TSR INC
Form 10-K
August 18, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-K

[X] Annual Report Pursuant to Section 13 or 15(d) of
The Securities Exchange Act of 1934

For the fiscal year ended May 31, 2009

or

[ ] Transition Report Under 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.

(Exact name of registrant as specified in its charter)

Delaware	13-2635899
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

400 Oser Avenue, Hauppauge, NY 11788

(Address of principal executive offices)

Registrant's telephone number: 631-231-0333

Securities registered pursuant to Section 12(b) of the Exchange Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value, $0.01 per share	The NASDAQ Global Market

Securities registered pursuant to Section 12(g) of the Exchange Act:

None

(Title of Class)

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
[ ] Yes [X] No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15 (d) of the Exchange Act.
[ ] Yes [X] No

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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. [X] Yes [ ] No

Indicate by check mark if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-K contained in this form, and no disclosure will be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer", "non-accelerated filer" or "smaller reporting company" in Rule 12b-2 of the Exchange Act. [ ] Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer [X] Smaller Reporting Company

Indicate by check mark whether the Registrant is a shell Company (as defined in Rule 12b-2 of the Act). Yes [ ] No [X]

The aggregate market value of voting and non-voting common equity held by non-affiliates of the Registrant based upon the closing price of $1.88 at November 30, 2008 was $4,129,000.

The number of shares of the Registrant's common stock outstanding as of July 31, 2009 was 4,050,488.

Documents incorporated by Reference:

The information required in Part III, Items 10, 11, 12, 13 and 14 is incorporated by reference to the Registrant's Proxy Statement in connection with the 2009 Annual Meeting of Stockholders, which will be filed by the Registrant within 120 days after the close of its fiscal year.

PART I

Item 1. Business.

General

TSR, Inc. (the "Company") is primarily engaged in the business of providing contract computer programming services to its clients. The Company provides its clients with technical computer personnel to supplement their in-house information technology ("IT") capabilities. The Company's clients for its contract computer programming services consist primarily of Fortune 1000 companies with significant technology budgets. In the year ended May 31, 2009, the Company provided IT staffing services to approximately 80 clients.

The Company was incorporated in Delaware in 1969. The Company's executive offices are located at 400 Oser Avenue, Hauppauge, NY 11788, and its telephone number is (631) 231-0333. This annual report, and each of our other periodic and current reports, including any amendments, are available, free of charge, on our website, www.tsrconsulting.com, as soon as reasonably practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission. The information contained on our website is not incorporated by reference into this annual report on Form 10-K and should not be considered part of this report.

Contract Computer Programming Services

STAFFING SERVICES

The Company's contract computer programming services involve the provision of technical staff to clients to meet the specialized requirements of their IT operations. The technical personnel provided by the Company generally supplement the in-house capabilities of the Company's clients. The Company's approach is to make available to its clients a broad range of technical personnel to meet their requirements rather than focusing on specific specialized areas. The Company has staffing capabilities in the areas of mainframe and mid-range computer operations, personal computers and client-server support, internet and e-commerce operations, voice and data communications (including local and wide area networks) and help desk support. The Company's services provide clients with flexibility in staffing their day -to-day operations, as well as special projects, on a short-term or long-term basis.

The Company provides technical employees for projects, which usually range from three months to one year. Generally, clients may terminate projects at any time. Staffing services are provided at the client's facility and are billed primarily on an hourly basis based on the actual hours worked by technical personnel provided by the Company and with reimbursement for out-of-pocket expenses. The Company pays its technical personnel on a semi-monthly basis and invoices its clients, not less frequently than monthly.

The Company's success is dependent upon, among other things, its ability to attract and retain qualified professional computer personnel. The Company believes that there is significant competition for software professionals with the skills and experience necessary to perform the services offered by the Company. Although the Company generally has been successful in attracting employees with the skills needed to fulfill customer engagements, demand for qualified professionals conversant with certain technologies may outstrip supply as new and additional skills are required to keep pace with evolving computer technology or as competition for technical personnel increase. Increasing demand for qualified personnel could also result in increased expenses to hire and retain qualified technical personnel and could adversely affect the Company's profit margins.

In the past few years, an increasing number of companies are using or are considering using low cost offshore outsourcing centers, particularly in India, to perform technology related work and projects. This trend has contributed to the decline in domestic IT staffing revenue. There can be no assurance that this trend will not continue to adversely impact the Company's IT staffing revenue.

OPERATIONS

The Company provides contract computer programming services in the New York metropolitan area, New England, and the Mid-Atlantic region. The Company provides its services principally through offices located in New York, New York, Edison, New Jersey and Long Island, New York. The Company does not currently intend to open additional offices. Due to the continuing impact of the current economic environment, the Company has reversed its plan of hiring additional account executives and technical recruiters in its existing offices to address increased competition and to promote revenue growth. As of May 31, 2009, the Company employed 9 persons who are responsible for recruiting technical personnel and 10 persons who are account executives. As of May 31, 2008 the Company had employed 14 technical personnel recruiters and 16 account executives.

MARKETING AND CLIENTS

The Company focuses its marketing efforts on large businesses and institutions with significant IT budgets and recurring staffing and software development needs. The Company provided services to approximately 80 clients during the year ended May 31, 2009 as compared to 85 in the prior fiscal year. The Company has historically derived a significant percentage of its total revenue from a relatively small number of clients. In the fiscal year ended May 31, 2009, the Company had one client which constituted more than 10% of consolidated revenue. Beeline, which provides vendor management services to four of the Company's end clients, constituted 28.3% of consolidated revenue. One of these end clients, The McGraw Hill Companies, constituted 13.5% of consolidated revenue. Additionally, the Company's top ten clients accounted for 76% of consolidated revenue in fiscal 2009 and 66% in fiscal 2008. While continuing its efforts to expand further its client base, the Company's marketing efforts are focused primarily on increasing business from its existing accounts.

The significant increase in consolidated revenue being processed through Beeline occurred due to its purchase, in 2008, of the vendor management software of Ensemble-Chimes, a vendor management company which had filed for bankruptcy in January 2008. In excess of 90% of the consolidated revenue from Ensemble-Chimes was derived from McGraw Hill and another client. The Company did not suffer a material reduction in consolidated revenue from these clients as a result of Ensemble-Chimes' bankruptcy filing.

The Company's marketing is conducted through account executives that are responsible for customers in an assigned territory. Account executives call on potential new customers and are also responsible for maintaining existing client contacts within an assigned territory. Instead of utilizing technical managers to oversee the services provided by technical personnel to each client, the account executives are responsible for this role. As a result of the cost savings due to the combined functions of the account executives, the Company is able to provide its account executives with significantly higher incentive-based compensation. In addition, the Company generally pairs each account executive with a recruiter of technical personnel, who also receives incentive-based compensation. The Company believes that this approach allows the Company to more effectively serve its clients' needs for technical personnel, as well as providing its account executives and recruiters with incentives to maximize revenue in their territories.

Most of the Company's major customers have retained a third party to provide vendor management services and centralize the consultant hiring process. Under this system, the third party retains the Company to provide contract computer programming services, the Company bills the third party and the third party bills the ultimate customer. This process has weakened the relationships the Company has built with its client contacts, the project managers, who the Company would normally work directly with to place consultants. Instead, the Company is required to interface with the vendor management provider, making it more difficult to maintain its relationships with its customers and preserve and expand its business. These changes have also reduced the Company's profit margins because the vendor management company is retained for the purpose of keeping costs down for the end client and receives a processing fee which is deducted from the payment to the Company.

In accordance with industry practice, most of the Company's contracts for contract computer programming services are terminable by either the client or the Company on short notice. The Company does not believe that backlog is material to its business.

