

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

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

For the fiscal year ended May 31, 2023

or

Transition Report Under Section 13 or 15(d) of The Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission File Number: 001-38838

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) (Zip Code)

Registrant's telephone number, including area code: 631-231-0333

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	TSRI	NASDAQ Capital Market

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

None
(Title of Class)

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

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

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. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulations S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer
 Smaller Reporting Company Accelerated filer
 Emerging growth company Non-accelerated filer

If an emerging growth company, indicate by check mark if the registrant has elected not to use extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Securities Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to 240.10D-1(b).

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of voting and non-voting common equity held by non-affiliates of the Registrant based upon the closing price of \$7.5943 at November 30, 2022 was \$8,404,000.

The number of shares of the Registrant's common stock outstanding as of August 11, 2023 was 2,143,712.

Documents incorporated by Reference:

The information required in Part III, Items 10, 11, 12, 13 and 14 is incorporated by reference to the Registrant's Proxy Statement in connection with the 2023 Annual Meeting of Stockholders, which will be filed by the Registrant within 120 days after the close of its fiscal year.

TSR, Inc.

Form 10-K

For the Fiscal Year Ended May 31, 2023

Table of Contents

		Page No.
<u>Part I</u>		
Item 1.	<u>Business</u>	1
Item 1A.	<u>Risk Factors</u>	4
Item 1B.	<u>Unresolved Staff Comments</u>	9
Item 2.	<u>Properties</u>	9
Item 3.	<u>Legal Proceedings</u>	10
Item 4.	<u>Mine Safety Disclosures</u>	10
<u>Part II</u>		
Item 5.	<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	11
Item 6.	<u>Reserved</u>	11
Item 7.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	12
Item 7A.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	15
Item 8.	<u>Financial Statements and Supplementary Data</u>	16
Item 9.	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	34
Item 9A.	<u>Controls and Procedures</u>	34
Item 9B.	<u>Other Information</u>	34
Item 9C.	<u>Disclosure Regarding Foreign Jurisdictions that Prevent Inspections</u>	34
<u>Part III</u>		
Item 10.	<u>Directors, Executive Officers and Corporate Governance</u>	35
Item 11.	<u>Executive Compensation</u>	35
Item 12.	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	35
Item 13.	<u>Certain Relationships and Related Transactions, and Director Independence</u>	35
Item 14.	<u>Principal Accountant Fees and Services</u>	35
<u>Part IV.</u>		
Item 15.	<u>Exhibits and Financial Statement Schedules</u>	35
Item 16.	<u>Form 10-K Summary (not used)</u>	35
	<u>Signatures</u>	36

Page i

PART I

Item 1. Business

General

TSR, Inc. (the "Company," "TSR," "we," "us" and "our") is a leading staffing company focused on recruiting Information Technology ("IT") professionals for short and long-term assignments, permanent placements, project work and providing contract computer programming services to its customers. The Company provides its customers with technical computer personnel to supplement their in-house IT capabilities. The Company's customers for its contract computer programming services consist primarily of Fortune 1000 companies with significant technology budgets. In the year ended May 31, 2023, the Company provided IT staffing services to 60 customers. Also, the Company has provided and continues to provide contract administrative (non-IT) workers to some of its significant IT customers, including services to provide administrative workers to new customers acquired following the acquisition of Geneva Consulting Group, Inc. ("Geneva") on September 1, 2020.

The Company was incorporated in Delaware in 1969. The Company's executive offices are located at 400 Oser Avenue, Suite 150, Hauppauge, NY 11788, and its telephone number is (631) 231-0333. This annual report, and each of our other periodic and current reports, including any amendments, are available, free of charge, on our website, www.tsrconsulting.com, as soon as reasonably practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission. The information contained on our website is not incorporated by reference into this annual report on Form 10-K and should not be considered part of this report.

STAFFING SERVICES

The Company's contract computer programming services involve the provision of technical staff to customers to meet the specialized requirements of their IT operations. The technical personnel provided by the Company generally supplement the in-house capabilities of the Company's customers. The Company's approach is to make available to its customers a broad range of technical personnel to meet their requirements rather than focusing on specific specialized areas. The Company has staffing capabilities in the areas of application development in .net and java, mobile applications for Android and IOS platforms, project management, IT security specialists, cloud development and architecture, business analysts, UI design and development, network infrastructure and support and database development and administration. The Company's services provide customers with flexibility in staffing

their day-to-day operations, as well as special projects, on a short-term or long-term basis.

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

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

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

In addition to IT professionals the Company also provides contract administrative (non-IT) workers to support some of its significant IT customers. This service was added at the customers' request. The skills required for these positions are normally less demanding and the Company has hired a separate recruiting staff to handle this business, which includes both in-house and off-shore recruiters. There can be no assurance that the customers will continue to request these services.

OPERATIONS

The Company provides contract computer programming services in the New York metropolitan area, and throughout the United States wherever there are customer locations with requirements for IT or administrative contractors. The Company provides its services principally through offices located in Edison, New Jersey and Hauppauge, New York. As of May 31, 2023, the Company employed 30 persons who are responsible for recruiting technical and non-technical personnel and 12 persons who are account executives. As of May 31, 2022, the Company had employed 36 technical and non-technical recruiters and 12 account executives. For some services, the Company also uses offshore recruiters. The number of offshore recruiters contracted by the Company fluctuates depending on demand for services. At May 31, 2023 and May 31, 2022, the Company contracted for approximately 25 and 40 offshore recruiters to provide services to clients, respectively.

MARKETING AND CUSTOMERS

The Company focuses its marketing efforts on large businesses and institutions with significant IT budgets and recurring staffing and software development needs. The Company provided services to 60 customers during the year ended May 31, 2023 ("fiscal 2023") as compared to 62 in the year ended May 31, 2022 ("fiscal 2022"). The Company has historically derived a significant percentage of its total revenue from a relatively small number of customers. In fiscal 2023, the Company had four customers which each provided more than 10% of consolidated revenues: Consolidated Edison (21.0%), ADP (18.4%), Morgan Stanley (13.7%) and Citigroup (12.5%). Additionally, the Company's top ten customers (including underlying customers of vendor management companies) accounted for 90% of consolidated revenue in fiscal 2023 and 86% in fiscal 2022. While continuing its efforts to further expand its client base, including strategically targeted middle market accounts, the Company's marketing efforts are focused primarily on increasing business from its existing accounts. Approximately 26% of the Company's revenue is derived from end customers in the financial services business. Competitive pressures in financial services, primarily with European based banks, have negatively affected the net effective rates that the Company charges to certain of the Company's end customers in this industry, which has negatively affected the Company's gross profit margins.

Many of the Company's major customers, totaling over 44% of revenue, have retained a third party to provide vendor management services and centralize the consultant hiring process. Under this system, the third party retains the Company to provide contract computer programming services, the Company bills the third party, and the third party bills the ultimate customer. At certain customers, this process has weakened the relationships the Company has built with its customers' project managers, who are the Company's primary contacts with its customers and with whom the Company would normally work to place consultants. Instead, the Company is required to interface with the vendor management provider, making it more difficult to maintain its relationships with its customers and preserve and expand its business. In some cases, these changes have also reduced the Company's profit margins because the vendor management company is retained for the purpose of keeping costs low for the end client and receives a processing fee which is deducted from the payment to the Company.

In accordance with industry practice, most of the Company's contracts for contract computer programming services are terminable by either the client or the Company on short notice.

PROFESSIONAL STAFF AND RECRUITMENT

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

The Company employs technical personnel primarily on an hourly basis, as required in order to meet the staffing requirements under particular contracts or for particular projects. The Company primarily recruits technical personnel by posting jobs on the Internet and, on rare occasion, by publishing advertisements in local newspapers and attending job fairs. The Company devotes significant resources to recruiting technical personnel, maintaining 30 technical and non-technical recruiters based in the U.S. and contracting with companies for 25 to 40 offshore recruiters as needed to assist in locating both IT and administrative (non-IT) workers. Potential applicants are generally interviewed and tested by the Company's recruiting personnel, by third parties that have the required technical backgrounds to review the qualifications of the applicants, or by on-line testing services. In some cases, instead of employing technical personnel directly, the Company uses subcontractors who employ the technical personnel who are provided to the Company's customers. For a small fee, the Company may sometimes process payments on behalf of customers to contractors identified by the customers directly instead of through the normal recruiting process; this is known as "payrolling".

Competition

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

Intellectual Property Rights

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

Personnel

As of May 31, 2023, the Company had 431 full-time employees including its 2 executive officers. Of such employees, 12 were engaged in sales, 30 were recruiters for technical and non-technical personnel, 371 were IT and administrative (non-IT) contractors, and 16 were engaged in corporate administrative and clerical functions.

As of May 31, 2022, the Company had 632 full-time employees including its 2 executive officers. Of such employees, 12 were engaged in sales, 36 were recruiters for technical and non-technical personnel, 566 were IT and administrative (non-IT) contractors, and 16 were engaged in corporate administrative and clerical functions.

None of the Company's employees belong to unions.

Forward-Looking Statements

Certain statements contained under this Item 1A. "Risk Factors", Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 1. "Business", including but not limited to 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. The words "believe," "may," "will," "estimate," "anticipate," "intend," "expect," and similar expressions are intended to identify forward-looking statements. Actual results may differ materially from those projections in the forward-looking statements, which statements involve risks and uncertainties, including but not limited to the factors set forth below

- the statements concerning the success of the Company's plan for growth, both internally and through the previously announced pursuit of suitable acquisition candidates;
- the successful integration of announced and completed acquisitions and any anticipated benefits therefrom;
- the impact of adverse economic conditions on client spending, which include, but are not limited to, adverse economic conditions associated with the COVID-19 global health pandemics, which may significantly reduce client spending, and which may have a negative impact 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 programming 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 business;

Page 3

- 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;
- the Company's ability to adapt to changing market conditions;
- the risks, uncertainties and expense of the legal proceedings to which the Company is, or may become, a party; and
- other risks and uncertainties set forth in the Company's filings with the Securities and Exchange Commission.

Forward-looking statements reflect our current views with respect to future events and are based on currently available operating, financial and competitive information. We have no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or risks, except to the extent required by applicable law. If we do update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements. New information, future events or risks could cause the forward-looking events we discuss in this report not to occur. You should not place undue reliance on these forward-looking statements, which reflect our expectations only as of the date of this report.

Item 1A. Risk Factors

Our business, financial condition and results of operations have been and may continue to be negatively impacted by global health

epidemics, including the COVID-19 pandemic.

Outbreaks of epidemic, pandemic, or contagious diseases such as COVID-19, and any related economic impacts, have and may continue to have an adverse effect on our business, financial condition, and results of operations, and our future operating results may fall below expectations. The extent to which our business will continue to be affected by the COVID-19 pandemic will depend on a variety of factors, many of which are outside of our control, including the persistence of the pandemic, impacts on economic activity, and the possibility of recession or continued financial market instability.

Our success depends on our management team and other key personnel, the loss of any of whom could disrupt our business operations.

