



ANNUAL REPORT
2020

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, 2020

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: 0-8656

TSR, Inc.

(Exact name of registrant as specified in its charter)

Delaware

13-2635899

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer Identification No.)

400 Oser Avenue, Hauppauge, NY 11788

(Address of principal executive offices)

Registrant's telephone number: 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
Preferred Share Purchase Rights ¹	--	--

¹Registered pursuant to Section 12(b) of the Act pursuant to a Form 8-A filed by the registrant on March 15, 2019. Until the Distribution Date (as defined in the registrant's Rights Agreement dated as of August 29, 2018), the Preferred Share Purchase Rights will be transferred with and only with the shares of the registrant's Common Stock to which the Preferred Share Purchase Rights are attached.

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 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, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer”, “accelerated filer”, “non-accelerated filer”, “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.
 Large accelerated filer Accelerated filer Non-accelerated filer
 Smaller Reporting Company Emerging growth company

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.

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 \$3.20 at November 30, 2019 was \$3,169,000.

The number of shares of the Registrant’s common stock outstanding as of July 31, 2020 was 1,962,062.

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 2020 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, 2020

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PART I

Item 1. Business

General

TSR, Inc. (the “Company”) is primarily engaged in the business of providing contract computer programming services to its customers. The Company provides its customers with technical computer personnel to supplement their in-house information technology (“IT”) capabilities. 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, 2020, the Company provided IT staffing services to 56 customers. Also, beginning in the year ended May 31, 2017, the Company has provided and continues to provide contract administrative (non-IT) workers to two of its significant IT customers.

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 semi-monthly basis and invoices its customers, not less frequently than monthly.

The Company’s success is dependent upon, among other things, its ability to attract 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.

In the past several years, 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. There can be no assurance that this trend will not continue to adversely impact the Company’s IT staffing revenue.

Beginning in the year ended May 31, 2017, the Company also provided contract administrative (non-IT) workers to two of its significant IT customers. This service was added at the customers’ request. The recruiting for these positions is 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. The Company has no plans to attempt to expand this aspect of its business beyond its existing customers.

OPERATIONS

The Company provides contract computer programming services primarily in the New York metropolitan area, New England, and the Mid-Atlantic region, although there are also customer locations around the country where the Company places contractors. The Company provides its services principally through offices located in New York, New York, Edison, New Jersey and Long Island, New York. The Company does not currently intend to open additional offices. Competition from larger competitors for recruiters has created more turnover than expected and increased the cost of retaining recruiters, making it more difficult to increase the number of technical recruiters on staff. As of May 31, 2020, the Company employed 20 persons who are responsible for recruiting technical personnel, 4 persons responsible for recruiting non-technical personnel and 9 persons who are account executives. As of May 31, 2019, the Company had employed 19 technical recruiters, 3 non-technical recruiters and 11 account executives.

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 56 customers during the year ended May 31, 2020 ("fiscal 2020") as compared to 54 in the year ended May 31, 2019 ("fiscal 2019"). The Company has historically derived a significant percentage of its total revenue from a relatively small number of customers. In the year ended May 31, 2020, the Company had three customers which each provided more than 10% of consolidated revenues: Consolidated Edison (21.2%), Citigroup (20.3%), and AgileOne (11.8%). AgileOne provides vendor management services under an arrangement where the Company enters into a subcontract with AgileOne and AgileOne directly contracts with three end customers. The AgileOne end customers for which the Company provides services include Bristol Myers Squibb, which alone constituted 11.1% of the Company's consolidated revenue for the year ended May 31, 2020. Additionally, the Company's top ten customers (including end customers of vendor management companies) accounted for 83% of consolidated revenue in fiscal 2020 and 77% in fiscal 2019. 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 28% 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. These banks are no longer willing to pay the premium prices which they had previously paid for certain high end skills.

Many of the Company's major customers, totaling over 30% 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. 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. 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 Dice, Monster, Career Builder and Discover.org, 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 occasion, by publishing advertisements in local newspapers and attending job fairs. The Company devotes significant resources to recruiting technical personnel, maintaining 20 technical recruiters based in the U.S. and contracting with an India-based company for 4 recruiters in India. Additionally, the Company maintains 4 non-technical recruiters and contracts for 5 recruiters in India to assist in locating 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, 2020, the Company employed 338 people including its 2 executive officers. Of such employees, 9 were engaged in sales, 20 were recruiters for technical personnel, 4 were recruiters for non-technical personnel, 292 were IT and administrative (non-IT) contractors, and 11 were engaged in corporate administrative and clerical functions. None of the Company's employees belong to unions.

Item 1A. Risk Factors

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. These forward-looking statements reflect our current views with respect to future events and are based on currently available operating, financial and competitive information. We undertake no obligation to update any of these forward-looking statements to reflect circumstances or events that occur after the statement is made except as required by law.

COVID-19 Pandemic

Outbreaks of epidemic, pandemic, or contagious diseases such as COVID-19 have and may continue to have an adverse effect on our business, financial condition, and results of operations. The spread of COVID-19 across the world has resulted in the World Health Organization declaring the outbreak of COVID-19 as a global pandemic. As the extent and duration of the COVID-19 outbreak is still unknown, international stock markets have experienced volatility reflecting the uncertainty associated with the slow-down in the global economy and the resulting governmental responses to the pandemic. If COVID-19 continues to progress in ways that disrupt our customers' demand for computer programming services or staffing needs or otherwise continues to disrupt our operations, such disruptions may continue to negatively affect, and may in the future materially affect, our operating results. The majority of our workforce and customer base is located in New Jersey and New York and typically works on-site at client locations. However, on March 20, 2020 New York Governor Cuomo signed the

New York State on PAUSE executive order, which includes a new directive that all non-essential businesses statewide close in-office personnel functions effective March 22 to mitigate the impact of the COVID-19 pandemic and we determined that the Company is a non-essential business. In response to these public health directives and orders, we have implemented and maintained work-from-home policies for certain employees. The effects of continued executive orders, stay at home orders and our work-from-home policies may negatively impact productivity, disrupt our business and impact our ability to service our clients and our clients need for our services, the magnitude of which will depend, in part, on the length and severity of the restrictions and other limitations on our ability to conduct our business in the ordinary course. Similar, and perhaps more severe, disruptions in our operations could negatively impact, and may materially negatively impact, our business, operating results and financial condition. Quarantines, shelter-in-place and similar government orders, or the perception that such orders, shutdowns or other restrictions on the conduct of business operations could continue to occur, related to COVID-19 or other infectious diseases could impact us and the business operations of our vendors and customers. Additionally, if the spread of COVID-19 limits our ability to make workers available either because they are ill or due to work-from-home orders, this likely would negatively affect, and may materially negatively affect, our operating results, cash flow and business.

The full financial impact of the pandemic cannot be reasonably estimated at this time. The extent to which COVID-19 impacts our results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the COVID-19 pandemic and the actions taken globally to contain the COVID-19 pandemic or treat its impact, among others. Existing insurance coverage may not provide protection for all costs that may arise from all such possible events. We continue to assess our business operations and system supports and the impact COVID-19 may have on our results and financial condition, but there can be no assurance that this analysis will enable us to avoid part or all of any impact from the spread of COVID-19 or its consequences, including downturns in business sentiment generally or in our sector in particular.

Payroll Protection Program

On April 15, 2020, the Company received loan proceeds of \$6,659,220 under the Paycheck Protection Program (“PPP”). The PPP was established under the recent congressionally-approved Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) and is administered by the U.S. Small Business Administration. The PPP loan to the Company was made through JPMorgan Chase Bank, N.A., a national banking association. The application for these funds required the Company to, in good faith, certify that the current economic uncertainty made the loan request necessary to support its ongoing operations. This certification further required the Company to take into account its current business activity and its ability to access other sources of liquidity sufficient to support ongoing operations in a manner that is not significantly detrimental to the business. The receipt of these funds, and the forgiveness of the loan attendant to these funds, is dependent on the Company having initially qualified for the loan and qualifying for the forgiveness of such loan based on our future adherence to the forgiveness criteria.

Under the terms of the CARES Act, the use of the proceeds of the loan is restricted to payroll costs (as defined in the CARES Act), covered rent, covered utility payments and certain other expenditures that, while permitted, would not result in forgiveness of a corresponding portion of the loan. Following recent amendments to the PPP, after an eight- or twenty-four-week period starting with the disbursement of the respective loan proceeds, the Company may apply for forgiveness of some or all of the loan, with the amount which may be forgiven equal to the sum of eligible payroll costs, covered rent, and covered utility payments, in each case incurred during the eight- or twenty-four-week period following the date of first disbursement. Certain reductions in the Company’s payroll costs or full-time equivalent employees (when compared against the applicable measurement period) may reduce the amount of our loan eligible for forgiveness.