PROFESSIONAL STAFF AND RECRUITMENT

In addition to using internet based job boards such as Dice, Net Temps and Monster, the Company maintains a database of technical personnel with a wide range of skills. The Company uses a sophisticated proprietary computer system to match potential employee's skills and experience with client requirements. The Company periodically contacts personnel within its database to update their availability, skills, employment interests and other matters and continually updates its database. This database is made available to the account executives and recruiters at each of the Company's offices. The Company considers its database to be a valuable asset.

The Company employs technical personnel primarily on an hourly basis, as required in order to meet the staffing requirements under particular contracts or for particular projects. The Company recruits technical personnel by posting jobs on the Internet, publishing advertisements in local newspapers and attending job fairs on a periodic basis. The Company devotes significant resources to recruiting technical personnel, maintaining 9 recruiters based in the U.S. and contracting with an India based company for 4 recruiters in India to help locate U.S. based technical consultants. Potential applicants are generally interviewed and tested by the Company's recruiting personnel, by third parties that have the required technical backgrounds to review the qualifications of the applicants, or by on-line testing services. In some cases, instead of employing technical personnel directly, the Company uses subcontractors who employ the technical personnel who are provided to the Company's customers.

Competition

The technical staffing industry is highly competitive and fragmented and has low barriers to entry. The Company competes for potential clients with providers of outsourcing services, systems integrators, computer systems consultants, other providers of technical staffing services and, to a lesser extent, temporary personnel agencies. Many of the Company's competitors are significantly larger and have greater financial resources than the Company. The Company believes that the principal competitive factors in obtaining and retaining clients are accurate assessment of clients' requirements, timely assignment of technical employees with appropriate skills and the price of services. The principal competitive factors in attracting qualified technical personnel are compensation, availability, quality and variety of projects and schedule flexibility. The Company believes that many of the technical personnel included in its database may also be pursuing other employment opportunities. Therefore, the Company believes that its responsiveness to the needs of technical personnel is an important factor in the Company's ability to fill projects. Although the Company believes it competes favorably with respect to these factors, it expects competition to increase and there can be no assurance that the Company will remain competitive.

Intellectual Property Rights

The Company relies primarily upon a combination of trade secret, nondisclosure and other contractual arrangements to protect its proprietary rights. The Company generally enters into confidentiality agreements with its employees, consultants, clients and potential clients and limits access to and distribution of its proprietary information. There can be no assurance that the steps taken by the Company in this regard will be adequate to deter misappropriation of its proprietary information or that the Company will be able to detect unauthorized use and take appropriate steps to enforce its intellectual property rights.

Personnel

As of May 31, 2009, the Company employs 129 people including its 3 executive officers. Of such employees 10 are engaged in sales, 9 are recruiters for programmers, 96 are technical and programming consultants, and 11 are in administrative and clerical functions. None of the Company's employees belong to unions.

Item 1A. Risk Factors

Certain statements contained in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business", 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 factors set forth below.

Dependence Upon Key Personnel.

The Company is dependent on its Chairman of the Board, Chief Executive Officer and President, Joseph Hughes. The Company had an employment agreement with Mr. Hughes which expired May 31, 2009. The Company is also dependent on certain of its account executives who are responsible for servicing its principal customers and attracting new customers. The Company does not have employment contracts with these persons. There can be no assurance that the Company will be able to retain its existing personnel or find and attract additional qualified employees. The loss of the service of any of these personnel could have a material adverse effect on the Company.

Dependence on Significant Customers.

In the fiscal year, ended May 31, 2009, the Company's largest client, Beeline accounted for 28.3% of the Company's consolidated revenue. Beeline is a vendor management company. One of the Company's end clients processed through Beeline, The McGraw Hill Companies, constituted 13.5% of consolidated revenue. Client contract terms vary depending on the nature of the engagement, and there can be no assurance that a client will renew a contract when it terminates. In addition, the Company's contracts are generally cancelable by the client at any time on short notice, and clients may unilaterally reduce their use of the Company's services under such contracts without penalty. See "Rapidly Changing Industry" below.

In addition, because of the amount of outstanding receivables that the Company may have with its larger clients at any one time, if a client, including a vendor management company which then subcontracts for the ultimate client, filed for bankruptcy protection, it could prevent the Company from collecting on the receivables and have an adverse effect on the Company's results of operations. In addition, the debtor-in -possession or trustee in a bankruptcy proceeding may seek to recover payments made to the Company during the 90 days prior to the bankruptcy filing as a preference. It is a defense to a preference claim that the payments were made in the ordinary course of business. The Company has received notices in pending bankruptcy proceedings seeking to recover amounts paid to it as preferences, but the Company does not believe that it has any liability based on the ordinary course of business defense.

Competitive Market for Technical Personnel.

The Company's success is dependent upon its ability to attract and retain qualified computer professionals to provide as temporary personnel to its clients. Competition for the limited number of qualified professionals with a working knowledge of certain sophisticated computer languages, which the Company requires for its contract computer services business, is intense. The Company believes that there is a shortage of, and significant competition for, software professionals with the skills and experience necessary to perform the services offered by the Company.

The Company's ability to maintain and renew existing engagements and obtain new business in its contract computer programming business depends, in large part, on its ability to hire and retain technical personnel with the IT skills that keep pace with continuing changes in software evolution, industry standards and technologies, and client preferences. Although the Company generally has been successful in attracting employees with the skills needed to fulfill customer engagements, demand for qualified professionals conversant with certain technologies may outstrip supply as new and additional skills are required to keep pace with evolving computer technology or as competition for technical personnel increases. Increasing demand for qualified personnel could also result in increased expenses to hire and retain qualified technical personnel and could adversely affect the Company's profit margins.

Competitive Market for Account Executives and Technical Recruiters

Prior to the current economic downturn, the Company had been seeking to increase the number of qualified account executives and technical recruiters for several years to meet competition and promote growth. The Company faces a highly competitive market for the limited number of qualified personnel and to date, the Company has had limited success in hiring such personnel. While the Company expects to resume seeking to hire such personnel when the economy stabilizes, there can be no assurance that the Company will be successful in hiring such personnel.

Rapidly Changing Industry

The computer industry is characterized by rapidly changing technology and evolving industry standards. These include the overall increase in the sophistication and interdependency of computer technology and a focus by IT managers on cost-efficient solutions. Recently, there has been an increased focus on the Internet and e-Commerce and there has been a shift away from mainframe legacy systems. Historically, much of the Company's staffing services has related to mainframe legacy systems. There can be no assurance that these changes will not adversely affect demand for technical staffing services. Organizations may elect to perform such services in-house or outsource such functions to companies that do not utilize temporary staffing, such as that provided by the Company.

Additionally, a number of companies have begun limiting the number of companies on their approved vendor lists, and in some cases this has required the Company to sub-contract with a company on the approved vendor list to provide services to customers. The staffing industry has also experienced margin erosion caused by this increased competition, and customers leveraging their buying power by consolidating the number of vendors with which they deal.

In addition to these factors, there has been intense price competition in the area of IT staffing, pressure on billing rates and pressure by customers for discounts.

The Company cannot predict at this time what long-term effect these changes will have on the Company's business and results of operations.

Vendor Management Companies

There have been changes in the industry which have affected the Company's operating results. Many customers have begun retaining third parties to provide vendor management services. The third party is then responsible for retaining companies to provide temporary IT personnel. This results in the Company contracting with such third parties and not directly with the ultimate customer. This change weakens the Company's relationship with its customer, which makes it more difficult for the Company to maintain and expand its business. It also reduces the Company's profit margins.