The Company is dependent on Thomas Salerno, our Chief Executive Officer, President and Treasurer, in his corporate positions and as President of our subsidiary TSR Consulting Services, Inc. The Company has an employment agreement with Mr. Salerno which expires November 2, 2026. The Company is also dependent on certain of its account executives who are responsible for servicing its principal customers and attracting new customers. The Company generally does not have employment contracts with the account executives. There can be no assurance that the Company will be able to retain its existing personnel or find and attract additional qualified employees. The loss of the service of any of these personnel could have a material adverse effect on the Company.

The Company may be subject to future lawsuits or investigations, which could divert our resources or result in substantial liabilities.

In the future, the Company may be subject to legal or administrative proceedings and litigation which may be costly to defend and could materially harm our business, financial conditions and operations. With respect to any litigation, the Company's insurance may not reimburse it or may not be sufficient to reimburse it for the self-insured retention that the Company is required to satisfy before any insurance applies to a claim, unreimbursed legal fees or an adverse result in any litigation. Such event may adversely impact the Company's business, operating results or financial condition.

Our business may be materially and adversely impacted if our relationship with one or more of our major customers is lost or disrupted.

In fiscal 2023, the Company's four largest customers, Consolidated Edison, ADP, Morgan Stanley and Citigroup, accounted for 21.0%, 18.4%, 13.7%, and 12.5% of the Company's consolidated revenue, respectively. Any disruptions in our relationships with our significant customers may have a materially adverse impact on our financial condition and results of operations. In total, the Company derives over 44% of its revenue from accounts with vendor management companies. The Company's 10 largest customers provided 90% of consolidated revenue in fiscal 2023. Client contract terms vary depending on the nature of the engagement, and there can be no assurance that a client will renew a contract when it terminates. In addition, the Company's contracts are generally cancelable by the client at any time on short notice, and customers may unilaterally reduce their use of the Company's services under such contracts without penalty. Approximately 26% of the Company's revenue is derived from end customers in the financial services business. Competitive pressures in financial services, primarily with European based banks, have negatively affected the net effective rates that the Company charges to certain end customers in this industry, which has negatively affected the Company's gross profit margins.

Page 4

In accordance with industry practice, most of the Company's contracts for contract computer programming services are terminable by either the client or the Company on short notice.

The accounts receivable balances associated with the Company's largest customers were \$6,848,000 for four customers at May 31, 2023 and \$8,668,000 for four customers at May 31, 2022. Because of the significant amount of outstanding receivables that the Company may have with its larger customers at any one time, if a client, including a vendor management company which then contracts with the ultimate client, filed for bankruptcy protection or otherwise sought to modify payment terms, it could prevent the Company from collecting on the receivables and have an adverse effect on the Company's results of operations.

Damage to our reputation may adversely affect our customer relationships and our business, financial condition and results of operations.

The Company's reputation among its customers, potential customers and the staffing services industry depends on the performance of the technical personnel that the Company places with its customers. If the Company's customers are not satisfied with the services provided by the technical personnel placed by the Company, or if the technical personnel placed by the Company lack the qualifications or experience necessary to perform the services required by the Company's customers, the Company may not be able to successfully maintain its relationships with its customers or expand its client base.

We operate in a competitive market for technical personnel, account executives and technical recruiters and disruptions to our business may result if we fail to attract and retain qualified personnel to operate our business and service our customers.

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

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

The Company faces a highly competitive market for hiring and retaining account executives and technical recruiters, which could affect the Company's ability to hire and retain such personnel, including by increasing the costs of doing so. If the Company is successful in hiring technical recruiters and account executives, there can be no assurance that such hiring will result in increased revenue.

We operate in a rapidly changing industry and a reduction in demand for our technical staffing services may adversely affect our business, financial condition and results of operations.

The computer industry is characterized by rapidly changing technology and evolving industry standards. These include the overall increase in the sophistication and interdependency of computer technology and a focus by IT managers on cost-efficient solutions. There can be no assurance that these changes will not adversely affect demand for technical staffing services. Organizations may elect to perform such services in-house or outsource such functions to companies that do not utilize temporary staffing, such as that provided by the Company.

Additionally, a number of companies have, in recent years, limited the number of vendors on their approved vendor lists, and are continuing to do so. In

some cases, this has required the Company to subcontract with a company on the approved vendor list to provide services to customers. The staffing industry has also experienced margin erosion caused by this increased competition, and customers leveraging their buying power by consolidating the number of vendors with which they deal. In addition to these factors, there has been intense price competition in the area of IT staffing, pressure on billing rates and pressure by customers for discounts. The Company has endeavored to increase its technical recruiting staff in order to better respond to customers' increasing demands for both the timeliness, quality and quantities of resume submittals against job requisitions.

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

The increase in our customers' use of third-party vendor management companies may weaken our relationship with our customers and adversely impact our ability to develop and expand customer relationships.

There have been changes in the industry which have affected the Company's operating results. Many customers have retained third parties to provide vendor management services, and in excess of 44% of the Company's revenue is derived through business with vendor management companies. The third party is then responsible for retaining companies to provide temporary IT personnel. This results in the Company contracting with such third parties and not directly with the ultimate customer. This change weakens the Company's relationship with its customer, which makes it more difficult for the Company to maintain and expand its business with its existing customers. It also reduces the Company's profit margins.

In addition, the agreements with the vendor management companies are frequently structured as subcontracting agreements, with the vendor management company entering into a services agreement directly with the end customers. As a result, in the event of a bankruptcy of a vendor management company, the Company's ability to collect its outstanding receivables and continue to provide services could be adversely affected.

The COVID-19 pandemic has impacted, and may continue to impact, our business and operational practices, including the shift to remote work.

The COVID-19 outbreak in the United States caused business disruption and economic uncertainties through mandated and voluntary closing of various businesses. The expansion of remote work also emerged to prevent the spread of disease while seeking to maintain business operations and continuity. Following the global COVID-19 outbreak, a substantial portion of our workforce transitioned to remote work and will likely continue as remote workers. We expect our business to continue to grow over time and, while our business model allows our customers remote access to our highly-skilled and attentive workforce, we are continuously evaluating the nature of, and extent to which, the ongoing pandemic and related shift to remote work will impact our business, operating results, and financial condition.

Increases in payroll-related costs coupled with an inability to increase our fees charged to customers to cover such costs has, and may likely continue to have, an adverse effect on our profitability.

The Company is required to pay a number of federal, state and local payroll and related costs, including unemployment insurance, workers' compensation insurance, employer's portion of Social Security and Medicare taxes, among others, for our employees, including those placed with customers. Significant increases in the effective rates of any payroll-related costs would likely have a material adverse effect on the Company. During the past few years, many of the states in which the Company conducts business have significantly increased their state unemployment tax rates in an effort to increase funding for unemployment benefits. Costs have continued to increase as a result of health care reforms and the mandate to provide health insurance to employees under the Affordable Care Act. New York and New Jersey implemented laws over the last several years that require employers to provide certain minimum benefits for employees with respect to paid sick leave and family leave, which has and will continue to increase our payroll-related costs. Many other cities around the country have enacted or are in the process of enacting similar mandates. The Company has not been able to sufficiently increase the fees charged to its customers to cover these mandated cost increases. There are also proposals on the federal and state levels to phase in paid or partially paid family leave. The enacted mandates have had a negative effect on the Company's profitability and additional mandates will continue to negatively impact the Company's margins.

The current trend of companies moving technology jobs and projects offshore has caused and could continue to cause revenue to decline.

In the past few years, more companies are using or are considering using low cost offshore outsourcing centers, particularly in India and other East Asian countries, to perform technology related work and projects. This trend has reduced the growth in domestic IT staffing revenue for the industry. This trend has had a negative impact on our business and there can be no assurance that it will not continue to adversely impact the Company's IT staffing revenue.

Because much of our technical personnel consists of foreign nationals with work visas, changes in immigration laws that restrict the provision of work visas may adversely affect our ability to retain qualified technical personnel.

The Company obtains many of its technical personnel by subcontracting with companies that utilize foreign nationals entering the U.S. on work visas, primarily under the H-1B visa classification. The Company also sponsors foreign nationals on H-1B visas on a limited basis. The H-1B visa classification enables U.S. employers to hire qualified foreign nationals in positions that require an education at least equal to a bachelor's degree. U.S. Immigration laws and regulations are subject to legislative and administrative changes, as well as changes in the application of standards and enforcement. In recent years, proclamations have been issued to temporarily suspend certain immigration visas for many categories of foreign workers including H-1B. These and future restrictions on the availability of work visas could restrain the Company's ability to acquire the skilled professionals needed to meet our customers' requirements, which could have a material adverse effect on our business. The scope and impact of these changes on the staffing industry and the Company remain unclear, however a narrow interpretation and vigorous enforcement of existing laws and regulations could adversely affect the ability of entities with which the Company subcontracts to utilize foreign nationals and/or renew existing foreign national consultants on assignment. There can be no assurance that the Company or its subcontractors will be able to keep or replace all foreign nationals currently on assignment or continue to acquire foreign national talent at the same rates as in the past.

We experience fluctuations in our quarterly operating results.

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

can be impacted by a variety of factors, including competition for highly skilled employees and inflation.

The Company's operating results also fluctuate due to seasonality. Typically, our billable hours, which directly affect our revenue and profitability, decrease in our third fiscal quarter. Clients closing during the holiday season and for winter weather normally causes the number of billable workdays for consultants on billing with customers to decrease. Additionally, at the beginning of the calendar year, which also falls within our third fiscal quarter, payroll taxes are at their highest. This typically results in our lowest gross margins of the year. The Company's operating results are also subject to fluctuation as a result of other factors such as vacations, client mandated furloughs and client budgeting requirements.

We believe competition in our industry and for qualified personnel will increase, and there can be no assurance that we will remain competitive.

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

The Company is exposed to contract and other liability, and there can be no assurance that our contracts and insurance coverage would adequately protect the Company from such liability or related claims or litigation.

The personnel provided by the Company to customers provide services involving key aspects of its customers' software applications. A failure in providing these services could result in a claim for substantial damages against the Company, regardless of the Company's responsibility for such failure. The Company attempts to limit, contractually, its liability for damages arising from negligence or omissions in rendering services, but it is not always successful in negotiating such limits.

Page 7

Furthermore, due to increased competition and the requirements of vendor management companies, the Company may be required to accept less favorable terms regarding limitations on liability, including assuming obligations to indemnify customers for damages sustained in connection with the provision of our services. There can be no assurance our contracts will include the desired limitations of liability or that the limitations of liability set forth in our contracts would be enforceable or would otherwise protect the Company from liability for damages.

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

Our business and our reputation could be adversely affected by a data security incident or the failure to protect sensitive client, employee and Company data, or the failure to comply with applicable regulations relating to data security and privacy.

