

TSR INC  
Form 10-Q  
January 07, 2011

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the period ended November 30, 2010

or

Transition report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-8656

TSR, Inc.

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(Exact name of registrant as specified in its charter)

Delaware

13-2635899

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(State or other jurisdiction of  
Incorporation or organization)

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(I.R.S. Employer Identification No.)

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400 Oser Avenue, Hauppauge, NY 11788

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(Address of principal executive offices)

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631-231-0333

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(Registrant's telephone number)

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(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the

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preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).   
Yes  No  
(Registrant not subject to requirement)

Indicate by check mark whether the registrant is large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer  Accelerated Filer   
Non-Accelerated filer  Smaller Reporting Company   
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).   
Yes  No

As of December 31, 2010, there were 2,019,091 shares of common stock, par value \$.01 per share, issued and outstanding.

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TSR, INC. AND SUBSIDIARIES  
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## Part I. Financial Information

## Item 1. Financial Statements

TSR, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

	November 30, 2010 (Unaudited)	May 31, 2010 (Note 1)
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$3,250,275	\$5,669,972
Certificates of deposit and marketable securities	4,114,665	3,015,389
Accounts receivable, net of allowance for doubtful accounts of \$202,000	8,393,551	6,507,741
Other receivables	4,504	3,957
Prepaid expenses	37,677	94,604
Prepaid and recoverable income taxes	31,450	115,721
Deferred income taxes	90,000	90,000
Total Current Assets	15,922,122	15,497,384
Equipment and leasehold improvements, net of accumulated depreciation and amortization of \$430,855 and \$427,804	8,901	9,558
Other assets	49,653	49,653
Deferred income taxes	52,000	55,000
Total Assets	\$16,032,676	\$15,611,595
<b>LIABILITIES AND EQUITY</b>		
Current Liabilities:		
Accounts and other payables	\$250,458	\$259,448
Accrued expenses and other current liabilities	1,596,378	1,291,160
Advances from customers	1,432,740	1,491,490
Total Current Liabilities	3,279,576	3,042,098
Equity:		
Preferred stock, \$1 par value, authorized 500,000 shares; none issued	—	—
Common stock, \$.01 par value, authorized 12,500,000 shares; issued 3,114,163 shares, 2,019,094 and 2,024,794 outstanding	31,142	31,142
Additional paid-in capital	5,102,868	5,102,868
Retained earnings	20,833,163	20,661,190
	25,967,173	25,795,200
Less: Treasury stock, 1,095,069 and 1,089,369 shares, at cost	13,279,249	13,253,523
Total TSR, Inc. Equity	12,687,924	12,541,677
Noncontrolling Interest	65,176	27,820
Total Equity	12,753,100	12,569,497
Total Liabilities and Equity	\$16,032,676	\$15,611,595

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.



TSR, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
 For The Three Months and Six Months Ended November 30, 2010 and 2009  
 (UNAUDITED)

	Three Months Ended November 30,		Six Months Ended November 30,	
	2010	2009	2010	2009
Revenue, net	\$ 9,756,983	\$ 9,340,341	\$ 19,120,876	\$ 18,432,643
Cost of sales	7,853,945	7,654,462	15,510,435	15,100,963
Selling, general and administrative expenses	1,611,636	1,516,003	3,248,141	3,042,045
	9,465,581	9,170,465	18,758,576	18,143,008
Income from operations	291,402	169,876	362,300	289,635
Other income (expense):				
Interest and dividend income	5,459	14,176	11,239	32,472
Unrealized gain (loss) on marketable securities, net	2,794	(896 )	(210 )	2,784
Income before income taxes	299,655	183,156	373,329	324,891
Provision for income taxes	124,000	82,000	157,000	141,000
Consolidated net income	175,655	101,156	216,329	183,891
Less: Net income attributable to noncontrolling interest	(25,244 )	(21,463 )	(44,356 )	(40,820 )
Net income attributable to TSR, Inc.	\$ 150,411	\$ 79,693	\$ 171,973	\$ 143,071
Basic and diluted net income per TSR, Inc. common share	\$ 0.07	\$ 0.04	\$ 0.09	\$ 0.07
Weighted average number of basic and diluted common shares outstanding	2,019,094	2,025,244	2,020,117	2,025,244