In addition, the agreement with the vendor management companies are frequently structured as subcontracting agreements with the vendor management company entering into a services agreement directly with the end clients. As a result, in the event of a bankruptcy of a vendor management company, the Company's ability to collect its outstanding receivables and continue to provide services could be adversely affected. However, in connection with the bankruptcy of Ensemble-Chimes, the Company was able to collect its outstanding receivables and continue its relationship with the end clients. See. Item 1 Business-Marketing and Clients.

Effect of Current Economic Uncertainties

Demand for the Company's IT staffing services is significantly affected by the general economic environment. During periods of slowing economic activity, customers may reduce their IT projects and their demand for outside consultants. As a result, any significant economic downturn could have material adverse affect on the Company's results of operations. As a result of the current economic downturn and, specifically, the impact of the adverse conditions in the credit markets on the financial services industry, the Company has experienced a decrease in the number of consultants on billing with customers due to decreased IT spending. These economic conditions have also reduced the opportunities to place new consultants on billing with customers.

Effect of Offshore Outsourcing

The current trend of companies moving technology jobs and projects offshore has caused and could continue to cause revenue to decline. In the past few years, more companies are using or are considering using low cost offshore outsourcing centers, particularly in India, to perform technology related work and projects. This trend has contributed to the decline in domestic IT staffing revenue for the industry. There can be no assurance that this trend will not continue to adversely impact the Company's IT staffing revenue.

Fluctuations in Quarterly Operating Results.

The Company's revenue and operating results are subject to significant variations from quarter to quarter. Revenue is subject to fluctuation based upon a number of factors, including the timing and number of client projects commenced and completed during the quarter, delays incurred in connection with projects, the growth rate of the market for contract computer programming services and general economic conditions. Unanticipated termination of a project or the decision by a client not to proceed to the next stage of a project anticipated by the Company could result in decreased revenue and lower utilization rates which could have a material adverse effect on the Company's business, operating results and financial condition. Compensation levels can be impacted by a variety of factors, including competition for highly skilled employees and inflation. The Company's operating results are also subject to fluctuation as a result of other factors.

Intellectual Property Rights.

The Company relies primarily upon a combination of trade secret, nondisclosure and other contractual agreements to protect its proprietary rights. The Company generally enters into confidentiality agreements with its employees, consultants, clients and potential clients and limits access to and distribution of its proprietary information. There can be no assurance that the steps taken by the Company in this regard will be adequate to deter misappropriation of its proprietary information or that the Company will be able to detect unauthorized use and take appropriate steps to enforce its intellectual property rights.

Competition.

The technical staffing industry is highly competitive and fragmented and has low barriers to entry. The Company competes for potential clients with providers of outsourcing services, systems integrators, computer systems consultants, other providers of technical staffing services and, to a lesser extent, temporary personnel agencies. The Company competes for technical personnel with other providers of technical staffing services, systems integrators, providers of outsourcing services, computer systems consultants, clients and temporary personnel agencies. Many of the Company's competitors are significantly larger and have greater financial resources than the Company. The Company believes that the principal competitive factors in obtaining and retaining clients are accurate assessment of clients' requirements, timely assignment of technical employees with appropriate skills and the price of services. The principal competitive factors in attracting qualified technical personnel are compensation, availability, quality and variety of projects and schedule flexibility. The Company believes that many of the technical personnel included in its database may also be pursuing other employment opportunities. Therefore, the Company believes that its responsiveness to the needs of technical personnel is an important factor in the Company's ability to fill projects. Although the Company believes it competes favorably with respect to these factors, it expects competition to increase, and there can be no assurance that the Company will remain competitive.

Potential for Contract and Other Liability.

The personnel provided by the Company to clients provide services involving key aspects of its clients' software applications. A failure in providing these services could result in a claim for substantial damages against the Company, regardless of the Company's responsibility for such failure. The Company attempts to limit, contractually, its liability for damages arising from negligence or omissions in rendering services, but it is not always successful in negotiating such limits. Despite this precaution, there can be no assurance that the limitations of liability set forth in its contracts would be enforceable or would otherwise protect the Company from liability for damages.

The Company's contract computer programming services business involves assigning technical personnel to the workplace of the client, typically under the client's supervision. Although the Company has little control over the client's workplace, the Company may be exposed to claims of discrimination and harassment and other similar claims as a result of inappropriate actions allegedly taken against technical personnel by clients. As an employer, the Company is also exposed to other possible employment-related claims. The Company is exposed to liability with respect to actions taken by its technical personnel while on a project, such as damages caused by technical personnel, errors, and misuse of client proprietary information or theft of client property. To reduce such exposures, the Company maintains insurance policies and a fidelity bond covering general liability, worker's compensation claims, errors and omissions and employee theft. In certain instances, the Company indemnifies its clients from the foregoing and claims have been made against the Company. Certain of these cost and liabilities are not covered by insurance. There can be no assurance that insurance coverage will continue to be available and at its current price or that it will be adequate to, or will, cover any such liability.

Voting Power of Major Shareholder

Joseph F. Hughes and members of his family own Common Stock, representing approximately 45% of the Company's voting power as of July 31, 2009. As such, Joseph Hughes has significant voting power on all matters submitted to a vote of the Company's common shareholders.

Certain Anti-Takeover Provisions May Inhibit a Change of Control

In addition to the significant ownership of Common Stock by Joseph F. Hughes, certain provisions of the Company's charter and by-laws may have the effect of discouraging a third party from making an acquisition proposal for the Company and may thereby inhibit a change in control of the Company under circumstances that could give the holders of Common Stock the opportunity to realize a premium over the then-prevailing market prices. Such provisions include a classified Board of Directors, advance notice requirements for nomination of directors and certain shareholder proposals set forth in the Company's Certificate of Incorporation and by-laws.

New Classes and Series of Stock

The Company's charter authorizes the Board of Directors to create new classes and series of preferred stock and to establish the preferences and rights of any such classes and series without further action of the shareholders. The issuance of additional classes and series of Capital Stock may have the effect of delaying, deferring or preventing a change in control of the Company.

The Company's stock price could be extremely volatile and, as a result, investors may not be able to resell their shares at or above the price they paid for them.

Among the factors that could affect the Company's stock price are:

- limited float and a low average daily trading volume;
- industry trends and the performance of the Company's customers;
- fluctuations in the Company's results of operations;
- litigation; and
- general market conditions.

The stock market has and may in the future experience extreme volatility that has often been unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the market price of the Company's common stock.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties.

The Company leases 8,000 square feet of space in Hauppauge, New York for a term expiring November 30, 2010, with annual rentals of approximately $70,000. This space is used as executive and administrative offices for the Company and the Company's operating subsidiary. The Company also leases sales and technical recruiting offices in New York City (lease expires July, 2012) and Edison, New Jersey (lease expires August, 2013), with aggregate monthly rentals of approximately $24,000.

The Company believes the present locations are adequate for its current needs as well as for the future expansion of its existing business.

Item 3. Legal Proceedings.

There are no material legal proceedings.

Item 4. Submission of Matters to a Vote of Security Holders.

Not Applicable

PART II

Item 5. Market for Common Equity and Related Stockholder Matters.

