TSR INC
Form 10-Q
January 09, 2009

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, 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, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer [ ] Accelerated Filer [ ] Non-Accelerated filer [ ]

(Do not check if a smaller reporting company) Smaller Reporting Company [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

4,050,488 shares of common stock, par value $.01 per share, as of December 31, 2008

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Part I. Financial Information
Item 1. Financial Statements

TSR, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	November 30, 2008	May 31, 2008
ASSETS	(Unaudited)	(Note 1)
Current Assets:		
Cash and cash equivalents	$ 1,837,431	$ 1,588,443
Marketable securities	4,972,128	6,459,832
Accounts receivable, net of allowance for doubtful accounts of $309,000 and $326,000	7,954,350	8,176,936
Other receivables	37,732	52,375
Prepaid expenses	69,944	53,788
Prepaid and recoverable income taxes	56,606	48,015
Deferred income taxes	128,000	135,000
Total Current Assets	15,056,191	16,514,389
Marketable securities	500,625	999,648
Equipment and leasehold improvements, net of accumulated depreciation and amortization of $406,905 and $396,963	22,978	23,285
Other assets	49,653	49,653
Deferred income taxes	53,000	55,000
Total Assets	$15,682,447	$17,641,975
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts and other payables	$ 279,421	$ 313,157
Accrued expenses and other current liabilities	1,410,612	1,919,564
Advances from customers	1,511,170	1,589,087
Total Current Liabilities	3,201,203	3,821,808
Minority Interest	64,416	53,533
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...........................	20,534,049	20,663,925
	25,668,059	25,797,935
Less: Treasury stock, 2,177,838 and 1,660,314 shares, at cost...................	13,251,231	12,031,301
Total Stockholders' Equity.........................	12,416,828	13,766,634
Total Liabilities and Stockholders' Equity..........	$15,682,447	$17,641,975

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

TSR, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS
OF INCOME For The Three Months and Six Months
Ended November 30, 2008 and 2007
(UNAUDITED)

	Three Months Ended November 30, 2008	2007	Six Month Novembe 2008
Revenue, net....................................	$11,536,160	$13,241,551	$23,685,980
Cost of sales...................................	9,467,256	10,752,454	19,495,076
Selling, general and administrative expenses.....	1,695,928	1,921,646	3,495,574
	11,163,184	12,674,100	22,990,650
Income from operations..........................	372,976	567,451	695,330
Other income (expense):			
Interest and dividend income.................	34,969	99,011	102,266
Unrealized gain (loss) on marketable securities, net............................	(7,256)	264	(7,504)
Minority interest in subsidiary operating profits..................................	(15,530)	(23,682)	(24,883)
Income before income taxes......................	385,159	643,044	765,209
Provision for income taxes......................	165,000	265,000	330,000

Net income	$ 220,159	$ 378,044	$ 435,209
Basic and diluted net income per common share	$ 0.05	$ 0.08	$ 0.10
Weighted average number of basic and diluted common shares outstanding	4,277,128	4,568,012	4,420,957

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, 2008 and 2007
(UNAUDITED)

	Six Months Ended November 30, 2008	2007
Cash flows from operating activities:		
Net Income	$ 435,209	$ 825,512
Adjustments to reconcile net income to net cash provided by (used in)operating activities:		
Depreciation and amortization	9,942	13,504
Unrealized loss (gain) on marketable securities, net	7,504	(3,120)
Minority interest in subsidiary	24,883	53,955
Deferred income taxes	9,000	13,000
Changes in operating assets and liabilities:		
Accounts receivable	222,586	(860,419)
Other receivables	14,643	8,373
Prepaid expenses	(16,156)	79
Prepaid and recoverable income taxes	(8,591)	76,179
Accounts payable and accrued expenses	(542,688)	(252,851)
Advances from customers	(77,917)	(86,230)
Net cash provided by (used in) operating activities	78,415	(212,018)