Our ability to protect client, employee, and Company data and information is critical to our reputation and the success of our business. Our clients and employees expect that their confidential, personal and private information will be secure in our possession. Attacks against security systems have become increasingly sophisticated along with developments in technology, and such attacks have become more prevalent. Consequently, the regulatory environment surrounding cybersecurity and privacy has become more and more demanding and has resulted in new requirements and increasingly demanding standards for protection of information. As a result, the Company may incur increased expenses associated with adequately protecting confidential client, employee, and Company data and complying with applicable regulatory requirements. There can be no assurance that we will be able to prevent unauthorized third parties from breaching our systems and gaining unauthorized access to confidential client, employee, and Company data even if our cybersecurity measures are compliant with regulatory requirements and standards. Unauthorized third party access to confidential client, employee, and Company data stored in our system whether as a result of a third party system breach, systems failure or employee negligence, fraud or misappropriation, could damage our reputation and cause us to lose customers, and could subject us to monetary damages, fines and/or criminal prosecution. Furthermore, unauthorized third-party access to or through our information systems or those we develop for our customers, whether by our employees or third parties, could result in system disruptions, negative publicity, legal liability, monetary damages, and damage to our reputation.

While we take steps to protect our intellectual property rights and proprietary information, there can be no assurance that the Company can prevent misappropriation of such rights and information.

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

Page 8

Our significant stockholders, particularly if they choose to work together, may have the ability to exert significant influence over our business policies and affairs on matters submitted to our stockholders for approval.

Our largest shareholders, Zeff Capital, L.P. and QAR Industries, Inc., are the beneficial owners of an aggregate of 983,273 shares of Common Stock,

which represents approximately 45.9% of the Company's issued and outstanding Common Stock. By virtue of such ownership, Zeff Capital, L.P. and QAR Industries, Inc. have the ability to exercise significant influence over the Company. For example, this concentrated ownership could delay, defer, or prevent a change in control, merger, consolidation, or sale of all or substantially all of the Company's assets in transactions that other shareholders strongly support or conversely, this concentrated ownership could result in the consummation of such transactions that many of the Company's other shareholders do not support. Further, investors may be prevented from affecting matters involving the Company, including:

- the composition of our Board of Directors and, through it, any determination with respect to our business direction and policies, including the appointment and removal of officers;
- our acquisition of assets or other businesses; and
- our corporate financing activities.

This significant concentration of stock ownership may also adversely affect the trading price for our Common Stock because investors may perceive disadvantages in owning stock in a company that is controlled by a small number of stockholders.

Certain provisions of our governing documents may make it more difficult for a third party to acquire us and make a takeover more difficult to complete, even if such a transaction were in the stockholders' interest.

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

The issuance of new classes and series of preferred stock may deter or delay a change in control and/or affect our stock price.

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

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

Among the factors that have previously affected the Company's stock price and may do so in the future are:

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

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

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

The Company leases 8,000 square feet of space in Hauppauge, New York for a term expiring December 31, 2023, with annual rents of approximately \$110,000. This space is used as executive and administrative offices for the Company and the Company's operating subsidiaries. The Company also leases a sales and recruiting office in Edison, New Jersey (lease expires May 2027), with aggregate annual rents of approximately \$118,000.

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

Item 3. Legal Proceedings

Fintech Consulting LLC v. TSR, Inc., et al., case number 2:21-cv-20181(KSH)(AME) (U.S. Dist. Ct., Dist. of New Jersey) ; Fintech Consulting LLC DBA APTASK v. TSR, Inc., et al., civil action no. 2023-0030-MTZ (Del. Ch.); and Fintech Consulting, LLC v. TSR, Inc., et al, Case Number: 1:23-cv-00074-MN (U.S. Dist. Ct. Dist. of Delaware).

On December 1, 2021, Fintech Consulting LLC filed a complaint against the Company in the United States District Court for the District of New Jersey ("the New Jersey Action"). The named Defendants in the complaint are the Company, QAR Industries, Inc., a shareholder of TSR ("QAR"), Robert E. Fitzgerald, a director and shareholder of TSR and the President, director and a shareholder of QAR ("Fitzgerald"), and Bradley Tirpak, a shareholder and the chairman of the board of directors of TSR ("Tirpak"). The complaint purported to assert claims against the Defendants under state law and Section 10(b) of the Exchange Act in connection with a Share Purchase Agreement, dated January 31, 2021, by and between the Plaintiff, as the seller of shares of TSR's common stock, and QAR and Tirpak, as the purchasers of such shares (the "SPA"). The Plaintiff sought (i) judgment declaring the transactions represented by the SPA null and void and for the return of the shares; (ii) judgment cancelling the SPA and returning the shares in exchange for return of the purchase price; (iii) judgment unwinding the transaction; (iv) compensatory damages; (v) punitive damages; (vi) pre-judgment interest; (vii) costs of lawsuit including attorneys' fees; and (viii) such other relief as the Court may find appropriate. Fintech filed its first amended complaint on March 2, 2022 which Defendants moved to dismiss on April 19, 2022. On December 7, 2022, the court granted Defendants' motion and dismissed the New Jersey Action on jurisdictional grounds.

Following the dismissal of the original lawsuit, the Plaintiff filed another complaint relating to the SPA against the Defendants on January 12, 2023 in the Court of Chancery of the State of Delaware (the "Delaware Chancery Action"), asserting claims and seeking relief substantially similar to that which was

asserted and sought in the preceding lawsuit. Plaintiff filed in the Delaware Chancery Court pursuant to the forum selection clause in the SPA, whereby the parties thereto irrevocably and unconditionally consented to the exclusive general jurisdiction of the Delaware Chancery Court over any action, suit or proceeding arising out of or relating to the SPA. Also on January 12, 2023, the Plaintiff filed a motion to dismiss its own complaint for lack of subject matter jurisdiction, requesting that the court dismiss the suit so that Plaintiff could re-file in federal court, along with a motion to expedite. On January 18, 2023, the court issued a letter decision denying Plaintiff's motion to expedite and stating that the court would address Plaintiff's motion to dismiss in the ordinary course. On January 23, 2023, the Delaware Chancery Action was dismissed without prejudice.

On January 22, 2023, Fintech Consulting LLC filed a complaint against the Company in the United States District Court for the District of Delaware (the "Delaware Federal Action"). The Delaware Federal Action, in sum and substance, asserted claims and sought relief substantially similar to that contained in both the New Jersey Action and the Delaware Chancery Action.

Although the Company believed the Delaware Chancery Action described above to be without merit, to avoid the time and expense of litigation, the Company negotiated with Fintech to settle this matter pursuant to a settlement agreement and release dated April 24, 2023. An amount of \$75,000 was accrued to selling, general and administrative expenses in the quarter ending February 28, 2023 and paid in the fourth quarter of fiscal 2023 to settle this matter. Upon the payment of the settlement amount (i) the plaintiffs forever released and discharged the defendants from any and all claims or liability of any nature whatsoever; (ii) the defendants forever released and discharged the plaintiffs from any and all claims or liability of any nature whatsoever that relate to the Delaware Federal Action or the SPA; and (iii) the plaintiffs filed a Stipulation of Dismissal with Prejudice on April 27, 2023.

Item 4. Mine Safety Disclosures

Not applicable.

Page 10

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The Company's shares of Common Stock trade on the NASDAQ Capital Market under the symbol TSRI. The following are the high and low sales prices for each quarter during the fiscal years ended May 31, 2023 and 2022:

	JUNE 1, 2022 – MAY 31, 2023			
	1ST QUARTER	2ND QUARTER	3RD QUARTER	4TH QUARTER
High Sales Price	\$ 10.32	\$ 9.49	\$ 10.34	\$ 9.40
Low Sales Price	7.06	6.99	6.52	5.97
JUNE 1, 2021 – MAY 31, 2022				
	1ST QUARTER	2ND QUARTER	3RD QUARTER	4TH QUARTER
High Sales Price	\$ 13.94	\$ 16.80	\$ 15.28	\$ 15.62
Low Sales Price	8.00	8.38	7.71	6.88

There were 38 holders of record of the Company's Common Stock as of July 31, 2023. Additionally, the Company estimates that there were 1,300 beneficial holders as of that date. The Company has no current plans to implement a quarterly dividend program or pay any other special cash dividend.

The only securities authorized for issuance under any equity compensation plan relate to the 2020 Equity Incentive Plan. See Note 12 to the Consolidated Financial Statements elsewhere in this report.

Issuer Purchases of Equity Securities

The table below sets forth the information required by Item 703 of Regulation S-K with respect to any repurchase made in a month within the fourth quarter of fiscal 2023 by or on behalf of the Company or any "affiliated purchaser", as defined in § 240.10b-18(a)(3) of the Exchange Act, of shares of our common stock.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
March 1-31, 2023	3,880	\$ 8.10	3,880	\$ 287,108
April 1-30, 2023	-	-	-	\$ 287,108
May 1-31, 2023	-	-	-	\$ 287,108
Total	3,880	\$ 8.10	3,880	\$ 287,108

(1) On September 12, 2022, the Board of Directors authorized a stock repurchase program of up to \$500,000 of the Company's outstanding common stock, par value \$0.01 per share. The stock repurchase program was announced on Form 8-K by the Company on September 13, 2022. The program commenced on September 15, 2022 and is authorized for the following twelve months until September 13, 2023. The shares may be repurchased from time to time in open market transactions at prevailing market prices, in privately negotiated transactions, or by other means in accordance with federal securities laws. The actual timing, number and value of shares repurchased under the program will be determined by the Board of Directors at its discretion and will depend on a number of factors, including the market price of the Company's stock, general market and economic conditions and applicable legal and contractual requirements. The Company has no obligation or commitment to repurchase all or any portion of the shares authorized by the program.

Item 6. Reserved

Reserved.

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

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

Results of Operations

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

	Years Ended May 31, (Dollar Amounts in Thousands)			
	2023		2022	
	Amount	% of Revenue	Amount	% of Revenue
Revenue, Net	\$ 101,433	100.0%	\$ 97,312	100.0%
Cost of Sales	83,947	82.8	81,314	83.6
Gross Profit	17,486	17.2	15,998	16.4
Selling, General and Administrative Expenses	14,789	14.6	15,619	16.0
Income from Operations	2,697	2.6	379	0.4
Other Income (Expense), Net	(63)	0.0	6,622	6.8
Income Before Income Taxes	2,634	2.6	7,001	7.2
Provision for (Benefit from) Income Taxes	831	0.8	(1)	0.0
Consolidated Net Income	1,803	1.8	7,002	7.2
Net Income Attributable to Noncontrolling Interest	61	0.1	73	0.1
Net Income Attributable to TSR, Inc.	\$ 1,742	1.7%	\$ 6,929	7.1%

Revenue

Revenue consists primarily of revenue from computer programming consulting services. Revenue for the fiscal year ended May 31, 2023 increased approximately \$4,121,000 or 4.2% from the fiscal year ended May 31, 2022, primarily due to growth in higher priced IT contractors offsetting decreases in clerical and administrative contractors. The average number of consultants on billing with customers decreased from 701 for the year ended May 31, 2022 to 648 for the year ended May 31, 2023. However, the average number of IT consultants increased from 431 to 463 for the year ended May 31, 2023, while the average number of clerical and administrative contractors decreased from 270 to 185 for the year ended May 31, 2023. Customers using our clerical and administrative contractors decreased their spending by terminating assignments early and hiring our contractors directly at a greater rate than usual. The change in the business mix toward the higher revenue IT contractors yielded the net increase in revenue.