The Company's shares of Common Stock trade on the NASDAQ Global Market under the symbol TSRI. The following are the high and low sales prices for each quarter during the fiscal years ended May 31, 2009 and 2008:

JUNE 1, 2008 - MAY 31, 2009

	1ST QUARTER	2ND QUARTER	3RD QUARTER	4TH QUARTER
High Sales Price	3.84	3.00	2.37	1.92
Low Sales Price	2.35	1.78	1.55	1.56

JUNE 1, 2007 - MAY 31, 2008

	1ST QUARTER	2ND QUARTER	3RD QUARTER	4TH QUARTER
High Sales Price	4.15	4.72	4.49	4.24
Low Sales Price	3.75	4.01	3.86	3.54

There were 115 holders of record of the Company's Common Stock as of July 31, 2009. Additionally, the Company estimates that there were approximately 1,500 beneficial holders as of that date. The Company paid a dividend of $0.08 per quarter for fiscal 2008 and the first two quarters of fiscal 2009. The Company has suspended payment of further dividends due to the continuing impact of the current economic environment. There can be no assurance that the Company will resume the payment of dividends.

Securities authorized for issuance under equity compensation plans.

The 1997 Employee Stock Option Plan, the Company's lone equity compensation plan, expired on April 30, 2007.

Item 6. Selected Financial Data.

(Amounts in Thousands, Except Per Share Data)

	May 31, 2009	May 31, 2008	May 200
Revenue	$42,801	$51,723	$49,6
Income From Operations	998	1,971	1,9
Net Income	621	1,276	1,3
Basic and Diluted Net Income Per Common Share	0.15	0.28	0.
Working Capital	12,288	12,693	12,8
Total Assets	15,387	17,642	18,0
Stockholders' Equity	12,400	13,767	13,9
Book Value Per Common Share (Total Shareholders' Equity Divided by Common Shares Outstanding)	3.06	3.01	3.
Cash Dividends Declared Per Common Share	$ 0.16	$ 0.32	$ 0.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis should be read in conjunction with the Company's consolidated financial statements and notes thereto presented elsewhere in this report.

Results of Operations

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

Year Ended May 31,
(Dollar Amounts in Thousands)

	2009 Amount	2009 % of Revenue	2008 Amount	2008 % of Revenue
Revenue	$42,801	100.0%	$51,723	100.0%
Cost of Sales	35,118	82.1	42,305	81.8
Gross Profit	7,683	17.9	9,418	18.2
Selling, General and Administrative Expenses	6,685	15.6	7,447	14.4
Income from Operations	998	2.3	1,971	3.8
Other Income, Net.	96	0.2	276	0.6
Income Before Income Taxes	1,094	2.5	2,247	4.4
Provision for Income Taxes	473	1.1	971	1.9
Net Income	$ 621	1.4%	$1,276	2.5%

Revenue

Revenue consists primarily of revenue from computer programming consulting services. Revenue for the fiscal year ended May 31, 2009 decreased $8,922,000 or 17.2% from fiscal 2008. The average number of consultants on billing with customers decreased from approximately 332 for the fiscal year ended May 31, 2008 to 264 for the fiscal year ended May 31, 2009. The continuing impact of the current economic environment has significantly decreased the number of consultants on billing with customers and also decreased the opportunities to place new consultants on billing with customers. The revenue decrease is also the result of the continued reduction in consultants placed with AT&T and lower billing rates caused by discounts and other rate reductions instituted by customers.

As a result of the merger of AT&T with SBC Communications, Inc., the Company experienced a decrease in new placements with AT&T beginning in the second quarter of fiscal 2007. This has reduced the number of consultants on billing with AT&T from 100 at August 31, 2006 to 45 at May 31, 2008 and to 14 at May 31, 2009. The Company expects that these changes will continue to impact the Company's business relationship with AT&T, resulting in few opportunities to place new consultants at AT&T.

The Company's revenue from programmers on billing continue to be affected by discounts, such as prompt payment and volume discounts, required by major customers as a condition to remaining on their approved vendor lists and the reduction in the number of vendors on the approval vendor lists to increase pricing competition among the remaining vendors. In addition, most of the Company's major customers have retained third parties to provide vendor management services and centralize the consultant hiring process. Under this system, the third party retains the Company to provide contract computer

programming services, the Company bills the third party and the third party bills the ultimate customer. This process has weakened the relationships the Company has built with its client contacts, the project managers, who the Company would normally work directly with to place consultants. Instead, the

Company is required to interface with the vendor management provider, making it more difficult to maintain its relationships with its customers and preserve and expand its business. These changes have also reduced the Company's profit margins because the vendor management company is retained for the purpose of keeping costs down for the end client and receives a processing fee which is deducted from the payment to the Company. Revenue has also been impacted by the increased use of offshore development companies, particularly in India, over the past few years to provide technology related work and projects. The Company is unable to predict the long-term effects of these changes.

As a result of the current economic downturn and, specifically, the impact of the adverse conditions in the credit markets on the financial services industry, the Company has experienced a decrease in the number of consultants on billing with customers as a result of decreased IT spending. These economic conditions have also reduced the opportunities to place new consultants on billing with customers. The Company expects that these conditions will continue to affect the number of consultants on billing with customers and the Company's revenue.

The Company provided services to Lehman Brothers Holdings, Inc. ("LBHI") through its contract with Beeline.com, Inc. ("Beeline"), a vendor management company. LBHI filed a petition under Chapter 11 of the U.S. Bankruptcy Code on September 15, 2008. The Company has received payment in full for amounts due for services rendered through the date of the bankruptcy filing. Following the bankruptcy filing, the consultants on billing with LBHI decreased from 13 as of August 31, 2008 to 3 as of May 31, 2009. The Company cannot determine the impact the bankruptcy filing and purchase of Lehman Brothers, Inc. ("LBI") by Barclays Capital, Inc. will have on the remaining consultants on billing with LBI and its affiliates. LBHI and its subsidiaries constituted approximately 6% of the Company's revenue in fiscal 2008 and 4% in fiscal 2009.

Cost of Sales

Cost of sales decreased by $7,187,000 or 17.0%, in fiscal 2009 from fiscal 2008. Cost of sales as a percentage of revenue increased to 82.1% in fiscal 2009 from 81.8% in fiscal 2008. The decrease in cost of sales resulted primarily from decreased revenue. The increase in cost of sales as a percentage of revenue is due to additional mandatory discount and rate reduction programs, as discussed above under "Revenue".

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 decreased $762,000, or 10.2%, to $6,685,000 in fiscal 2009 from $7,447,000 in fiscal 2008. This decrease was primarily attributable to a decrease in the number of technical recruiters and account executives. Technical recruiters and account executives have been terminated in order to lessen the impact of the Company's reduced level of business activity.

Other Income

Fiscal 2009 other income resulted primarily from interest and dividend income of $149,000, which decreased by $212,000 from the level realized in 2008 due to lower rates of interest earned on the Company's US Treasury securities and money market accounts.

Income Taxes

The effective income tax rate remained at 43.2% in both fiscal 2009 and fiscal 2008.

Net Income

Net income decreased $655,000 or 51.3% in fiscal 2009 from fiscal 2008. Net income decreased primarily due to lower revenue from a decreased number of consultants on billing with clients and lower interest income earned on the Company's US Treasury securities and money market accounts.

Liquidity, Capital Resources and Changes in Financial Condition

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

At May 31, 2009, the Company had working capital (total current assets in excess of total current liabilities) of $12,288,000 including cash and cash equivalents of $4,075,000 as compared to working capital of $12,693,000 including cash and cash equivalents of $1,588,000 at May 31, 2008. The Company's working capital also included $4,509,000 and $6,460,000 of marketable securities with maturities of less than one year at May 31, 2009 and 2008, respectively. The majority of the decrease in working capital occurred due to purchases of treasury stock of $1,220,000 and cash dividends paid exceeding net income by $146,000, offset to some extent by the reclassification of $1,000,000 of marketable securities to current assets.