Cash flows from investing activities:		
Proceeds from maturities of marketable securities	5,941,717	5,381,450
Purchases of marketable securities	(3,962,494)	(5,399,164)
Purchase of fixed assets	(9,635)	(1,441)
Net cash provided by (used in) investing activities.	1,969,588	(19,155)
Cash flows from financing activities:		
Purchases of treasury stock	(1,219,930)	--
Cash dividends paid	(565,085)	(730,882)
Distribution to minority interest	(14,000)	(11,000)
Net cash used in financing activities	(1,799,015)	(741,882)
Net increase (decrease) in cash and cash equivalents	248,988	(973,055)
Cash and cash equivalents at beginning of period	1,588,443	1,900,264
Cash and cash equivalents at end of period	$ 1,837,431	$ 927,209
Supplemental disclosures of cash flow data:		
Income taxes paid	$ 336,000	$ 520,000

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, 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 three months and six months ended November 30, 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 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, 2009. The balance sheet at May 31, 2008 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, 2008.

2. Net Income Per Common Share

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

3. Cash and Cash Equivalents

The Company considers short-term highly liquid investments with maturities of three months or less at the time of purchase to be cash equivalents. Cash and cash equivalents were comprised of the following as of November 30, 2008 and May 31, 2008:

	November 30, 2008	May 31, 2008
Cash in banks..............................	$ 552,395	$ 394,987
Money market funds.........................	1,285,036	1,193,456
	$ 1,837,431	$ 1,588,443

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. These conditions occur when a customer agreement is effected and the consultant performs the authorized services. Advances from customers represent amounts received from customers prior to the Company's 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."

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, Continued
November 30, 2008
(Unaudited)

5. Marketable Securities

The Company accounts for its marketable securities in accordance with Statement of Financial Accounting Standards ("SFAS") No. 115 "Accounting for Certain Investments in Debt and Equity Securities." Accordingly, the Company classifies its marketable securities at acquisition as either (i) held-to-maturity, (ii) trading or (iii) available-for-sale. Based upon the Company's intent and ability to hold its US Treasury securities to maturity (which maturities range up to 24 months), such securities have been classified as held-to-maturity and are carried at amortized cost, which approximates market value. The Company's equity securities are classified as trading securities, which are carried at fair value, as determined by quoted market price, which is level 1 input, as established by the fair value hierarchy under SFAS No. 157. The related unrealized gains and losses are included in earnings. The Company's marketable securities at November 30, 2008 and May 31, 2008 are summarized as follows:

November 30, 2008	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Recorded Value
Current				
United States Treasury Securities........	$4,961,088	$ --	$ --	$4,961,08
Equity Securities.......................	16,866	--	5,826	11,04
	$4,977,954	$ --	$ 5,826	$4,972,12
Long - Term				
United States Treasury Securities........	$ 500,625	$ --	$ --	$ 500,62

May 31, 2008	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Recorded Value
Current				
United States Treasury Securities........	$6,441,288	$ --	$ --	$6,441,28
Equity Securities.......................	16,866	1,678	--	18,54
	$6,458,154	$ 1,678	$ --	$6,459,83
Long - Term				
United States Treasury Securities........	$ 999,648	$ --	$ --	$ 999,64

TSR, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, Continued
November 30, 2008
(Unaudited)

6. Recent Accounting Pronouncements

On September 15, 2006, the Financial Accounting Standards Board ("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 adoption of SFAS No. 157 did not have a material impact on the Company's condensed 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 to FASB Statement No. 115" ("SFAS No. 159"). SFAS No. 159 permits entities to elect to measure many financial instruments and certain other items at fair value. Upon adoption of SFAS No. 159, an entity may elect the fair value option for eligible items that exist at the adoption date. Subsequent to the initial adoption, the election of the fair value option should only be made at initial recognition of the asset or liability or upon a re-measurement event that gives rise to new-basis accounting. SFAS No. 159 does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value nor does it eliminate disclosure requirements included in other accounting standards. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The adoption of SFAS No. 159 did not have a material impact on the Company's condensed consolidated financial statements.

