

TSR INC  
Form ARS  
November 02, 2015

**TSR AT A GLANCE**

TSR is engaged in the business of providing contract computer programming services to its customers. The Company provides its customers with technical computer personnel to supplement their in-house information technology (“IT”) capabilities. TSR’s customers for its contract computer programming services consist primarily of Fortune 1000 companies with significant technology budgets. With more than 40 years experience in the information services business, TSR is positioned to fulfill virtually any information technology temporary staffing contract requirement. Extensive recruiting efforts are employed to create and maintain a database of highly qualified professionals who are well-versed in the latest technological advances. TSR’s professional staff has extensive experience across a broad range of industries from telecommunications and pharmaceuticals to banking and insurance.

**FINANCIAL HIGHLIGHTS**

(Amounts in Thousands, Except Per Share Data)

|  | <b>May<br/>31,</b> | May 31,  | May 31,  | May 31,  | May 31,  |
|--|--------------------|----------|----------|----------|----------|
|  |                    | 2014     | 2013     | 2012     | 2011     |
|  | <b>2015</b>        |          |          |          |          |
| Revenue, Net   | <b>\$57,403</b>    | \$49,530 | \$44,914 | \$45,215 | \$39,342 |
| Income (Loss) From Operations  | <b>432</b>         | 25       | (716 )   | (2 )     | 482      |
| Net Income (Loss) Attributable to TSR, Inc.  | <b>193</b>         | (86 )    | (520 )   | (62 )    | 197      |
| Basic Net Income (Loss) Per TSR, Inc. Common Share   | <b>0.10</b>        | (0.04 )  | (0.26 )  | (0.03 )  | 0.10     |
| Working Capital  | <b>8,986</b>       | 8,706    | 8,717    | 12,402   | 12,388   |
| Total Assets   | <b>14,051</b>      | 13,563   | 13,619   | 17,165   | 17,141   |
| Total TSR, Inc. Equity   | <b>9,033</b>       | 8,840    | 8,926    | 12,498   | 12,713   |
| Book Value Per TSR, Inc. Common Share<br>(Total TSR Equity Divided by Common Shares Outstanding) | <b>4.60</b>        | 4.51     | 4.55     | 6.30     | 6.30     |
| Cash Dividends Declared Per TSR, Inc. Common Share   | <b>\$0.00</b>      | \$0.00   | \$1.50   | \$0.00   | \$0.00   |

## LETTER FROM THE CHAIRMAN

Dear Stockholders:

In the past year, TSR continued to make progress in our multi-year strategic initiative of bolstering our competitive capabilities and achieving profitable scale. As outlined in prior annual stockholder letters, these important talent and training programs required significant investments affecting short-term profitability. I am pleased to report that these major management efforts by TSR have begun yielding encouraging, profitable results. For the year ended May 31<sup>st</sup>, 2015, revenue increased 15.9% from last year to \$57.4 million. Net income attributable to TSR increased from a loss of \$86,000 in the prior year to net income of \$193,000 in the current year. Additionally, net income per share increased from a loss of \$0.04 to net income of \$0.10.

While our revenue increase for the year reflects growth resulting from the efforts of our new hires in sales and recruiting, there continue to be new challenges. For example, the current year was affected by an increase in cost of sales as a result of utilizing a higher percentage of employees, with their related payroll costs, rather than utilizing subcontractors to perform services for our customers. Additional reliance on employees rather than subcontractors is a function of changing customer requirements.

So while we now are experiencing increases in revenue and profitability, we constantly monitor and manage to the myriad changes occurring in the IT business world. Finding and hiring the right IT talent for our clients is not getting any easier. Several costs of doing business, including mandated health insurance and sick time benefits, continue to increase.

Yet these business headwinds were largely anticipated. Making vital human resource investments -- as we have detailed in prior stockholder letters -- are yielding more highly qualified and motivated recruiters and several top-notch sales people. In short, TSR is now a better competitor in our field.

TSR's entire team consists of essential contributors to our ongoing success. We are only as good as our people, and we lead together. We pride ourselves on listening closely to our customers, and working hard and smartly on their behalf. It is our belief that dedication to serving our customers in the best way will also best serve you, our shareholders.

As always, our team remains committed to TSR, and we thank you for your ongoing support.