The U.S. Department of the Treasury (“Treasury”) and the Small Business Administration (“SBA”) have announced that they will review all PPP loans that equal or exceed \$2.0 million. Guidance from Treasury and SBA has changed several times and the SBA has updated their Frequently Asked Questions (“FAQs”) several times since the passage of the CARES Act. At the same time, the PPP has been amended twice with the latest series of amendments significantly altering the timeline associated with the PPP spending and loan forgiveness. Moreover, the lack of clarity regarding loan eligibility under the PPP has resulted in significant media coverage and controversy with respect to public companies applying for and receiving loans. While the Company believes that it acted in good faith and has complied with all requirements of the PPP, if Treasury or SBA determined that the Company’s loan applications were not made in good faith or that the Company did not otherwise meet the eligibility requirements of the PPP, the Company may not receive forgiveness of the loan (in whole or in part) and could be subject to penalties, including significant civil, criminal and administrative penalties, and could be required to return the loans or a portion thereof. Further, there is no guarantee that the Company will receive forgiveness for any amount, and forgiveness will be subject to the Company’s submission to its lender of information and documentation as required by SBA and the lender.

A failure to obtain forgiveness of the PPP loan may adversely impact our loan covenants. In the event that our PPP loan is not forgiven in whole or in part, the Company may need to seek an amendment to, or a waiver under, the Company's debt agreements and/or refinance or restructure its outstanding debt. There can be no assurance that the Company could obtain such future amendments or waivers, or refinance or restructure its debt, in each case on commercially reasonable terms or at all. The Company's failure to maintain compliance with debt covenants could result in an event of default, subject to applicable notice and cure provisions. In addition, the Company's receipt of the PPP loan may result in adverse publicity and damage to our reputation, and a review or audit by the SBA or other government entity or claims under the False Claims Act could consume significant financial and management resources.

Dependence Upon Key Personnel

Christopher Hughes, former Chairman of the Board, Chief Executive Officer, President and Treasurer, was terminated on February 29, 2020. The Board of Directors of the Company elected Thomas Salerno, formerly branch manager of the New Jersey office of TSR Consulting Services, Inc. to succeed Mr. Hughes as Chief Executive Officer, President and Treasurer. The Company is dependent on Thomas Salerno in his corporate positions and as President of TSR Consulting Services, Inc. The Company has an employment agreement with Mr. Salerno which expires July 10, 2021. The Company is also dependent on the minority owner of its Logixtech Solutions LLC subsidiary. The Company has an employment agreement with the minority owner which terminates on August 31, 2020. 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 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.

Litigation

The Company is currently subject to a litigation involving the Company's former Chief Executive Officer, as discussed in the "Legal Proceedings" section. In connection with this litigation, the Company may enter into a settlement of claims for significant monetary damages. The Company may also be subject to a judgment for significant monetary damages. Defending against and/or prosecuting the current litigation may be time-consuming, expensive and cause diversion of management's attention.

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.

Dependence on Significant Customers

In the fiscal year ended May 31, 2020, the Company's three largest customers, Consolidated Edison, Citigroup and AgileOne, accounted for 21.2%, 20.3%, and 11.8% 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. AgileOne is a vendor management company through which the Company provides services to three end customers, of which Bristol Myers Squibb is the most significant, representing 11.1% of the Company's consolidated revenue for fiscal 2020. In total, the Company derives over 30% of its revenue from accounts with vendor management companies. The Company's 10 largest customers provided 83% of consolidated revenue in fiscal 2020. 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. For example, one of the Company's 10 largest customers has significantly reduced their use of the Company's services during the COVID-19 pandemic. Approximately 28% 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. These banks are no longer willing to pay the premium prices which they had previously paid for certain high end skills. See "Rapidly Changing Industry" below.

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 \$3,747,000 for three customers at May 31, 2020 and \$3,657,000 for three customers at May 31, 2019. 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.

Dependence on Reputation

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.

Competitive Market for Technical Personnel

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.

Competitive Market for Account Executives and Technical Recruiters

The Company faces a highly competitive market for the limited number of qualified personnel. The competitive market for such personnel could affect the Company's ability to hire and retain such personnel, including increasing the cost of retaining such personnel and, 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.

Rapidly Changing Industry

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.

Vendor Management Companies

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 30% of the Company's revenue is derived through 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.

Effect of Current Economic Uncertainties and Limited Growth in Company's Business

Demand for the Company's IT staffing services has been and is significantly affected by the general economic environment. During periods of slowing economic activity, customers may reduce their IT projects and their demand for outside consultants. Therefore, any significant economic downturn could have a material adverse effect on the Company's results of operations. The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closing of various businesses. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings and the ongoing economic impact. Therefore, the Company expects this matter to continue to negatively impact its operating results in future periods. However, the full financial impact and duration cannot be reasonably estimated at this time. The Company expects that economic conditions will continue to affect the number of consultants on billing with customers and the Company's profitability. In addition to the impact of the economic uncertainties, the Company has not been successful in expanding its customer base beyond its core customers. There is no assurance that the Company will achieve growth in its revenue.

Effect of Increases in Payroll-related Costs

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 which went into effect January 1, 2015. Additionally, the New York City Council approved a measure which went into effect in April 2014 requiring the Company to provide five paid sick days per year. Several local municipalities, such as Newark and Jersey City, New Jersey, have enacted similar statutes. The State of New Jersey added a similar paid sick time law effective in October 2018, while New York State added a paid sick leave mandate on April 1, 2020, with employees eligible to accrue paid sick leave as of September 30, 2020 for use beginning January 1, 2021. This is in addition to the paid family leave afforded employees in New York as of 2016. Many other cities around the country have enacted or are in the process of enacting paid leave 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.

Effect of Offshore Outsourcing

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. There can be no assurance that this trend will not continue to adversely impact the Company's IT staffing revenue.

Effect of Immigration Restrictions

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 June 2020, President Donald Trump issued a proclamation suspending immigration visas for many categories of foreign workers including H-1B through the end of the year, allegedly to protect U.S. workers and jobs amid the COVID-19 pandemic. 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.

Fluctuations in 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 causes the number of billable work days 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 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.

Competition

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.

Potential for Contract and Other Liability

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.

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.

Data Security

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.

Intellectual Property Rights

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.

Voting Power of Significant Stockholders

On July 24, 2018, Joseph F. Hughes and Winifred Hughes filed Amendments to Schedule 13D with the United States Securities and Exchange Commission (the "SEC") in which Joseph F. Hughes and Winifred Hughes disclosed that they had collectively sold 819,491 shares of the Company's Common Stock jointly held by them in a privately-negotiated transaction to Zeff Capital, L.P., QAR Industries, Inc. and Fintech Consulting LLC. Joseph F. Hughes was the former Chairman and Chief Executive Officer of the Company. Zeff Capital, L.P., QAR Industries, Inc. and Fintech Consulting LLC acquired, in the aggregate, 41.8% of the Company's issued and outstanding Common Stock in this transaction. Amendments to Schedule 13D previously filed by Joseph F. Hughes and Winifred Hughes on July 17, 2018 attached an exhibit wherein it was stated that prior to the transaction described above, Zeff Capital, L.P. owned 77,615 shares or approximately 4% of the Company's issued and outstanding Common Stock.

The Company became aware on July 30, 2018 that Fintech Consulting LLC and Tajuddin Haslani filed a Schedule 13D with the SEC disclosing beneficial ownership of 376,100 shares of Common Stock, which represents approximately 19.2% of the Company's issued and outstanding Common Stock.

The Company became aware on August 23, 2018 that Zeff Capital, L.P., Zeff Holding Company, LLC and Daniel Zeff filed an Amendment to Schedule 13D with the SEC disclosing the additional purchase by Zeff Capital, L.P. of an aggregate of 55,680 shares of Common Stock. As a result of these additional purchases of Common Stock, Zeff Capital, L.P., Zeff Holding Company, LLC and Daniel Zeff beneficially own a total of 437,774 shares of Common Stock, which represents approximately 22.3% of the Company's issued and outstanding Common Stock.

The Company became aware on August 28, 2018 that QAR Industries, Inc. and Robert Fitzgerald filed an Amendment to Schedule 13D with the SEC disclosing the additional purchase by QAR Industries, Inc. of an aggregate of 4,070 shares of Common Stock. As a result of these additional purchases of Common Stock, QAR Industries, Inc. and Robert Fitzgerald beneficially own a total of 143,900 shares of Common Stock, which represents approximately 7.3% of the Company's issued and outstanding Common Stock. The Company became aware on September 10, 2019 that QAR Industries, Inc. and Robert Fitzgerald filed an Amendment to Schedule 13D with the SEC disclosing beneficial ownership of an aggregate of 139,200 shares of Common Stock, which represents approximately 7.1% of the Company's issued and outstanding Common Stock.

As a result of the transactions described above, Zeff Capital, L.P., QAR Industries, Inc. and Fintech Consulting LLC are the beneficial owners of an aggregate of 953,074 shares of Common Stock, which represents approximately 48.6% of the Company's issued and outstanding Common Stock. By virtue of such ownership, Zeff Capital, L.P., QAR Industries, Inc. and Fintech Consulting LLC 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.

Certain Anti-Takeover Provisions May Inhibit a Change of Control

In addition to the significant ownership of Common Stock discussed above under the caption "Voting Power of Significant Stockholders," 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 Certificate of Incorporation and by-laws. In addition, on August 29, 2018, the Company entered into a Rights Agreement and paid a related dividend of preferred share purchase rights to the holders of the Company's outstanding Common Stock. The preferred share purchase rights give the holders thereof the right to purchase shares of the Company's Class A Preferred Stock Series One, par value \$0.01 per share ("Preferred Stock"). The Preferred Stock has rights with respect to dividends, voting and liquidation preferences that are superior to the Common Stock. The preferred share purchase rights do not become exercisable until the acquisition by certain persons or entities, or groups of affiliated persons or entities, of 5% or more of the Company's outstanding Common Stock. (See Note 6 to the Consolidated Financial Statements elsewhere in this report.)

