing the value of the acquisition. The combination and subsequent re-organization has positioned the new Questar to capitalize on business opportunities not previously available to either company. Management anticipates that redesigning certain operations, plus the economies of scale driven by more and larger jobs, will lead to a declining ratio of operating expenses to revenues. The company also anticipates maintaining relatively stable general and administrative costs while building revenue. Its primary capital expenditure focus will be to continue enhancing its paperless alternatives through Web-based technologies while still supporting clients' demand for paper-based delivery.

At some point in the future, management sees potential for further growth through acquisition. However, it notes the focus for the remainder of fiscal 2007 will be on maximizing the new company's value. It is supporting the Questar brand and enhanced capabilities with targeted advertising and marketing to build visibility and awareness among educators, legislators and state educational authorities.

The company anticipates building its contract revenue pipeline with new state contracts and contract renewals.

Management anticipates generating revenue primarily from custom assessment products for use in state programs. However, Questar also has an assortment of standardized or off-the-shelf assessment products that are useful and cost effective for school districts and individual educational institutions.

In addition to consistent quarter-over-quarter revenue and EBITDA growth, management has set a long-term goal to achieve a gross margin of about 50%.

Questar financed its 2006 acquisition with a combination of cash, preferred stock, equity warrants and debt. Total debt stands at approximately 49% of total debt plus equity. Management believes that cash flow will minimize the need to use its bank revolving credit line for working capital, and its diversified forms of debt, including the long-term warrants,

create the least possible pressure on Questar's balance sheet and shareholder equity.

Management believes Questar will not require any significant capital expenditures in the foreseeable future. Its physical plant, scoring and scanning machines, and other technological and operational capabilities give the company the ability to add volume without major investment.

Questar is a leader in delivering educational assessment products and services through Web-based technologies and offers an ever-increasing number of electronically delivered products. Management anticipates modest capital spending to maintain the company's technological leadership by enhancing existing electronic products and developing new customer-centric electronic solutions.

<i>Prior TASA Division - Capabilities</i>	<i>Strengths</i>
<ul style="list-style-type: none"> ▪ Leadership in research, psychometric, standard setting, test design ▪ Large staff: senior development, analytical professionals ▪ Creatively meeting demand for customized test design and development 	<ul style="list-style-type: none"> ▪ Psychometric analysis ▪ Standard setting ▪ Distribution, scoring for niche programs
<i>Prior Questar Division - Capabilities</i>	<i>Strengths</i>
<ul style="list-style-type: none"> ▪ Ability to distribute millions of tests ▪ High-speed scanning, scoring ▪ High-volume distribution ▪ Hand scoring 	<ul style="list-style-type: none"> ▪ Distribution and scanning/scoring for large scale state programs ▪ High volume hand / performance scoring

**QUESTAR ASSESSMENT, INC.
AND SUBSIDIARIES**

CONDENSED CONSOLIDATED BALANCE SHEET

	<u>July 31,</u> <u>2007</u>	<u>October 31</u> <u>2006</u>
	(Unaudited)	
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 1,607,474	\$ 789,288
Restricted cash	45,596	20,307
Accounts receivable, net of allowance for doubtful accounts of \$33,000	10,176,384	8,611,587
Inventories – net of reserve	348,864	545,362
Prepaid expenses and other current assets	683,244	496,509
Deferred income taxes	<u>414,776</u>	<u>364,031</u>
Total current assets	13,276,338	10,827,084
Property and equipment - net of accumulated depreciation of \$1,922,000 and \$1,013,000, respectively	3,761,398	3,734,227
Other assets:		
Test passage bank and test development, net of accumulated amortization of \$4,722,000 and \$4,509,000, respectively	2,523,230	2,335,670
Non-compete agreements, net of accumulated amortization of \$123,000 and \$44,000, respectively	236,745	315,659
Customer contracts, net of accumulated amortization of \$2,261,000 and \$377,000, respectively	2,238,695	4,122,678
Goodwill	13,199,084	13,647,586
Deferred income taxes	941,372	1,325,379
Other assets	<u>293,963</u>	<u>349,832</u>
Total assets	<u>\$36,470,825</u>	<u>\$36,658,115</u>

CONDENSED CONSOLIDATED BALANCE SHEETS (Continued)

	July 31, <u>2007</u>	October 31, <u>2006</u>
	(Unaudited)	
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Current liabilities:		
Revolving credit agreement	\$ --	\$1,774,819
Current maturities of long-term debt	1,813,913	1,459,502
Accounts payable	1,952,324	2,794,301
Income tax payable	1,230,514	204,319
Accrued expenses	2,471,998	1,996,161
Billings in excess of costs	--	470,490
Deferred gain on sale of building – current portion	<u>125,438</u>	<u>125,438</u>
Total current liabilities	7,594,187	8,825,030
Long-term debt:		
Long-term debt, less current maturities	11,011,207	12,405,735
Interest rate swap agreement	41,772	77,155
Deferred gain on sale of building, net of current portion	<u>616,739</u>	<u>710,817</u>
Total liabilities	<u>19,263,905</u>	<u>22,018,737</u>
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.0001 par value, 5,000,000 shares authorized; 1,888,888 shares issued and outstanding	189	189
Common stock, \$.0001 par value, 20,000,000 shares authorized; 3,084,443 and 2,946,047 shares issued and outstanding, respectively	308	295
Additional paid-in capital	15,604,562	15,069,034
Retained earnings (deficit)	<u>1,601,861</u>	<u>(430,140)</u>
Total stockholders' equity	<u>17,206,920</u>	<u>14,639,378</u>
Total liabilities and stockholders' equity	<u>\$36,470,825</u>	<u>\$36,658,115</u>

QUESTAR ASSESSMENT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

	<u>Nine Months Ended July 31, 2007</u>	<u>Nine Months Ended July 31, 2006</u>	<u>Three Months Ended July 31, 2007</u>	<u>Three Months Ended July 31, 2006</u>
Net revenue earned	\$38,873,491	\$15,097,954	\$13,082,315	\$8,542,237
Cost of goods sold	<u>19,566,783</u>	<u>8,498,438</u>	<u>7,100,858</u>	<u>4,265,846</u>
Gross profit	<u>19,306,708</u>	<u>6,599,516</u>	<u>5,981,457</u>	<u>4,276,391</u>
Operating expenses:				
Selling	1,864,138	1,408,849	666,641	515,897
Depreciation and amortization	2,925,328	212,985	969,082	92,270
General and administrative	<u>10,399,369</u>	<u>4,706,781</u>	<u>3,208,712</u>	<u>2,653,541</u>
Total operating expenses	<u>15,188,835</u>	<u>6,328,615</u>	<u>4,844,435</u>	<u>3,261,708</u>
Income from operations	4,117,873	270,901	1,137,022	1,014,683
Other income (expense):				
Gain on sale of assets/leaseback of building	126,715	94,079	31,360	31,359
Interest income	13,019	5,139	9,385	361
Interest expense	<u>(754,421)</u>	<u>(248,499)</u>	<u>(238,611)</u>	<u>(201,459)</u>
Income before income taxes	3,503,186	121,620	939,156	844,944
Income tax provision	<u>1,471,183</u>	<u>112,868</u>	<u>322,592</u>	<u>383,860</u>
Net income	<u>\$ 2,032,003</u>	<u>\$ 8,752</u>	<u>\$ 616,564</u>	<u>\$ 461,084</u>

Statements contained in this fact sheet 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.

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