Sincerely

Joe Hughes

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## TSR INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

May 31, 2015 and 2014

|   | 2015                | 2014         |
|---|---------------------|--------------|
| <b>ASSETS</b>   |                     |              |
| <b>Current assets:</b>  |                     |              |
| Cash and cash equivalents   | <b>\$3,669,790</b>  | \$2,841,967  |
| Certificates of deposit and marketable securities                           | <b>1,271,568</b>    | 1,514,856    |
| Accounts receivable:  |                     |              |
| Trade, net of allowance for doubtful accounts of \$193,000 in 2015 and 2014 | <b>8,754,784</b>    | 8,790,338    |
| Other   | <b>2,458</b>        | 9,330        |
|   | <b>8,757,242</b>    | 8,799,668    |
| Prepaid expenses  | <b>116,096</b>      | 74,188       |
| Prepaid and recoverable income taxes  | -                   | 32,159       |
| Deferred income taxes   | <b>120,000</b>      | 86,000       |
| <b>Total Current Assets</b>   | <b>13,934,696</b>   | 13,348,838   |
| <b>Equipment and leasehold improvements, at cost:</b>                       |                     |              |
| Equipment   | <b>102,833</b>      | 88,747       |
| Furniture and fixtures  | <b>111,107</b>      | 111,107      |
| Automobiles   | <b>19,665</b>       | 19,665       |
| Leasehold improvements  | <b>60,058</b>       | 60,058       |
|   | <b>293,663</b>      | 279,577      |
| Less accumulated depreciation and amortization                              | <b>254,732</b>      | 245,482      |
|   | <b>38,931</b>       | 34,095       |
| <b>Other assets</b>   | <b>49,653</b>       | 49,653       |
| <b>Deferred income taxes</b>  | <b>28,000</b>       | 130,000      |
| <b>Total Assets</b>   | <b>\$14,051,280</b> | \$13,562,586 |
| <b>LIABILITIES AND EQUITY</b>   |                     |              |
| <b>Current liabilities:</b>   |                     |              |
| Accounts and other payables   | <b>\$1,129,105</b>  | \$929,404    |
| Accrued expenses and other current liabilities:                             |                     |              |
| Salaries, wages and commissions   | <b>2,237,628</b>    | 2,124,671    |
| Other   | <b>146,214</b>      | 96,487       |
|   | <b>2,383,842</b>    | 2,221,158    |
| Income taxes payable  | <b>3,877</b>        | -            |
| Advances from customers   | <b>1,431,522</b>    | 1,491,946    |

|   |                     |              |
|---|---------------------|--------------|
| <b>Total Liabilities</b>  | <b>4,948,346</b>    | 4,642,508    |
| <b>Commitments and contingencies</b>  |                     |              |
| <b>Equity:</b>  |                     |              |
| TSR, Inc.   |                     |              |
| Preferred stock, \$1.00 par value, authorized 500,000 shares; none issued                                       | -                   | -            |
| Common stock, \$0.01 par value, authorized 12,500,000 shares; issued 3,114,163 shares;<br>1,962,062 outstanding | <b>31,142</b>       | 31,142       |
| Additional paid-in capital  | <b>5,102,868</b>    | 5,102,868    |
| Retained earnings   | <b>17,412,658</b>   | 17,219,947   |
|   | <b>22,546,668</b>   | 22,353,957   |
| Less: Treasury stock, 1,152,101 shares, at cost   | <b>13,514,003</b>   | 13,514,003   |
| <b>Total TSR, Inc. Equity</b>   | <b>9,032,665</b>    | 8,839,954    |
| Noncontrolling Interest   | <b>70,269</b>       | 80,124       |
| <b>Total Equity</b>   | <b>9,102,934</b>    | 8,920,078    |
| <b>Total Liabilities and Equity</b>   | <b>\$14,051,280</b> | \$13,562,586 |

See accompanying notes to consolidated financial statements.