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

7. Stockholders' Equity

During the six months ended November 30, 2008, the Company purchased a total of 517,524 shares of its common stock for $1,219,930. This consisted of 61,001 shares purchased in various transactions on the open market for $169,927 under a previously announced repurchase plan of 300,000 shares and an additional 456,523 shares purchased in a private transaction for $1,050,003.

On January 8, 2009, the Board of Directors of the Company declared that a regular quarterly cash dividend of $0.05 per share for the quarter ended

November 30, 2008 would be paid on February 9, 2009 to stockholders of record as of January 26, 2009. The dividend amounts to approximately $203,000 and will be paid from the Company's cash and marketable securities.

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: the impact of current adverse conditions in the credit markets and current 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 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 November 30, 2008 compared with three months ended November 30, 2007

	Three Months Ended November 30, (Dollar amounts in thousands)			
	2008		2007	
	Amount	% of Revenue	Amount	% of Revenue

Revenue, net	$11,536	100.0%	$13,241	100.0%
Cost of sales	9,467	82.1%	10,752	81.2%
Gross profit	2,069	17.9%	2,489	18.8%
Selling, general and administrative expenses	1,696	14.7%	1,922	14.5%
Income from operations	373	3.2%	567	4.3%
Other income, net	12	0.1%	76	0.6%
Income before income taxes	385	3.3%	643	4.9%
Provision for income taxes	165	1.4%	265	2.0%
Net income	$ 220	1.9%	$ 378	2.9%

Revenue

Revenue consists primarily of revenue from computer programming consulting services. Revenue for the quarter ended November 30, 2008 decreased $1,705,000 or 12.9% from the quarter ended November 30, 2007. The average number of consultants on billing with customers decreased from approximately 348 for the quarter ended November 30, 2007 to 281 for the quarter ended November 30, 2008. The decrease in revenue resulted primarily from the continued reduction in consultants placed with AT&T, additional reductions in consultants on billing with customers which the Company attributes to current economic conditions and decreases in revenue due to lower billing rates caused by discounts and other rate reductions instituted by customers.

As a result of the merger of AT&T with SBC Communications, Inc., Procurestaff, which had been the sole vendor management company for AT&T, is currently one of the 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 beginning in the second quarter of fiscal 2007. This has reduced the number of consultants on billing with AT&T from 88 at November 30, 2006 to 53 at November 30, 2007 and 25 at November 30, 2008. The Company expects this change in relationship will continue to impact the Company's business relationship with AT&T, resulting in fewer opportunities to place new consultants at AT&T.

As a result of the current economic downturn and, specifically, the impact of the adverse conditions in the credit markets on the financial services industry, the Company expects that IT spending will continue to 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 and have caused early termination of some existing assignments. The Company derived approximately 20% of its revenue from banking and brokerage clients in fiscal 2008. The Company expects that these conditions will continue to affect the number of consultants on billing with customers and the Company's revenue.

The Company has provided services to Lehman Brothers Holdings, Inc. ("LBHI") through its contract with Beeline.com, Inc. ("Beeline"), a vendor management company. LBHI filed a petition under Chapter 11 of the U.S. Bankruptcy Code on September 15, 2008. As part of the bankruptcy proceedings, the Bankruptcy Court has approved a sale of Lehman Brothers, Inc. ("LBI"), a subsidiary of LBHI to Barclays Capital Inc. ("Barclays"). The Beeline contract has been assumed by LBI as part of the purchase agreement. The Company has received payment in full for amounts due for services rendered through the date of the bankruptcy filing and will not incur a charge against earnings as the result of the bankruptcy. LBHI and its subsidiaries constituted approximately 6% of the Company's revenue in fiscal 2008. There were 13 consultants on billing with LBHI as of August 31, 2008 and 5 as of November 30, 2008. The Company cannot determine the impact that the bankruptcy filing and purchase of LBI by Barclays will have on the remaining consultants on billing with LBI and its affiliates.