Net cash flow of $1,628,000 was provided by operations during fiscal 2009 as compared to $1,268,000 of net cash flow from operations in fiscal 2008. The cash provided by operations for fiscal 2009 primarily resulted from net income of $621,000 and a decrease in accounts receivable of $1,832,000. The cash provided by operations for fiscal 2008 primarily resulted from net income of $1,276,000 and a decrease in accounts payable and accrued expenses of $265,000.

Net cash provided by investing activities amounted to $2,929,000 for fiscal 2009, compared to $69,000 in net cash used in investing activities in fiscal 2008. The net cash provided by investing activities in fiscal 2009 primarily resulted from not reinvesting maturities of treasury securities. The net cash used in investing activities in fiscal 2008 primarily resulted from higher prices paid for reinvesting in treasury securities.

Net cash used in financing activities during the fiscal year ended May 31, 2009 resulted from purchases of treasury securities of $1,220,000, cash dividends paid of $768,000 and distributions of $83,000 to the minority interest. The purchases of treasury stock consisted of $1,050,000 in a private transaction and $170,000 in open market transactions. The Board of Directors of the Company approved a plan in December 2007 authorizing the repurchase of shares of common stock and approximately 239,000 shares remain available for purchase under this previously announced plan. The Company has not made any purchases under this plan since September 2008. The Company does not intend to make further purchases under this plan unless there is a change in the market for the Company's common stock. Net cash used in financing activities during the fiscal year ended May 31, 2008 resulted primarily from cash dividends paid of $1,462,000 and distributions of $49,000 to the minority interest. The Board of Directors determined to suspend the payment of further dividends effective after the dividend paid February 9, 2009 for the second quarter of fiscal 2009. The Board of Directors may reevaluate the Company's dividend policy once the economic conditions stabilize.

The Company's capital resource commitments at May 31, 2009 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 liquidity requirements during fiscal 2009. The Company has available a revolving line of credit of $5,000,000 with a major money center bank through October 31, 2009. As of May 31, 2009, no amounts were outstanding under this line of credit.

Tabular Disclosure of Contractual Obligations

Contractual Obligations	Total	Payments Due by Period: Less than 1 Year	1-3 Years	3-5 Years	More tha
Operating Leases	$1,213,000	$ 364,000	$ 629,000	$ 220,000	$
Employment Agreements	725,000	375,000	350,000	--	
Totals	$1,938,000	$ 739,000	$ 979,000	$ 220,000	$

Impact of New Accounting Standards

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"), which, among other requirements, defines fair value, establishes a framework for measuring fair value, and expands disclosures about the use of fair value to measure assets and liabilities. SFAS No. 157 prescribes a single definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between participants at the measurement date. For financial instruments and certain nonfinancial assets and liabilities that are recognized or disclosed at fair value on a recurring basis at least annually, SFAS No. 157 is effective beginning the first fiscal year that begins after November 15, 2007, which corresponds to the Company's fiscal year beginning June 1, 2008. For all other nonfinancial assets and liabilities, the effective date of SFAS no. 157 has been delayed to the first fiscal year beginning after November 15, 2008, which corresponds to the Company's fiscal year beginning June 1, 2009. The Company is still determining the effect SFAS No. 157 will have on its consolidated financial statements, but it currently does not expect the effect to be material.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - including an amendment to FASB Statement No. 115" ("SFAS No. 159"). SFAS No. 159 permits entities to elect to measure many financial instruments and certain other items at fair value. Upon adoption of SFAS No. 159, an entity may elect the fair value option for eligible items that exist at the adoption date. Subsequent to the initial adoption, the election of the fair value option should only be made at initial recognition of the asset or liability or upon a re-measurement event that gives rise to new-basis accounting. SFAS No. 159 does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value nor does it eliminate disclosure requirements included in other accounting standards. SFAS No. 159 is effective for fiscal years beginning after November

15, 2007. The adoption of SFAS No. 159 did not have a material impact on the Company's consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (R), "Business Combinations" ("SFAS No.141(R)"), and SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements" ("SFAS No.160"). SFAS No.141 (R) requires an acquirer to measure the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree at their fair values on the acquisition date, with goodwill being the excess value over the net identifiable assets acquired. SFAS No. 160 clarifies that a noncontrolling interest in a subsidiary should be reported as equity in the consolidated financial statements. The calculation of earnings per share will continue to be based on income amounts attributable to the parent. SFAS No. 141 (R) and SFAS No. 160 are effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption is prohibited. The Company does not expect the adoption of SFAS No.141 (R) and SFAS No. 160 to have a material impact on its consolidated financial statements

In June 2009, the FASB issued SFAS No. 165, "Subsequent Events". SFAS No. 165 incorporates the subsequent events guidance contained in the auditing standards literature into authoritative accounting literature. It also requires entities to disclose the date through which they have evaluated subsequent events and whether the date corresponds with the release of their financial statements. SFAS No.165 is effective for all interim and annual periods ending after June 15, 2009. The Company does not expect the adoption of SFAS No. 165 to have a material impact on its consolidated financial statements.

In June 2009, the FASB issued SFAS No. 168, "The FASB Accounting Standards CodificationTM and the Hierarchy of Generally Accepted Accounting Principles--a replacement of FASB Statement No. 162". The FASB Accounting Standards Codification (the "Codification") will become the source of authoritative U.S. accounting principles generally accepted in the United States of America ("U.S. GAAP"). The Codification, which changes the referencing of financial standards, is effective for interim or annual financial periods ending after September 15, 2009. The Codification is not intended to change or alter existing U.S. GAAP.

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 its consolidated financial statements, contained elsewhere in this report. The Company believes that the following accounting policies require the application of management's most difficult, subjective or complex judgments:

Estimating Allowances for Doubtful Accounts Receivable
We perform ongoing credit evaluations of our customers and adjust credit limits based upon payment history and the customer's current credit worthiness, as determined by our review of their current credit information. We continuously monitor collections and payments from our customers and maintain a provision for estimated credit losses based on our historical experience, customer types, credit worthiness, economic trends and any specific customer collection issues that we have identified. While such credit losses have historically been within our expectations and the provisions established, we cannot guarantee that we will continue to experience the same credit loss rates that we have in the past.

A significant change in the liquidity or financial position of any of our significant customers, or in their willingness to pay, could have a material adverse effect on the collectibility of our accounts receivable and our future operating results.

Valuation of Marketable Securities

The Company accounts for its marketable securities in accordance with Statement of Financial Accounting Standards ("SFAS") No. 115 "Accounting for Certain Investments in Debt and Equity Securities." Accordingly, the Company classifies its marketable securities at acquisition as either (i) held-to-maturity, (ii) trading or (iii) available-for-sale. Based upon the Company's intent and ability to hold its US Treasury securities to maturity (which maturities range up to 24 months), 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 price, which is Level 1 input, as established by the fair value hierarchy under SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). The related unrealized gains and losses are included in earnings.

Valuation of Deferred Tax Assets

We regularly evaluate our ability to recover the reported amount of our deferred income taxes considering several factors, including our estimate of the likelihood of the Company generating sufficient taxable income in future years during the period over which temporary differences reverse. Presently, the Company believes that it is more likely than not that it will realize the benefits of its deferred tax assets based primarily on the Company's history of and projections for taxable income in the future. In the event that actual results differ from our estimates or we adjust these estimates in future periods, we may need to establish a valuation allowance against a portion or all of our deferred tax assets, which could materially impact our financial position or results of operations.

Item 8. Financial Statements.