Cost of Sales

Cost of sales for the fiscal year ended May 31, 2023 increased approximately \$2,633,000 or 3.2% to \$83,947,000 from \$81,314,000 in the prior year period. The increase in cost of sales resulted primarily from an increase in higher cost IT consultants placed with customers, primarily from organic growth. Cost of sales as a percentage of revenue decreased from 83.6% in the fiscal year ended May 31, 2022 to 82.8% in the fiscal year ended May 31, 2023. Revenue grew at a higher rate than cost of sales when comparing the fiscal year ended May 31, 2023 to the prior year period, causing an increase in gross margins. The IT contractors added have a higher gross margin than the clerical and administrative staff that decreased.

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 approximately \$830,000 or 5.3% from \$15,619,000 in the fiscal year ended May 31, 2022 to \$14,789,000 in the fiscal year ended May 31, 2023. The decrease in these expenses primarily resulted from a charge of \$580,000 for the legal settlement with the former Chief Executive Officer in the prior year period. Recruiting cost were also reduced approximately \$425,000 primarily from a reduction in the utilization of offshore recruiters. Additionally, the Company incurred non-cash compensation expenses of \$219,000 in the fiscal year ended May 31, 2023 and \$565,000 in the fiscal year ended May 31, 2022 related to the TSR, Inc. 2020 Equity Incentive Plan. These reductions were offset by an increase in legal and professional fees of approximately \$164,000. Selling, general and administrative expenses, as a percentage of revenue, decreased from 16.0% in the fiscal year ended May 31, 2022 to 14.6% in the fiscal year ended May 31, 2023.

Other Income (Expense)

Other expense for the fiscal year ended May 31, 2023 resulted primarily from net interest expense of approximately \$53,000 and a mark-to-market loss of approximately \$10,000 on the Company's marketable equity securities. Other income for the fiscal year ended May 31, 2022 resulted primarily from the forgiveness of principal and accrued interest on the PPP Loan of \$6,735,000, offset by net interest expense of approximately \$102,000 and a mark-to-market loss of \$10,000 on the Company's marketable equity securities.

Income Taxes

The effective income tax rates were 31.5% for the fiscal year ended May 31, 2023 and a benefit of less than 1% for the fiscal year ended May 31, 2022. The effective income tax rate was lower than expected in fiscal 2022 due to the non-taxable gain on the forgiveness of the PPP Loan principal and accrued interest.

Net Income Attributable to TSR

Net income attributable to TSR was approximately \$1,742,000 in the fiscal year ended May 31, 2023 compared to \$6,929,000 in the fiscal year ended May 31, 2022. The net income in the prior fiscal year was primarily attributable to the forgiveness of principal and accrued interest on the PPP Loan.

Impact of Inflation and Changing Prices

For the fiscal years ended May 31, 2023 and 2022, inflation and changing prices did not have a material effect on the Company's revenue or income from continuing operations. The impact for fiscal 2024 cannot yet be determined.

Liquidity and Capital Resources

The Company's cash was sufficient to enable it to meet its liquidity requirements during the fiscal year ended May 31, 2023. The Company expects that its cash and cash equivalents and the Company's Credit Facility pursuant to a Loan and Security Agreement with Access Capital, Inc. (the "Lender") will be sufficient to provide the Company with adequate resources to meet its liquidity requirements for the 12-month period following the issuance of these consolidated financial statements. Utilizing its accounts receivable as collateral, the Company has secured this Credit Facility to increase its liquidity as necessary. As of May 31, 2023, the Company had no net borrowings outstanding against this Credit Facility. The amount the Company has borrowed fluctuates and, at times, it has utilized the maximum amount of \$2,000,000 available under this facility to fund its payroll and other obligations. The Company was in compliance with all covenants under the Credit Facility as of May 31, 2023 and through the date of this filing. Additionally, in April 2020, the Company secured a PPP Loan in the amount of \$6,659,000 to meet its obligations in the face of potential disruptions in its business operations and the potential inability of its customers to pay their accounts when due. As of August 31, 2020, the Company had used 100% of the PPP Loan funds to fund its payroll and for other allowable expenses under the PPP Loan. The use of these funds allowed the Company to avoid certain salary reductions, furloughs and layoffs of employees during the period. The Company applied for PPP Loan forgiveness and its application for forgiveness was accepted and approved; the PPP Loan and accrued interest were fully forgiven in July 2021.

Page 13

At May 31, 2023, the Company had working capital (total current assets in excess of total current liabilities) of approximately \$13,551,000, including cash and cash equivalents and marketable securities of \$7,897,000 as compared to working capital of \$10,912,000, including cash and cash equivalents and marketable securities of \$6,526,000 at May 31, 2022.

Net cash flow of approximately \$1,754,000 was provided by operations during the fiscal year ended May 31, 2023 as compared to \$2,307,000 of net cash used in operations in the prior year period. The cash provided by operations for the fiscal year ended May 31, 2023 primarily resulted from consolidated net income of \$1,802,000, a decrease in accounts receivable of \$1,346,000 and a decrease in deferred income taxes of \$628,000 offset by a decrease in accounts payable and accrued expenses of \$1,917,000 and a decrease in legal settlement payable of \$598,000. The cash used in operations for the fiscal year ended May 31, 2022 primarily resulted from consolidated net income of \$7,002,000, offset by the forgiveness of the PPP Loan principal and accrued interest of \$6,735,000, an increase in accounts receivable of \$3,767,000 and a decrease in legal settlement payable of \$270,000.

Net cash used in investing activities of approximately \$496,000 for the fiscal year ended May 31, 2023 primarily resulted from purchases of certificates of deposit of \$990,000 and purchases of fixed assets of \$6,000, less maturities of certificates of deposit of \$500,000. Net cash used in investing activities of \$87,000 for the fiscal year ended May 31, 2022 primarily resulted from purchases of fixed assets.

Net cash used in financing activities during the fiscal year ended May 31, 2023 of \$366,000 primarily resulted from purchases of treasury stock of \$213,000, distributions of the minority interest of \$75,000 and from net repayments under the Company's Credit Facility of \$62,000. Net cash provided by financing activities of approximately \$1,514,000 during the fiscal year ended May 31, 2022 resulted from net proceeds from sales of the Company's common stock in our at-the-market ("ATM") program of \$1,784,000 offset by payments made for taxes related to vested stock awards of \$212,000, net payments on the Company's Credit Facility of \$31,000 and distributions of the minority interest of \$27,000.

The Company's capital resource commitments at May 31, 2023 consisted of lease obligations on its branch and corporate facilities. The net present value of its future lease payments was approximately \$492,000 as of May 31, 2023. The Company intends to finance these commitments primarily from the Company's available cash and Credit Facility.

Page 14

Critical Accounting Estimates

The Securities Act regulations define "critical accounting estimates" as those estimates made in accordance with generally accepted accounting principles that involve a significant level of estimation uncertainty and have had or are reasonably likely to have a material impact on the financial statements or results of operations of the registrant. These estimates 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 estimates and policies are described in Note 1 to its consolidated financial statements, contained elsewhere in this report. The Company believes that the following accounting estimates and policies require the application of management's most difficult, subjective or complex judgments:

Revenue Recognition

Revenues are recognized as control of the promised service is transferred to customers, in an amount that reflects the consideration expected in exchange for the services. Revenues from contract assignments are recognized over time, based on hours worked by the Company's contract professionals. The performance of the requested service over time is the single performance obligation for assignment revenues. Certain customers may receive discounts (e.g., volume discounts, rebates, prompt-pay discounts) and adjustments to the amounts billed. These discounts, rebates and adjustments are considered variable consideration. Volume discounts are the largest component of variable consideration and are estimated using the most likely amount method prescribed by Accounting Standards Codification ("ASC") 606, contracts terms and estimates of revenue. Revenues are recognized net of variable consideration to the extent that it is probable that a significant reversal of revenues will not occur in subsequent periods. Payment terms vary and the time between invoicing and when payment is due is not significant. There are no financing components to the Company's arrangements. There are no incremental costs to obtain contracts and costs to fulfill contracts are expensed as incurred. The Company's operations are primarily located in the United States. The Company recognizes most of its revenue on a gross basis when it acts as a principal in its transactions. The Company has direct contractual relationships with its customers, bears the risks and rewards of its arrangements, and has the discretion to select the contract professionals and establish the price for the services to be provided. Additionally, the Company retains control over its contract professionals based on its contractual arrangements. The Company primarily provides services through its employees and to a lesser extent, through subcontractors; the related costs are included in cost of sales. The Company includes billable expenses (out-of-pocket reimbursable expenses) in revenue and the associated expenses are included in cost of sales.

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

Goodwill

Goodwill is recorded when the purchase price paid for an acquisition exceeds the estimated fair value of the net identified tangible and intangible assets acquired. Goodwill is not amortized but is subject to impairment analysis at least once annually or more frequently upon the occurrence of an event or when circumstances indicate that the carrying amount of a unit is greater than its fair value.

Intangible Assets

The Company amortizes its intangible assets over their estimated useful lives and will review these assets for impairment when there is evidence that events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of these assets is measured by comparing the carrying amounts to the future undiscounted cash flows the assets are expected to generate. If intangible assets are considered to be impaired, the impairment to be recognized equals the amount by which the carrying value of the asset exceeds its fair market value.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The Company is a smaller reporting company and is therefore not required to provide this information.

Page 15

Item 8. Financial Statements and Supplementary Data

Index to Consolidated Financial Statements

	Page
Report of Independent Registered Public Accounting Firm (PCAOB ID 596)	17
Consolidated Financial Statements:	
Consolidated Balance Sheets as of May 31, 2023 and 2022	18
Consolidated Statements of Operations for the years ended May 31, 2023 and 2022	20
Consolidated Statements of Equity for the years ended May 31, 2023 and 2022	21
Consolidated Statements of Cash Flows for the years ended May 31, 2023 and 2022	23
Notes to Consolidated Financial Statements	24

Page 16

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
TSR, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of TSR, Inc. and Subsidiaries (the "Company") as of May 31, 2023 and 2022, and the related consolidated statements of operations, equity and cash flows for each of the years in the two-year period ended May 31, 2023, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of May 31, 2023 and 2022, and the results of its operations and its cash flows for each of the years in the two-year period ended May 31, 2023 in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. 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, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, 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.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and

disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

Critical audit matters are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. We determined that there are no critical audit matters.

/s/ CohnReznick LLP

We have served as the Company's auditor since 2008.