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

## TSR, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

For The Six Months Ended November 30, 2010 and 2009

(UNAUDITED)

	Shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Non- controlling Interest	Total equity
Balance at May 31, 2009	6,228,326	\$ 62,283	\$ 5,071,727	\$ 20,517,707	\$ (13,251,231)	\$ 17,636	\$ 12,418,122
Reverse stock split 1:2	(3,114,163)	(31,141)	31,141	—	—	—	—
Adjusted May 31, 2009	3,114,163	31,142	5,102,868	20,517,707	(13,251,231)	17,636	12,418,122
Net income attributable to noncontrolling interest	—	—	—	—	—	40,820	40,820
Distribution to noncontrolling interest	—	—	—	—	—	(6,000 )	(6,000 )
Net income attributable to TSR, Inc.	—	—	—	143,071	—	—	143,071
Balance at November 30, 2009	3,114,163	\$ 31,142	\$ 5,102,868	\$ 20,660,778	\$ (13,251,231)	\$ 52,456	\$ 12,596,013
Balance at May 31, 2010	6,228,326	\$ 62,283	\$ 5,071,727	\$ 20,661,190	\$ (13,253,523)	\$ 27,820	\$ 12,569,497
Reverse stock split 1:2	(3,114,163)	(31,141)	31,141	—	—	—	—
Adjusted May 31, 2010	3,114,163	31,142	5,102,868	20,661,190	(13,253,523)	27,820	12,569,497
Net income attributable to noncontrolling interest	—	—	—	—	—	44,356	44,356
Distribution to noncontrolling interest	—	—	—	—	—	(7,000 )	(7,000 )

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Purchases of treasury stock	—	—	—	—	(25,726 )	—	(25,726 )
Net income attributable to TSR, Inc.	—	—	—	171,973	—	—	171,973
Balance at November 30, 2010	3,114,163	\$ 31,142	\$ 5,102,868	\$ 20,833,163	\$ (13,279,249)	\$ 65,176	\$ 12,753,100

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.



## TSR, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For The Six Months Ended November 30, 2010 and 2009

(UNAUDITED)

	Six Months Ended November 30,	
	2010	2009
Cash flows from operating activities:		
Consolidated net income	\$216,329	\$183,891
Adjustments to reconcile consolidated net income to net cash used in operating activities:		
Depreciation and amortization	3,051	9,087
Unrealized (gain) loss on marketable securities, net	210	(2,784 )
Deferred income taxes	3,000	44,000
Changes in operating assets and liabilities:		
Accounts receivable	(1,885,810)	(856,586 )
Other receivables	(547 )	4,912
Prepaid expenses	56,927	18,116
Prepaid and recoverable income taxes	84,271	(32,337 )
Accounts and other payables and accrued expenses and other current liabilities	296,228	(98,435 )
Advances from customers	(58,750 )	(24,000 )
Net cash used in operating activities	(1,285,091)	(754,136 )
Cash flows from investing activities:		
Proceeds from maturities of marketable securities	2,748,253	2,996,508
Purchases of marketable securities	(3,847,739)	(1,999,191)
Purchases of equipment and leasehold improvements	(2,394 )	(2,284 )
Net cash provided by (used in) investing activities	(1,101,880)	995,033
Cash flows from financing activities:		
Purchases of treasury stock	(25,726 )	—
Distribution to noncontrolling interest	(7,000 )	(6,000 )
Net cash used in financing activities	(32,726 )	(6,000 )
Net increase (decrease) in cash and cash equivalents	(2,419,697)	234,897
Cash and cash equivalents at beginning of period	5,669,972	4,075,213
Cash and cash equivalents at end of period	\$3,250,275	\$4,310,110
Supplemental disclosures of cash flow data:		
Income taxes paid	\$70,000	\$130,000

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.