Index to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
TSR, Inc.
Hauppauge, New York

We have audited the accompanying consolidated balance sheets of TSR, Inc. and subsidiaries as of May 31, 2009 and 2008 and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended. We have also audited the financial statement schedule for the years ended May 31, 2009 and 2008 as listed on Item 15(a)2. These consolidated financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and schedule are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and schedule. We believe that our audits provide a reasonable basis of our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of TSR, Inc. and subsidiaries as of May 31, 2009 and 2008, and their results of operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the schedule presents fairly, in all material respects, the information set forth therein.

/s/ J.H. Cohn LLP

Jericho, New York
August 18, 2009

TSR, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
May 31, 2009 and 2008

ASSETS

	2009	
Current Assets:		
Cash and cash equivalents	$ 4,075,213	$ 1
Marketable securities	4,509,346	6
Accounts receivable:		
Trade, net of allowance for doubtful accounts of		

$302,000 in 2009 and $326,000 in 2008	6,345,374	8
Other	20,580	
	6,365,954	8
Prepaid expenses	72,429	
Prepaid and recoverable income taxes	101,791	
Deferred income taxes	133,000	
Total Current Assets	15,257,733	16
Equipment and leasehold improvements, at cost:		
Equipment	237,966	
Furniture and fixtures	117,389	
Automobiles	19,665	
Leasehold Improvements	60,058	
	435,078	
Less accumulated depreciation and amortization	415,963	
	19,115	
Marketable securities	--	
Other assets	49,653	
Deferred income taxes	61,000	
Total Assets	$15,387,501	$17

See accompanying notes to consolidated financial statements.

(Continued)

TSR, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
May 31, 2009 and 2008

LIABILITIES AND STOCKHOLDERS' EQUITY

	2009	
Current Liabilities:		
Accounts and other payables	$ 274,284	$
Accrued and other current liabilities:		
Salaries, wages and commissions	1,191,057	1
Legal and professional fees	--	
Other	56,298	
	1,247,355	1
Advances from customers	1,447,740	1

Total Current Liabilities	2,969,379	3
Minority Interest	17,636	
Commitments and Contingencies		
Stockholders' Equity:		
Preferred stock, $1.00 par value, authorized 1,000,000 shares; none issued	--	
Common stock, $.01 par value, authorized 25,000,000 shares; issued 6,228,326 shares; 4,050,488 and 4,568,012 outstanding.	62,283	
Additional paid-in capital	5,071,727	5
Retained earnings	20,517,707	20
	25,651,717	25
Less: treasury stock, 2,177,838 and 1,660,314 shares, at cost	13,251,231	12
Total Stockholders' Equity	12,400,486	13
Total Liabilities and Stockholders' Equity	$15,387,501	$17

See accompanying notes to consolidated financial statements.

TSR, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
Years Ended May 31, 2009 and 2008

	2009	20
Revenue, net	$ 42,801,340	$ 51,7
Cost of sales	35,117,972	42,3
Selling, general and administrative expenses	6,685,081	7,4
	41,803,053	49,7
Income from operations	998,287	1,9
Other income (expense):		
Interest and dividend income	149,466	3
Realized and unrealized gain (loss) from marketable securities, net	(5,968)	
Minority interest in subsidiary operating profits	(47,393)	(
	96,105	2
Income before income taxes	1,094,392	2,2
Provision for income taxes	473,000	9
Net income	$ 621,392	$ 1,2

Basic and diluted net income per common share	$ 0.15	$
Weighted average number of basic and diluted common shares outstanding	4,235,723	4,5

See accompanying notes to consolidated financial statements.

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TSR, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended May 31, 2009 and 2008

	Shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Tre s
Balance at May 31, 2007	6,228,326	$ 62,283	$ 5,071,727	$ 20,849,555	$(12,
Net Income	--	--	--	1,276,134	
Cash Dividends Paid	--	--	--	(1,461,764)	
Balance at May 31, 2008	6,228,326	62,283	5,071,727	20,663,925	(12,
Net Income	--	--	--	621,392	
Cash Dividends Paid	--	--	--	(767,610)	
Purchases of Treasury Stock	--	--	--	--	(1,
Balance at May 31, 2009	6,228,326	$ 62,283	$ 5,071,727	$ 20,517,707	$(13,

See accompanying notes to consolidated financial statements.

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TSR, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended May 31, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Net income	$ 621,392	$ 1,276,134
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	19,000	24,446
Realized and unrealized loss (gain) from marketable securities, net	5,968	(800
Deferred income taxes	(4,000)	17,000
Minority interest in subsidiary operating profits	47,393	85,279
Changes in operating assets and liabilities:		

Accounts receivable-trade	1,831,562	(20,285
Other receivables	31,795	46,640
Prepaid expenses	(18,641)	1,140
Prepaid and recoverable income taxes	(53,776)	105,603
Accounts payable and accrued expenses	(711,082)	(265,186
Advances from customers	(141,347)	(2,237
Net cash provided by operating activities	1,628,264	1,267,734
Cash flows from investing activities:		
Proceeds from maturities and sales of marketable securities	10,403,782	10,777,957
Purchases of marketable securities	(7,459,616)	(10,845,061
Purchases of equipment and leasehold improvements	(14,830)	(1,441
Net cash provided by (used in) investing activities.	2,929,336	(68,545
Cash flows from financing activities:		
Distribution to minority interest	(83,290)	(49,246
Cash dividends paid	(767,610)	(1,461,764
Purchases of treasury stock	(1,219,930)	--
Net cash used in financing activities	(2,070,830)	(1,511,010
Net increase (decrease) in cash and cash equivalents	2,486,770	(311,821
Cash and cash equivalents at beginning of year	1,588,443	1,900,264
Cash and cash equivalents at end of year	$ 4,075,213	$ 1,588,443
Supplemental disclosures of cash flow:		
Income taxes paid	$ 531,000	$ 848,000

See accompanying notes to consolidated financial statements.

TSR, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
May 31, 2009 and 2008

(1) Summary of Significant Accounting Policies

(a) Business, Nature of Operations and Customer Concentrations

TSR, Inc. and subsidiaries ("the Company") are primarily engaged in providing contract computer programming services to commercial customers and state and local government agencies located primarily in the Metropolitan New York area. The Company provides its clients with technical computer personnel to supplement their in-house information technology capabilities. In fiscal 2009, one customer accounted for more than 10% of the Company's consolidated revenue, constituting 28.3%. In fiscal 2008, two customers accounted for more than 10% of the Company's consolidated revenue, constituting 13.5% and 12.2%, respectively. The accounts receivable associated with the Company's largest customer was $1,906,000 and $1,368,000 at May 31, 2009 and 2008, respectively. The accounts receivable associated with the Company's second largest customer was $917,000 at May 31, 2008. The Company operates in one business segment, computer programming services.

(b) Principles of Consolidation
The consolidated financial statements include the accounts of TSR, Inc. and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

(c) 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. Advances from customers represent amounts received from customers prior to the Company's completion of the related services and credit balances from overpayments.

Reimbursements received by the Company for out-of-pocket expenses are characterized as revenue in accordance with Emerging Issues Task Force (EITF) Issue 01-14 "Income Statement Characterization of Reimbursements Received for `Out-of-Pocket' Expenses Incurred."