## TSR INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended May 31, 2015 and 2014

|  | 2015                | 2014         |
|--|---------------------|--------------|
| Revenue, net   | <b>\$57,402,896</b> | \$49,529,867 |
| Cost of sales  | <b>48,087,428</b>   | 41,251,638   |
| Selling, general and administrative expenses             | <b>8,883,003</b>    | 8,253,061    |
|  | <b>56,970,431</b>   | 49,504,699   |
| Income from operations                                   | <b>432,465</b>      | 25,168       |
| Other income:  |                     |              |
| Interest and dividend income                             | <b>6,114</b>        | 6,288        |
| Unrealized gain from marketable securities, net          | <b>5,712</b>        | 2,432        |
|  | <b>11,826</b>       | 8,720        |
| Income before income taxes                               | <b>444,291</b>      | 33,888       |
| Provision for income taxes                               | <b>152,000</b>      | 17,000       |
| Consolidated net income                                  | <b>292,291</b>      | 16,888       |
| Less: Net income attributable to noncontrolling interest | <b>99,580</b>       | 102,824      |
| Net income (loss) attributable to TSR, Inc.              | <b>\$192,711</b>    | \$(85,936 )  |
| Net income (loss) per TSR, Inc. common share             | <b>\$0.10</b>       | \$(0.04 )    |
| Weighted average number of common shares outstanding     | <b>1,962,062</b>    | 1,962,062    |

See accompanying notes to consolidated financial statements.

## TSR INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF EQUITY

Years ended May 31, 2015 and 2014

|   | Shares of<br>common<br>stock | Common<br>stock | Additional<br>paid-in<br>capital | Retained<br>earnings | Treasury<br>stock     | TSR Inc.<br>equity | Non-<br>controlling<br>interest | Total<br>equity    |
|---|------------------------------|-----------------|----------------------------------|----------------------|-----------------------|--------------------|---------------------------------|--------------------|
| <b>Balance at<br/>June 1, 2013</b>                                    | 3,114,163                    | \$31,142        | \$5,102,868                      | \$17,305,883         | \$(13,514,003)        | \$8,925,890        | \$3,447                         | \$8,929,337        |
| <b>Net income<br/>attributable to<br/>noncontrolling<br/>interest</b> | -                            | -               | -                                | -                    | -                     | -                  | 102,824                         | 102,824            |
| <b>Distribution to<br/>noncontrolling<br/>interest</b>                | -                            | -               | -                                | -                    | -                     | -                  | (26,147 )                       | (26,147 )          |
| <b>Net loss<br/>attributable to<br/>TSR, Inc.</b>                     | -                            | -               | -                                | (85,936 )            | -                     | (85,936 )          | -                               | (85,936 )          |
| <b>Balance at<br/>May 31, 2014</b>                                    | 3,114,163                    | 31,142          | 5,102,868                        | 17,219,947           | (13,514,003)          | 8,839,954          | 80,124                          | 8,920,078          |
| <b>Net income<br/>attributable to<br/>noncontrolling<br/>interest</b> | -                            | -               | -                                | -                    | -                     | -                  | 99,580                          | 99,580             |
| <b>Distribution to<br/>noncontrolling<br/>interest</b>                | -                            | -               | -                                | -                    | -                     | -                  | (109,435)                       | (109,435 )         |
| <b>Net income<br/>attributable to<br/>TSR, Inc.</b>                   | -                            | -               | -                                | 192,711              | -                     | 192,711            | -                               | 192,711            |
| <b>Balance at<br/>May 31, 2015</b>                                    | <b>3,114,163</b>             | <b>\$31,142</b> | <b>\$5,102,868</b>               | <b>\$17,412,658</b>  | <b>\$(13,514,003)</b> | <b>\$9,032,665</b> | <b>\$70,269</b>                 | <b>\$9,102,934</b> |

See accompanying notes to consolidated financial statements.