Melville, New York

August 11, 2023

Page 17

TSR, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
May 31, 2023 and 2022

ASSETS

	2023	2022
Current Assets:		
Cash and cash equivalents	\$ 7,382,320	\$ 6,490,158
Certificates of deposit and marketable securities	515,152	35,536
Accounts receivable:		
Trade, net of allowance for doubtful accounts of \$ 181,000 in 2023 and 2022	12,081,335	13,427,562
Other	79,618	39,753
	<hr/> 12,160,953	<hr/> 13,467,315
Prepaid expenses	248,534	216,776
Prepaid and recoverable income taxes	-	31,795
Total Current Assets	<hr/> 20,306,959	<hr/> 20,241,580
Equipment and leasehold improvements, at cost:		
Equipment	199,090	192,773
Furniture and fixtures	64,766	64,766
Leasehold improvements	76,349	76,349
	<hr/> 340,205	<hr/> 333,888
Less accumulated depreciation and amortization	270,606	195,094
	<hr/> 69,599	<hr/> 138,794
Other assets	48,772	63,270
Right-of-use asset	459,171	652,020
Intangible assets, net	1,333,500	1,500,750
Goodwill	785,883	785,883
Deferred income taxes	344,000	972,000
Total Assets	<hr/> \$ 23,347,884	<hr/> \$ 24,354,297

See accompanying notes to consolidated financial statements.

Page 18

TSR, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
May 31, 2023 and 2022

LIABILITIES AND EQUITY

	2023	2022
Current Liabilities:		
Accounts and other payables	\$ 1,663,990	\$ 1,425,021
Accrued expenses and other current liabilities:		
Salaries, wages and commissions	2,443,766	4,755,437
Other	1,219,560	1,063,466
	<hr/> 3,663,326	<hr/> 5,818,903
Advances from customers	1,266,993	1,210,992

Income taxes payable	11,260	-
Credit facility	-	61,882
Legal settlement payable - current	-	597,566
Operating lease liabilities - current	150,167	214,941
Total Current Liabilities	6,755,736	9,329,305
Operating lease liabilities, net of current portion	342,260	492,427
Total Liabilities	7,097,996	9,821,732
Commitments and Contingencies		
Equity:		
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 3,322,527 and 3,298,549 shares; 2,143,712 and 2,146,448 outstanding	33,226	32,986
Additional paid-in capital	7,676,742	7,473,866
Retained earnings	22,212,107	20,470,042
	29,922,075	27,976,894
Less: treasury stock, 1,178,815 and 1,152,101 shares, at cost	13,726,895	13,514,003
Total TSR, Inc. Equity	16,195,180	14,462,891
Noncontrolling interest	54,708	69,674
Total Equity	16,249,888	14,532,565
Total Liabilities and Equity	\$ 23,347,884	\$ 24,354,297

See accompanying notes to consolidated financial statements.

Page 19

TSR, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
Years Ended May 31, 2023 and 2022

	2023	2022
Revenue, net	\$ 101,433,065	\$ 97,312,449
Cost of sales	83,947,307	81,314,406
Selling, general and administrative expenses	14,789,271	15,619,409
	98,736,578	96,933,815
Income from operations	2,696,487	378,634
Other income (expense):		
Gain on PPP Loan and interest forgiveness	-	6,735,246
Interest expense, net	(52,656)	(102,327)
Unrealized loss from marketable securities, net	(10,384)	(10,160)
	(63,040)	6,622,759
Income before income taxes	2,633,447	7,001,393
Provision for (benefit from) income taxes	831,000	(1,000)
Consolidated net income	1,802,447	7,002,393
Less: Net income attributable to noncontrolling interest	60,382	73,173
Net income attributable to TSR, Inc.	\$ 1,742,065	\$ 6,929,220
Basic net income per TSR, Inc. common share	\$ 0.81	\$ 3.42
Basic weighted average number of common shares outstanding	2,141,363	2,024,325
Diluted net income per TSR, Inc. common share	\$ 0.78	\$ 3.30
Diluted weighted average number of common shares outstanding	2,237,935	2,097,898

See accompanying notes to consolidated financial statements.

Page 20

TSR, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY
Years Ended May 31, 2023 and 2022

	Shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	TSR, Inc. equity	Non- controlling interest	Total equity
Balance at June 1, 2021	3,114,163	\$ 31,142	\$ 5,339,200	\$ 13,540,822	\$ (13,514,003)	\$ 5,397,161	\$ 23,891	\$ 5,421,052
Net income attributable to noncontrolling interest	-	-	-	-	-	-	73,173	73,173
Distribution to noncontrolling interest	-	-	-	-	-	-	(27,390)	(27,390)
Net proceeds of sales of stock through ATM	142,500	1,425	1,782,373	-	-	1,783,798	-	1,783,798

Non-cash stock compensation	-	-	564,952	-	-	564,952	-	564,952
Vested stock awards and taxes paid	41,886	419	(212,659)	-	-	(212,240)	-	(212,240)
Net income attributable to TSR, Inc.	-	-	-	6,929,220	-	6,929,220	-	6,929,220
Balance at May 31, 2022	<u>3,298,549</u>	<u>\$ 32,986</u>	<u>\$ 7,473,866</u>	<u>\$20,470,042</u>	<u>\$13,514,003</u>	<u>\$14,462,891</u>	<u>\$ 69,674</u>	<u>\$14,532,565</u>

See accompanying notes to consolidated financial statements.

Page 21

TSR, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY
Years Ended May 31, 2023 and 2022

	Shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	TSR, Inc. equity	Non- controlling interest	Total equity
Balance at June 1, 2022	<u>3,298,549</u>	<u>\$ 32,986</u>	<u>\$ 7,473,866</u>	<u>\$20,470,042</u>	<u>\$13,514,003</u>	<u>\$14,462,891</u>	<u>\$ 69,674</u>	<u>\$14,532,565</u>
Net income attributable to noncontrolling interest	-	-	-	-	-	-	60,382	60,382
Distribution to noncontrolling interest	-	-	-	-	-	-	(75,348)	(75,348)
Non-cash stock compensation	-	-	218,612	-	-	218,612	-	218,612
Vested stock awards and taxes paid	23,978	240	(15,736)	-	-	(15,496)	-	(15,496)
Purchases of treasury stock	-	-	-	-	(212,892)	(212,892)	-	(212,892)
Net income attributable to TSR, Inc.	-	-	-	1,742,065	-	1,742,065	-	1,742,065
Balance at May 31, 2023	<u>3,322,527</u>	<u>\$ 33,226</u>	<u>\$ 7,676,742</u>	<u>\$22,212,107</u>	<u>\$13,726,895</u>	<u>\$16,195,180</u>	<u>\$ 54,708</u>	<u>\$16,249,888</u>

See accompanying notes to consolidated financial statements.

Page 22

TSR, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended May 31, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Consolidated net income	\$ 1,802,447	\$ 7,002,393
Adjustments to reconcile consolidated net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	242,762	235,131
Unrealized loss from marketable securities, net	10,384	10,160
Non-cash lease recovery	(22,092)	(66,179)
Non-cash stock-based compensation expense	218,612	564,952
Forgiveness of principal and accrued interest on SBA PPP Loan	-	(6,735,246)
Deferred income taxes	628,000	(31,000)
Changes in operating assets and liabilities:		
Accounts receivable-trade	1,346,227	(3,766,820)
Other receivables	(39,865)	(7,245)
Prepaid expenses	(31,758)	36,918
Prepaid and recoverable income taxes	31,795	(23,124)
Other assets	14,498	(15,607)
Accounts and other payables and accrued expenses and other current liabilities	(1,916,608)	717,394
Legal settlement payable	(597,566)	(269,543)
Incomes taxes payable	11,260	-
Advances from customers	56,001	40,492
Net cash provided by (used in) operating activities	<u>1,754,097</u>	<u>(2,307,324)</u>
Cash flows from investing activities:		
Purchases of certificates of and marketable securities	(990,000)	-
Proceeds from maturities of certificates of and marketable securities	500,000	-
Purchases of equipment and leasehold improvements	(6,317)	(86,687)
Net cash used in investing activities	<u>(496,317)</u>	<u>(86,687)</u>
Cash flows from financing activities:		
Net repayments on Credit Facility	(61,882)	(30,645)
Purchases of treasury stock	(212,892)	-
Net proceeds from ATM stock sales	-	1,783,798
Tax withholding from vested stock awards	(15,496)	(212,240)
Distributions to noncontrolling interest	(75,348)	(27,390)
Net cash (used in) provided by financing activities	<u>(365,618)</u>	<u>1,513,523</u>
Net increase (decrease) in cash and cash equivalents	<u>892,162</u>	<u>(880,488)</u>
Cash and cash equivalents at beginning of year	6,490,158	7,370,646
Cash and cash equivalents at end of year	<u>\$ 7,382,320</u>	<u>\$ 6,490,158</u>

Supplemental disclosures of cash flow data:
Income taxes paid

\$ 160,000	\$ 54,000
------------	-----------

See accompanying notes to consolidated financial statements.

TSR, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
May 31, 2023 and 2022

(1) Summary of Business and Significant Accounting Policies

(a) Business, Nature of Operations and Customer Concentrations

TSR, Inc. and Subsidiaries (the "Company," "TSR," "we," "us" and "our") 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 ("IT") capabilities. Also, the Company has provided and continues to provide administrative (non-IT) workers on a contract basis to some of its existing customers, including new customers acquired following the Geneva acquisition. In fiscal 2023, four customers each accounted for more than 10% of the Company's consolidated revenue, constituting a combined 65.6%. The largest of these constituted 21.0% of consolidated revenue. In fiscal 2022, four customers each accounted for more than 10% of the Company's consolidated revenue, constituting a combined 67.7%. The largest of these constituted 21.5% of consolidated revenue. The accounts receivable balances associated with the Company's largest customers were \$6,848,000 for four customers at May 31, 2023 and \$ 8,668,000 for four customers at May 31, 2022. The Company operates in one business segment, contract staffing services.

(b) Principles of Consolidation

The consolidated financial statements include the accounts of TSR and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

(c) Revenue Recognition

Revenues are recognized as control of the promised service is transferred to customers, in an amount that reflects the consideration expected in exchange for the services. Revenues from contract assignments are recognized over time, based on hours worked by the Company's contract professionals. The performance of the requested service over time is the single performance obligation for assignment revenues. Certain customers may receive discounts (e.g., volume discounts, rebates, prompt-pay discounts) and adjustments to the amounts billed. These discounts, rebates and adjustments are considered variable consideration. Volume discounts are the largest component of variable consideration and are estimated using the most likely amount method prescribed by Accounting Standards Codification ("ASC") 606, contracts terms and estimates of revenue. Revenues are recognized net of variable consideration to the extent that it is probable that a significant reversal of revenues will not occur in subsequent periods. Payment terms vary and the time between invoicing and when payment is due is not significant. There are no financing components to the Company's arrangements. There are no incremental costs to obtain contracts and costs to fulfill contracts are expensed as incurred. The Company's operations are primarily located in the United States.

The Company recognizes most of its revenue on a gross basis when it acts as a principal in its transactions. The Company has direct contractual relationships with its customers, bears the risks and rewards of its arrangements, and has the discretion to select the contract professionals and establish the price for the services to be provided. Additionally, the Company retains control over its contract professionals based on its contractual arrangements. The Company primarily provides services through its employees and to a lesser extent, through subcontractors; the related costs are included in cost of sales. The Company includes billable expenses (out-of-pocket reimbursable expenses) in revenue and the associated expenses are included in cost of sales.