## TSR, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2010

(Unaudited)

## 1. Basis of Presentation

The accompanying condensed consolidated interim financial statements include the accounts of TSR, Inc. and its subsidiaries (the "Company"). All significant inter-company balances and transactions have been eliminated in consolidation. These interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America applying to interim financial information and with the instructions to Form 10-Q of Regulation S-X of the Securities and Exchange Commission. Accordingly, certain information and footnote disclosures required by accounting principles generally accepted in the United States of America and normally included in the Company's annual financial statements have been condensed or omitted. These interim financial statements as of and for the three and six months ended November 30, 2010 are unaudited; however, in the opinion of management, such statements include all adjustments (consisting of normal recurring accruals) necessary to present fairly the consolidated financial position, results of operations and cash flows of the Company for the periods presented. The results of operations for the interim periods presented are not necessarily indicative of the results that might be expected for future interim periods or for the full year ending May 31, 2011. The balance sheet at May 31, 2010 has been derived from the audited financial statements at that date. These interim financial statements should be read in conjunction with the Company's consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended May 31, 2010.

## 2. Net Income Per Common Share

Basic net income per common share is computed by dividing income available to common stockholders (which for the Company equals its net income) by the weighted average number of common shares outstanding, and diluted net income per common share adds the dilutive effect of stock options and other common stock equivalents. The Company has had no stock options or other common stock equivalents outstanding during any of the periods presented.

## 3. Cash and Cash Equivalents

The Company considers short-term highly liquid investments with maturities of three months or less at the time of purchase to be cash equivalents. Cash and cash equivalents were comprised of the following as of November 30, 2010 and May 31, 2010:

	November 30, 2010	May 31, 2010
Cash in banks	\$ 568,116	\$ 2,171,031
Money market funds	2,682,159	2,499,327
US Treasury securities	—	999,614
	\$ 3,250,275	\$ 5,669,972

## 4. Revenue Recognition

The Company's contract computer programming services are generally provided under time and materials arrangements with its customers. Revenue is recognized in accordance with Staff Accounting Bulletin (SAB) 104, "Revenue Recognition," when persuasive evidence of an arrangement exists, the services have been rendered, the price is fixed or determinable, and collectability is reasonably assured. These conditions occur when a customer agreement is effected and the consultant performs the authorized services. Revenue is recorded net of all discounts and processing fees. Advances from customers represent amounts received from customers prior to the Company's provision of the related services and credit balances from overpayments.

Reimbursements received by the Company for out-of-pocket expenses are characterized as revenue.



TSR, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, Continued  
November 30, 2010  
(Unaudited)

5. Marketable Securities

In fiscal 2009, the Company adopted new accounting standards related to fair value measurements. The Company has characterized its investments in marketable securities, based on the priority of the inputs used to value the investments, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1), and lowest priority to unobservable inputs (Level 3). If the inputs used to measure the investments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Investments recorded in the accompanying condensed consolidated balance sheets are categorized based on the inputs to valuation techniques as follows:

Level 1- These are investments where values are based on unadjusted quoted prices for identical assets in an active market the Company has the ability to access.

Level 2- These are investments where values are based on quoted market prices that are not active or model derived valuations in which all significant inputs are observable in active markets.

Level 3- These are investments where values are derived from techniques in which one or more significant inputs are unobservable.

The following are the major categories of assets measured at fair value on a recurring basis as of November 30, 2010 and May 31, 2010 using quoted prices in active markets for identical assets (Level 1), significant other observable inputs (Level 2) and significant unobservable inputs (Level 3):

November 30, 2010	Level 1	Level 2	Level 3	Total
US Treasury Securities	\$ 2,497,740	\$ —	\$ —	\$ 2,497,740
Certificates of Deposit	—	1,600,000	—	1,600,000
Equity Securities	16,925	—	—	16,925
	\$ 2,514,665	\$ 1,600,000	\$ —	\$ 4,114,665
May 31, 2010	Level 1	Level 2	Level 3	Total
US Treasury Securities	\$ 1,498,253	\$ —	\$ —	\$ 1,498,253
Certificates of Deposit	—	1,500,000	—	1,500,000
Equity Securities	17,136	—	—	17,136
	\$ 1,515,389	\$ 1,500,000	\$ —	\$ 3,015,389

Based upon the Company's intent and ability to hold its US Treasury securities and certificates of deposit to maturity (which maturities range up to twenty four months at purchase), such securities have been classified as held-to-maturity and are carried at amortized cost, which approximates market value. The Company's equity securities are classified as

trading securities, which are carried at fair value, as determined by quoted market prices, which is Level 1 input, as established by the fair value hierarchy. The related unrealized gains and losses are included in earnings. The Company's marketable securities at November 30, 2010 and May 31, 2010 are summarized as follows:

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TSR, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, Continued  
November 30, 2010

(Unaudited)

November 30, 2010	Amortized	Gross Unrealized Holding	Gross Unrealized Holding	Recorded
Current	Cost	Gains	Losses	Value
US Treasury Securities	\$ 2,497,740	\$ —	\$ —	\$ 2,497,740
Certificates of Deposit	1,600,000	—	—	1,600,000
Equity Securities	16,866	59	—	16,925
	\$ 4,114,606	\$ 59	\$ —	\$ 4,114,665

May 31, 2010	Amortized	Gross Unrealized Holding	Gross Unrealized Holding	Recorded
Current	Cost	Gains	Losses	Value
US Treasury Securities	\$ 1,498,253	\$ —	\$ —	\$ 1,498,253
Certificates of Deposit	1,500,000	—	—	1,500,000
Equity Securities	16,866	270	—	17,136
	\$ 3,015,119	\$ 270	\$ —	\$ 3,015,389

The Company's investments in marketable securities consist primarily of investments in US Treasury securities and certificates of deposit. Market values were determined for each individual security in the investment portfolio. When evaluating the investments for other-than temporary impairment, the Company reviews factors such as length of time and extent to which fair value has been below cost basis, the financial condition of the issuer, and the Company's ability and intent to hold the investment for a period of time, which may be sufficient for anticipated recovery in market values.

#### 6. Fair Value of Financial Instruments

Accounting Standards Codification ("ASC") Topic 825, "Financial Instruments", requires disclosure of the fair value of certain financial instruments. For cash and cash equivalents, accounts receivable, accounts and other payables, accrued liabilities and advances from customers, the amounts presented in the condensed consolidated financial statements approximate fair value because of the short-term maturities of these instruments.

#### 7. Stockholders' Equity

On November 10, 2010, the Board of Directors and shareholders of the Company approved a 1:2 reverse stock split to be effective on November 29, 2010. The authorized preferred stock was reduced from 1,000,000 to 500,000 shares. There continue to be no preferred shares issued or outstanding. The authorized common stock was reduced from 25,000,000 to 12,500,000 shares. The issued common shares were reduced from 6,228,326 to 3,114,163. The outstanding common shares were reduced from 4,038,188 to 2,019,094. The effect of the reverse stock split has been effected in all prior periods presented.

During the six months ended November 30, 2010, the Company purchased a total of 5,700 shares of its common stock for \$25,726. These shares were purchased in various transactions on the open market under a previously announced repurchase plan of 150,000 shares. As of December 31, 2010, 113,350 shares remain available for purchase under the plan. The number of shares noted above has been adjusted for the 1:2 reverse split effected November 29, 2010.





TSR, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, Continued  
November 30, 2010  
(Unaudited)

8. Other Matters

From time to time, the Company is party to various lawsuits, some involving material amounts. Management is not aware of any lawsuits that would have a material adverse impact on the consolidated financial position of the Company.

9. Recent Accounting Pronouncements

In April 2009, the Financial Accounting Standards Board (“FASB”) issued an accounting standard to require that disclosures concerning the fair value of financial instruments be presented in interim as well as in annual financial statements. This accounting standard was subsequently codified into ASC Topic 825, “Financial Instruments.” In addition, the FASB issued an accounting standard to provide additional guidance for determining the fair value of a financial asset or financial liability when the volume and level of activity for such asset or liability have decreased significantly and to also provide guidance for determining whether a transaction is an orderly one. This accounting standard was subsequently codified into ASC Topic 820, “Fair Value Measurements and Disclosures.” The FASB also issued an accounting standard which revised and expanded the guidance concerning the recognition and measurement of other-than-temporary impairments of debt securities classified as available-for-sale or held-to-maturity. In addition, it required enhanced disclosures concerning such impairment for both debt and equity securities. This accounting standard was subsequently codified into ASC Topic 320, “Investments – Debt and Equity Securities.” The requirements of these three accounting standards are effective for interim reporting periods ending after June 15, 2009. Early adoption is permitted for interim periods ending after March 15, 2009, but only if the election is made to adopt all these accounting standards. Disclosures for earlier periods presented for comparative purposes at initial adoption are not required. In periods after initial adoption, comparative disclosures are required only for periods ending after initial adoption. The Company has adopted the accounting standards for the first quarter of fiscal 2010.