## TSR INC. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Years ended May 31, 2015 and 2014

|  | 2015               | 2014        |
|--|--------------------|-------------|
| <b>Cash flows from operating activities:</b>   |                    |             |
| Consolidated net income  | <b>\$292,291</b>   | \$16,888    |
| Adjustments to reconcile consolidated net income to net cash provided by operating activities: |                    |             |
| Depreciation and amortization  | <b>20,428</b>      | 15,723      |
| Unrealized gain from marketable securities, net  | <b>(5,712)</b>     | (2,432)     |
| Deferred income taxes  | <b>68,000</b>      | 16,000      |
| Changes in operating assets and liabilities:   |                    |             |
| Accounts receivable-trade  | <b>35,554</b>      | 355,945     |
| Other receivables  | <b>6,872</b>       | (4,314)     |
| Prepaid expenses   | <b>(41,908)</b>    | (3,262)     |
| Prepaid and recoverable income taxes   | <b>32,159</b>      | 176,420     |
| Accounts and other payables and accrued expenses and other current liabilities                 | <b>362,385</b>     | (90,672)    |
| Income taxes payable   | <b>3,877</b>       | -           |
| Advances from customers  | <b>(60,424)</b>    | 43,691      |
| Net cash provided by operating activities  | <b>713,522</b>     | 523,987     |
| <b>Cash flows from investing activities:</b>   |                    |             |
| Proceeds from maturities of marketable securities  | <b>2,487,000</b>   | 2,983,000   |
| Purchases of marketable securities   | <b>(2,238,000)</b> | (2,487,000) |
| Purchases of equipment and leasehold improvements  | <b>(25,264)</b>    | (33,034)    |
| Net cash provided by investing activities  | <b>223,736</b>     | 462,966     |
| <b>Cash flows from financing activities:</b>   |                    |             |
| Distributions to noncontrolling interest   | <b>(109,435)</b>   | (26,147)    |
| Net cash used in financing activities  | <b>(109,435)</b>   | (26,147)    |
| Net increase in cash and cash equivalents  | <b>827,823</b>     | 960,806     |
| Cash and cash equivalents at beginning of year   | <b>2,841,967</b>   | 1,881,161   |
| <b>Cash and cash equivalents at end of year</b>  | <b>\$3,669,790</b> | \$2,841,967 |
| <b>Supplemental disclosures of cash flow data:</b>   |                    |             |
| Income taxes paid  | <b>\$49,000</b>    | \$27,000    |

See accompanying notes to consolidated financial statements.

TSR INC. AND SUBSIDIARIES

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**May 31, 2015 and 2014**

**(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 located primarily in the Metropolitan New York area. The Company provides its customers with technical computer personnel to supplement their in-house information technology capabilities. In fiscal 2015, two customers each accounted for more than 10% of the Company’s consolidated revenue, constituting a combined 34.9%. The largest of these constituted 19.2% of consolidated revenue. In fiscal 2014, three customers each accounted for more than 10% of the Company’s consolidated revenue, constituting a combined 42.5%. The largest of these constituted 16.6% of consolidated revenue. The accounts receivable balances associated with the Company’s largest customers were \$2,109,000 for two customers at May 31, 2015 and \$3,122,000 for three customers at May 31, 2014. 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 Accounting Standards Codification (“ASC”) Topic 605, “Revenue Recognition”, when persuasive evidence of an arrangement exists, the services have been rendered, the price is fixed or determinable, and collectability is reasonably assured. These conditions occur when a customer agreement is effected and the consultant performs the authorized services. Revenue is recorded net of all discounts and processing fees. Advances from customers represent amounts received from customers prior to the Company’s completion of the related services and credit balances from overpayments.

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

**(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, 2015 and 2014:

|                    | <b>2015</b> | 2014        |
|--------------------|-------------|-------------|
| Cash in banks      | \$2,851,802 | \$2,279,148 |
| Money market funds | 817,988     | 562,819     |
|                    | \$3,669,790 | \$2,841,967 |

**(e) Certificates of Deposit and Marketable Securities**

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.

## TSR INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2015 and 2014

The following are the major categories of assets measured at fair value on a recurring basis as of May 31, 2015 and 2014 using quoted prices in active markets for identical assets (Level 1), significant other observable inputs (Level 2), and significant unobservable inputs (Level 3):

|                         | Level 1  | Level 2     | Level<br>3 | Total       |
|-------------------------|----------|-------------|------------|-------------|
| <b>May 31, 2015</b>     |          |             |            |             |
| Certificates of deposit | \$-      | \$1,244,000 | \$ -       | \$1,244,000 |
| Equity securities       | 27,568   | -           | -          | 27,568      |
|                         | \$27,568 | \$1,244,000 | \$ -       | \$1,271,568 |

|                         | Level 1  | Level 2     | Level<br>3 | Total       |
|-------------------------|----------|-------------|------------|-------------|
| <b>May 31, 2014</b>     |          |             |            |             |
| Certificates of deposit | \$-      | \$1,493,000 | \$ -       | \$1,493,000 |
| Equity securities       | 21,856   | -           | -          | 21,856      |
|                         | \$21,856 | 1,493,000   | \$ -       | \$1,514,856 |