New Classes and Series of Stock

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.

On August 29, 2018, the Board of Directors of the Company declared a dividend of one preferred share purchase right (a "Right") for each share of Common Stock of the Company outstanding on August 29, 2018 (the "Record Date") to the stockholders of record on that date. In connection with the distribution of the Rights, the Company entered into a Rights Agreement (the "Rights Agreement"), dated as of August 29, 2018, between the Company and Continental Stock Transfer & Trust Company, as Rights Agent. Each Right entitles the registered holder to purchase from the Company one one-hundredth of a share of the Company's Preferred Stock at a price of \$24.78 per one one-hundredth of a share of Preferred Stock represented by a Right (the "Purchase Price"), subject to adjustment. See Footnote 6 to the Consolidated Financial Statements elsewhere in this report.

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, 2020, with annual rents of approximately \$87,000. This space is used as executive and administrative offices for the Company and the Company's operating subsidiary. The Company also leases sales and recruiting offices in New York City (lease expires August 2022) and Edison, New Jersey (lease expires February 2021), with aggregate annual rents of approximately \$158,000 and \$143,000, respectively.

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

On October 16, 2018, the Company was served with a complaint filed on October 11, 2018 in the Supreme Court of the State of New York, Queens County, by Susan Paskowitz, a stockholder of the Company, against the Company; Joseph F. Hughes and Winifred M. Hughes; former directors Christopher Hughes, Raymond A. Roel, Brian J. Mangan, Regina Dowd, James J. Hill, William Kelly, and Eric Stein; as well as stockholders Zeff Capital, L.P., QAR Industries, Inc. and Fintech Consulting LLC (the "Stockholder Litigation"). The complaint purports to be a class action lawsuit asserting claims on behalf of all minority stockholders of the Company. Ms. Paskowitz alleges the following: the sale by Joseph F. Hughes and Winifred M. Hughes of an aggregate of 819,491 shares of the Company's common stock ("controlling interest") to Zeff Capital, L.P., QAR Industries, Inc. and Fintech Consulting LLC was in breach of Joseph F. Hughes' and Winifred M. Hughes' fiduciary duties and to the detriment of the Company's minority stockholders; the former members of the Board of Directors of the Company named in the complaint breached their fiduciary duties by failing to immediately adopt a rights plan that would have prevented Joseph F. Hughes and Winifred M. Hughes from selling their shares and preserved a higher premium for all stockholders; Zeff, QAR, and Fintech are "partners" and constitute a "group." Ms. Paskowitz also asserts that Zeff Capital, L.P., QAR Industries, Inc. and Fintech Consulting LLC aided and abetted Joseph F. Hughes' and Winifred M. Hughes' conduct, and ultimately sought to buy out the remaining shares of the Company at an unfair price.

On June 14, 2019, Ms. Paskowitz filed an amended complaint in the Stockholder Litigation in the Supreme Court of the State of New York, Queens County against the former members of the Board of Directors and Zeff Capital, L.P., QAR Industries, Inc. and Fintech Consulting LLC, which asserts substantially similar allegations to those contained in the October 11, 2018 complaint, but omits Regina Dowd, Joseph F. Hughes and Winifred M. Hughes as defendants. In addition to the former members of the Board of Directors named in the original complaint, the amended complaint names former directors Ira Cohen, Joseph Pennacchio, and William Kelly as defendants. The amended complaint also asserts a derivative claim purportedly on behalf of the Company against the named former members of the Board of Directors. The amended complaint seeks declaratory judgment and unspecified monetary damages. The complaint requests: (1) a declaration from the court that the former members of the Board of Directors named in the complaint breached their fiduciary duties by failing to timely adopt a stockholder rights plan, which resulted in the loss of the ability to auction the Company off to the highest bidder

without interference from Zeff Capital, L.P., QAR Industries, Inc. and Fintech Consulting LLC; (2) damages derivatively on behalf of the Company for unspecified harm caused by the named Directors' alleged breaches of fiduciary duties; (3) damages and equitable relief derivatively on behalf of the Company for the named Directors' alleged failure to adopt proper corporate governance practices; and (4) damages and injunctive relief against Zeff Capital, L.P., QAR Industries, Inc. and Fintech Consulting LLC based on their knowing dissemination of false or misleading public statements concerning their status as a group. The complaint has not assigned any monetary values to alleged damages.

On July 15, 2019, the Company filed an answer to the amended complaint in the Stockholder Litigation and cross-claims against Zeff Capital, L.P., QAR Industries, Inc. and Fintech Consulting LLC for breaches of their fiduciary duties, aiding and abetting breaches of fiduciary duties, and indemnification and contribution based on their misappropriation of material nonpublic information and their failure to disclose complete and accurate information in SEC filings concerning their group actions to attempt a creeping takeover of the Company, which was thereafter amended on July 26, 2019.

In addition, on December 21, 2018, the Company filed a complaint in the United States District Court, Southern District of New York, against Zeff Capital, L.P., Zeff Holding Company, LLC, Daniel Zeff, QAR Industries, Inc., Robert Fitzgerald, Fintech Consulting LLC, and Tajuddin Haslani for violations of the disclosure and anti-fraud requirements of the federal securities laws under Sections 13(d) and 14(a) of the Securities Exchange Act of 1934 ("Exchange Act"), and the related rules and regulations promulgated by the SEC, for failing to disclose to the Company and its stockholders their formation of a group and the group's intention to seize control of the Company (the "SDNY Action"). The complaint requests that the court, among other things, declare that the defendants have solicited proxies without filing timely, accurate and complete reports on Schedule 13D and Schedule 14A in violation of Sections 13(d) and 14(a) of the Exchange Act, direct the defendants to file with the SEC complete and accurate disclosures, enjoin the defendants from voting any of their shares prior to such time as complete and accurate disclosures have been filed, and enjoin the defendants from further violations of the Exchange Act with respect to the securities of the Company.

On January 7, 2019, Ms. Paskowitz filed a related action against Zeff Capital, L.P., Zeff Holding Company, LLC, Daniel Zeff, QAR Industries, Inc., Robert Fitzgerald, Fintech Consulting LLC, and Tajuddin Haslani in the Southern District of New York, which asserts claims against them for breach of fiduciary duty and under federal securities laws similar to those asserted in the Company's action. Although the Company is not a party to Ms. Paskowitz's action, the court has determined to treat the Company's and Ms. Paskowitz's respective actions as related.

On August 7, 2019, following the Company's initial rescheduling of the 2018 Annual Meeting for September 13, 2019 and the filing of Preliminary Proxy Statements by the Company and Zeff Capital, L.P., Zeff Capital, L.P. filed a complaint in the Delaware Court of Chancery against the Company seeking an order requiring the Company to hold its next annual meeting of stockholders on or around September 13, 2019, and obligating the Company to elect Class I and Class III directors at that annual meeting.

On August 13, 2019, the Company filed a motion for preliminary injunction in the SDNY Action in advance of the Company's 2018 Annual Meeting originally scheduled for September 13, 2019, and requested leave to file a motion for expedited discovery. The Court denied the Company's motion for preliminary injunction but ordered Zeff to "make clear that the second set of directors" described by Zeff in its preliminary proxy statement "is contingent upon the resolution of a proceeding in Delaware Chancery Court."

On August, 30, 2019, the Company entered into the Settlement Agreement with the Investor Parties with respect to the proxy contest pertaining to the election of directors at the 2018 Annual Meeting, which was held on October 22, 2019. Pursuant to the Settlement Agreement, the parties agreed to forever settle and resolve any and all disputes between the parties, including without limitation disputes arising out of or relating to the following litigations:

- (i) The complaint relating to alleged breaches of fiduciary duties filed on November 1, 2018 by Fintech Consulting LLC against the Company in the Delaware Court of Chancery, which was previously dismissed voluntarily;
- (ii) The complaint for declaratory and injunctive relief for violations of the federal securities laws filed on December 21, 2018 by the Company against the Investor Parties in the United States District Court in the Southern District of New York;
- (iii) Cross-claims relating to alleged breaches of fiduciary duties and for indemnification and contribution filed on July 26, 2019 by the Company against the Investor Parties in New York Supreme Court, Queens County; and

(iv) The complaint to compel annual meeting of stockholders filed on August 7, 2019 by Zeff Capital, L.P. against the Company in the Delaware Court of Chancery.

No party admitted any liability by entering into the Settlement Agreement. The Settlement Agreement did not resolve the Stockholder Litigation filed by Susan Paskowitz against the Company, Joseph F. Hughes, Winifred M. Hughes and certain former directors of the Company in the Supreme Court of the State of New York on October 11, 2018.