(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, 2023 and 2022:

	2023	2022
Cash in banks	\$ 7,010,568	\$ 6,436,012
Money market funds	371,752	54,146
	<hr/> \$ 7,382,320	<hr/> \$ 6,490,158

(Continued)

TSR, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
May 31, 2023 and 2022

(e) Certificates of Deposit and Marketable Securities

The Company has characterized its investments in marketable securities and certificates of deposit, based on the priority of the inputs used to value the investments, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1), and lowest priority to unobservable inputs (Level 3). If the inputs used to measure the investments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Investments recorded in the accompanying consolidated balance sheets are categorized based on the inputs to valuation techniques as follows:

Level 1 - These are investments where values are based on unadjusted quoted prices for identical assets in an active market the Company has the ability to access.

Level 2 - These are investments where values are based on quoted market prices that are not active or model derived valuations in which all significant inputs are observable in active markets.

Level 3 - These are investments where values are derived from techniques in which one or more significant inputs are unobservable.

The following are the major categories of assets measured at fair value on a recurring basis as of May 31, 2023 and 2022 using quoted prices in active markets for identical assets (Level 1), significant other observable inputs (Level 2), and significant unobservable inputs (Level 3):

May 31, 2023	Level 1	Level 2	Level 3	Total
Equity Securities	\$ 25,152	\$ -	\$ -	\$ 25,152
Certificates of Deposit	490,000	-	-	490,000
	\$ 515,152	\$ -	\$ -	\$ 515,152
May 31, 2022	Level 1	Level 2	Level 3	Total
Equity Securities	\$ 35,536	\$ -	\$ -	\$ 35,536

Based upon the Company's intent and ability to hold its certificates of deposit to maturity (which range up to 12 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, 2023 and 2022 are summarized as follows:

May 31, 2023	Amortized Cost	Gross	Gross	Recorded Value
		Unrealized Holding Gains	Unrealized Holding Losses	
Equity Securities	\$ 16,866	\$ 8,286	\$ -	\$ 25,152
Certificates of Deposit	490,000	-	-	490,000
	\$ 506,866	\$ 8,286	\$ -	\$ 515,152
May 31, 2022	Amortized Cost	Gross	Gross	Recorded Value
Equity Securities	\$ 16,866	\$ 18,670	\$ -	\$ 35,536

(Continued)

Page 25

TSR, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
May 31, 2023 and 2022

The Company's investments in marketable securities consist primarily of investments in 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.

(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 Per Common Share

Basic net income per common share is computed by dividing net income available to common stockholders of TSR by the weighted average number of common shares outstanding during the reporting period, excluding the effects of any potentially dilutive securities. During the fiscal year ended May 31, 2021, the Company granted time and performance vesting stock awards under its 2020 Equity Incentive Plan (see Note 12 for further information). Diluted earnings per share gives effect to all potentially dilutive common shares outstanding during the reporting period. The common stock equivalents associated with these stock awards of 96,752 in the fiscal year ended May 31, 2023 have been included for diluted shares outstanding for the fiscal year ended May 31, 2023. The common stock equivalents associated with these stock awards of 73,573 in the fiscal year ended May 31, 2022 were included for diluted shares outstanding for the fiscal year May 31, 2022.

(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.

(i) Fair Value of Financial Instruments

ASC 820-10, *Fair Value Measurements and Disclosures* ("ASC 820-10"), defines fair value, establishes a framework for measuring fair value under accounting principles generally accepted in the United States of America ("GAAP") and provides for expanded disclosure about fair value measurements. ASC 820-10 applies to all other accounting pronouncements that require or permit fair value measurements.

The Company determines or calculates the fair value of financial instruments using quoted market prices in active markets when such information is available or using appropriate present value or other valuation techniques, such as discounted cash flow analyses, incorporating available market discount rate information for similar types of instruments while estimating for non-performance and liquidity risk. These techniques are significantly affected by the assumptions used, including the discount rate, credit spreads and estimates of future cash flows.

Assets and liabilities typically recorded at fair value on a non-recurring basis to which ASC 820-10 applies include:

- non-financial assets and liabilities initially measured at fair value in an acquisition or business combination, and
- long-lived assets measured at fair value due to an impairment assessment under ASC 360-10-15, *Impairment or Disposal of Long-Lived Assets*.

(Continued)

Page 26

TSR, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
May 31, 2023 and 2022

This topic defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a three-level hierarchy, which encourages an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC 820-10 requires that assets and liabilities recorded at fair value be classified and disclosed in one of the following three categories:

Level 1 - inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access.

Level 2 - inputs utilize other-than-quoted prices that are observable, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 - inputs are unobservable and are typically based on the Company's own assumptions, including situations where there is little, if any, market activity. Both observable and unobservable inputs may be used to determine the fair value of positions that are classified within the Level 3 classification.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the Company classifies such financial assets or liabilities based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

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 GAAP 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) Goodwill

Goodwill is recorded when the purchase price paid for an acquisition exceeds the estimated fair value of the net identified tangible and intangible assets acquired. Goodwill is not amortized but is subject to impairment analysis at least once annually or more frequently upon the occurrence of an event or when circumstances indicate that the carrying amount of a unit is greater than its fair value. The annual test of goodwill was performed as of September 1, 2022 and no impairment was found. There was no change in goodwill in fiscal 2023.

(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. As a percentage of revenue, the four largest customers consisted of 56.7% of the net accounts receivable balance at May 31, 2023.

(Continued)

Page 27

TSR, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
May 31, 2023 and 2022

(2) Income Taxes

A reconciliation of the provision for (benefit from) income taxes computed at the federal statutory rates of 21.0% for fiscal 2023 and fiscal 2022 to the reported amounts is as follows:

	2023		2022	
	Amount	%	Amount	%
Amounts at statutory federal tax rate	\$ 553,000	21.0%	\$ 1,470,000	21.0%
PPP Loan Forgiveness	-	-	(1,414,000)	(20.2)
Noncontrolling interest	(13,000)	(0.5)	(15,000)	(0.2)
State and local taxes, net of federal income tax effect	304,000	11.5	12,000	0.2
Non-deductible expenses and other	(13,000)	(0.5)	(54,000)	(0.8)
	<u>\$ 831,000</u>	<u>31.5%</u>	<u>\$ (1,000)</u>	<u>(0.0)%</u>

The components of the provision for (benefit from) income taxes are as follows:

	Federal	State	Total
	\$	\$	\$
2023: Current	106,000	97,000	203,000
Deferred	401,000	227,000	628,000
	<u>\$ 507,000</u>	<u>\$ 324,000</u>	<u>\$ 831,000</u>
2022: Current	-	30,000	30,000
Deferred	(19,000)	(12,000)	(31,000)
	<u>\$ (19,000)</u>	<u>\$ 18,000</u>	<u>\$ (1,000)</u>

The tax effects of temporary differences that give rise to significant portions of the deferred income tax assets at May 31, 2023 and 2022 are as follows:

	2023	2022
	\$	\$
Allowance for doubtful accounts receivable	53,000	55,000
Accrued compensation and other accrued expenses	44,000	43,000
Net operating loss carryforwards	57,000	508,000
Equipment and leasehold improvement, depreciation and amortization	(19,000)	(40,000)
Unrealized gain	(2,000)	(5,000)
Legal settlement with investor	-	180,000
Non-cash stock compensation	115,000	111,000
Non-cash lease expense	10,000	17,000
Accumulated amortization	80,000	90,000
Other items, net	6,000	13,000
Total deferred income tax assets	<u>\$ 344,000</u>	<u>\$ 972,000</u>

(Continued)

Page 28

TSR, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
May 31, 2023 and 2022

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 federal net operating loss carryforwards may be used indefinitely, and the state carryforwards are generally usable for 20 years.

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.

On March 27, 2020, the CARES Act was signed into law in response to the COVID-19 pandemic. The CARES Act provides numerous tax provisions and stimulus measures, including temporary changes regarding the prior and future utilization of net operating losses, temporary changes to the prior and future limitations on interest deductions, and technical corrections from prior tax legislation for tax depreciation of certain qualified improvement property. The Company has evaluated the provisions of the CARES Act relating to income taxes which resulted in the ability to carryback net operating losses and file for a federal tax refund of approximately \$586,000, which was recorded in the May 31, 2020 consolidated balance sheet. The amount was subsequently collected in April 2021.

The Company's federal and state income tax returns prior to fiscal year 2019 are closed.

(3) Leases

The Company leases the space for its two offices in Hauppauge, New York and Edison, New Jersey. Under ASC 842, at contract inception we determine whether the contract is or contains a lease and whether the lease should be classified as an operating or finance lease. Operating leases are in right-of-use assets and operating lease liabilities in our consolidated balance sheets.

The Company's leases for its two offices are classified as operating leases.

The lease agreements for Hauppauge and New Jersey expire on December 31, 2023 and May 31, 2027, respectively, and do not include any renewal options.

In addition to the monthly base amounts in the lease agreements, the Company is required to pay real estate taxes and operating expenses during the lease terms.

For the fiscal years ended May 31, 2023 and 2022, the Company's operating lease expense for these leases was \$ 282,000 and \$326,000, respectively.

Future minimum lease payments under non-cancelable operating leases as of May 31, 2023 were as follows:

Twelve Months Ended May 31,	
2024	\$ 179,035
2025	123,840
2026	126,936
2027	<u>130,109</u>
 Total undiscounted operating lease payments	559,920
Less imputed interest	<u>67,493</u>
 Present value of operating lease payments	\$ <u>492,427</u>

(Continued)

Page 29

TSR, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
May 31, 2023 and 2022

The following table sets forth the right-of-use assets and operating lease liabilities as of May 31, 2023:

Assets	
Right-of-use assets	\$ <u>459,171</u>
 Liabilities	
Current operating lease liabilities	\$ 150,167
Long-term operating lease liabilities	<u>342,260</u>
 Total operating lease liabilities	\$ <u>492,427</u>

The weighted average remaining lease term for the Company's operating leases is 3.6 years. The weighted average incremental borrowing rate was 7%.

(4) Credit Facility

On November 27, 2019, TSR closed on a five-year revolving credit facility (the "Credit Facility") pursuant to a Loan and Security Agreement with Access Capital, Inc. (the "Lender") which provides funding to TSR and its direct and indirect subsidiaries, TSR Consulting Services, Inc., Logixtech Solutions, LLC and Eurologix, S.A.R.L., each of which, together with TSR, is a borrower under the Credit Facility. Each of the borrowers has provided a security interest to the Lender in all of their respective assets to secure amounts borrowed under the Credit Facility.

TSR expects to utilize the Credit Facility for working capital and general corporate purposes. The maximum amount that may now be advanced under the Credit Facility at any time shall not exceed \$2,000,000.

