TSR INC
Form 10-Q
January 08, 2007

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 November 30, 2006

[_] 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)

None
(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 December 31, 2006

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Part I. Financial Information
Item 1. Financial Statements

TSR, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS	November 30, 2006 (Unaudited)
Current Assets:	
Cash and cash equivalents (Note 3)	$ 2,129,532
Marketable securities (Note 5)	6,386,616
Accounts receivable (net of allowance for doubtful accounts of $355,000)	8,674,678
Other receivables	105,286
Prepaid expenses	63,883
Prepaid and recoverable income taxes	82,761
Deferred income taxes	150,000
Total current assets	17,592,756
Marketable securities (Note 5)	995,937
Equipment and leasehold improvements, at cost (net of accumulated depreciation and amortization of $557,687 and $544,946)	52,973
Other assets	49,653
Deferred income taxes	109,000
	$ 18,800,319
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current Liabilities:	
Accounts and other payables	$ 187,911
Accrued expenses and other current liabilities	2,872,309
Advances from customers	1,496,443
Income taxes payable	51,765
Total current liabilities	4,608,428
Minority Interest	45,326
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	
Additional paid-in capital	5,071,727	
Retained earnings	21,043,856	
	26,177,866	
Less: Treasury stock, 1,660,314 shares, at cost	12,031,301	
	14,146,565	
	$ 18,800,319	$

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

TSR, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
FOR THE THREE AND SIX MONTHS ENDED NOVEMBER 30, 2006 AND 2005
(UNAUDITED)

	Three Months Ended November 30,		
	2006	2005	
Revenues, net	$ 12,626,000	$ 11,829,402	$
Cost of sales	10,256,562	9,459,779	
Selling, general and administrative expenses	1,805,021	1,601,046	
	12,061,583	11,060,825	
Income from operations	564,417	768,577	
Other income (expense):			
Interest and dividend income	114,812	83,450	
Realized and unrealized gain (loss) from marketable securities, net	1,460	768	
Minority interest in subsidiary operating profits	(12,139)	(22,923)	
Income before income taxes	668,550	829,872	
Provision for income taxes	256,000	346,000	
Net income	$ 412,550	$ 483,872	$
Basic and diluted net income per common share	$ 0.09	$ 0.11	$
Weighted average number of basic common shares outstanding	4,568,012	4,568,012	

Weighted average number of diluted common shares outstanding	4,568,012	4,568,012	

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

TSR, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED NOVEMBER 30, 2006 AND 2005
(UNAUDITED)

	Six Months End November 30	
	2006	
Cash flows from operating activities:		
Net income	$ 856,212	$
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	12,741	
Realized and unrealized (gain) loss from marketable securities, net	(2,700)	
Minority interest in subsidiary operating profits	30,575	
Deferred income tax benefit	--	
Recovery of bad debt expense	--	
Changes in assets and liabilities:		
Accounts receivable - trade	(401,715)	
Other receivables	(15,114)	
Prepaid expenses	(15,090)	
Prepaid and recoverable income taxes	237,395	
Other assets	--	
Accounts payable and accrued expenses	120,178	
Income taxes payable	(51,209)	
Advances from customers	(42,542)	
Net cash provided by (used in) operating activities	728,731	
Cash flows from investing activities:		
Proceeds from maturities and sales of marketable securities	4,402,747	
Purchases of marketable securities	(4,885,223)	(
Purchases of fixed assets	(29,580)	
Net cash (used in) provided by investing activities	(512,056)	
Cash flows from financing activities:		
Distribution to minority interest	(17,000)	
Cash dividends paid	(730,882)	(
Net cash used in financing activities	(747,882)	(

Net decrease in cash and cash equivalents	(531,207)	
Cash and cash equivalents at beginning of period	2,660,739	
Cash and cash equivalents at end of period	$ 2,129,532	$
Supplemental Disclosures:		
Income tax payments	$ 350,000	$

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

TSR, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
NOVEMBER 30, 2006
(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 six months ended November 30, 2006, 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, 2007. 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, 2006.

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. No options covering shares of common stock have been omitted from the calculations of diluted net income per common share for the three month and six month periods ended November 30, 2006 and 2005, respectively, because their effect would have been antidilutive.