Based upon the Company's intent and ability to hold its certificates of deposits to maturity (which maturities range up to twelve 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 a Level 1 input, as established by the fair value hierarchy. The related unrealized gains and losses are included in earnings. The Company's marketable securities at May 31, 2015 and 2014 are summarized as follows:

|                                      | Amortized<br>Cost  | Gross<br>Unrealized<br>Holding<br>Gains | Gross<br>Unrealized<br>Holding<br>Gains | Recorded<br>Value  |
|--------------------------------------|--------------------|---|---|--------------------|
| <b>Current</b>                       |                    |   |   |                    |
| <b>2015: Certificates of deposit</b> | <b>\$1,244,000</b> | <b>\$ -</b>                             | <b>\$ -</b>                             | <b>\$1,244,000</b> |

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|                               |                    |                  |      |                    |
|-------------------------------|--------------------|------------------|------|--------------------|
| <b>Equity securities</b>      | <b>16,866</b>      | <b>10,702</b>    | -    | <b>27,568</b>      |
|                               | <b>\$1,260,866</b> | <b>\$ 10,702</b> | \$ - | <b>\$1,271,568</b> |
| <u>Current</u>                |                    |                  |      |                    |
| 2014: Certificates of deposit | \$1,493,000        | \$ -             | \$ - | \$1,493,000        |
| Equity securities             | 16,866             | 4,990            | -    | 21,856             |
|                               | \$1,509,866        | \$ 4,990         | \$ - | \$1,514,856        |

The Company's investments in marketable securities consist primarily of investments in certificates of deposit and equity securities. 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, creditworthiness 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.

TSR INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2015 and 2014

**(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 |

**(h) Net Income (Loss) Per Common Share**

Basic net income (loss) per common share is computed by dividing income (loss) available to common stockholders of TSR, Inc. by the weighted average number of common shares outstanding. The Company had no stock options or other common stock equivalents outstanding during the fiscal years ended May 31, 2015 or 2014.

**(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**

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

**(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) Impact of New Accounting Standards**

In May 2014, the FASB issued an update to ASC 606, Revenue from Contracts with Customers. This update to ASC 606 provides a five-step process to determine when and how revenue is recognized. The core principle of the guidance is that a Company should recognize revenue upon transfer of promised goods or services to customers in an amount that reflects the expected consideration to be received in exchange for those goods or services. This update to ASC 606 will also result in enhanced disclosures about revenue, providing guidance for transactions that were not previously addressed comprehensively, and improving guidance for multiple-element arrangements. This update to ASC 606 is effective for the Company beginning in fiscal 2017. The Company is currently evaluating the impact of this update on its consolidated financial statements.



## TSR INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2015 and 2014

**(n) Credit Risk**

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, certificates of deposit, 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 four bank accounts. At times, such amounts may exceed Federally insured limits. The Company holds its marketable securities in brokerage accounts. The Company has not experienced losses in any such accounts. The Company's accounts receivable represent approximately 53 accounts with open balances of which, the two largest customers, as a percentage of revenue, consisted of 24.1% of the net accounts receivable balance at May 31, 2015.

**(2) Income Taxes**

A reconciliation of the provision for income taxes computed at the Federal statutory rates for fiscal 2015 and 2014 to the reported amounts is as follows:

|   | 2015              |               | 2014             |               |
|---|-------------------|---------------|------------------|---------------|
|   | Amount            | %             | Amount           | %             |
| Amounts at statutory Federal tax rate                   | \$ 151,000        | 34.0 %        | \$ 11,500        | 34.0 %        |
| Noncontrolling interest                                 | (34,000)          | (7.6)         | (35,000)         | (103.3)       |
| State and local taxes, net of Federal income tax effect | 13,000            | 2.9           | 22,000           | 64.9          |
| Non-deductible expenses and other                       | 22,000            | 4.9           | 18,500           | 54.6          |
|   | <b>\$ 152,000</b> | <b>34.2 %</b> | <b>\$ 17,000</b> | <b>50.2 %</b> |

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

|       |          | Federal           | State            | Total             |
|-------|----------|-------------------|------------------|-------------------|
| 2015: | Current  | \$ 32,000         | \$ 52,000        | \$ 84,000         |
|       | Deferred | 100,000           | (32,000)         | 68,000            |
|       |          | <b>\$ 132,000</b> | <b>\$ 20,000</b> | <b>\$ 152,000</b> |
| 2014: | Current  | \$(29,000)        | \$ 30,000        | \$ 1,000          |
|       | Deferred | 13,000            | 3,000            | 16,000            |
|       |          | <b>\$(16,000)</b> | <b>\$ 33,000</b> | <b>\$ 17,000</b>  |