Concurrently with the Settlement Agreement, the parties entered into a share repurchase agreement (the “Repurchase Agreement”) which provided for the purchase by the Company and Christopher Hughes, the Company’s former President and Chief Executive Officer, of the shares of the Company’s Common Stock held by the Investor Parties (the “Repurchase”). The Settlement Agreement also contemplated that, if the Repurchase was completed, the Company would make a settlement payment to the Investor Parties at the closing of the Repurchase in an amount of approximately \$1,500,000 (the “Settlement Payment”). However, the Repurchase and Settlement Payment were not completed by the deadline of December 30, 2019.

Pursuant to the Settlement Agreement, (1) the Company agreed to adopt an amendment to the Company’s Amended and Restated By-Laws, dated April 9, 2015 (the “By-Laws Amendment”), providing that stockholders of the Company owning at least forty percent (40%) of the issued and outstanding Common Stock may request a special meeting of stockholders; (2) the Investor Parties agreed not to take any action to call or otherwise cause a special meeting of stockholders to occur prior to December 30, 2019 (unless the Company had failed to hold the 2018 Annual Meeting); (3) the Company agreed to amend and restate the Company’s Rights Agreement, dated August 29, 2018 (the “Amended Rights Agreement”), to confirm that a Distribution Date (as defined in the Amended Rights Agreement) shall not occur as a result of any request by any of the Investor Parties for a special meeting; (4) the Company agreed that prior to the earlier of (A) the completion of the Repurchase and the payment of the Settlement Payment and (B) January 1, 2020, the Board of Directors shall not consist of more than seven (7) directors.

Pursuant to the terms of the Settlement Agreement, the two nominees for director made by Zeff Capital, L.P. were elected as directors at the Company’s 2018 Annual Meeting held on October 22, 2019. Please see the Company’s current Report on Form 8-K filed with the SEC on October 21, 2019 for more information about the background of the election of directors at the Company’s 2018 Annual Meeting.

Pursuant to the terms of the Settlement Agreement, inasmuch as the Repurchase was not completed and the Settlement Payment was not made by December 30, 2019, the members of the Board of Directors (other than the two directors who were nominated by Zeff Capital, L.P. and elected as directors at the 2018 Annual Meeting) resigned from the Board effective 5:00 p.m. Eastern Time on December 30, 2019. Immediately thereafter, the two remaining directors appointed Robert Fitzgerald to the Board of Directors. Please see the Company’s Current Report on Form 8-K filed with the SEC on December 31, 2019 for more information about the background and the appointment of Robert Fitzgerald.

In addition, the Settlement Agreement provides for mutual releases between the Company and each of the Investor Parties and certain of their affiliates. Each of the Investor Parties and certain of their affiliates also agreed to certain customary standstill provisions, including without limitation, with regard to certain actions in connection with the 2018 Annual Meeting, Extraordinary Transactions (as defined in the Settlement Agreement) with the Company, and the acquisition of any securities (or beneficial ownership thereof) of the Company, each of which expired on December 30, 2019.

The foregoing is not a complete description of the terms of the Settlement Agreement and the Share Repurchase Agreement. For a further description of the terms of the Settlement Agreement and the Share Repurchase Agreement, including copies of the Settlement Agreement and Share Repurchase Agreement, please see the Company’s Current Report on Form 8-K filed by the Company with the SEC on September 3, 2019.

On October 21, 2019, the Company entered into a Memorandum of Understanding (the “MOU”) with Susan Paskowitz providing for the settlement of the Stockholder Litigation filed by Ms. Paskowitz on October 11, 2018. The MOU provides for the settlement of the claims by Ms. Paskowitz that (1) the members of the Board named in the original complaint allegedly breached their fiduciary duties by failing to immediately adopt a rights plan that would have prevented the sale by Joseph F. Hughes and Winifred M. Hughes of an aggregate of 819,491 shares of the Company’s common stock to the Investor Parties; (2) the members of the Board named in the amended complaint allegedly breached their fiduciary duties and failed to adopt proper corporate governance practices; and (3) the Investor Parties acted as “partners” and constituted a “group” in their purchase of shares from Joseph F. Hughes and Winifred M. Hughes and knowingly disseminated false or misleading public statements concerning their status as a group.

Pursuant to the terms of the MOU, the Company will (1) implement certain corporate governance reforms described in the MOU within 30 days of a final order and judgment entered by the court, and keep these corporate governance reforms in

place for 5 years from the time of the final order and judgment; and (2) acknowledge that the plaintiff, Ms. Paskowitz, and her counsel provided a substantial benefit to the Company and its stockholders through the prosecution of the Stockholder Litigation and other related actions filed by Ms. Paskowitz described above.

On December 16, 2019, the Company entered into a Stipulation and Agreement of Settlement (the “Stipulation”) with Susan Paskowitz in the Stockholder Litigation. The Stipulation retains the terms and conditions of settlement of the Stockholder Litigation contained in the MOU described in the preceding paragraph, with the addition that the Company will pay to plaintiff’s counsel an award of attorneys’ fees and reimbursement of expenses in the amount of \$260,000 (collectively, the “Stockholder Litigation Settlement”). The Stockholder Litigation Settlement is intended to fully, finally, and forever compromise, settle, release, resolve, and dismiss with prejudice the Stockholder Litigation and all claims asserted therein directly against all present and former defendants and derivatively against them on behalf of the Company. The Stockholder Litigation Settlement does not contain any admission of liability, wrongdoing or responsibility by any of the parties, and provides for mutual releases by all parties. Each stockholder of the Company is a member of the plaintiff class unless such stockholder opts out of the class. The Company expects that the full amount of the \$260,000 settlement payment will be covered by insurance proceeds. The Stipulation remains subject to approval by the court. The Stipulation is independent of the Settlement Agreement and Share Repurchase Agreement that the Company had entered into with the Investor Parties.

On December 24, 2019, Ms. Paskowitz moved for preliminary approval of the Stipulation. On May 21, 2020, the Court entered an order preliminarily approving the Stipulation. The parties have agreed on a proposed scheduling order for final approval of the Stipulation and a proposed mailing notice of the Stipulation to TSR stockholders, which are both currently pending Court approval. If approved, the Court will set a settlement hearing for final approval of the Stipulation. Although the Company believes that the Stipulation represents a fair and reasonable compromise of the matters in dispute in the Stockholder Litigation, there can be no assurance that the court will approve the Stipulation as proposed, or at all.

Inasmuch as the Company did not complete the Repurchase and make the Settlement Payment prior to the December 30, 2019 deadline, the members of the Board of Directors (other than the two directors who were elected as directors at the 2018 Annual Meeting) resigned from the Board effective at 5:00 p.m. Eastern Time on December 30, 2019. Immediately thereafter, the two remaining directors, Bradley M. Tirpak and H. Timothy Eriksen, appointed Robert Fitzgerald as a new director. Each of Messrs. Tirpak, Eriksen and Fitzgerald qualifies as an “independent director” under the NASDAQ Stock Market Rules. These three individuals were also appointed to the Audit Committee, Nominating Committee, Compensation Committee and Special Committee. The Board appointed Mr. Tirpak as Chairman of the Board to succeed Christopher Hughes. Mr. Hughes continued to serve as the Chief Executive Officer, President and Treasurer of the Company until January 17, 2020 when he was put on leave. He was subsequently terminated on February 29, 2020. Additionally, the Board appointed Mr. Eriksen as Lead Independent Director, Chairman of the Audit Committee and Chairman of the Nominating Committee. The Board also appointed Mr. Fitzgerald as the Chairman of the Compensation Committee and Chairman of the Special Committee.

During the quarter ending February 29, 2020, the Company negotiated a settlement with the Company’s largest shareholder to reimburse it for legal expenses of \$900,000 (net present value of \$818,000), by entering into a binding term sheet on April 1, 2020. The parties entered into a final agreement reflecting these terms on August 13, 2020. (See Note 5 to the Consolidated Financial Statements elsewhere in this report.)

Christopher Hughes, the former Chief Executive Officer of the Company (“Plaintiff”), 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 duty of good faith and fair dealing. Plaintiff alleges that he was terminated without cause or in the alternative, that he resigned for reason and therefore, pursuant to the Amended and Restated Employment Agreement, dated August 9, 2018, between the Company and Plaintiff. Plaintiff seeks contractual severance pay in the amount of \$1,000,000 and reasonable costs and attorney’s fees. The Company denies Plaintiff’s allegations in their entirety and has filed counterclaims against Plaintiff for (1) declaratory relief; (2) breach of confidence/non-compete agreement; (3) declaratory and injunctive relief – confidence/non-compete; (4) tortious interference with current and prospective contractual and economic relations; (5) breach of fiduciary duty; (6) misappropriation of trade secrets; (7) declaratory and injunctive relief – unfair competition; and (8) conversion.

At this time, it is not possible to predict the outcome of any of these litigation matters or their effect on the Company and the Company’s consolidated financial position.

Item 4. Mine Safety Disclosures

Not applicable.

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, 2020 and 2019:

	JUNE 1, 2019 – MAY 31, 2020			
	1ST QUARTER	2ND QUARTER	3RD QUARTER	4TH QUARTER
High Sales Price.....	\$ 4.93	\$ 4.39	\$ 8.88	\$ 3.96
Low Sales Price	4.23	3.20	2.64	2.70

	JUNE 1, 2018 – MAY 31, 2019			
	1ST QUARTER	2ND QUARTER	3RD QUARTER	4TH QUARTER
High Sales Price.....	\$ 9.40	\$ 7.92	\$ 6.96	\$ 6.20
Low Sales Price	4.40	4.65	4.50	4.67

There were 41 holders of record of the Company’s Common Stock as of July 31, 2020. Additionally, the Company estimates that there were approximately 700 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.