3. Cash and Cash Equivalents

The Company considers short-term highly liquid investments with maturities of three months or less at the time of purchase to be cash equivalents. Cash and cash equivalents were comprised of the following as of November 30, 2006:

Cash in banks.	$ 441,330
Money Market Funds	1,688,202
	$ 2,129,532

4. Revenue Recognition

The Company's contract computer programming services are generally provided under time and materials agreements with customers. Accordingly, the Company recognizes such revenues as services are provided. Advances from customers represent amounts received from customers prior to the Company's provision of the related services, credit balances from overpayments and certain escheat liabilities.

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 are summarized as follows:

Current	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	
United States Treasury Securities	$ 6,369,500	--	--	$
Equity Securities	16,866	250	--	
	$ 6,386,366	$ 250	$ --	$

Long - Term

United States Treasury Securities	$ 995,937	$ --	$ --	$

TSR, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
NOVEMBER 30, 2006
(UNAUDITED)

6. Stock Options

The Company has one stock-based employee compensation plan in effect. Effective June 1, 2006, the Company accounts 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, "Statement of Financial Accounting Standards No. 123 (FAS123 (R))," which requires that the fair market value of all share based payment transactions be recognized in the financial statements. This Statement 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 November 30, 2006. The Company previously accounted for share-based employee compensation in accordance with the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees".

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, this interpretation 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. Management is in the process of evaluating the effects of this guidance which is effective for fiscal years beginning after December 15, 2006.

On September 15, 2006, the FASB issued SFAS No. 157, "Fair Value Measurements". 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. The standard applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. The standard 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.

8. Dividends

On January 4, 2007 the Board of Directors of the Company declared that a regular quarterly cash dividend of $0.08 per share for the quarter ended November 30, 2006 would be paid on February 5, 2007 to shareholders of record as of January 22, 2007. 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, until a new OGS contract is entered into, the Company will not be able to make new placements or renew existing placements with the DOE. The termination does not affect existing placements with the DOE until the date such positions are scheduled to expire. 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 have not been renewed. Of the remaining eleven consultants, five are scheduled to end in February 2007 and six in May 2010.

DOE also asserted a claim against the Company for a reimbursement due to the Company's subcontracting without written authorization. On August 29, 2006, the DOE and the Company agreed in principle to resolve these claims and permit the Company to be treated as a "responsible vendor" upon making a payment to DOE and appointment of an independent compliance monitor to monitor the Company's compliance with the DOE agreement. The treatment as a responsible vendor would allow the Company to continue to submit consultants to the DOE in response to DOE bid requests. The Company will also need to have its agreement with the OGS reinstated to make new placements with DOE. Due to the claim asserted by DOE and the proposed settlement, the Company established a reserve of $900,000 as of May 31, 2006. While the Company believes that its subcontracting did not result in overcharges to DOE, it has agreed to settle the matter in order to avoid the expense and uncertainty of litigation as well as to protect its existing business with DOE and maintain the potential to make future placements with DOE. While the Company has agreed in principle to resolve this matter, the settlement has not been finalized and, therefore, there can be no assurance that the Company will be able to continue to provide consultants to DOE.

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 settlement with the NYC Department of Education (DOE) and the Company's ability to continue to provide consultants to the DOE; 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.

Results of Operations

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

Three months ended November 30, 2006 compared with three months ended November 30, 2005

	Three Months Ended November 30, (Dollar amounts in Thousands		
	2006		2
	Amount	% of Revenues	Amount
Revenues	$ 12,626	100.0	$ 11,829
Cost of sales	10,256	81.2	9,460
Gross profit	2,370	18.8	2,369
Selling, general, and administrative expenses......	1,805	14.3	1,601
Income from operations	565	4.5	768
Other income	104	0.8	62
Income before income taxes	669	5.3	830
Provision for income taxes	256	2.0	346
Net income	$ 413	3.3	$ 484

Revenues

Revenues consist primarily of revenues from computer programming consulting services. Revenues for the quarter ended November 30, 2006 increased $797,000 or 6.7% from the comparable period in fiscal 2006. Due to the contract suspension with the NYC Department of Education (DOE), the consultants on billing with DOE decreased from 41 at May 31, 2006 to 11 at the end of the current quarter. The Company expects a further reduction to six at the end of the next quarter due to placements that will expire February 28, 2007. While the Company has agreed in principle to resolve this matter with the DOE, the settlement has not been finalized and, therefore, there can be no assurance that the Company will be able to continue to provide consultants to the DOE. Despite this reduction in the number of consultants on billing at DOE, the overall average number of consultants on billing increased from 345 in the prior year quarter to 348 for the current quarter. Additional placements at other accounts, many at higher billing rates, have offset most of the reduction at DOE and, therefore, revenues have increased.