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The tax effects of temporary differences that give rise to significant portions of the deferred income tax assets at May 31, 2015 and 2014 are as follows:

|   | <b>2015</b>      | 2014      |
|---|------------------|-----------|
| Allowance for doubtful accounts receivable                        | <b>\$86,000</b>  | \$86,000  |
| Accrued compensation and other accrued expenses                   | <b>34,000</b>    | -         |
| Net operating loss carryforward                                   | <b>25,000</b>    | 103,000   |
| Equipment and leasehold improvement depreciation and amortization | <b>1,000</b>     | 11,000    |
| Acquired client relationships                                     | <b>5,000</b>     | 16,000    |
| Unrealized gains  | <b>(3,000 )</b>  | -         |
| Total deferred income tax assets                                  | <b>\$148,000</b> | \$216,000 |

TSR INC. AND SUBSIDIARIES

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS May 31, 2015 and 2014**

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.

The Company has no unrecognized tax benefits at May 31, 2015 and 2014. The Company's Federal and state income tax returns prior to fiscal year 2012 are closed.

The Company recognizes interest and penalties associated with tax matters as selling, general and administrative expenses and includes accrued interest and penalties with accrued and other liabilities in the consolidated balance sheets.

**(3) Commitments and Contingencies**

A summary of noncancellable long-term operating lease commitments for facilities as of May 31, 2015 follows:

| Fiscal Year | Amount     |
|-------------|------------|
| 2016        | \$ 324,000 |
| 2017        | 284,000    |
| 2018        | 167,000    |
| 2019        | 107,000    |
| 2020        | -          |
| Total       | \$ 882,000 |

Total rent expenses under all lease agreements amounted to \$390,000 and \$322,000 in fiscal 2015 and 2014, respectively.

The Company has entered into employment agreements with two of its officers expiring through 2020. The total remaining payments under these agreements is \$1,775,000 at May 31, 2015.

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.

**(4) Stockholder's Equity**

During the years ended May 31, 2015 and 2014, the Company did not purchase any of its common stock on the open market under the previously announced plan. As of May 31, 2015, 56,318 shares remain available for purchase under the plan.

## 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 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 operations. There can be no assurance that historical trends in operating results will continue in the future:

|   | Year Ended May<br>31,<br>(Dollar Amounts<br>in Thousands) |                 |          |                 |
|---|---|-----------------|----------|-----------------|
|   | 2015  | 2014            | 2015     | 2014            |
|   | Amount  | % of<br>Revenue | Amount   | % of<br>Revenue |
| Revenue, Net  | \$57,403  | 100.0%          | \$49,530 | 100.0%          |
| Cost of Sales   | 48,088  | 83.8            | 41,252   | 83.3            |
| Gross Profit  | 9,315   | 16.2            | 8,278    | 16.7            |
| Selling, General and Administrative<br>Expenses       | 8,883   | 15.5            | 8,253    | 16.7            |
| Income from Operations                                | 432   | 0.7             | 25       | 0.0             |
| Other Income, Net                                     | 12  | 0.1             | 9        | 0.0             |
| Income Before Income Taxes                            | 444   | 0.8             | 34       | 0.0             |
| Provision for Income Taxes                            | 152   | 0.3             | 17       | 0.0             |
| Consolidated Net Income                               | 292   | 0.5             | 17       | 0.0             |
| Net Income Attributable to Noncontrolling<br>Interest | 99  | 0.2             | 103      | 0.2             |
| Net Income (Loss) Attributable to TSR, Inc            | \$193   | 0.3%            | \$(86)   | (0.2)%          |

**Revenue**

Revenue consists primarily of revenue from computer programming consulting services. Revenue for the fiscal year ended May 31, 2015

**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

increased \$7,873,000 or 15.9% from fiscal 2014. The average number of consultants on billing with customers increased from approximately 308 for the fiscal year ended May 31, 2014 to 346 for the fiscal year ended May 31, 2015.

