TSR INC
Form 10-Q
April 07, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the period ended February 29, 2008

[ ] 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.
(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)

631-231-0333
(Registrant's telephone number)

(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. [X] Yes [ ] No

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

Large accelerated filer [ ]   Accelerated filer [ ]   Non-accelerated filer [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

[ ] Yes [X] No

SHARES OUTSTANDING

4,568,012 shares of common stock, par value $.01 per share, as of March 31, 2008

TSR, INC. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TSR, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS	February 29, 2008 (Unaudited)	May 31, 2007 (Note 1)
Current Assets:		
Cash and cash equivalents	$ 449,181	$ 1,900,264
Marketable securities	5,937,762	6,395,131
Accounts receivable, net of allowance for doubtful accounts of $325,459 and $354,649	9,804,871	8,156,651
Other receivables	58,498	99,015
Prepaid expenses	57,878	54,928
Prepaid and recoverable income taxes	65,942	153,618
Deferred income taxes	132,000	145,000
Total current assets	16,506,132	16,904,607
Marketable securities	999,648	996,445
Equipment and leasehold improvements, at cost (net of accumulated depreciation and amortization of $391,501 and $380,838)	28,747	46,290
Other assets	49,653	49,653
Deferred income taxes	62,000	62,000
Total assets	$17,646,180	$18,058,995
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts and other payables	$ 256,386	$ 306,695
Accrued expenses and other current liabilities	1,890,805	2,191,212
Advances from customers	1,549,312	1,591,324
Income taxes payable	7,927	--
Total current liabilities	3,704,430	4,089,231
Minority Interest	45,831	17,500
Stockholders' Equity:		
Preferred stock, $1 par value, authorized 1,000,000 shares; none issued	--	--
Common stock, $.01 par value, authorized 25,000,000 shares; issued 6,228,326 shares	62,283	62,283
Additional paid-in capital	5,071,727	5,071,727
Retained earnings	20,793,210	20,849,555
	25,927,220	25,983,565
Less: Treasury stock, 1,660,314 shares, at cost	12,031,301	12,031,301
Total stockholders' equity	13,895,919	13,952,264

Total liabilities and stockholders' equity	$17,646,180	$18,058,995

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

TSR, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF INCOME
FOR THE THREE AND NINE MONTHS ENDED FEBRUARY 29, 2008 AND FEBRUARY 28, 2007
(UNAUDITED)

	Three Months Ended	
	February 29, 2008	February 28, 2007
Revenues, net	$ 12,411,619	$ 11,773,704
Cost of sales	10,227,614	9,722,403
Selling, general and administrative expenses	1,866,485	1,777,553
	12,094,099	11,499,956
Income from operations	317,520	273,748
Other income (expense):		
Interest and dividend income	89,457	118,965
Realized and unrealized gain (loss) from marketable securities, net	(4,889)	(1,228)
Minority interest in subsidiary operating profits	(16,622)	(6,227)
Income before income taxes	385,466	385,258
Provision for income taxes	171,000	184,000
Net income	$ 214,466	$ 201,258
Basic and diluted net income per common share	$ 0.05	$ 0.04
Weighted average number of basic and diluted common shares outstanding	4,568,012	4,568,012

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

TSR, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED FEBRUARY 29, 2008 AND FEBRUARY 28, 2007

(UNAUDITED)

	Nine Months End	
	February 29, 2008	Feb
Cash flows from operating activities:		
Net income	$ 1,039,978	$ 1
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	18,984	
Realized and unrealized (gain) loss from marketable securities, net	1,769	
Minority interest in subsidiary operating profits	70,577	
Deferred income taxes	13,000	
Changes in operating assets and liabilities:		
Accounts receivable - trade	(1,648,220)	
Other receivables	40,517	
Prepaid expenses	(2,950)	
Prepaid and recoverable income taxes	87,676	
Accounts payable and accrued expenses	(350,716)	
Income taxes payable	7,927	
Advances from customers	(42,012)	
Net cash provided by (used in) operating activities	(763,470)	1
Cash flows from investing activities:		
Proceeds from maturities and sales of marketable securities	8,818,667	7
Purchases of marketable securities	(8,366,270)	(7
Purchases of fixed assets	(1,441)	
Net cash (used in) provided by investing activities	450,956	
Cash flows from financing activities:		
Distributions to minority interest	(42,246)	
Cash dividends paid	(1,096,323)	(1
Net cash used in financing activities	(1,138,569)	(1
Net decrease in cash and cash equivalents	(1,451,083)	
Cash and cash equivalents at beginning of period	1,900,264	2
Cash and cash equivalents at end of period	$ 449,181	$ 2
Supplemental disclosures of cash flows:		
Income taxes paid	$ 675,000	$