Advances under the Credit Facility accrue interest at a rate per annum equal to (x) the "base rate" or "prime rate" announced by Citibank, N.A. from time to time, which shall be increased or decreased, as the case may be, in an amount equal to each increase or decrease in such "base rate" or "prime rate," plus (y) 1.75%. The prime rate as of May 31, 2023 was 8.25%, indicating an interest rate of 10.00% on the Credit Facility. The initial term of the Credit Facility is five years, which shall automatically renew for successive five-year periods unless either TSR or the Lender gives written notice to the other of termination at least 60 days prior to the expiration date of the then-current term.

TSR is obliged to satisfy certain financial covenants and minimum borrowing requirements under the Credit Facility, and to pay certain fees, including prepayment fees, and provide certain financial information to the Lender. The Company was in compliance with all applicable covenants at May 31, 2023.

As of May 31, 2023, the net payments exceeded borrowings outstanding against the Credit Facility resulting in a receivable from the Lender of \$71,904, which is included in "Other receivables" in the consolidated balance sheet. The amount the Company has borrowed fluctuates and, at times, it has utilized the maximum amount of \$2,000,000 available under the facility to fund its payroll and other obligations.

(5) Legal Settlement with Investor

On April 1, 2020, the Company entered into a binding term sheet ("Term Sheet") with Zeff Capital, L.P. ("Zeff") pursuant to which it agreed to pay Zeff an amount of \$900,000 over a period of three years in cash or cash and stock in settlement of expenses incurred by Zeff during its solicitations in 2018 and 2019 in connection with the annual meetings of the Company, the costs incurred in connection with the litigation initiated by and against the Company as well as negotiation, execution and enforcement of the Settlement and Release Agreement, dated as of August 30, 2019, by and between the Company, Zeff and certain other parties. In exchange for certain releases, the Term Sheet called for a cash payment of \$300,000 on June 30, 2021, a second cash payment of \$300,000 on June 30, 2022 and a third payment of \$300,000 also on June 30, 2022, which could be paid in cash or common stock at the Company's option. There was no interest due on these payments. The Company accrued \$818,000, the estimated present value of these payments using an effective interest rate of 5%, in the quarter ended February 29, 2020, as the events relating to the expense occurred prior to such date. The \$300,000 payment due on June 30, 2021 was paid when due. The two cash payments of \$300,000 each were made by June 30, 2022 in full satisfaction of the settlement.

TSR, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
May 31, 2023 and 2022

(6) Other Matters

From time to time, the Company is party to various lawsuits, some involving material amounts. Management is not aware of any lawsuits that would have a material adverse impact on the consolidated financial position of the Company except for the litigation disclosed elsewhere in the report, including Notes 5, 7, and 10 to the Consolidated Financial Statements.

(7) Termination of Former CEO

The Company terminated Christopher Hughes, the former Chief Executive Officer of the Company ("Hughes"), effective February 29, 2020. Hughes filed a complaint against the Company in the Supreme Court of the State of New York in March 2020 alleging two causes of action: (1) breach of his employment contract; and (2) breach of the duty of good faith and fair dealing. Hughes alleged that he was terminated without cause or in the alternative that he resigned for good reason and therefore, pursuant to the Amended and Restated Employment Agreement, dated August 9, 2018, between the Company and Hughes, Hughes sought severance pay in the amount of \$1,000,000 and reasonable costs and attorney's fees. The Company denied Hughes' allegations and filed various counterclaims against Hughes.

In October 2021, the Company and Hughes agreed through mediation to settle this matter in order to avoid lengthy and costly litigation and discovery expenses. After adjusting for insurance reimbursement, the Company accrued a charge of \$580,000 to selling, general and administrative expenses in the fiscal year ended May 31, 2022. The total settlement of \$705,000 was paid in full in October 2021.

(8) Payroll Protection Program Loan

On April 15, 2020, the Company received loan proceeds of \$ 6,659,220 under the Paycheck Protection Program (the "PPP Loan"). The Paycheck Protection Program ("PPP") was established under the congressionally-approved Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") and is administered by the U.S. Small Business Administration ("SBA"). The PPP Loan to the Company was made through JPMorgan Chase Bank, N.A., a national banking association.

In March 2021, the Company submitted a PPP Loan Forgiveness application to the SBA through the PPP Lender. On July 7, 2021, the Company received notification from the PPP Lender that the SBA approved the Company's application for forgiveness of the entire principal amount of the PPP Loan plus accrued interest. The PPP Lender will apply the forgiveness amount to satisfy the PPP Loan. The Company has no further obligations with respect to the PPP Loan. The Company recognized "Other Income" of \$6,735,246 in the quarter ended August 31, 2021 and fiscal year ended May 31, 2022 related to the forgiveness of the loan principal and accrued interest.

(9) Intangible Assets

The Company amortizes its intangible assets over their estimated useful lives and will review these assets for impairment when there is evidence that events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of these assets is measured by comparing the carrying amounts to the future undiscounted cash flows the assets are expected to generate. If intangible assets are considered to be impaired, the impairment to be recognized equals the amount by which the carrying value of the asset exceeds its fair market value.

Intangible assets are as follows:

	May 31, 2022	Amortization	May 31, 2023
Database (estimated life 5 years)	\$ 149,500	\$ 46,000	\$ 103,500
Non-compete agreement (estimated life 2 years)	1,250	1,250	-
Trademark (estimated life 3 years)	25,000	20,000	5,000
Customer relationships (estimated life 15 years)	1,325,000	100,000	1,225,000
Total	\$ 1,500,750	\$ 167,250	\$ 1,333,500

No instances of triggering events or impairment indicators were identified at May 31, 2023 or 2022.

(Continued)

TSR, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
May 31, 2023 and 2022

(10) Related Party Transactions

On January 5, 2021, the members of the Board of Directors of the Company other than Robert Fitzgerald approved providing a waiver to QAR Industries, Inc. for its contemplated acquisition of shares owned by Fintech Consulting LLC under the Company's then existing rights agreement (which covered a now non-existent class of Class A preferred stock) so that a distribution date would not occur under such agreement as a result of the acquisition. QAR Industries, Inc. and Fintech Consulting LLC were both principal stockholders of the Company, each owning more than 5% of the Company's outstanding common stock prior to the consummation of the acquisition. Robert Fitzgerald is the President and majority shareholder of QAR Industries, Inc. The other directors of the Company are not affiliated with QAR Industries, Inc.

On February 3, 2021, the transaction was completed and QAR Industries, Inc. purchased 348,414 shares of TSR's common stock from Fintech

Consulting LLC at a price of \$7.25 per share. At the same time, Bradley M. Tirpak, Chairman of TSR, purchased 27,586 shares of TSR's common stock from Fintech Consulting LLC at a price of \$7.25 per share (the "Transaction"). The foregoing Transaction was the subject of litigation due to a complaint filed by Fintech Consulting LLC on December 1, 2021 in the United States District Court for the District of New Jersey under docket *Fintech Consulting LLC v. TSR, Inc. et al.*, Docket No. 2:21-cv-20181-KSH-AME (the "New Jersey Action"). The New Jersey Action was dismissed on December 7, 2022 on jurisdictional grounds on the motion of TSR. Following that dismissal, Fintech Consulting LLC re-filed the lawsuit regarding the foregoing transaction in the Delaware Court of Chancery on January 12, 2023 under docket number *Fintech Consulting LLC DBA APTASK v. TSR, Inc., et al., civil action no. 2023-0030-MTZ* (the "Delaware Chancery Action"). On January 23, 2023, the Delaware Chancery Action was dismissed without prejudice. On January 22, 2023, Fintech Consulting LLC filed an action in the United States District Court for the District of Delaware under docket *Fintech Consulting, LLC v. TSR, Inc., et al, Case Number: 1:23-cv-00074-MN (U.S. Dist. Ct. Dist. of Delaware)* ("the Delaware Federal Action"), alleging claims against the Defendants under: (i) Section 10(b) of the Exchange Act of 1934 and Securities and Exchange Commission Rule 10b-5, and (ii) the common law, in each case in connection with the Transaction. In order to avoid the time and expense of litigation, the parties negotiated a settlement of this matter pursuant to a settlement agreement and release dated April 24, 2023. As a result, the Company accrued \$75,000 in the quarter ended February 28, 2023. This amount was subsequently paid in the fourth quarter of fiscal 2023. Upon the payment of the settlement amount (i) the plaintiffs forever released and discharged the defendants from any and all claims or liability of any nature whatsoever; (ii) the defendants forever released and discharged the plaintiffs from any and all claims or liability of any nature whatsoever that relate to the Delaware Federal Action or the Transaction; and (iii) the plaintiffs filed a Stipulation of Dismissal with Prejudice on April 27, 2023.

The Company has provided placement services for an entity in which a Board of Director of the Company is the CEO. Revenues for such services in fiscal 2023 and 2022 in the amounts of \$71,000 and \$59,000, respectively. There were no amounts outstanding as accounts receivable from this entity as of May 31, 2023.

(11) Common Stock

Our certificate of incorporation, as amended, authorizes the issuance of up to 12,500,000 shares of common stock, \$0.01 par value per share.

On October 8, 2021, the Company filed an automatic shelf registration statement on Form S-3 (File No. 333-260152) (the "2021 TSRI Shelf") which contains (i) a base prospectus, which covers the offering, issuance and sale by the Company of up to \$5,000,000 in the aggregate of shares of common stock from time to time in one or more offerings; and (ii) a sales agreement prospectus, which covers the offering, issuance and sale by the Company of up to \$4,167,000 in the aggregate of shares of common stock that may be issued and sold from time to time under an at-the-market sales agreement (the "ATM") by and between the Company and A.G.P./Alliance Global Partners, as sales agent (the "Agent"). The \$4,167,000 of common stock that may be offered, issued and sold under the sales agreement prospectus is included in the \$5,000,000 of shares of common stock that may be offered, issued and sold by the Company under the base prospectus. Upon termination of the sales agreement, any portion of the \$4,167,000 included in the sales agreement prospectus that is not sold pursuant to the sales agreement will be available for sale in other offerings pursuant to the base prospectus and if no shares are sold under the agreement, the full \$4,167,000 of securities may be sold in other offerings pursuant to the base prospectus. Under the ATM, we pay the Agent a commission rate equal to 3.0% of the gross sales price per share of all shares sold through the Agent under the sales agreement.

(Continued)

Page 32

TSR, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
May 31, 2023 and 2022

During the fiscal year ended May 31, 2022, we sold an aggregate of 142,500 shares of common stock pursuant to the ATM for total gross proceeds of \$1,965,623 at an average selling price of \$13.79 per share, resulting in net proceeds of \$1,783,798 after deducting \$181,825 in commissions and other transaction costs. There were no shares sold during the fiscal year ended May 31, 2023.

The 2021 TSRI Shelf is currently our only active shelf-registration statement. We may offer TSR common stock registered under the 2021 TSRI Shelf from time to time in response to market conditions or other circumstances if we believe such a plan of financing is in the best interests of our stockholders. We believe that the 2021 TSRI Shelf provides us with the flexibility to raise additional capital to finance our operations as needed. However, there is no assurance we will be successful in doing so.