There are no securities authorized for issuance under any equity compensation plans.

Item 6. Selected Financial Data

(Amounts in Thousands, Except Per Share Data)

	Years Ended				
	May 31, 2020	May 31, 2019	May 31, 2018	May 31, 2017	May 31, 2016
Revenue, Net.....	\$59,121	\$63,340	\$64,990	\$62,573	\$60,998
Income (Loss) From Operations	(1,751)	(1,848)	909	562	839
Net Income (Loss) Attributable to TSR, Inc.	(1,126)	(1,336)	486	268	399
Basic and Diluted Net Income (Loss) Per TSR, Inc. Common Share .	(0.57)	(0.68)	0.25	0.14	0.20
Working Capital.....	12,239	6,225	8,113	7,689	9,391
Total Assets.....	18,876	12,534	13,372	14,535	14,090
Total TSR, Inc. Equity	5,762	6,888	8,224	7,738	9,432
Book Value Per TSR, Inc. Common Share	2.94	3.51	4.19	3.94	4.81
(Total TSR Equity Divided by Common Shares Outstanding)					
Cash Dividends Declared Per TSR, Inc. Common Share.....	\$ 0.00	\$ 0.00	\$ 0.00	\$ 1.00	\$ 0.00

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)			
	2020		2019	
	Amount	% of Revenue	Amount	% of Revenue
Revenue, Net	\$ 59,121	100.0%	\$ 63,340	100.0%
Cost of Sales.....	49,943	84.5	53,515	84.5
Gross Profit	9,178	15.5	9,825	15.5
Selling, General and Administrative Expenses	10,929	18.5	11,673	18.4
Loss from Operations	(1,751)	(3.0)	(1,848)	(2.9)
Other Income (Expense), Net.....	(59)	(0.1)	11	0.0
Loss Before Income Taxes	(1,810)	(3.1)	(1,837)	(2.9)
Benefit for Income Taxes.....	(712)	(1.2)	(538)	(0.8)
Consolidated Net Loss	(1,098)	(1.9)	(1,299)	(2.1)
Net Income Attributable to Noncontrolling Interest.....	28	0.0	37	0.0
Net Loss Attributable to TSR, Inc.	\$ (1,126)	(1.9)%	\$ (1,336)	(2.1)%

Revenue

Revenue consists primarily of revenue from computer programming consulting services. Revenue for the fiscal year ended May 31, 2020 decreased \$4,219,000 or 6.7% from fiscal 2019. Revenue for the current year decreased due to lower overall average number of consultants on billing with customers which decreased from 394 for the fiscal year ended May 31, 2019 to 363 for the fiscal year ended May 31, 2020, while the average number of computer programming consultants also decreased from 338 for the fiscal year ended May 31, 2019 to 308 in the fiscal year ended May 31, 2020. The 363 consultants on billing for the current period include an equivalent 55 administrative (non-IT) workers that the Company placed at the customers' requests as compared with the prior year which included an equivalent 56 administrative (non-IT) workers.

We have experienced terminated assignments and a decrease in demand for new assignments due to the COVID-19 pandemic, which has led to the lower average number of consultants and negatively impacted the Company's revenues. Additionally, the COVID-19 pandemic has created operational challenges. The start of certain new assignments has been delayed due to delays in obtaining necessary clearances, as many of the agencies required to be contacted in obtaining the information needed for background checks have been fully or partially closed. As of May 31, 2020, the Company had used approximately 53% of the PPP loan funds to fund its payroll and other allowable expenses. The use of these funds allowed the Company to avoid certain salary reductions, furloughs and layoffs of employees during the period.

Cost of Sales

Cost of sales for the fiscal year ended May 31, 2020 decreased \$3,572,000 or 6.7% to \$49,943,000 from \$53,515,000 in the prior fiscal year. The decrease in cost of sales resulted primarily from the decrease in consultants on billing. Cost of sales as a percentage of revenue was 84.5% for both the fiscal year ended May 31, 2019 and the fiscal year ended May 31, 2020. This indicates that the amounts paid to consultants were reduced in line with the revenue decrease.

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 \$744,000 or 6.4% from \$11,673,000 in the fiscal year ended May 31, 2019 to \$10,929,000 in the fiscal year ended May 31, 2020. The decrease in these expenses primarily resulted from a decrease of \$1,158,000 in amounts paid for legal services from the prior year related to shareholder litigation and increased costs surrounding our annual meeting, as well as a reduction of approximately \$200,000 in compensation expenses for the former CEO who was terminated on February 29, 2020 (net of additional amounts paid to the new CEO during the period). The decreases were offset, in part, by the settlement with an investor for \$818,000 (present value) to offset expenses incurred in its solicitations in connection with the annual meeting of stockholders and related litigation between the investor and the Company. Despite the decrease, selling, general and administrative expenses, as a percentage of revenue, increased from 18.4% in the fiscal year ended May 31, 2019 to 18.5% in the fiscal year ended May 31, 2020.

Other Income (Expense)

Other income (expense) for the fiscal year ended May 31, 2020 resulted primarily from interest expense of \$79,000, offset, to an extent, by interest and dividend income of \$5,000 and by a mark to market gain of approximately \$15,000 on the Company's marketable equity securities. Other income for the fiscal year ended May 31, 2019 resulted primarily from interest and dividend income of \$22,000 reduced by a mark to market loss of approximately \$9,000 on the Company's marketable equity securities and a loss of \$2,000 on the sale of a fixed asset.

Income Taxes

The effective income tax rates were a benefit of 39.3% for the fiscal year ended May 31, 2020 and a benefit of 29.3% for the fiscal year ended May 31, 2019. During the current year, the CARES Act allowed net operating losses to be carried back five years. The Company has applied for refunds of approximately \$586,000 based on the fiscal 2019 loss. The deferred tax asset provided from the loss in fiscal 2019 was originally recorded at the lower federal rate of 21%. It is now being used at the higher federal rate of 34% used prior to 2018, resulting in an additional benefit in excess of \$200,000. The rates for both years consist primarily of the new federal corporate tax rate of 21.0% effective January 1, 2018. The benefit of the deferred tax asset will be limited to 21% for federal income tax purposes in fiscal years going forward.

Net Loss Attributable to TSR, Inc.

Net loss attributable to TSR, Inc. was a loss of \$1,336,000 in the fiscal year ended May 31, 2019 compared to a net loss of \$1,126,000 in the fiscal year ended May 31, 2020. In addition to the additional tax benefit described above, the decrease in the loss was primarily attributable to the decrease in selling, general and administrative expenses from decreased amounts paid for legal services.

Liquidity, Capital Resources and Changes in Financial Condition

The Company's cash and marketable securities were sufficient to enable it to meet its liquidity requirements during fiscal 2020. The Company expects that its cash and cash equivalents and the Company's line of credit pursuant to a Loan and Security Agreement with Access Capital, Inc. 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 financial statements. Utilizing its accounts receivable as collateral, the Company has secured the line of credit to increase its liquidity as necessary. As of May 31, 2020, the net borrowings outstanding against this line of credit facility were \$501,000. 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. Additionally, in April 2020, the Company secured a SBA Paycheck Protection Program Loan ("PPP Loan") in the amount of \$6,659,000. At the time of application, the Company determined that the loan was necessary in order to secure the Company's ability 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 May 31, 2020, the Company had used approximately 53% 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. While there is no guarantee that the Company will receive forgiveness for any outstanding amounts under the PPP Loan, it believes that it has acted in compliance with the terms of the program and plans to seek forgiveness of the PPP Loan.

At May 31, 2020, the Company had working capital (total current assets in excess of total current liabilities) of \$12,239,000 including cash and cash equivalents and marketable securities of \$9,780,000 as compared to working capital of \$6,225,000 including cash and cash equivalents and certificates of deposit and marketable securities of \$4,222,000 at May 31, 2019. The increase in working capital was primarily due to the receipt of PPP loan funds in April 2020.

Net cash flow of \$1,567,000 was used in operations during fiscal 2020 as compared to \$1,584,000 of net cash flow used in operations in fiscal 2019. The cash used in operations for fiscal 2020 primarily resulted from the consolidated net loss of \$1,098,000, an increase in prepaid and recoverable income taxes of \$547,000, an increase in deferred taxes of \$148,000, and a decrease in accounts and other payables and accrued expenses of \$892,000, offset to some extent, by an increase in accounts receivable of \$386,000 and accrued legal settlement payable of \$828,000. The cash used in operations for fiscal 2019 primarily resulted from the consolidated net loss of \$1,299,000, an increase in deferred taxes of \$558,000, primarily from net operating loss carryforwards, and an increase in accounts receivable of \$216,000, offset, to some extent, by an increase in accounts and other payables and accrued expenses of \$535,000, primarily from increased accrued legal expenses and customer discounts.