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

TSR, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FEBRUARY 29, 2008
(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 nine months ended February 29, 2008 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, 2008. The consolidated balance sheet at May 31, 2007 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, 2007.

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 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 February 29, 2008 and May 31, 2007:

	February 29, 2008	May 31, 2007
Cash in banks....................	$ 281,398	$ 390,370
Money market funds...............	167,783	1,509,894
	$ 449,181	$ 1,900,264

4. REVENUE RECOGNITION

The Company's contract computer programming services are generally provided under time and materials agreements with 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. 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 in accordance with Emerging Issues Task Force (EITF) Issue 01-14 "Income Statement of Characterization of Reimbursements Received for `Out-of-Pocket' Expenses Incurred."

5. MARKETABLE SECURITIES

The Company accounts for its marketable securities in accordance with Statement of Financial Accounting Standards 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 are mostly less than one year), such securities have been classified as held-to -maturity and are carried at amortized cost. The Company's equity securities are classified as trading securities, which are carried at fair value with unrealized gains and losses included in earnings. The Company's marketable securities at February 29, 2008 and May 31, 2007 are summarized as follows:

February 29, 2008	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Recorde Value
Current				
United States Treasury Securities......	$5,921,787	$ --	$ --	$5,921,7
Equity Securities.....................	16,866	--	(891)	15,9
	$5,938,653	$ --	$ (891)	$5,937,7
Long - Term				
United States Treasury Securities......	$ 999,648	$ --	$ --	$ 999,6

May 31, 2007	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Recorde Value
Current				

United States Treasury Securities......	$6,377,387	$ --	$ --	$6,377,3
Equity Securities.....................	16,866	878	--	17,7
	$6,394,253	$ 878	$ --	$6,395,1
Long - Term				

United States Treasury Securities......	$ 996,445	$ --	$ --	$ 996,4

TSR, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
FEBRUARY 29, 2008
(UNAUDITED)

6. STOCK OPTIONS

The Company had one stock-based employee compensation plan in effect 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 SFAS No. 123, ("FAS123(R)"), which requires that the fair market value of all share based payment transactions be recognized in the financial statements. FAS123(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 FAS123(R) at the beginning of fiscal 2007. The Company has not issued any share based payments as of February 29, 2008.

7. RECENT ACCOUNTING PRONOUNCEMENTS

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 "Accounting for Uncertainty in Income Taxes" ("FIN 48"). This guidance is intended to provide increased consistency in the application of FASB Statement No. 109 "Accounting for Income Taxes" by providing guidance with regard to the recognition and measurement of tax positions, and provide increased disclosure requirements. In particular, FIN 48 requires uncertain tax positions to be recognized only if they are "more-likely-than-not" to be upheld based on their technical merits. Additionally, the measurement of the tax position will be based on the largest amount that is determined to have greater than a 50% likelihood of realization upon ultimate settlement. Any resulting cumulative effect of applying the provisions of FIN 48 upon adoption would be reported as an adjustment to the beginning balance of retained earnings (deficit) in the period of adoption. The adoption of FIN 48 at the beginning of the 2008 fiscal year did not have a material effect on the Company's consolidated financial statements.

The Company may from time to time be assessed interest and/or penalties by major taxing jurisdictions, although any such assessments historically have been minimal and immaterial to the Company's financial results. In the event the Company has received an assessment for interest and/or penalties, it has been classified in the statement of income in selling, general and administrative expenses.

On September 15, 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. SFAS No. 157 provides guidance related to estimating fair value and requires expanded disclosures. SFAS No. 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. SFAS No. 157 does not expand the use of fair value in any new circumstances. The Company is evaluating SFAS No. 157 and its impact on the Company's consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - including an amendment of 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 Company is currently assessing the impact of SFAS No. 159 on its consolidated financial statements.