(d) 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 May 31, 2009 and 2008:

	2009	2008
Cash in banks	$ 2,008,349	$ 394,987
Money market funds	2,066,864	1,193,456
	$ 4,075,213	$ 1,588,443

(Continued)

(e) Marketable Securities
In fiscal 2009, the Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 157 "Fair Value Measurements" ("SFAS No. 157"). Using the provisions within SFAS No. 157, 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 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 during the fiscal year ended May 31, 2009 using quoted prices in active markets for identical assets (Level 1), significant other observable inputs (Level 2), and significant unobservable inputs (Level 3):

May 31, 2009	Level 1	Level 2	Level 3	Total
US Treasury securities	$2,497,133	$ --	$ --	$2,497,133
Certificates of deposit	--	1,999,637	--	1,999,637
Equity securities	12,576	--	--	12,576
	$2,509,709	$1,999,637	$ --	$4,509,346

Based upon the Company's intent and ability to hold its US Treasury securities 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 under SFAS No. 157. The related unrealized gains and losses are included in earnings. The Company's marketable securities at May 31, 2009 and 2008 are summarized as follows:

(Continued)

	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Recorded Value

	Current				
2009:	US Treasury securities	$2,497,133	$ --	$ --	$2,497,133
	Certificates of deposit	1,999,637	--	--	1,999,637
	Equity securities	16,866	--	4,290	12,576
		$4,513,636	$ --	$ 4,290	$4,509,346
	Long Term				
	US Treasury securities	$ --	$ --	$ --	$ --
	Current				
2008:	US Treasury securities	$6,441,288	$ --	$ --	$6,441,288
	Equity securities	16,866	1,678	--	18,544
		$6,458,154	$ 1,678	$ --	$6,459,832
	Long Term				
	US Treasury securities	$ 999,648	$ --	$ --	$ 999,648

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.

(f) Accounts Receivable and Credit Policies:
The carrying amount of accounts receivable is reduced by a valuation allowance that reflects management's best estimate of the amounts that will not be collected. In addition to reviewing delinquent accounts receivable, management considers many factors in estimating its general allowance, including historical data, experience, customer types, credit worthiness and economic trends. From time to time, management may adjust its assumptions for anticipated changes in any of those or other factors expected to affect collectability.

(g) Depreciation and Amortization
Depreciation and amortization of equipment and leasehold improvements has been computed using the straight-line method over the following useful lives:

Equipment	3 years
Furniture and fixtures	3 years
Automobiles	3 years
Leasehold improvements	Lesser of lease term or useful life

(Continued)

TSR, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
May 31, 2009 and 2008

(h) 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, if any. The Company had no stock options or other common stock equivalents outstanding during the fiscal years ended May 31, 2009 or 2008.

(i) Income Taxes
Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial reporting and tax bases of the Company's assets and liabilities at enacted rates expected to be in effect when such amounts are realized or settled. The effect of enacted tax law or rate changes is reflected in income in the period of enactment.

(j) Fair Value of Financial Instruments
Statement of Financial Accounting Standards No. 107, "Disclosures About Fair Value of 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 consolidated financial statements approximate fair value because of the short-term maturities of these instruments. The fair value of marketable securities is based upon quoted market values at the end of a period.

(k) Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Such estimates include, but are not limited to provisions for doubtful accounts receivable and assessments of the recoverability of the Company's deferred tax assets. Actual results could differ from those estimates.

(l) Long-Lived Assets
The Company reviews its long-lived assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the sum of the expected cash flows undiscounted and without interest, is less than the carrying amount of the asset, an impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its fair value.

(m) Comprehensive Income
The Company's net income equaled comprehensive income in both fiscal 2009 and 2008.

(n) Stock Options

The Company had one stock-based employee compensation plan which expired on April 30, 2007. Effective June 1, 2006, the Company accounted for all transactions under which employees receive shares of stock or other equity instruments in the Company in accordance with the revised provisions of Statement of Financial Accounting Standards No. 123, "Share-Based Payment", ("SFAS 123 (R)"), which requires that the fair market value of all share based payment transactions be recognized in the financial statements. SFAS 123 (R) establishes fair value as the measurement objective in accounting for share based payment arrangements and requires all entities to apply a fair value based measurement method in accounting for share based transactions with employees except for equity instruments held by employee share ownership plans. The Company adopted SFAS 123 (R) at the beginning of fiscal 2007. The Company has not issued any share based payments in fiscal 2009 or 2008.

(Continued)

(o) Impact of New Accounting Standards

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"), which, among other requirements, defines fair value, establishes a framework for measuring fair value, and expands disclosures about the use of fair value to measure assets and liabilities. SAFS No. 157 prescribes a single definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For financial instruments and certain nonfinancial assets and liabilities that are recognized or disclosed at fair value on a recurring basis at least annually, SFAS No. 157 is effective beginning the first fiscal year that begins after November 15, 2007, which corresponds to the Company's fiscal year beginning June 1, 2008. For all other nonfinancial assets and liabilities, the effective date of SFAS No. 157 has been delayed to the first fiscal year beginning after November 15, 2008, which corresponds to the Company's fiscal year beginning June 1, 2009. The Company is still determining the effect SFAS No. 157 will have on its consolidated financial statements, but it currently does not expect the effect to be material.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - including an amendment to FASB Statement No. 115" ("SFAS No. 159"). SFAS No. 159 permits entities to elect to measure many financial instruments and certain other items at fair value. Upon adoption of SFAS No. 159, an entity may elect the fair value option for eligible items that exist at the adoption date. Subsequent to the initial adoption, the election of the fair value option should only be made at initial recognition of the asset or liability or upon a re-measurement event that gives rise to new-basis accounting. SFAS No. 159 does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value nor does it eliminate disclosure requirements included in other accounting standards. SFAS

No. 159 is effective for fiscal years beginning after November 15, 2007. The adoption of SFAS No. 159 did not have a material impact on the Company's consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (R), "Business Combinations" ("SFAS No.141(R)"), and SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements" ("SFAS No. 160"). SFAS No.141 (R) requires an acquirer to measure the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree at their fair values on the acquisition date, with goodwill being the excess value over the net identifiable assets acquired. SFAS No. 160 clarifies that a noncontrolling interest in a subsidiary should be reported as equity in the consolidated financial statements. The calculation of earnings per share will continue to be based on income amounts attributable to the parent. SFAS No. 141 (R) and SFAS No. 160 are effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption is prohibited. The Company does not expect the adoption of SFAS No.141 (R) and SFAS No. 160 to have a material impact on its consolidated financial statements.

In June 2009, the FASB issued SFAS No. 165, "Subsequent Events". SFAS No. 165 incorporates the subsequent events guidance contained in the auditing standards literature into authoritative accounting literature. It also requires entities to disclose the date through which they have evaluated subsequent events and whether the date corresponds with the release of their financial statements. SFAS No. 165 is effective for all interim and annual periods ending after June 15, 2009. The Company does not expect the adoption of SFAS No. 165 to have a material impact on its consolidated financial statements.

In June 2009, the FASB issued SFAS No. 168, "The FASB Accounting Standards CodificationTM and the Hierarchy of Generally Accepted Accounting Principles--a replacement of FASB Statement No. 162". The FASB Accounting Standards Codification (the "Codification") will become the source of authoritative accounting principles generally accepted in the United States of America ("U.S. GAAP"). The Codification, which changes the referencing of financial standards, is effective for interim or annual financial periods ending after September 15, 2009. The Codification is not intended to change or alter existing U.S. GAAP.

(Continued)

(p) Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, marketable securities and accounts receivable. The Company places its cash equivalents with high-credit quality financial institutions and brokerage houses. The Company has substantially all of its cash in three bank accounts. At times, such amounts may exceed Federally insured limits. At May 31, 2009, there were no cash balances in excess of Federally insured limits. The Company holds its marketable securities, which consist primarily of

United States Treasury Securities, directly with the Treasury and in brokerage accounts. The Company has not experienced losses in any such accounts. The Company's accounts receivable represent approximately 55 accounts with open balances of which, the largest customer, as a percentage of revenue, consisted of 30.0% of the net accounts receivable balance at May 31, 2009.