Cost of Sales

Cost of sales for the quarter ended November 30, 2008, decreased $1,285,000 or 12.0% to $9,467,000 from $10,752,000 in the prior year period. The decrease in cost of sales resulted primarily from the decrease in the number of consultants on billing with clients. Cost of sales as a percentage of revenue increased from 81.2% in the quarter ended November 30, 2007 to 82.1% in the quarter ended November 30, 2008. The increase in cost of sales percentage of revenue was primarily attributable to discount programs instituted or expanded by customers and other customer required rate reductions. These discount programs and other billing rate reduction initiatives decrease revenue without allowing the Company to reduce costs sufficiently to completely offset the decrease in revenue. These required rate reductions have accelerated as a result of the current economic conditions.

Selling, General and Administrative Expenses

Selling, general and administrative expenses consist primarily of expenses relating to account executives, technical recruiters, facilities costs, management and corporate overhead. These expenses decreased $226,000 or 11.8% from $1,922,000 in the quarter ended November 30, 2007 to $1,696,000 in the quarter ended November 30, 2008. This decrease was primarily attributable to a reduction in the number of sales and recruiting personnel and lower commissions paid to the remaining sales and recruiting personnel due to lower revenue. However, while selling, general and administrative expenses decreased, these expenses as a percentage of revenue increased from 14.5% in the quarter ended November 30, 2007 to 14.7% in the quarter ended November 30, 2008.

Income from Operations

Income from operations decreased $194,000 or 34.2% from $567,000 in the quarter ended November 30, 2007 to $373,000 in the quarter ended November 30, 2008. The combination of reduced revenue and reduced gross margins had a significant negative impact on income from operations.

Other Income

Other income for the quarter ended November 30, 2008 resulted primarily from interest and dividend income of $35,000, which decreased by $64,000 from the level realized in the quarter ended November 30, 2007 due to lower interest rates earned on the Company's US Treasury securities and money market accounts as well as lower average investable assets.

Six months ended November 30, 2008 compared with six months ended November 30, 2007

	Six Months Ended November 30, (Dollar amounts in Thousands)			
	2008		2007	
	Amount	% of Revenue	Amount	% of Revenue
Revenue, net..........................	$23,686	100.0%	$26,767	100.0%
Cost of sales.........................	19,495	82.3%	21,769	81.3%
Gross profit..........................	4,191	17.7%	4,998	18.7%
Selling, general and administrative expenses.............................	3,496	14.8%	3,720	13.9%
Income from operations................	695	2.9%	1,278	4.8%
Other income, net.....................	70	0.3%	161	0.6%
Income before income taxes............	765	3.2%	1,439	5.4%
Provision for income taxes............	330	1.4%	613	2.3%
Net income............................	$ 435	1.8%	$ 826	3.1%

Revenue

Revenue consists primarily of revenue from computer programming consulting services. Revenue for the six months ended November 30, 2008 decreased $3,081,000 or 11.5% from the six months ended November 30, 2007. The average number of consultants on billing with customers decreased from approximately 342 for the six months ended November 30, 2007 to 290 for the six months ended November 30, 2008. The decrease in revenue resulted primarily from the continued reduction in consultants placed with AT&T, additional reductions in consultants on billing with customers which the Company attributes to current economic conditions and decreases in revenue due to lower billing rates caused by discounts and other rate reductions instituted by customers.

As a result of the merger of AT&T with SBC Communications, Inc., Procurestaff, which had been the sole vendor management company for AT&T, is currently one of the 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 beginning in the second quarter of fiscal 2007. This has reduced the number of consultants on billing with AT&T from 88 at November 30, 2006 to 53 at November 30, 2007 and 25 at November 30, 2008. The Company expects this change in relationship will continue to impact the Company's business relationship with AT&T, resulting in fewer opportunities to place new consultants at AT&T.