(12) Stock-based Compensation Expense

On January 28, 2021, the Company granted 108,333 shares in time vesting restricted stock awards and 69,167 shares in time and performance vesting restricted stock awards to officers, directors and key employees under the TSR, Inc. 2020 Equity Incentive Plan (the "Plan"). The time vesting shares vest in tranches at the one-, two- and three-year anniversaries of the grants ("service condition"). These shares had a grant date fair value of \$826,000 based on the closing price of TSR's common stock on the day prior to the grants. The associated compensation expense is recognized on a straight-line basis over the time between grant date and the date the shares vest (the "service period"). The time and performance vesting shares also vest in tranches at or after the two- and three-year anniversaries of the grants. The performance condition is defined in the grant agreements and relates to the market price of the Company's common stock over a stated period of time ("market condition"). These shares had a grant date value of \$262,000 based on the closing price of TSR common shares on the day prior to the grants discounted by an estimated forfeiture rate of 40-60%. The Company took into account the historical volatility of its common stock to assess the probability of satisfying the market condition. The associated compensation expense is recognized on a straight-line basis between the time the achievement of the performance criteria is deemed probable and the time the shares may vest. During the fiscal years ended May 31, 2023 and 2022, \$219,000 and \$565,000, respectively, has been recorded as stock-based compensation expense and included in selling, general and administrative expenses. As of May 31, 2023, there is approximately \$68,000 of unearned compensation expense that will be expensed through February 2024; 142,666 stock awards expected to vest; 82,499 awards vested to date, of which 16,635 were forfeited to pay taxes applicable to the stock awards.

(13) Stock Repurchase Program

On September 12, 2022, the Board of Directors authorized a stock repurchase program of up to \$ 500,000 of the Company's outstanding common stock, par value \$0.01 per share. The stock repurchase program commenced two business days after the filing of the related Form 8-K and is authorized for twelve (12) months following the commencement date.

The shares may be repurchased from time to time in open market transactions at prevailing market prices, in privately negotiated transactions, or by other means in accordance with federal securities laws. The actual timing, number and value of shares repurchased under the program will be determined by the Board of Directors at its discretion and will depend on a number of factors, including the market price of Company's stock, general market and economic conditions, and applicable legal and contractual requirements. The Company has no obligation or commitment to repurchase all or any portion of the shares covered by this authorization.

During the fiscal year ended May 31, 2023, 26,714 shares of the Company's common stock were repurchased at an aggregate cost of \$ 212,892. No shares were repurchased in the fiscal year ended May 31, 2022.

TSR, INC. AND SUBSIDIARIES

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

None.

Item 9A. Controls and Procedures

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

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

Management's Report on Internal Control Over Financial Reporting. The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Under the supervision and with the participation of the Company's management, including its principal executive officer and principal financial officer, the Company conducted an evaluation of the effectiveness of its internal control over financial reporting based on criteria established in the framework in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, the Company's management concluded that its internal control over financial reporting was effective as of May 31, 2023.

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

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

Item 9B. Other Information

Not applicable.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

Not applicable.

TSR, INC. AND SUBSIDIARIES

Part III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item 10 is incorporated by reference to the Company's definitive proxy statement in connection with the 2023 Annual Meeting of Stockholders.

Item 11. Executive Compensation

The information required by this Item 11 is incorporated by reference to the Company's definitive proxy statement in connection with the 2023 Annual Meeting of Stockholders.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item 12 is incorporated by reference to the Company's definitive proxy statement in connection with the 2023 Annual Meeting of Stockholders.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item 13 is incorporated by reference to the Company's definitive proxy statement in connection with the 2023 Annual Meeting of Stockholders.

Item 14. Principal Accountant Fees and Services

The information required by this Item 14 is incorporated by reference to the Company's definitive proxy statement in connection with the 2023 Annual Meeting of Stockholders.

Part IV

Item 15. Exhibits and Financial Statement Schedules

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

1. The consolidated financial statements as indicated in the index set forth on page 16.

Financial Statement Schedules have been omitted, since they are either not applicable, not required or the information is included elsewhere herein.

2. Exhibits as listed in Exhibit Index on page 37.

Item 16. Form 10-K Summary- not used

Page 35

Signatures

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

TSR, INC.

By: /s/ Thomas Salerno

Thomas Salerno, Chief Executive Officer, President, Treasurer and Principal Executive Officer

Dated: August 11, 2023

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

/s/ Thomas Salerno

Thomas Salerno, Chief Executive Officer, President, Treasurer and Principal Executive Officer

/s/ John G. Sharkey

John G. Sharkey, Sr. Vice President, Chief Financial Officer, Secretary, Principal Financial Officer and Principal Accounting Officer

/s/ Bradley M. Tirpak

Bradley M. Tirpak, Chairman of the Board of Directors

/s/ H. Timothy Eriksen

H. Timothy Eriksen, Director

/s/ Robert Fitzgerald

Robert Fitzgerald, Director

Dated: August 11, 2023

Page 36

TSR, INC. AND SUBSIDIARIES
EXHIBIT INDEX
FORM 10-K, MAY 31, 2023

Exhibit Number	Exhibit
3.1	Certificate of Incorporation, as amended, incorporated by reference to Exhibit 3.1 to the Annual Report on Form 10-K for the year ended May 31, 2021 filed by the Company on August 23, 2021.
3.2	Certificate of Elimination of Class A Preferred Stock, Series One of TSR, Inc., as filed with the Secretary of State of the State of Delaware on April 1, 2021, incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed by the Company on April 1, 2021.
3.3	Amended and Restated Bylaws, as amended, incorporated by reference to Exhibit 3.3 to the Annual Report on Form 10-K for the year ended May 31, 2020 filed by the Company on August 17, 2020.
4.1	Description of Registered Securities, incorporated by reference to Exhibit 4.1 to the Form 10-K for the year ended May 31, 2021 filed by the Company on August 23, 2021.
10.1	Amended and Restated Employment Agreement dated as of November 2, 2020 between the Company and John G. Sharkey, incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed by the Company on November 6, 2020.
10.2	Employment Agreement, dated as of November 2, 2020 between the Company and Thomas Salerno, incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by the Company on November 6, 2020.
10.3	Loan and Security Agreement dated as of November 27, 2019 among Access Capital, Inc., TSR, Inc., TSR Consulting Services, Inc., Logixtech Solutions, LLC and Eurologix S.A.R.L., incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by the Company on December 2, 2019.

10.4	Form of Restricted Stock Grant Notice and Restricted Stock Purchase Agreement, incorporated by reference to our current report on Form 8-K filed with the SEC on February 1, 2021 as Exhibit 10.1.
10.5	TSR, Inc. 2020 Equity Incentive Plan, incorporated by reference to our current report on Form S-8 filed with the SEC on December 18, 2020 as Exhibit 4.6.
10.6	Sales Agreement, dated October 8, 2021 by and between TSR, Inc. and A.G.P./ Alliance Global Partners, incorporated by reference to our Current Report on Form 8-K filed with the SEC on October 8, 2021 as Exhibit 1.1.
10.7	Settlement Agreement and Release, dated April 24, 2023, by and among TSR, Inc., QAR Industries, Inc., Robert Fitzgerald, Bradley Tirpak, Fintech Consulting, LLC and Taj Haslani, incorporated by reference to our Current Report on Form 8-K filed with the SEC on April 26, 2023 as Exhibit 10.1.
10.8	Addendum to Employment Agreement, dated as of July 31, 2023 between the Company and Thomas Salerno, incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by the Company on August 2, 2023.
21	List of Subsidiaries.
23.1	Consent of CohnReznick LLP, Independent Registered Accounting Firm.

Page 37

TSR, INC. AND SUBSIDIARIES
EXHIBIT INDEX (continued)
FORM 10-K, MAY 31, 2023

Exhibit Number	Exhibit
31.1	Certification by Thomas Salerno Pursuant to Securities Exchange Act Rule 13a-14(a).
31.2	Certification by John G. Sharkey Pursuant to Securities Exchange Act Rule 13a-14(a).
32.1	Certification of Thomas Salerno Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of John G. Sharkey Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1	Stipulation and Agreement of Settlement, dated as of December 16, 2019, incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by the Company on December 17, 2019.
101	XBRL (extensible Business Reporting Language). The following materials from the Company's Annual Report on Form 10-K for the year ended May 31, 2023 formatted in XBRL: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Stockholders' Equity (Deficit), (iv) the Consolidated Statements of Cash Flows, and (v) the Notes to the Consolidated Financial Statements.

Page 38

TSR, INC. AND SUBSIDIARIES
List of Subsidiaries to Report on Form 10-K
Fiscal Year Ended May 31, 2023

Name	State of Incorporation/Formation
TSR Consulting Services, Inc.	New York
Logixtech Solutions, LLC	Delaware
Eurologix S.a.r.l.	Luxembourg
Geneva Consulting Group, Inc.	New York

TSR, INC. AND SUBSIDIARIES
Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in registration statements No. 333-251455 on Form S-8 and No. 333-260152 on Form S-3 of TSR, Inc. of our report dated August 11, 2023 on our audits of the consolidated financial statements of TSR, Inc. and Subsidiaries as of May 31, 2023 and 2022, and for each of the years in the two-year period ended May 31, 2023, included in this Annual Report on Form 10-K of TSR, Inc. and Subsidiaries for the year ended May 31, 2023.

/s/ CohnReznick LLP
Melville, New York
August 11, 2023

CERTIFICATION PURSUANT TO SECURITIES EXCHANGE ACT RULE 13A-14(A)

I, Thomas Salerno, Chief Executive Officer, President, Treasurer and Principal Executive Officer, certify that:

1. I have reviewed this Annual Report on Form 10-K of TSR, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 11, 2023

/s/ Thomas Salerno
Chief Executive Officer,
President, Treasurer and
Principal Executive Officer

CERTIFICATION PURSUANT TO SECURITIES EXCHANGE ACT RULE 13A-14(A)

I, John G. Sharkey, Sr. Vice President, Chief Financial Officer, Secretary, Principal Financial Officer and Principal Accounting Officer, certify that:

1. I have reviewed this Annual Report on Form 10-K of TSR, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 11, 2023

/s/ John G. Sharkey
Sr. Vice President,
Chief Financial Officer,
Secretary, Principal Financial Officer, and
Principal Accounting Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of TSR, Inc. (the "Company") on Form 10-K for the year ended May 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas Salerno, Chief Executive Officer of the Company, certify to my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

The forgoing certification is incorporated solely for the purposes of complying with the provisions of Section 906 of the Sarbanes-Oxley Act and is not intended to be used for any other purpose.

/s/ Thomas Salerno
Chief Executive Officer,
President, Treasurer and
Principal Executive Officer

August 11, 2023

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of TSR, Inc. (the "Company") on Form 10-K for the year ended May 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John G. Sharkey, Chief Financial Officer of the Company, certify to my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

The forgoing certification is incorporated solely for the purposes of complying with the provisions of Section 906 of the Sarbanes-Oxley Act and is not intended to be used for any other purpose.

/s/ John G. Sharkey

Sr. Vice President,
Chief Financial Officer,
Secretary, Principal Financial Officer, and
Principal Accounting Officer

August 11, 2023