Net cash provided by investing activities amounted to \$471,000 for fiscal 2020, compared to \$8,000 in net cash provided by investing activities in fiscal 2019. The cash provided by investing activities in fiscal 2020 primarily resulted from maturing certificates of deposit offset, to an extent, by purchases of fixed assets. The cash provided by investing activities in 2019 primarily resulted from the proceeds of the sale of a fixed asset, less purchases of fixed assets.

Net cash provided by financing activities of \$7,132,000 during the fiscal year ended May 31, 2020 resulted from the proceeds of a PPP Loan of \$6,659,000 and net drawings on the line of credit of \$501,000 offset by distributions of \$29,000 to the holder of the noncontrolling interest in the Company's subsidiary, Logixtech Solutions, LLC. Net cash used in financing activities of \$53,000 during the fiscal year ended May 31, 2019 resulted primarily from the distributions to the holder of the noncontrolling interest.

The Company's capital resource commitments at May 31, 2020 consisted of lease obligations on its branch and corporate facilities and an accrued legal settlement payable. The net present value of its future lease and settlement payments were \$381,000 and \$828,000, respectively, as of May 31, 2020. The Company intends to finance these commitments primarily from the Company's available cash and line of credit.

Impact of New Accounting Standards

Effective June 1, 2018, the Company adopted Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, using the modified retrospective method. This update outlined a comprehensive new revenue recognition model designed to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard also requires additional quantitative and qualitative disclosures. The adoption allows companies to apply the new revenue standard to reporting periods beginning in the year the standard is first implemented, while prior periods continue to be reported in accordance with previous accounting guidance. Since the adoption of Accounting Standards Codification ("ASC") 606 did not have a significant impact on the recognition of revenue, the Company did not have an opening retained earnings adjustment.

In March 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-08, *Principal versus Agent Consideration (Topic 606)*. This update contains guidance on principal versus agent assessments when a third party is involved in providing goods or services to a customer. It specifies that an entity is a principal, and thus records revenue on a gross basis, if it controls a good or service before transferring the good or service to the customer. An entity is an agent, and thus records revenue on a net basis, if it arranges for a good or service to be provided by another entity. The Company adopted this ASU on June 1, 2018 as part of the adoption of ASC 606 and it did not have a significant impact.

In May 2016, the FASB issued ASU 2016-12, *Narrow-Scope Improvements and Practical Expedients (Topic 606)*. This update provides certain clarifications to reduce potential diversity in practice and to simplify the standard. The amendments in ASU 2016-12 clarify the following key areas: assessing collectibility; presenting sales taxes and other similar taxes collected from customers; noncash consideration; contract modifications at transition; completed contracts at transition; and disclosing the accounting change in the period of adoption. The Company adopted this ASU on June 1, 2018 as part of the adoption of ASC 606 and it did not have a significant impact.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which sets out the principle for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The new standard requires lessees to classify leases as either finance or operating leases and record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. An accounting policy election may be made to account for leases with a term of 12 months or less similar to existing guidance for operating leases today. ASU No. 2016-02 supersedes the existing guidance on accounting for leases. In July 2018, the FASB issued ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*, which allows for an optional transition method for the adoption of Topic 842. The two permitted transition methods are now the modified retrospective approach, which applies the new lease requirements at the beginning of the earliest period presented, and the optional transition method, which applies the new lease requirements through a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. ASU 2016-02 is effective for our fiscal year ending May 31, 2020 and the interim periods within that year. The Company will adopt this standard in the first quarter of fiscal 2020 using the optional transition method. The Company also intends to elect the practical expedients that allow us to carry forward the historical lease classification. The Company has established an inventory of existing leases and implemented a new process of evaluating the classification of each lease. The financial impact of the adoption of the new standard in the first quarter of fiscal year 2020 was an increase in total assets and total liabilities of approximately \$691,000 as of June 1, 2019. The financial impact of the adoption primarily relates to the capitalization of right-of-use assets and recognition of lease liability related to operating leases. The Company will implement changes to its processes and internal controls, as necessary, to meet the reporting and disclosure requirements of the new standard.

Critical Accounting Policies

The SEC defines “critical accounting policies” as those that require the application of management’s most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods.

The Company’s significant accounting policies are described in Note 1 to its consolidated financial statements, contained elsewhere in this report. The Company believes that the following accounting policies require the application of management’s most difficult, subjective or complex judgments:

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 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.

Estimating Allowances for Doubtful Accounts Receivable

We perform ongoing credit evaluations of our customers and adjust credit limits based upon payment history and the customer’s current creditworthiness, as determined by our review of their current credit information. We continuously monitor collections and payments from our customers and maintain a provision for estimated credit losses based on our historical experience, customer types, creditworthiness, economic trends and any specific customer collection issues that we have identified. While such credit losses have historically been within our expectations and the provisions established, we cannot guarantee that we will continue to experience the same credit loss rates that we have in the past. A significant change in the liquidity or financial position of any of our significant customers, or in their willingness to pay, could have a material adverse effect on the collectability of our accounts receivable and our future operating results.

Valuation of Marketable Securities

The Company classifies its marketable securities at acquisition as either (i) held-to-maturity, (ii) trading or (iii) available-for-sale. Based upon the Company’s intent and ability to hold its certificates of deposit to maturity (which maturities range up to 12 months), such securities have been classified as held-to-maturity and are carried at amortized cost, which approximates fair value. The Company’s equity securities are classified as trading securities, which are carried at fair value, as determined by quoted market price, which is Level 1 input, as established by the fair value hierarchy. The related unrealized gains and losses are included in earnings.

Valuation of Deferred Tax Assets

We regularly evaluate our ability to recover the reported amount of our deferred income tax assets considering several factors, including our estimate of the likelihood of the Company generating sufficient taxable income in future years during the period over which temporary differences reverse. Presently, the Company believes that it is more likely than not that it will realize the benefits of its deferred tax assets based primarily on the Company’s history of and projections for taxable income in the future. In the event that actual results differ from our estimates or we adjust these estimates in future periods, we may need to establish a valuation allowance against a portion or all of our deferred tax assets, which could materially impact our financial position or results of operations.

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.

Item 8. Financial Statements and Supplementary Data

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of 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, 2020 and 2019, and the related consolidated statements of operations, equity, and cash flows for each of the years then ended, and the related notes (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of May 31, 2020 and 2019, and the results of its operations and its cash flows for each of the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Notes 1 and 3 to the consolidated financial statements, the Company has changed its method for accounting for leases as of June 1, 2019 due to the adoption of Accounting Standards Codification Topic 842 *Leases*.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's 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 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 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 financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ CohnReznick LLP

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

Jericho, New York

August 17, 2020

TSR, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
May 31, 2020 and 2019

ASSETS

	2020	2019
Current Assets:		
Cash and cash equivalents	\$ 9,730,022	\$ 3,694,989
Certificates of deposit and marketable securities	50,344	527,232
Accounts receivable:		
Trade, net of allowance for doubtful accounts of \$181,000 in 2020 and 2019.....	7,057,365	7,443,581
Other	5,088	5,321
	7,062,453	7,448,902
Prepaid expenses	202,862	118,482
Prepaid and recoverable income taxes.....	598,893	52,385
	17,644,574	11,841,990
	-----	-----
Equipment and leasehold improvements, at cost:		
Equipment	112,435	104,223
Furniture and fixtures	124,371	111,107
Leasehold improvements.....	60,058	60,058
	296,864	275,388
Less accumulated depreciation and amortization	276,673	268,886
	20,191	6,502
Other assets.....	49,653	49,653
Right-of-use asset	377,182	-
Deferred income taxes	784,000	636,000
	\$ 18,875,600	\$ 12,534,145
	=====	=====

See accompanying notes to consolidated financial statements.

TSR, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
May 31, 2020 and 2019

LIABILITIES AND EQUITY

	2020	2019
	-----	-----
Current Liabilities:		
Accounts and other payables	\$ 503,166	\$ 574,540
Accrued expenses and other current liabilities:		
Salaries, wages and commissions	2,240,063	2,895,603
Other	791,570	956,965
	-----	-----
	3,031,633	3,852,568
Advances from customers	1,181,234	1,190,014
Revolving line of credit	501,134	-
Operating lease liability- current	188,799	-
	-----	-----
Total Current Liabilities	5,405,966	5,617,122
Operating lease liability, net of current portion	192,409	-
Legal settlement payable	827,822	-
SBA Paycheck Protection Program loan payable	6,659,220	-
	-----	-----
Total Liabilities	13,085,417	5,617,122
	-----	-----
Commitments and Contingencies		
Equity:		
TSR, Inc.		
Preferred stock, \$1.00 par value, authorized 500,000 shares; none issued	-	-
Class A Preferred Stock, Series One, authorized 30,000 shares; none issued	-	-
Common stock, \$0.01 par value, authorized 12,500,000 shares; issued 3,114,163 shares; 1,962,062 outstanding	31,142	31,142
Additional paid-in capital	5,102,868	5,102,868
Retained earnings	14,141,796	15,268,224
	-----	-----
	19,275,806	20,402,234
Less: treasury stock, 1,152,101 shares, at cost	13,514,003	13,514,003
	-----	-----
Total TSR, Inc. Equity	5,761,803	6,888,231
Noncontrolling Interest	28,380	28,792
	-----	-----
Total Equity	5,790,183	6,917,023
	-----	-----
Total Liabilities and Equity	\$ 18,875,600	\$ 12,534,145
	=====	=====

See accompanying notes to consolidated financial statements.