As a result of the merger of AT&T with SBC Communications, Inc., Procurestaff, which had been the 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 these changes, the Company experienced a decrease in new placements with AT&T during the second fiscal quarter. The Company is unable to predict whether this change of relationship will continue to impact the Company's business relationship with AT&T.

Cost of Sales

Cost of sales for the quarter ended November 30, 2006, increased $796,000 or 8.4% to $10,256,000 from $9,460,000 in the prior year period. Cost of sales as a percentage of revenues increased from 80.0% in the quarter ended November 30, 2005 to 81.2% in the quarter ended November 30, 2006. 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.

Cost of sales as a percentage of revenues increased because of a decline in revenues at AT&T, the Company's largest customer, due to Procurestaff offering further discounts to AT&T to maintain its relationship. This required the Company to reduce what it received from Procurestaff, which further reduced the Company's margins on its AT&T business.

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 $204,000 or 12.7% from $1,601,000 in the quarter ended November 30, 2005 to $1,805,000 in the quarter ended November 30, 2006. This increase was primarily attributable to an increase in the number of technical recruiters and sales executives. Additional personnel have been hired to address increasing competition.

Income from Operations

In spite of the increase in revenues, income from operations decreased $203,000 or 26.4% from $768,000 in the quarter ended November 30, 2005 to $565,000 in the quarter ended November 30, 2006. The discount programs which have caused an increase in cost of sales as a percentage of revenues, along with the expenses related to the hiring of additional sales and recruiting personnel, have reduced income from operations.

Other Income

Other income resulted primarily from interest and dividend income, which increased by $31,000 to $115,000 due to higher interest rates in the quarter ended November 30, 2006. Additionally, the Company had unrealized gains of $1,000 in both the quarter ended November 30, 2006 and the quarter ended

November 30, 2005 from marketable securities due to mark to market adjustments of its trading securities equity portfolio.

Income Taxes

The effective income tax rate of 38.3% for the quarter ended November 30, 2006 decreased from a rate of 41.7% in the quarter ended November 30, 2005 due to lower state and local taxes and reversal of prior years' income tax over accruals.

Six months ended November 30, 2006 compared with six months ended November 30, 2005

	Six Months Ended November 30, (Dollar amounts in Thousands)		
	2006		2
	Amount	% of Revenues	Amount
Revenues	$ 25,002	100.0	$ 24,294
Cost of sales	20,255	81.0	19,399
Gross profit	4,747	19.0	4,895
Selling, general, and administrative expenses	3,554	14.2	3,342
Income from operations	1,193	4.8	1,553
Other income	199	0.8	114
Income before income taxes	1,392	5.6	1,667
Provision for income taxes	536	2.2	709
Net income	$ 856	3.4	$ 958

Revenues

Revenues consist primarily of revenues from computer programming consulting services. Revenues for the six months ended November 30, 2006 increased $708,000 or 2.9% from the comparable period in fiscal 2006. Due to the contract suspension with the NYC Department of Education (DOE), the consultants on billing with DOE decreased from 41 at May 31, 2006 to 11 at the end of the current period. The Company expects a further reduction to six at the end of the next quarter due to placements that will expire February 28, 2007. Despite this reduction in the number of consultants on billing at DOE, the overall average number of consultants on billing only decreased from 347 in the prior year period to 345 for the current period. Additional placements at other accounts, many at higher billing rates, have offset most of the reduction at DOE and, therefore, revenues have increased.

Cost of Sales

Cost of sales for the six months ended November 30, 2006, increased $856,000 or 4.4% to $20,255,000 from $19,399,000 in the prior year period. Cost of sales as a percentage of revenues increased from 79.9% in the six months ended November 30, 2005 to 81.0% in the six months ended November 30, 2006. 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.

Cost of sales as a percentage of revenues increased because of a decline in revenues at AT&T, the Company's largest customer, due to Procurestaff offering further discounts to AT&T to maintain its relationship. This required the Company to reduce what it received from Procurestaff, which further reduced the Company's margins on its AT&T business.

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 $212,000 or 6.3% from $3,342,000 in the six months ended November 30, 2005 to $3,554,000 in the six months ended November 30, 2006. This increase was primarily attributable to an increase in the number of technical recruiters and sales executives. Additional personnel have been hired to address increasing competition.

Income from Operations

In spite of the increase in revenues, income from operations decreased $360,000 or 23.2% from $1,553,000 in the six months ended November 30, 2005 to $1,193,000 in the six months ended November 30, 2006. The discount programs which have caused an increase in cost of sales as a percentage of revenues, along with the expenses related to the hiring of additional sales and recruiting personnel, have reduced income from operations.