### **Cost of Sales**

Cost of sales increased by \$6,836,000 or 16.6%, in fiscal 2015 from fiscal 2014. Cost of sales as a percentage of revenue increased to 83.8% in fiscal 2015 from 83.3% in fiscal 2014. The increase in cost of sales resulted primarily from the increase in the number of consultants on billing with customers as compared with the prior fiscal year. The increase in cost of sales as a percentage of revenue was primarily attributable to new mandated costs arising from the Affordable Care Act (ACA) and paid sick time in various municipalities. The Company has not been able to pass these added costs on to all of its customers.

expenses increased \$630,000, or 7.6%, to \$8,883,000 in fiscal 2015 from \$8,253,000 in fiscal 2014. This increase was primarily attributable to an increase in the number of technical recruiters and sales executives and expenses associated with hiring them. Hiring new sales executives requires a significant investment to cover their costs while their non-compete agreements, which typically last a year, expire. The Company expects selling, general and administrative expenses to continue to increase as more recruiters and sales executives are hired to stimulate growth. Additionally, these expenses decreased, as a percentage of revenue, from 16.7% in the fiscal year ended May 31, 2014 to 15.5% in the fiscal year ended May 31, 2015.

### **Other Income**

Fiscal 2015 other income increased by \$3,000 from the level realized in 2014 due to an increased amount of unrealized gain from marketable securities.

TSR INC. AND SUBSIDIARIES

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Income Taxes**

The effective income tax rate for fiscal 2015 was 34.2%. The effective income tax rate was 50.2% in fiscal 2014. The rate in fiscal 2014 was higher than expected due to state minimum or alternative taxes and the limited amount of taxable income.

The Company's capital resource commitments at May 31, 2015 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 2015.

**Net Income (Loss) Attributable to TSR**

Net income attributable to TSR in fiscal 2015 was \$193,000 compared to a loss of \$86,000 in fiscal 2014. This improvement was primarily due to the increase in revenue due to a higher average number of consultants on billing with customers. The addition of sales executives and recruiters hired in the last two years has started to contribute new revenue. We expect that our net income will continue to be affected, with only gradual improvement until such time as the additional technical recruiters and sales executives begin to generate a sufficient increase in revenue.

**Impact of New Accounting Standards**

In May 2014, the FASB issued an update to ASC 606, Revenue from Contracts with Customers. This update to ASC 606 provides a five-step process to determine when and how revenue is recognized. The core principle of the guidance is that a Company should recognize revenue upon transfer of promised goods or services to customers in an amount that reflects the expected consideration to be received in exchange for those goods or services. This update to ASC 606 will also result in enhanced disclosures about revenue, providing guidance for transactions that were not previously addressed comprehensively, and improving guidance for multiple-element arrangements. This update to ASC 606 is effective for the Company beginning in fiscal 2017. The Company is currently evaluating the impact of this update on its consolidated financial statements.

**Liquidity, Capital Resources and Changes in Financial Condition**

The Company expects that 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.

**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.

At May 31, 2015, the Company had working capital (total current assets in excess of total current liabilities) of \$8,986,000 including cash and cash equivalents and certificates of deposit and marketable securities of \$4,941,000 as compared to working capital of \$8,706,000 including cash and cash equivalents and certificates of deposit and marketable securities of \$4,357,000 at May 31, 2014.

Net cash flow of \$714,000 was provided by operations during fiscal 2015 as compared to \$524,000 of net cash flow provided by operations in fiscal 2014. The cash provided by operations for fiscal 2015 primarily resulted from consolidated net income of \$292,000 and an increase in accounts payable and accrued expenses of \$362,000. The cash provided by operations for fiscal 2014 of \$524,000 primarily resulted from a decrease in accounts receivable of \$356,000 in addition to a decrease in prepaid and recoverable income taxes of \$176,000.

Net cash provided by investing activities amounted to \$224,000 for fiscal 2015, compared to \$463,000 in net cash provided by investing activities in fiscal 2014. The net cash from investing activities for both fiscal 2015 and 2014 primarily resulted from maturing certificates of deposit, a portion of which were not rolled over.

Net cash used in financing activities of \$109,000 and \$26,000 during the fiscal years ended May 31, 2015 and 2014 resulted from distributions to the holder of the noncontrolling interest in the Company's subsidiary, Logixtech Solutions, LLC.

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 creditworthiness, 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, creditworthiness, 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.



TSR INC. AND SUBSIDIARIES

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*Valuation of Marketable Securities*

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 certificates of deposit to maturity (which maturities range up to 12 months), such securities have been classified as held-to-maturity and are carried at amortized cost, which approximates fair 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. 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 tax assets 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

**Forward-Looking Statements; Factors that Affect Future Results**

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

assets, which could materially impact our financial position or results of operations.