TSR, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
Years Ended May 31, 2020 and 2019

	2020	2019
Revenue, net	\$ 59,121,401	\$ 63,340,028
Cost of sales.....	49,943,405	53,514,636
Selling, general and administrative expenses	10,928,648	11,672,946
	60,872,053	65,187,582
Loss from operations	(1,750,652)	(1,847,554)
Other income (expense):		
Interest and dividend income.....	4,877	22,309
Interest expense	(79,386)	-
Loss on sale of fixed asset	-	(2,882)
Unrealized gain (loss) from marketable securities, net.....	15,112	(8,928)
	(59,397)	10,499
Loss before income taxes.....	(1,810,049)	(1,837,055)
Benefit for income taxes	(712,000)	(538,000)
Consolidated net loss	(1,098,049)	(1,299,055)
Less: Net income attributable to noncontrolling interest	28,379	36,940
Net loss attributable to TSR, Inc.	\$ (1,126,428)	\$ (1,335,995)
Basic and diluted net loss per TSR, Inc. common share.....	\$ (0.57)	\$ (0.68)
Basic and diluted weighted average number of common shares outstanding	1,962,062	1,962,062

See accompanying notes to consolidated financial statements.

TSR, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY
Years Ended May 31, 2020 and 2019

	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, 2018	3,114,163	\$ 31,142	\$ 5,102,868	\$16,604,219	\$ (13,514,003)	\$ 8,224,226	\$ 44,552	\$ 8,268,778
Net income attributable to noncontrolling interest	-	-	-	-	-	-	36,940	36,940
Distribution to noncontrolling interest	-	-	-	-	-	-	(52,700)	(52,700)
Net loss attributable to TSR, Inc.	-	-	-	(1,335,995)	-	(1,335,995)	-	(1,335,995)
Balance at May 31, 2019	3,114,163	31,142	5,102,868	15,268,224	(13,514,003)	6,888,231	28,792	6,917,023
Net income attributable to noncontrolling interest	-	-	-	-	-	-	28,379	28,379
Distribution to noncontrolling interest	-	-	-	-	-	-	(28,791)	(28,791)
Net loss attributable to TSR, Inc.	-	-	-	(1,126,428)	-	(1,126,428)	-	(1,126,428)
Balance at May 31, 2020	3,114,163	\$ 31,142	\$ 5,102,868	\$14,141,796	\$ (13,514,003)	\$ 5,761,803	\$ 28,380	\$ 5,790,183
	=====	=====	=====	=====	=====	=====	=====	=====

See accompanying notes to consolidated financial statements.

TSR, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended May 31, 2020 and 2019

	2020	2019
	-----	-----
Cash flows from operating activities:		
Consolidated net loss	\$(1,098,049)	\$(1,299,055)
Adjustments to reconcile consolidated net loss to net cash used in operating activities:		
Depreciation and amortization.....	7,787	11,586
Unrealized (gain) loss from marketable securities, net.....	(15,112)	8,928
Loss on sale of fixed asset	-	2,882
Noncash lease expense	4,026	-
Deferred income taxes	(148,000)	(558,000)
Changes in operating assets and liabilities:		
Accounts receivable-trade	386,216	(215,758)
Other receivables.....	233	(3,227)
Prepaid expenses	(84,380)	(20,138)
Prepaid and recoverable income taxes	(546,508)	(24,171)
Accounts and other payables and accrued expenses and other current liabilities	(892,309)	534,667
Legal settlement payable.....	827,822	-
Advances from customers	(8,780)	(21,218)
	-----	-----
Net cash used in operating activities.....	(1,567,054)	(1,583,504)
	-----	-----
Cash flows from investing activities:		
Proceeds from maturities of marketable securities	492,000	740,000
Purchases of marketable securities	-	(739,000)
Proceeds from sale of fixed asset	-	10,000
Purchases of equipment and leasehold improvements.....	(21,476)	(3,244)
	-----	-----
Net cash provided by investing activities	470,524	7,756
	-----	-----
Cash flows from financing activities:		
Net drawings on line of credit	501,134	-
Proceeds from SBA Paycheck Protection Program loan	6,659,220	-
Distributions to noncontrolling interest.....	(28,791)	(52,700)
	-----	-----
Net cash provided by (used in) financing activities.....	7,131,563	(52,700)
	-----	-----
Net increase (decrease) in cash and cash equivalents	6,035,033	(1,628,448)
Cash and cash equivalents at beginning of year	3,694,989	5,323,437
	-----	-----
Cash and cash equivalents at end of year	\$ 9,730,022	\$ 3,694,989
	=====	=====
Supplemental disclosures of cash flow data:		
Income taxes paid	\$ 30,000	\$ 52,000
	=====	=====

See accompanying notes to consolidated financial statements.

TSR, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
May 31, 2020 and 2019

(1) Summary of Business and Significant Accounting Policies

(a) Business, Nature of Operations and Customer Concentrations

TSR, Inc. and Subsidiaries (the “Company”) are primarily engaged in providing contract computer programming services to commercial customers located primarily in the Metropolitan New York area. The Company provides its customers with technical computer personnel to supplement their in-house information technology (“IT”) capabilities. In addition, beginning in fiscal 2017, the Company has provided and continues to provide administrative (non-IT) workers on a contract basis to two of its existing customers. In fiscal 2020, three customers each accounted for more than 10% of the Company’s consolidated revenue, constituting a combined 53.3%. The largest of these constituted 21.2% of consolidated revenue. In fiscal 2019, three customers each accounted for more than 10% of the Company’s consolidated revenue, constituting a combined 51.4%. The largest of these constituted 22.5% of consolidated revenue. The accounts receivable balances associated with the Company’s largest customers were \$3,747,000 for three customers at May 31, 2020 and \$3,657,000 for three customers at May 31, 2019. The Company operates in one business segment, contract staffing services.

(b) Principles of Consolidation

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

(c) Revenue Recognition

Effective June 1, 2018, the Company adopted Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, using the modified retrospective method. This update outlined a comprehensive new revenue recognition model designed to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard also requires additional quantitative and qualitative disclosures. The adoption allows companies to apply the new revenue standard to reporting periods beginning in the year the standard is first implemented, while prior periods continue to be reported in accordance with previous accounting guidance. Since the adoption of Accounting Standards Codification (“ASC”) 606 did not have a significant impact on the recognition of revenue, the Company did not have an opening retained earnings adjustment.

In March 2016, the Financial Accounting Standards Board (“FASB”) issued ASU 2016-08, *Principal versus Agent Consideration (Topic 606)*. This update contains guidance on principal versus agent assessments when a third party is involved in providing goods or services to a customer. It specifies that an entity is a principal, and thus records revenue on a gross basis, if it controls a good or service before transferring the good or service to the customer. An entity is an agent, and thus records revenue on a net basis, if it arranges for a good or service to be provided by another entity. The Company adopted this ASU on June 1, 2018 as part of the adoption of ASC 606 and it did not have a significant impact.

In May 2016, the FASB issued ASU 2016-12, *Narrow-Scope Improvements and Practical Expedients (Topic 606)*. This update provides certain clarifications to reduce potential diversity in practice and to simplify the standard. The amendments in ASU 2016-12 clarify the following key areas: assessing collectibility; presenting sales taxes and other similar taxes collected from customers; noncash consideration; contract modifications at transition; completed contracts at transition; and disclosing the accounting change in the period of adoption. The Company adopted this ASU on June 1, 2018 as part of the adoption of ASC 606 and it did not have a significant impact.

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 ASC 606, contracts terms and

(Continued)

TSR, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
May 31, 2020 and 2019

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, 2020 and 2019:

	2020	2019
	-----	-----
Cash in banks	\$ 9,677,848	\$ 3,072,218
Money market funds.....	52,174	622,771
	-----	-----
	\$ 9,730,022	\$ 3,694,989
	=====	=====

(e) Certificates of Deposit and Marketable Securities

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

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

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

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

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

TSR, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
May 31, 2020 and 2019

The following are the major categories of assets measured at fair value on a recurring basis as of May 31, 2020 and 2019 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, 2020	Level 1	Level 2	Level 3	Total
-----	-----	-----	-----	-----
Equity Securities	\$ 50,344	\$ -	\$ -	\$ 50,344
	-----	-----	-----	-----
	\$ 50,344	\$ -	\$ -	\$ 50,344
	=====	=====	=====	=====
May 31, 2019	Level 1	Level 2	Level 3	Total
-----	-----	-----	-----	-----
Certificates of Deposit	\$ -	\$ 492,000	\$ -	\$ 492,000
Equity Securities	35,232	-	-	35,232
	-----	-----	-----	-----
	\$ 35,232	\$ 492,000	\$ -	\$ 527,232
	=====	=====	=====	=====

Based upon the Company's intent and ability to hold its certificates of deposit to maturity (which maturities 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 certificates of deposit and marketable securities at May 31, 2020 and 2019 are summarized as follows:

May 31, 2020	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Recorded Value
-----	-----	-----	-----	-----
Current				

Equity Securities	\$ 16,866	\$ 33,478	\$ -	\$ 50,344
	-----	-----	-----	-----
	\$ 16,866	\$ 33,478	\$ -	\$ 50,344
	=====	=====	=====	=====
May 31, 2019	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Recorded Value
-----	-----	-----	-----	-----
Current				

Certificates of Deposit	\$ 492,000	\$ -	\$ -	\$ 492,000
Equity Securities	16,866	18,366	-	35,232
	-----	-----	-----	-----
	\$ 508,866	\$ 18,366	\$ -	\$ 527,232
	=====	=====	=====	=====

TSR, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
May 31, 2020 and 2019

The Company's investments in marketable securities consist primarily of investments in certificates of deposit and equity securities. Market values were determined for each individual security in the investment portfolio. When evaluating the investments for other-than-temporary impairment, the Company reviews factors such as length of time and extent to which fair value has been below cost basis, the financial condition of the issuer, and the Company's ability and intent to hold the investment for a period of time, which may be sufficient for anticipated recovery in market values.