On April 1, 2009, new guidance was adopted which establishes general standards of accounting for and disclosure of, events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This guidance was subsequently amended on February 24, 2010 to no longer require disclosure of the date through which an entity has evaluated subsequent events. This accounting standard was subsequently codified into ASC Topic 855, “Subsequent Events.” The effect of the adoption was not material.

In June 2009, the FASB issued an accounting standard which established the Codification to become the single source of authoritative accounting principles generally accepted in the United States of America (“GAAP”) recognized by the FASB to be applied by nongovernmental entities, with the exception of guidance issued by the SEC and its staff. All guidance contained in the Codification carries an equal level of authority. The Codification is not intended to change GAAP, but rather is expected to simplify accounting research by reorganizing current GAAP into approximately 90 accounting topics and providing all the authoritative literature related to a topic in one place. The Company adopted this accounting standard in preparing the condensed consolidated financial statements for the quarter ended November 30, 2009 and all subsequent public filings will reference the Codification as the sole source of authoritative literature. The adoption of this accounting standard, which was subsequently codified into ASC Topic 105, “Generally Accepted Accounting Principles,” had no impact on retained earnings and will have no impact on the Company’s consolidated financial statements.



## TSR, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONSPart I. Financial Information  
Item 2.

The following discussion and analysis should be read in conjunction with the condensed consolidated financial statements and the notes to such financial statements.

## Forward-Looking Statements

Certain statements contained in Management's Discussion and Analysis of Financial Condition and Results of Operations, including statements concerning the Company's future prospects and the Company's future cash flow requirements are forward looking statements, as defined in the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those projections in the forward looking statements which statements involve risks and uncertainties, including but not limited to the following: the impact of adverse economic conditions on the Company's business; risks relating to the competitive nature of the markets for contract computer programming services; the extent to which market conditions for the Company's contract computer consulting services will continue to adversely affect the Company's business; the concentration of the Company's business with certain customers; uncertainty as to the Company's ability to maintain its relations with existing customers and expand its contract computer consulting services business; the impact of changes in the industry, such as the use of vendor management companies in connection with the consultant procurement process, the increase in customers moving IT operations offshore and other risks and uncertainties set forth in the Company's filings with the Securities and Exchange Commission. The Company is under no obligation to publicly update or revise forward looking statements.

## Results of Operations

The following table sets forth, for the periods indicated, certain financial information derived from the Company's condensed consolidated statements of operations. There can be no assurance that trends in operating results will continue in the future:

Three months ended November 30, 2010 compared with three months ended November 30, 2009

	(Dollar amounts in thousands)					
	Three Months Ended			November 30,		
	November 30,			November 30,		
	2010			2009		
	Amount	% of		Amount	% of	
		Revenue			Revenue	
Revenue, net	\$ 9,757	100.0	%	\$ 9,340	100.0	%
Cost of sales	7,854	80.5	%	7,654	81.9	%
Gross profit	1,903	19.5	%	1,686	18.1	%
Selling, general and administrative expenses	1,611	16.5	%	1,516	16.2	%
Income from operations	292	3.0	%	170	1.9	%
Other income, net	8	0.1	%	13	0.1	%
Income before income taxes	300	3.1	%	183	2.0	%
Provision for income taxes	124	1.3	%	82	0.9	%

Net income	\$ 176	1.8	%	\$ 101	1.1	%
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## TSR, INC. AND SUBSIDIARIES

### Revenue

Revenue consists primarily of revenue from computer programming consulting services. Revenue for the quarter ended November 30, 2010 increased \$417,000 or 4.5% from the prior year quarter. The average number of consultants on billing with customers increased from approximately 222 for the quarter ended November 30, 2009 to 232 for the quarter ended November 30, 2010.

Since the broad based economic downturn which began in 2008, the Company experienced a decrease in the number of consultants on billing with customers. These economic conditions also reduced the opportunities to place new consultants on billing with customers. More recently there have been indications that there are improvements in the economy and that levels of business activity is picking up, resulting in an increase in opportunities to place consultants on billing with customers. Although customers' IT spending may be increasing, the economic outlook remains uncertain and any improvements in the Company's operating results appear to be slow and uncertain.