8. DIVIDENDS

On April 4, 2008 the Board of Directors of the Company declared that a regular quarterly cash dividend of $0.08 per share for the quarter ended February 29, 2008 would be paid on May 5, 2008 to shareholders of record as of April 18, 2008. This dividend will amount to approximately $365,000 and will be paid from the Company's cash and marketable securities.

9. MAJOR CUSTOMER

In June 2006, the New York State Office of General Services, Procurement Services Group ("OGS") terminated its contract with the Company. The OGS actions were due to the report of an investigation by the Office of the Special Commissioner of Investigation of the New York City Department of Education ("DOE"). The investigative report concluded that the Company operated improperly from 2001 through the spring of 2003 by using a subcontracting arrangement to obtain programmers for positions with the DOE. The subcontracting was with a small firm that was owned by an individual who worked as a consultant under contract at the DOE in a supervising capacity and sometimes was involved in decisions to select consultants that financially benefited both him and the Company. The investigative report also suggested that the Company received advanced information as to new positions from this individual and that the subcontracting increased the costs to the DOE since two firms, instead of one, profited from this arrangement.

All new placements with the DOE, including renewals of existing placements, were being made under this OGS contract prior to its termination. As a result, the Company will not be able to make new placements or renew existing placements with the DOE. The DOE accounted for approximately 13% of the Company's revenues during the Company's fiscal year ended May 31, 2006 and 4% during fiscal 2007. At May 31, 2006 the Company had forty-one consultants placed with the DOE. As a result of the termination, consultants placed with the DOE who came up for renewal were not renewed. The last remaining consultants were terminated in April 2007.

DOE also asserted a claim against the Company for a reimbursement due to the Company's subcontracting without written authorization. While the Company believes that its subcontracting did not result in overcharges to DOE, it has settled the matter in order to avoid the expense and uncertainty of litigation. The related $900,000 reserve established at May 31, 2006 was sufficient for the settlement which was finalized in May 2007.

PART I. FINANCIAL INFORMATION

ITEM 2.

TSR, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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: 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 on the Company's business due to the merger of AT&T and SBC Communications, Inc.; the impact of changes in the industry, such as the use of vendor management companies in connection with the consulting 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 income. There can be no assurance that trends in operating results will continue in the future:

Three months ended February 29, 2008 compared with three months ended February 28, 2007

	(Dollar Amounts in Thousands) Three Months Ended February 29, 2008		February 28, 2007	
	Amount	% of Revenues	Amount	% of Revenues
Revenues, net..................	$ 12,412	100.0	$ 11,774	100.0
Cost of sales..................	10,228	82.4	9,722	82.6
Gross profit...................	2,184	17.6	2,052	17.4
Selling, general, and administrative expenses........	1,867	15.0	1,778	15.1
Income from operations.........	317	2.6	274	2.3
Other income, net..............	68	0.5	111	1.0
Income before income taxes.....	385	3.1	385	3.3
Provision for income taxes.....	171	1.4	184	1.6
Net income.....................	$ 214	1.7	$ 201	1.7

Revenues

Revenues consist primarily of revenues from computer programming consulting services. Revenues for the quarter ended February 29, 2008 increased $638,000 or 5.4% from the quarter ended February 28, 2007. The average number of consultants on billing with customers increased to approximately 329 for the quarter ended February 29, 2008 from approximately 326 for the quarter ended February 28, 2007. Changes in the business mix toward higher level skills allowed the Company to increase its average billing rates to customers, resulting in the revenue increase.

As a result of the merger of AT&T with SBC Communications, Inc. in November 2005, Procurestaff, which had been the sole vendor management company for AT&T, is currently one of many vendors to the new AT&T and no longer serves as the primary vendor manager. Due to a series of changes which have been implemented since the merger, the Company experienced a significant 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 79 at February 28, 2007 to 50 at February 29, 2008. The Company expects that these changes will continue to impact the Company's business relationship with AT&T, resulting in fewer opportunities to place new consultants with AT&T.

The Company's contract to provide services to the DOE was terminated in June 2006. There were 41 consultants on billing with the DOE at May 31, 2006 and 11 at February 28, 2007. The last remaining consultants were terminated in April

2007.