TSR INC. AND SUBSIDIARIES

**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, 2015 and 2014, and the related consolidated statements of operations, equity, and cash flows for the years then ended. TSR, Inc.'s management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements 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 consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for 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, 2015 and 2014 and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Jericho, New York

July 30, 2015



## TSR INC. AND SUBSIDIARIES

**MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS**

The Company's shares of Common Stock now trade on the NASDAQ Capital Market under the symbol TSRI. Previously, until December 2009, the shares traded on the NASDAQ Global Market. The following are the high and low sales prices for each quarter during the fiscal years ended May 31, 2015 and 2014:

**June 1, 2014 – May 31, 2015**

|                  | <b>1st</b>     | <b>2nd</b>     | <b>3rd</b>     | <b>4th</b>     |
|------------------|----------------|----------------|----------------|----------------|
|                  | <b>Quarter</b> | <b>Quarter</b> | <b>Quarter</b> | <b>Quarter</b> |
| High Sales Price | \$ 3.88        | \$ 3.59        | \$ 4.84        | \$ 5.50        |
| Low Sales Price  | 2.90           | 3.05           | 3.34           | 3.66           |

**June 1, 2013 – May 31, 2014**

|                  | <b>1st</b>     | <b>2nd</b>     | <b>3rd</b>     | <b>4th</b>     |
|------------------|----------------|----------------|----------------|----------------|
|                  | <b>Quarter</b> | <b>Quarter</b> | <b>Quarter</b> | <b>Quarter</b> |
| High Sales Price | \$ 3.20        | \$ 3.78        | \$ 3.84        | \$ 3.65        |
| Low Sales Price  | 2.90           | 3.10           | 2.98           | 2.99           |

There were 82 holders of record of the Company's Common Stock as of June 30, 2015. Additionally, the Company estimates that there were approximately 1,000 beneficial holders as of that date. There were no dividends declared or paid by the Company with respect to its shares of Common Stock during the last two fiscal years. The Company has no current plans to implement a quarterly dividend program or pay any other special cash dividend.



**DIRECTORS**

**Joseph F. Hughes**

Chairman of the Board  
Chief Executive Officer  
President and Treasurer

**Christopher Hughes**

Senior Vice President and  
President TSR Consulting Services, Inc.

**Robert A. Esernio**

Director

**James J. Hill**

Director

**Raymond A. Roel**

Director

**OFFICERS**

**Joseph F. Hughes**

Chairman of the Board  
Chief Executive Officer  
President and Treasurer

**Christopher Hughes**

Senior Vice President and  
President TSR Consulting Services, Inc.

**John G. Sharkey**

Vice President, Finance  
and Secretary

**CORPORATE  
HEADQUARTERS**

400 Oser Avenue  
Suite 150  
Hauppauge, NY 11788  
631-231-0333

**SUBSIDIARY**

**TSR Consulting  
Services, Inc.**

**New York City**  
420 Lexington Avenue  
Suite #835  
New York, NY 10170

212-986-4600

E-mail: [tsrny@tsrconsulting.com](mailto:tsrny@tsrconsulting.com)

**New Jersey**  
379 Thornall Street  
6th Floor

Edison, NJ 08837  
732-321-9000

E-mail: [tsrnj@tsrconsulting.com](mailto:tsrnj@tsrconsulting.com)

**Long Island**  
400 Oser Avenue  
Suite 150  
Hauppauge, NY 11788  
631-231-0333

E-mail: [tsrli@tsrconsulting.com](mailto:tsrli@tsrconsulting.com)

**TRANSFER AGENT**

Continental Stock  
Transfer  
17 Battery Place  
New York, NY 10004  
212-509-4000

**AUDITORS**

CohnReznick LLP  
100 Jericho Quadrangle  
Suite 223  
Jericho, NY 11753

**COUNSEL**

Giordano, Halleran &  
Ciesla, P.C.  
125 Half Mile Road  
Suite 300  
Red Bank, NJ 07701

Copies of the Company's Form 10-K are available, without charge, to shareholders upon written request to: John G. Sharkey, Vice President, Finance, TSR, Inc., 400 Oser Avenue, Suite 150, Hauppauge, NY 11788