### Cost of Sales

Cost of sales for the quarter ended November 30, 2010, increased \$200,000 or 2.6% to \$7,854,000 from \$7,654,000 in the prior year period. The increase in cost of sales resulted primarily from the increase in the number of consultants on billing with clients. Cost of sales as a percentage of revenue decreased from 81.9% in the quarter ended November 30, 2009 to 80.5% in the quarter ended November 30, 2010. The decrease in cost of sales as a percentage of revenue was primarily attributable to a reduced discount structure at one of the Company's major accounts.

### Selling, General and Administrative Expenses

Selling, general and administrative expenses consist primarily of expenses relating to account executives, technical recruiters, facilities costs, management and corporate overhead. These expenses increased \$95,000 or 6.3% from \$1,516,000 in the quarter ended November 30, 2009 to \$1,611,000 in the quarter ended November 30, 2010. This increase was primarily attributable to an increase in the number of recruiting personnel. Technical recruiters have been hired in order to address increased requests by clients for submissions of technical personnel for potential positions, although such submissions have not yet led to the expected increases in placements. Selling, general and administrative expenses, as a percentage of revenue, increased from 16.2% in the quarter ended November 30, 2009 to 16.5% in the quarter ended November 30, 2010 as a result of the new hires.

### Income from Operations

Income from operations increased \$122,000 from \$170,000 in the quarter ended November 30, 2009 to \$292,000 in the quarter ended November 30, 2010. The increase was primarily attributable to the increase in revenue and the reduced discount structure at a major client.

### Other Income

Other income for the quarter ended November 30, 2010 resulted primarily from interest and dividend income of \$5,000, which decreased by \$9,000 from the level realized in the quarter ended November 30, 2009 due to lower interest rates earned on the Company's US Treasury securities, certificates of deposit and money market accounts.

### Income Taxes

The income tax provision included in the Company's results of operations for the quarter ended November 30, 2010 reflects the Company's estimated effective tax rate for the year ending May 31, 2011. The effective income tax rate was 44.8% in the quarter ended November 30, 2009 and 41.3% for the quarter ended November 30, 2010.

### Net Income

Net income increased \$75,000 from \$101,000 in the quarter ended November 30, 2009 to \$176,000 in the quarter ended November 30, 2010. Net income increased primarily due to the increase in revenue and the reduced discount

structure at a major client.

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## TSR, INC. AND SUBSIDIARIES

Six months ended November 30, 2010 compared with six months ended November 30, 2009

	(Dollar amounts in thousands)					
	Six Months Ended			November 30,		
	November 30,			November 30,		
	2010			2009		
	Amount	% of		Amount	% of	
		Revenue			Revenue	
Revenue, net	\$ 19,121	100.0	%	\$ 18,433	100.0	%
Cost of sales	15,511	81.1	%	15,101	81.9	%
Gross profit	3,610	18.9	%	3,332	18.1	%
Selling, general and administrative expenses	3,248	17.0	%	3,042	16.5	%
Income from operations	362	1.9	%	290	1.6	%
Other income, net	11	0.0	%	35	0.2	%
Income before income taxes	373	1.9	%	325	1.8	%
Provision for income taxes	157	0.8	%	141	0.8	%
Net income	\$ 216	1.1	%	\$ 184	1.0	%

## Revenue

Revenue consists primarily of revenue from computer programming consulting services. Revenue for the six months ended November 30, 2010 increased \$688,000 or 3.7% from the prior year period. The average number of consultants on billing with customers increased from approximately 219 for the six months ended November 30, 2009 to 227 for the six months ended November 30, 2010.

The Company's revenue for the six months ended November 30, 2010 has been effected by the same economic factors as detailed for the quarter ended November 30, 2010.

## Cost of Sales

Cost of sales for the six months ended November 30, 2010, increased \$409,000 or 2.7% to \$15,510,000 from \$15,101,000 in the prior year period. The increase in cost of sales resulted primarily from the increase in the number of consultants on billing with clients. Cost of sales as a percentage of revenue decreased from 81.9% in the six months ended November 30, 2009 to 81.1% in the six months ended November 30, 2010. The decrease in cost of sales as a percentage of revenue was primarily attributable to a reduced discount structure at one of the Company's major accounts.