Although there had been some improvement in market conditions during the past few years prior to the recent economic downturn, the Company's revenues have not improved significantly. The Company has not yet fully adapted its business model to more effectively deal with changing market factors such as vendor management and off-shore IT operations. A focus of the Company's plan has been to hire additional experienced account executives and technical recruiters to address increased competition and to promote revenue growth. This process has taken longer than expected due to a combination of limited qualified candidates and increased compensation expectations of qualified candidates.

As a result of the recent economic downturn and, specifically, the impact of the adverse conditions in the credit markets on the financial services industry, the Company expects that IT spending will decrease in the short term and that the impact is likely to be greater in the financial services industry. These economic conditions have reduced the opportunities to place new consultants on billing with clients. The Company currently derives 15 to 20 percent of its revenues from the financial services industry.

Cost of Sales

Cost of sales for the quarter ended February 29, 2008, increased $506,000 or 5.2% to $10,228,000 from $9,722,000 in the prior year period. The increase in cost of sales resulted primarily from increased amounts paid to consultants on billing with clients due to increased skill level which was also reflected in higher billing rates to customers. Cost of sales as a percentage of revenues decreased from 82.6% in the quarter ended February 28, 2007 to 82.4% in the quarter ended February 29, 2008.

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 $89,000 or 5.0% from $1,778,000 in the quarter ended February 28, 2007 to $1,867,000 in the quarter ended February 29, 2008. This increase was primarily attributable to an increase in the number of account executives. Additional account executives have been hired to bring about future growth.

Income from Operations

Income from operations increased $43,000 or 15.7% from $274,000 in the quarter ended February 28, 2007 to $317,000 in the quarter ended February 29, 2008. Income from operations included $83,000 in the quarter ended February 29, 2008 and $31,000 in the quarter ended February 28, 2007 from the Company's majority owned subsidiary. The minority owner's share of this income, which equaled $17,000 and $6,000, respectively, is deducted from "Other income."

Other Income

Other income resulted primarily from interest and dividend income, which declined to approximately $89,000 for the quarter ended February 29, 2008 from

$119,000 for the quarter ended February 28, 2007. The rate of interest earned on the Company's U.S. Treasury securities and money market accounts decreased in the period. Other income also decreased because improved profits from the Company's majority owned subsidiary resulted in the amount allocated to the minority interest to increase to $17,000 from $6,000 in the prior year quarter.

Income Taxes

The effective income tax rate of 44.4% for the quarter ended February 29, 2008 decreased from a rate of 47.8% in the quarter ended February 28, 2007. The higher effective rate in the prior year period was the result of an additional amount provided due to a change in estimate associated with prior year taxes.

Nine months ended February 29, 2008 compared with nine months ended February 28, 2007

(Dollar Amounts in Thousands)
Nine Months Ended

	February 29, 2008		February 28, 2007	
	Amount	%of Revenues	Amount	%of Revenues
Revenues, net..................	$ 39,179	100.0	$ 36,775	100.0
Cost of sales..................	31,997	81.7	29,978	81.5
Gross profit...................	7,182	18.3	6,797	18.5
Selling, general, and administrative expenses........	5,587	14.2	5,331	14.5
Income from operations.........	1,595	4.1	1,466	4.0
Other income, net..............	229	0.6	311	0.8
Income before income taxes.....	1,824	4.7	1,777	4.8
Provision for income taxes.....	784	2.0	720	1.9
Net income.....................	$ 1,040	2.7	$ 1,057	2.9

Revenues

Revenues consist primarily of revenues from computer programming consulting services. Revenues for the nine months ended February 29, 2008 increased $2,404,000 or 6.5% from the nine months ended February 28, 2007. The average number of consultants on billing with customers decreased from approximately 339 for the nine months ended February 28, 2007 to approximately 338 for the nine months ended February 29, 2008. Changes in the business mix toward higher level skills allowed the Company to increase its average billing rates to customers, offsetting the slight decrease in the average number of consultants on billing with customers.

As a result of the merger of AT&T with SBC Communications, Inc. in 2005, Procurestaff, which had been the sole vendor management company for AT&T, is currently one of many vendors to the new AT&T and no longer serves as the primary vendor manager. Due to a series of changes which have been implemented since the merger, the Company experienced a significant 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 79 at February 28, 2007 to 50 at February 29, 2008. The Company expects that these changes will continue to impact the Company's business relationship with AT&T, resulting in fewer opportunities to place new consultants with AT&T.