Other Income

Other income resulted primarily from interest and dividend income, which increased by $65,000 to $227,000 due to higher interest rates in the six months ended November 30, 2006. Additionally, the Company had an unrealized gain of $3,000 in the six months ended November 30, 2006 from marketable securities due to mark to market adjustments of its trading securities equity portfolio.

Income Taxes

The effective income tax rate of 38.5% for the six months ended November 30, 2006 decreased from a rate of 42.5% in the six months ended November 30, 2005 due to lower state and local taxes and reversal of prior years' income tax over accruals.

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 November 30, 2006, the Company had working capital of $12,984,000 and cash and cash equivalents of $2,130,000 as compared to working capital of $12,368,000 and cash and cash equivalents of $2,661,000 at May 31, 2006. The Company's working capital also included $6,387,000 and $5,407,000 of marketable securities with maturities of less than one year at November 30, 2006 and May 31, 2006, respectively. The working capital and marketable securities increased due to the reclassification of a security from long-term to current.

Net cash provided by operating activities of $729,000 for the six months ended November 30, 2006, compared to no cash provided for the six months ended November 30, 2005. The cash provided by operating activities resulted primarily from the Company's net income and a decrease in prepaid and recoverable income taxes, offset by an increase in accounts receivables. The accounts receivable increased due to delays in payments from the NYC Department of Education (DOE). The Company has not been notified by the DOE that it is disputing the amounts due. The absence of cash provided by operating activities for the six months ending November 30, 2005 resulted primarily from net income being offset by an increase in accounts receivables and a decrease in accounts payable and accrued expenses.

Net cash used in investing activities of $512,000 for the six months ended November 30, 2006 primarily resulted from purchasing US Treasury Securities in excess of maturities.

Net cash used in financing activities of $748,000 resulted primarily from cash dividends paid during the period.

The Company's capital resource commitments at November 30, 2006 consisted of lease obligations on its branch and corporate facilities. The Company intends to finance these lease commitments from cash flow provided by operations, available cash and short-term marketable securities.

The Company's cash and marketable securities were sufficient to enable it to meet its cash requirements during the six months ended November 30, 2006. The Company has available a revolving line of credit of $5,000,000 with a major money center bank through October 6, 2007. As of November 30, 2006, 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 YEA
Long-Term Debt	--	--	--	
Capital Lease Obligations.	--	--	--	
Operating Leases	612,000	281,000	254,000	77,
Purchase Obligations	--	--	--	
Employment Agreements	774,000	399,000	300,000	75,
Consulting Contract.	100,000	100,000	--	
Other Long-Term Liabilities Reflected on the Registrant's Balance Sheet under GAAP	--	--	--	
Total.	$ 1,486,000	$ 780,000	$ 554,000	$ 152,

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, this interpretation 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. Management is in the process of evaluating the effects of this guidance which is effective for fiscal years beginning after December 15, 2006.

On September 15, 2006, the FASB issued SFAS No. 157, "Fair Value Measurements". 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. The standard applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. The standard 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.

TSR, INC. AND SUBSIDIARIES

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, 2006 Annual Report on Form 10-K, as filed with the SEC. The Company believes that those accounting policies require the application of management's most difficult, subjective or complex judgments. There have been no changes in the Company's significant accounting policies as of November 30, 2006.

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 September 12, 2006, except as follows:

Dependence on Significant Customers

As described under Part I, Item 2, the Company's relationship with AT&T has changed due to the merger of AT&T with SBC Communications and the resulting change in the relationship with AT&T of Procurestaff, through which the Company contracts with AT&T. This change has had a further impact on the Company's profit margins on consultants placed with AT&T and recently created a decrease in new placements with AT&T. The Company cannot predict the extent to which this change will adversely affect the number of consultants placed with AT&T.

As more fully described Footnote 9 to the Company's Condensed Financial Statements, the Company has agreed in principle to settle a claim by the New York City Department of Education (DOE). This settlement has not been finalized and, therefore, there can be no assurance that the Company will be able to continue to provide consultants to DOE. At the end of the quarter ended November 30, 2006, there were eleven consultants remaining on billing at DOE. The Company expects a further reduction to six at the end of the next quarter due to placements that will expire February 28, 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: January 5, 2007

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

Date: January 5, 2007	/s/ John G. Sharkey -- John G. Sharkey, Vice President Finance