## Selling, General and Administrative Expenses

Selling, general and administrative expenses consist primarily of expenses relating to account executives, technical recruiters, facilities costs, management and corporate overhead. These expenses increased \$206,000 or 6.8% from \$3,042,000 in the six months ended November 30, 2009 to \$3,248,000 in the six months ended November 30, 2010. This increase was primarily attributable to an increase in the number of recruiting personnel. Technical recruiters have been hired in order to address increased requests by clients for submissions of technical personnel for potential positions, although such submissions have not yet led to the expected increases in placements. Selling, general and administrative expenses, as a percentage of revenue, increased from 16.5% in the six months ended

November 30, 2009 to 17.0% in the six months ended November 30, 2010 as a result of the new hires.



TSR, INC. AND SUBSIDIARIES

Income from Operations

Income from operations increased \$72,000 from \$290,000 in the six months ended November 30, 2009 to \$362,000 in the six months ended November 30, 2010. The increase was primarily attributable to the increase in revenue and the reduced discount structure at a major client.

Other Income

Other income for the six months ended November 30, 2010 resulted primarily from interest and dividend income of \$11,000, which decreased by \$21,000 from the level realized in the six months ended November 30, 2009 due to lower interest rates earned on the Company's US Treasury securities, certificates of deposit and money market accounts.

Income Taxes

The income tax provision included in the Company's results of operations for the six months ended November 30, 2010 reflects the Company's estimated effective tax rate for the year ending May 31, 2011. The effective income tax rate was 43.4% in the six months ended November 30, 2009 and 42.1% for the six months ended November 30, 2010.

Net Income

Net income increased \$32,000 from \$184,000 in the six months ended November 30, 2009 to \$216,000 in the six months ended November 30, 2010. Net income increased primarily due to the increase in revenue and the reduced discount structure at a major client.

## TSR, INC. AND SUBSIDIARIES

## Liquidity and Capital Resources

The Company expects that cash flow generated from operations together with its cash and marketable securities will be sufficient to provide the Company with adequate resources to meet its liquidity requirements for at least the next 12 months.

At November 30, 2010, the Company had working capital (total current assets in excess of total current liabilities) of \$12,643,000 including cash and cash equivalents and certificates of deposit and marketable securities of \$7,365,000 as compared to working capital of \$12,455,000 including cash and cash equivalents and certificates of deposit and marketable securities of \$8,685,000 at May 31, 2010.

For the six months ended November 30, 2010, net cash used in operating activities was \$1,285,000 compared to cash used in operating activities of \$754,000 for the six months ended November 30, 2009, or an increase in cash used in operating activities of \$531,000. The cash used in operating activities primarily resulted from an increase in accounts receivable of \$1,886,000. The increase in accounts receivable resulted primarily from additional customers extending their payment terms from sixty to ninety days. The cash used in operating activities in the six months ended November 30, 2009, resulted primarily from an increase in accounts receivable.

Net cash used in investing activities of \$1,102,000 for the six months ended November 30, 2010 primarily resulted from the purchase of US Treasury securities and certificates of deposit.

Net cash used in financing activities resulted from distributions to the noncontrolling interest of \$7,000 and the purchases of 5,700 shares of common stock for \$26,000 in the six months ended November 30, 2010. In December 2009, the Board of Directors of the Company reaffirmed a plan previously approved in December 2007 authorizing the repurchase of shares of common stock and approximately 113,000 shares remain available for purchase under this plan. The number of shares purchased and the remaining shares authorized to be purchased have been adjusted for a 1:2 reverse split effective November 29, 2010. In the six months ended November 30, 2009, net cash used in financing activities resulted from a distribution to the noncontrolling interest of \$6,000.

The Company's capital resource commitments at November 30, 2010 consisted of lease obligations on its branch and corporate facilities. The Company intends to finance these lease commitments from cash flow provided by operations, available cash and short-term marketable securities.

The Company's cash and marketable securities were sufficient to enable it to meet its cash requirements during the six months ended November 30, 2010.