The Company's contract to provide services to the DOE was terminated in June 2006. There were 41 consultants on billing with the DOE at May 31, 2006 and 11 at February 28, 2007. The last remaining consultants were terminated in April 2007.

Although there had been some improvement in market conditions during the past few years prior to the recent economic downturn, the Company's revenues had not improved significantly. The Company has not yet fully adapted its business model to more effectively deal with changing market factors such as vendor management and off-shore IT operations. A focus of the Company's plan has been to hire additional experienced account executives and technical recruiters to address increased competition and to promote revenue growth. This process has taken longer than expected due to a combination of limited qualified candidates and increased compensation expectations of qualified candidates.

As a result of the recent economic downturn and, specifically, the impact of the adverse conditions in the credit markets on the financial services industry, the Company expects that IT spending will decrease in the short term and that the impact is likely to be greater in the financial services industry. These economic conditions have reduced the opportunities to place new consultants on billing with clients. The Company currently derives 15 to 20 percent of its revenues from the financial services industry.

Cost of Sales

Cost of sales for the nine months ended February 29, 2008, increased $2,019,000 or 6.7% to $31,997,000 from $29,978,000 in the prior year period. The increase in cost of sales resulted primarily from increased amounts paid to consultants on billing with clients due to increased skill level which was also reflected in higher billing rates to customers. Cost of sales as a percentage of revenues increased from 81.5% in the nine months ended February 28, 2007 to 81.7% in the nine months ended February 29, 2008. The increase in cost of sales as a percentage of revenues was primarily attributable to discount programs instituted or expanded by customers. These discount programs decrease revenues without allowing offsetting cost reductions.

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 $256,000 or 4.8% from $5,331,000 in the nine months ended February 28, 2007 to $5,587,000 in the nine months ended February 29, 2008. This increase was primarily attributable to an increase in the number of account executives. Additional account executives have been hired to bring about future growth.

TSR, INC. AND SUBSIDIARIES

Income from Operations

Income from operations increased $129,000 or 8.8% from $1,466,000 in the nine months ended February 28, 2007 to $1,595,000 in the nine months ended February 29, 2008. Income from operations included $353,000 in the nine months ended February 29, 2008 and $184,000 in the nine months ended February 28, 2007 from the Company's majority owned subsidiary. The minority owner's share of this income, which equaled $71,000 and $37,000, respectively, is deducted from "Other income."

Other Income

Other income resulted primarily from interest and dividend income, which decreased to approximately $301,000 for the nine months ended February 29, 2008 from $346,000 for the nine months ended February 28, 2007. The rate of interest earned on the Company's U.S. Treasury securities and money market accounts decreased in the period. Other income also decreased because improved profits from the Company's majority owned subsidiary resulted in amounts allocated to the minority interest to increase to $71,000 from $37,000 in the prior year period.

Income Taxes

The effective income tax rate of 43.0% for the nine months ended February 29, 2008 increased from a rate of 40.5% in the nine months ended February 28, 2007. The lower effective rate in the prior year period was the result of a credit taken in the first six months of the prior fiscal year due to a change in estimate associated with prior year taxes. The lower effective rate in the prior year period was the primary reason that net income did not increase, as expected, with the increase in income from operations in the current period.

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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 the foreseeable future.

At February 29, 2008, the Company had working capital of $12,802,000 and cash and cash equivalents of $449,000 as compared to working capital of $12,815,000 and cash and cash equivalents of $1,900,000 at May 31, 2007. The Company's working capital also included $5,938,000 and $6,395,000 of marketable securities with maturities of less than one year at February 29, 2008 and May 31, 2007, respectively.