(2) Income Taxes

A reconciliation of the provisions for income taxes computed at the Federal statutory rates for fiscal 2009 and 2008 to the reported amounts is as follows:

	2009 Amount	%	2008 Amount	%
Amounts at statutory Federal tax rate	$372,000	34.0%	$764,000	34.0%
State and local taxes, net of Federal income tax effect	91,000	8.3	168,000	7.5
Non-deductible expenses and other	10,000	0.9	39,000	1.7
	$473,000	43.2%	$971,000	43.2%

The components of the provision for income taxes are as follows:

	Federal	State	Total
2009: Current	$ 341,000	$ 136,000	$ 477,000
Deferred	(4,000)	--	(4,000)
	$ 337,000	$ 136,000	$ 473,000
2008: Current	$ 704,000	$ 250,000	$ 954,000
Deferred	12,000	5,000	17,000
	$ 716,000	$ 255,000	$ 971,000

(Continued)

The tax effects of temporary differences that give rise to significant portions of the deferred income tax assets at May 31, 2009 and 2008 are as follows:

	2009	2008
Allowance for doubtful accounts receivable	$ 133,000	$ 135,000
Equipment and leasehold improvement depreciation and amortization	25,000	15,000
Acquired client relationships	36,000	40,000
Total deferred income tax assets	$ 194,000	$ 190,000

The Company believes that it is more likely than not that it will realize the benefits of its deferred tax assets based primarily on the Company's history of and projections for taxable income in the future.

(3) Line of Credit

The Company has an available line of credit of $5,000,000 with a major money center bank through October 31, 2009. As of May 31, 2009, no amounts were outstanding under this line of credit. The rate of interest on amounts drawn against the line of credit will be either the Eurodollar Rate plus 1% or the Prime Rate, determined at the time of the advance.

(4) Commitments and Contingencies

A summary of noncancellable long-term operating lease commitments for facilities as of May 31, 2009 follows:

Fiscal Year	Amount
2010	$ 364,000
2011	332,000
2012	297,000
2013	181,000
2014	39,000
2015	--
Total	$ 1,213,000

Total rent expenses under all lease agreements amounted to $346,000 and $353,000 in fiscal 2009 and 2008, respectively.

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

(5) Stockholders' Equity

During the year ended May 31, 2009, the Company purchased a total of 517,524 shares of its common stock for $1,219,930. This consisted of 61,001 shares purchased in various transactions on the open market for $169,927 under a previously announced repurchase plan of 300,000 shares and an additional 456,523 shares purchased in a private transaction for $1,050,003 in October 2008. The Company has not made any purchases under its repurchase plan since September 2008.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None

Item 9A(T). 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 financial 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, as amended (the "Exchange Act")). Based on this evaluation, the principal executive officer and principal financial 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.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING. The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Under the supervision and with the participation of the Company's management, including its principal executive officer and principal financial officer, the Company conducted an evaluation of the effectiveness of its internal control over financial reporting based on criteria established in the framework in INTERNAL CONTROL - INTEGRATED FRAMEWORK issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, the Company's management concluded that its internal controls over financial reporting was effective as of May 31, 2009.

Internal controls over financial reporting, no matter how well designed, have inherent limitations. Therefore, internal control over financial reporting determined to be effective can provide only reasonable assurance with respect to financial statement preparation and may not prevent or detect all misstatements. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

This annual report does not include an attestation report of the Company's independent registered accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

Item 9B. Other Information.

None

Part III

Item 10. Directors and Executive Officers of the Company.

The information required by this Item 10 is incorporated by reference to the Company's definitive proxy statement in connection with the 2009 Annual Meeting of Stockholders.

Item 11. Executive Compensation.

The information required by this Item 11 is incorporated by reference to the Company's definitive proxy statement in connection with the 2009 Annual Meeting of Stockholders.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

The information required by this Item 12 is incorporated by reference to the Company's definitive proxy statement in connection with the 2009 Annual Meeting of Stockholders.

Item 13. Certain Relationships and Related Transactions.

The information required by this Item 13 is incorporated by reference to the Company's definitive proxy statement in connection with the 2009 Annual Meeting of Stockholders.

Item 14. Principal Accountant Fees and Services.

The information required by this Item 14 is incorporated by reference to the Company's definitive proxy statement in connection with the 2009 Annual Meeting of Stockholders.

Part IV

Item 15. Exhibits and Financial Statement Schedules.

(a) The following documents are filed as part of this report:

1. The consolidated financial statements as indicated in the index set forth on page 17.
2. Consolidated financial statement schedule:

Schedule supporting consolidated financial statements:	Page
Schedule II - Valuation and Qualifying Accounts	32

Schedules other than those listed above have been omitted, since they are either not applicable, not required or the information is included elsewhere herein.

3. Exhibits as listed in Exhibit Index on page 34.

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

	Balance at Beginning Of Period	Charged to Cost and Expense (Recovery)	Deductions/ Write-Offs	Balance at End of Period
Year ended May 31, 2009:				
Allowance for doubtful accounts	$ 326,000	$ --	$ 24,000	$ 302,000
Year ended May 31, 2008:				
Allowance for doubtful accounts	$ 355,000	$ --	$ 29,000	$ 326,000

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the Undersigned, thereunto duly authorized.

TSR, INC.

By: /s/ J.F. Hughes

J. F. Hughes, Chairman

Dated: August 18, 2009

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company and in the capacities and on the dates indicated.

/s/ J.F. Hughes

J. F. Hughes, Chairman

/s/ John G. Sharkey

John G. Sharkey, Vice President, Finance, Controller and Secretary

/s/ John H. Hochuli, Jr.

John H. Hochuli, Jr., Director

/s/ James J. Hill

James J. Hill, Director

/s/ Christopher Hughes

Christopher Hughes, Senior Vice President and Director

/s/ Robert A. Esernio

Robert A. Esernio, Director

/s/ Raymond A. Roel

Raymond A. Roel, Director

Dated: August 18, 2009

TSR, INC. AND SUBSIDIARIES
EXHIBIT INDEX
FORM 10-K, MAY 31, 2009

Exhibit Number	Exhibit
3.1	Articles of Incorporation for the Company, as amended. Incorporated by reference 3.1 to the Annual Report on Form 10-K filed by the Company for the fiscal year e
3.2	Bylaws of the Company, as amended incorporated by reference to Exhibit 3.2 to th on Form 10-K filed by the Company for the fiscal year ended May 31, 1998.
10.1	Employment Agreement between TSR, Inc. and Christopher Hughes, dated as of March Incorporated by reference to the Form 8-K filed by the Company on March 6, 2007.
10.2	Employment Agreement dated October 12, 2007 between the Company and Joseph F. Hu by reference to Exhibit 10.1 to the Report on Form 8-K filed by the Company on O
10.3	Revolving Credit Agreement dated October 6, 1997 among TSR Consulting Services, Catch/21 Enterprises Incorporated and the Chase Manhattan Bank, incorporated by 10.3 to the Quarterly Report on Form 10-Q filed by the Company for the quarter
10.4	Employment Agreement dated as of June 1, 2005 between the Company and John G. S by reference to Exhibit 10.1 to the Report on Form 8-K filed by the Company on J
21	List of Subsidiaries
31.1	Certification by J.F. Hughes Pursuant to Securities Exchange Act Rule 13a-15(e)
31.2	Certification by John G. Sharkey Pursuant to Securities Exchange Act Rule 13a-15
32.1	Certification of J.F. Hughes Pursuant to 18 U.S.C. Section 1350, as adopted purs 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of John G. Sharkey Pursuant to 18 U.S.C. Section 1350, as adopted 906 of the Sarbanes-Oxley Act of 2002.