## Tabular Disclosure of Contractual Obligations

Contractual Obligations	Total	Payments Due By Period			
		Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Operating Leases	\$ 948,000	\$ 295,000	\$ 504,000	\$ 143,000	\$ 6,000
Employment Agreements	1,263,000	600,000	400,000	263,000	—
Totals	\$ 2,211,000	\$ 895,000	\$ 904,000	\$ 406,000	\$ 6,000



## TSR, INC. AND SUBSIDIARIES

### Recent Accounting Pronouncements

In April 2009, the Financial Accounting Standards Board (“FASB”) issued an accounting standard to require that disclosures concerning the fair value of financial instruments be presented in interim as well as in annual financial statements. This accounting standard was subsequently codified into ASC Topic 825, “Financial Instruments.” In addition, the FASB issued an accounting standard to provide additional guidance for determining the fair value of a financial asset or financial liability when the volume and level of activity for such asset or liability have decreased significantly and to also provide guidance for determining whether a transaction is an orderly one. This accounting standard was subsequently codified into ASC Topic 820, “Fair Value Measurements and Disclosures.” The FASB also issued an accounting standard which revised and expanded the guidance concerning the recognition and measurement of other-than-temporary impairments of debt securities classified as available-for-sale or held-to-maturity. In addition, it required enhanced disclosures concerning such impairment for both debt and equity securities. This accounting standard was subsequently codified into ASC Topic 320, “Investments – Debt and Equity Securities.” The requirements of these three accounting standards are effective for interim reporting periods ending after June 15, 2009. Early adoption is permitted for interim periods ending after March 15, 2009, but only if the election is made to adopt all these accounting standards. Disclosures for earlier periods presented for comparative purposes at initial adoption are not required. In periods after initial adoption, comparative disclosures are required only for periods ending after initial adoption. The Company has adopted the accounting standards for the first quarter of fiscal 2010.

On April 1, 2009, new guidance was adopted which establishes general standards of accounting for and disclosure of, events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This guidance was subsequently amended on February 24, 2010 to no longer require disclosure of the date through which an entity has evaluated subsequent events. This accounting standard was subsequently codified into ASC Topic 855, “Subsequent Events.” The effect of the adoption was not material.

In June 2009, the FASB issued an accounting standard which established the Codification to become the single source of authoritative accounting principles generally accepted in the United States of America (“GAAP”) recognized by the FASB to be applied by nongovernmental entities, with the exception of guidance issued by the SEC and its staff. All guidance contained in the Codification carries an equal level of authority. The Codification is not intended to change GAAP, but rather is expected to simplify accounting research by reorganizing current GAAP into approximately 90 accounting topics and providing all the authoritative literature related to a topic in one place. The Company adopted this accounting standard in preparing the condensed consolidated financial statements for the quarter ended November 30, 2009 and all subsequent public filings will reference the Codification as the sole source of authoritative literature. The adoption of this accounting standard, which was subsequently codified into ASC Topic 105, “Generally Accepted Accounting Principles,” had no impact on retained earnings and will have no impact on the Company’s consolidated financial statements.

### Critical Accounting Policies

The SEC defines “critical accounting policies” as those that require the application of management’s most difficult subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods.

The Company’s significant accounting policies are described in Note 1 to the Company’s consolidated financial statements, contained in its May 31, 2010 Annual Report on Form 10-K, as filed with the SEC. The Company believes that those accounting policies require the application of management’s most difficult, subjective or complex judgments. There have been no changes in the Company’s significant accounting policies as of November 30, 2010.

Item 4.

Controls and Procedures

Disclosure Controls and Procedures. The Company conducted an evaluation, under the supervision and with the participation of the principal executive officer and principal accounting officer, of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")). Based on this evaluation, the principal executive officer and principal accounting officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures are effective.

Internal Control Over Financial Reporting. There was no change in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the Company's most recently reported completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II.

Other Information

Item 6.

Exhibits

(a). Exhibit 31.1 – Certification by J.F. Hughes pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 31.2 - Certification by John G. Sharkey pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 32.1 – Certification by J.F. Hughes pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit 32.2 – Certification by John G. Sharkey pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereto duly authorized.

TSR Inc.  
(Registrant)

Date: January 7, 2011

By: /s/ J.F. Hughes  
J.F. Hughes, Chairman and President

Date: January 7, 2011

By: /s/ John G. Sharkey  
John G. Sharkey, Vice President Finance and Chief Financial Officer