Net cash used in operating activities of $763,000 for the nine months ended February 29, 2008, compared to $1,130,000 of cash provided by operating activities for the nine months ended February 28, 2007. The cash used in operating activities in the nine months ended February 29, 2008 resulted primarily from an increase in accounts receivable. This increase occurred because a vendor management company, which processed payments for three end clients, filed a petition in bankruptcy in January 2008. The agreement with the vendor management company was structured as a subcontracting agreement with the vendor management company entering into a services agreement directly with the end clients. As a result of the bankruptcy filing, payments from the end clients were delayed and only $300,000 of the aggregate amount of $1,600,000 due to the Company for services rendered prior to the bankruptcy filing were received before February 29, 2008. The bankruptcy court has issued an order permitting the end clients to pay the Company directly or to make payments to the company which acquired the vendor management system, which would, in turn, pay the Company the amounts due. As a result, the Company has received all but $100,000 of the amounts due from the end clients and expects to be paid the balance. The Company does not expect to incur any loss as a result of the bankruptcy filing. In the nine months ended February 28, 2007 cash flow provided by operating activities resulted primarily from the Company's net income.

Net cash provided by investing activities of $451,000 for the nine months ended February 29, 2008 primarily resulted from maturities of US Treasury securities in excess of purchases. Net cash used in investing activities of $521,000 for the nine months ended February 28, 2007 primarily resulted from purchasing US Treasury securities in excess of maturities.

Net cash used in financing activities of $1,139,000 and $1,160,000 for the nine months ended February 29, 2008 and February 28, 2007, respectively, resulted primarily from cash dividends paid.

The Company's capital resource commitments at February 29, 2008 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 nine months ended February 29, 2008. 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 February 29, 2008, no amounts were outstanding under this line of credit.

Tabular Disclosure of Contractual Obligations

	Payments Due By Period				
Contractual Obligations	TOTAL	LESS THAN 1 YEAR	1-3 YEARS	3-5 YEARS	MORE THAN 5 YEARS
Operating Leases.........	$ 867,000	$ 271,000	$ 398,000	$ 198,000	$ --
Employment Agreements....	1,816,000	873,000	743,000	200,000	--
Total...................	$2,683,000	$1,144,000	$1,141,000	$ 398,000	$ --

Recent Account Pronouncements

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 "Accounting for Uncertainty in Income Taxes" ("FIN 48"). This guidance is intended to provide increased consistency in the application of FASB Statement No. 109 "Accounting for Income Taxes" by providing guidance with regard to the recognition and measurement of tax positions, and provide increased disclosure requirements. In particular, FIN 48 requires uncertain tax positions to be recognized only if they are "more-likely-than-not" to be upheld based on their technical merits. Additionally, the measurement of the tax position will be based on the largest amount that is determined to have greater than a 50% likelihood of realization upon ultimate settlement. Any resulting cumulative effect of applying the provisions of FIN 48 upon adoption would be reported as an adjustment to the beginning balance of retained earnings (deficit) in the period of adoption. The adoption of FIN 48 at the beginning of the 2008 fiscal year did not have a material effect on the Company's consolidated financial statements.

The Company may from time to time be assessed interest and/or penalties by major taxing jurisdictions, although any such assessments historically have been minimal and immaterial to the Company's financial results. In the event the Company has received an assessment for interest and/or penalties, it has been classified in the statement of income in selling, general and administrative expenses.

On September 15, 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. SFAS No. 157 provides guidance related to estimating fair value and requires expanded disclosures. SFAS No. 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. SFAS No. 157 does not expand the use of fair value in any new circumstances. The Company is evaluating SFAS No. 157 and its impact on the Company's consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - including an amendment of 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 Company is currently assessing the impact of SFAS No. 159 on its 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, 2007 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 February 29, 2008.

TSR, INC. AND SUBSIDIARIES

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company's earnings and cash flows are subject to fluctuations due to (i) changes in interest rates primarily affecting its income from the investment of available cash balances in money market funds and (ii) changes in market values of its investments in trading equity securities. Under its current policies, the Company does not use interest rate derivative instruments to manage exposure to interest rate changes. The Company's present exposure to changes in the market value of its investments in equity securities is not significant.

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 financial officer, of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (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 Rule 13a-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 1A. RISK FACTORS

There are no material changes to the risk factors described in the Form 10-K, filed on August 8, 2007:

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 thereunto duly authorized.

TSR Inc.
(Registrant)

Date: April 4, 2008	/s/ J.F. Hughes
	J.F. Hughes, Chairman and President
Date: April 4, 2008	/s/ John G. Sharkey
	John G. Sharkey, Vice President Finance and Chief Financial Officer