As a result of the current economic downturn and, specifically, the impact of the adverse conditions in the credit markets on the financial services industry, the Company expects that IT spending will continue to 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 and have caused early termination of some existing assignments. The Company derived approximately 20% of its revenue from banking and brokerage clients in fiscal 2008. The Company expects that these conditions will continue to affect the number of consultants on billing with customers and the Company's revenue.

The Company has provided services to Lehman Brothers Holdings, Inc. ("LBHI") through its contract with Beeline.com, Inc. ("Beeline"), a vendor management company. LBHI filed a petition under Chapter 11 of the U.S. Bankruptcy Code on September 15, 2008. As part of the bankruptcy proceedings, the Bankruptcy Court has approved a sale of Lehman Brothers, Inc. ("LBI"), a subsidiary of LBHI to Barclays Capital Inc. ("Barclays"). The Beeline contract has been assumed by LBI as part of the purchase agreement. The Company has received payment in full for amounts due for services rendered through the date of the bankruptcy filing and will not incur a charge against earnings as the result of the bankruptcy. LBHI and its subsidiaries constituted approximately 6% of the Company's revenue in fiscal 2008. There were 13 consultants on billing with LBHI as of August 31, 2008 and 5 as of November 30, 2008. The Company cannot determine the impact that the bankruptcy filing and purchase of LBI by Barclays will have on the remaining consultants on billing with LBI and its affiliates.

Cost of Sales

Cost of sales for the six months ended November 30, 2008, decreased $2,274,000 or 10.4% to $19,495,000 from $21,769,000 in the prior year period. The decrease in cost of sales resulted primarily from the decrease in the number of consultants on billing with clients. Cost of sales as a percentage of revenue increased from 81.3% in the six months ended November 30, 2007 to 82.3% in the six months ended November 30, 2008. The increase in cost of sales percentage of revenue was primarily attributable to discount programs instituted or expanded by customers and other customer required rate reductions. These discount programs and other billing rate reduction initiatives decrease revenue without allowing the Company to reduce costs sufficiently to completely offset the decrease in revenue. These required rate reductions have accelerated as a result of the current economic conditions.

Selling, General and Administrative Expenses

Selling, general and administrative expenses consist primarily of expenses relating to account executives, technical recruiters, facilities costs, management and corporate overhead. These expenses decreased $224,000 or 6.0% from $3,720,000 in the six months ended November 30, 2007 to $3,496,000 in the six ended November 30, 2008. This decrease was primarily attributable to a reduction in the number of sales and recruiting personnel and lower commissions paid to the remaining sales and recruiting personnel due to lower revenue. However, while selling, general and administrative expenses decreased , these expenses as a percentage of revenue increased from 13.9% in the six months ended November 30, 2007 to 14.8% in the six months ended November 30, 2008.

Income from Operations

Income from operations decreased $583,000 or 45.6% from $1,278,000 in the six months ended November 30, 2007 to $695,000 in the six months ended November 30, 2008. The combination of reduced revenue and reduced gross margins had a significant negative impact on income from operations.

Other Income

Other income for the six months ended November 30, 2008 resulted primarily from interest and dividend income of $102,000, which decreased by $109,000 from the level realized in the six months ended November 30, 2007 due to lower interest rates earned on the Company's US Treasury securities and money market accounts as well as lower average investable assets.

Liquidity and Capital Resources

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

At November 30, 2008, the Company had working capital of $11,855,000 including cash and cash equivalents of $1,837,000 as compared to working capital of $12,693,000 including cash and cash equivalents of $1,588,000 at May 31, 2008. The Company's working capital also included $4,972,000 and $6,460,000 of marketable securities with maturities of less than one year at November 30, 2008 and May 31, 2008, respectively.

For the six months ended November 30, 2008, net cash provided by operating activities was $78,000 compared to cash used of $212,000 for the six months ended November 30, 2007, or an increase of $290,000. The cash provided by operating activities primarily resulted from net income and a decrease in accounts receivable of $223,000 offset by a decrease in accounts payable and accrued expenses of $543,000. The cash used by operating activities in the six months ended November 30, 2007, resulted primarily from an increase in accounts receivable.

Net cash provided by investing activities of $1,970,000 for the six months ended November 30, 2008 primarily resulted from not reinvesting all of the proceeds of maturing US Treasury Securities and the purchase of fixed assets.

Net cash used in financing activities resulted from the purchases of treasury stock amounting to $1,220,000, cash dividends paid of $565,000 and distributions to the minority interest of $14,000. The purchases of treasury stock consisted of $1,050,000 in a private transaction and $170,000 in open market transactions. The Board of Directors of the Company approved a plan in December 2007 authorizing the repurchase of shares of Common Stock and approximately 239,000 shares remain available for purchase under this previously announced plan. The

Company has not made any purchases under this plan since September 2008. The Company does not intend to make further purchases under this plan unless there is a change in the market for the Company's common stock. Additionally, the Board of Directors of the Company has declared a cash dividend of $0.05 per share for the quarter ended November 30, 2008. As part of its prior determination to decrease the Company's dividend to $0.05 per share, the Board had determined to reevaluate the dividend if there were a continued decline in the Company's earnings due to the current economic environment. In view of the continued impact of the current economic environment, the Board of Directors has determined to suspend the payment of further dividends. The Board of Directors may reevaluate the Company's dividend policy once the economic conditions stabilize.

The Company's capital resource commitments at November 30, 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 six months ended November 30, 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 November 30, 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.........	$1,393,000	$ 361,000	$ 663,000	$ 369,000	$ --
Employment Agreements....	1,162,000	624,000	488,000	50,000	--
Total...................	$2,555,000	$ 985,000	$1,151,000	$ 419,000	$ --

Recent Account Pronouncements

On September 15, 2006, the Financial Accounting Standards Board ("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 adoption of SFAS No. 157 did not have a material impact on the Company's condensed 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 adoption of SFAS No. 159 did not have a material impact on the Company's condensed consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (R), "Business Combinations" ("SFAS 141(R)"), and SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements" ("SFAS 160"). SFAS 141 (R) requires an acquirer to measure the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree at their fair values on the acquisition date, with goodwill being the excess value over the net identifiable assets acquired. SFAS 160 clarifies that a noncontrolling interest in a subsidiary should be reported as equity in the consolidated financial statements. The calculation of earnings per share will continue to be based on income amounts attributable to the parent. SFAS 141 (R) and SFAS 160 are effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption is prohibited. The Company does not expect the adoption of SFAS 141 (R) and SFAS 160 to have a material impact on its condensed 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, 2008 Annual Report on Form10-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, 2008.

Item 4T. Controls and Procedures

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

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

Part II. Other Information

Item 2(c). Unregistered Sales of Equity Securities and Use of Proceeds

The following table sets forth information concerning any purchase of the Company's common stock made by or on behalf of the Company or any "affiliated purchaser," as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934 during the Company's second fiscal quarter:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Nu Approximat Value) of S Units) that Purchase U Plans or P
Quarter ended				
August 31, 2008	37,900	$2.75	37,900	262,
September, 2008	23,101	2.84	23,101	238,
October, 2008	456,523	2.30	0	238,
November, 2008	0	n/a	0	238,
Total	479,624	$2.33	23,101	238,

(1) The repurchase plan was authorized by the Board of Directors and publicly announced on December 17, 2007. The plan does not have an expiration date.

Item 6. Exhibits

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

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

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

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

SIGNATURES

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

TSR Inc.

(Registrant)

Date: January 9, 2009 /s/ J.F. Hughes

J.F. Hughes, Chairman and President

Date: January 9, 2009 /s/ John G. Sharkey

John G. Sharkey, Vice President Finance
and Chief Financial Officer