(f) Accounts Receivable and Credit Policies

The carrying amount of accounts receivable is reduced by a valuation allowance that reflects management's best estimate of the amounts that will not be collected. In addition to reviewing delinquent accounts receivable, management considers many factors in estimating its general allowance, including historical data, experience, customer types, creditworthiness and economic trends. From time to time, management may adjust its assumptions for anticipated changes in any of those or other factors expected to affect collectability.

(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 Loss Per Common Share

Basic net loss per common share is computed by dividing loss available to common stockholders of TSR, Inc. by the weighted average number of common shares outstanding. The Company had no stock options or other potentially dilutive securities outstanding during the fiscal years ended May 31, 2020 or 2019.

(i) Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial reporting and tax bases of the Company's assets and liabilities at enacted rates expected to be in effect when such amounts are realized or settled. The effect of enacted tax law or rate changes is reflected in income in the period of enactment.

(j) Fair Value of Financial Instruments

ASC Topic 825, *Financial Instruments*, requires disclosure of the fair value of certain financial instruments. For cash and cash equivalents, accounts receivable, accounts and other payables, accrued liabilities and advances from customers, the amounts presented in the consolidated financial statements approximate fair value because of the short-term maturities of these instruments. The reported amounts of the revolving line of credit and the loan payable approximate fair value, given management's evaluation of the instruments' current rates compared to market rates of interest and other factors.

(k) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Such estimates include, but are not limited to, provisions for doubtful accounts receivable and assessments of the recoverability of the Company's deferred tax assets. Actual results could differ from those estimates.

(Continued)

TSR, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
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(l) Long-Lived Assets

The Company reviews its long-lived assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the sum of the expected cash flows undiscounted and without interest is less than the carrying amount of the asset, an impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its fair value.

(m) Impact of New Accounting Standards

Effective June 1, 2019, the Company adopted ASU No. 2016-02, *Leases*, which sets out the principle for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The new standard requires lessees to classify leases as either finance or operating leases and record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. An accounting policy election may be made to account for leases with a term of 12 months or less similar to existing guidance for operating leases today. ASU No. 2016-02 supersedes the existing guidance on accounting for leases. In July 2018, the FASB issued ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*, which allows for an optional transition method for the adoption of Topic 842. The two permitted transition methods are now the modified retrospective approach, which applies the new lease requirements at the beginning of the earliest period presented, and the optional transition method, which applies the new lease requirements through a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. ASU 2016-02 is effective for our fiscal year ending May 31, 2020 and the interim periods within that year. The Company adopted this standard in the first quarter of fiscal 2020 using the optional transition method. The Company also intends to elect the practical expedients that allow us to carry forward the historical lease classification. The Company has established an inventory of existing leases and implemented a new process of evaluating the classification of each lease. The financial impact of the adoption of the new standard at June 1, 2019 increased total assets and total liabilities by approximately \$690,000. The financial impact of the adoption primarily relates to the capitalization of right-of-use assets and recognition of lease liabilities related to operating leases. The Company will implement changes to its processes and internal controls, as necessary, to meet the reporting and disclosure requirements of the new standard.

(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 three largest customers consisted of 53.1% of the net accounts receivable balance at May 31, 2020.

(Continued)

TSR, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
May 31, 2020 and 2019

(2) Income Taxes

A reconciliation of the provision for income taxes computed at the federal statutory rates of 21.0% for fiscal 2020 and fiscal 2019 to the reported amounts is as follows:

	2020		2019	
	Amount	%	Amount	%
	-----	-----	-----	-----
Amounts at statutory federal tax rate.....	\$ (380,000)	(21.0)%	\$ (386,000)	(21.0)%
Noncontrolling interest.....	(6,000)	(0.3)	(8,000)	(0.4)
State and local taxes, net of federal income tax effect.....	(147,000)	(8.1)	(115,000)	(6.3)
Benefit of NOL at higher federal rate.....	(202,000)	(11.2)	-	-
Non-deductible expenses and other.....	23,000	1.3	(29,000)	(1.6)
	-----	-----	-----	-----
	\$ (712,000)	(39.3)%	\$ (538,000)	(29.3)%
	=====	=====	=====	=====

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

	Federal	State	Total
	-----	-----	-----
2020: Current.....	\$ (586,000)	\$ 22,000	\$ (564,000)
Deferred.....	16,000	(164,000)	(148,000)
	-----	-----	-----
	\$ (570,000)	\$ (142,000)	\$ (712,000)
	=====	=====	=====
2019: Current.....	\$ (10,000)	\$ 30,000	\$ 20,000
Deferred.....	(383,000)	(175,000)	(558,000)
	-----	-----	-----
	\$ (393,000)	\$ (145,000)	\$ (538,000)
	=====	=====	=====

The tax effects of temporary differences that give rise to significant portions of the deferred income tax assets at May 31, 2020 and 2019 are as follows:

	2020	2019
	-----	-----
Allowance for doubtful accounts receivable	\$ 52,000	\$ 52,000
Accrued compensation and other accrued expenses.....	23,000	33,000
Net operating loss carryforwards.....	487,000	554,000
Equipment and leasehold improvement depreciation and amortization	(3,000)	1,000
Unrealized gain	(10,000)	(5,000)
Legal settlement with investor.....	233,000	-
Other items, net	2,000	1,000
	-----	-----
Total deferred income tax assets	\$ 784,000	\$ 636,000
	=====	=====

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.

(Continued)

TSR, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
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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 Coronavirus Aid, Relief and Economic Security Act (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 has been recorded in the May 31, 2020 consolidated balance sheet.

In the third quarter of fiscal 2018, the Company discovered it had not filed required information returns related to a foreign bank account opened by a subsidiary in fiscal 2016 with contributions totaling approximately \$25,000. The Company has accrued an expense of \$30,000 with a charge to selling, general and administrative expenses for potential penalties that may be assessed. The Company will monitor this reserve periodically to determine if it is more-likely-than-not that penalties will be assessed. Changes to the reserve may occur due to changes in judgment, abatement, negotiation or expiration of the statute of limitations on the returns.

A reconciliation of the beginning and ending amount of unrecognized tax benefit as follows:

	2020	2019
	-----	-----
Balance at beginning of fiscal year	\$ 30,000	\$ 30,000
Additions based on tax positions related to current year	-	-
Additions for tax positions of prior years	-	-
Reductions for tax positions of prior years	-	-
Settlements	-	-
	-----	-----
Balance at end of fiscal year	\$ 30,000	\$ 30,000
	=====	=====

The Company’s federal and state income tax returns prior to fiscal year 2017 are closed.

(3) Leases

The Company leases the space for its three offices. 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 three offices are classified as operating leases.

The lease agreements expire on December 31, 2020, February 28, 2021 and August 31, 2022, 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, 2020 and 2019, the Company’s operating lease expense for these leases was \$417,000 and \$388,000.

(Continued)

TSR, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
May 31, 2020 and 2019

Future minimum lease payments under non-cancelable operating leases as of May 31, 2020 were as follows:
(note: payments related to the lease expiring February 28, 2021 are not included below because it is a one-year lease)

Twelve Months Ended May 31,	
2021.....	\$ 208,777
2022.....	160,912
2023.....	40,629

Total undiscounted operating lease payments.....	410,318
Less imputed interest.....	29,110

Present value of operating lease payments.....	\$ 381,208
	=====

The following table sets forth the right-of-use assets and operating lease liabilities as of May 31, 2020:

Assets	
Right-of-use assets	\$ 377,182
	=====
Liabilities	
Current operating lease liabilities.....	\$ 188,799
Long-term operating lease liabilities.....	192,409

Total operating lease liabilities.....	\$ 381,208
	=====

The weighted average remaining lease term for the Company's operating leases is 1.9 years.

(4) Line of Credit

On November 27, 2019, TSR, Inc. ("TSR") closed on a revolving credit facility (the "Credit Facility") pursuant to a Loan and Security Agreement with Access Capital, Inc. (the "Lender") that initially provided up to \$7,000,000 in 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. TSR had also expected to utilize the Credit Facility to complete the Repurchase and make the Settlement Payment; however, TSR did not complete the Repurchase and make the Settlement Payment prior to the December 30, 2019 deadline established in the Credit Facility for such use.

Because TSR did not complete the Repurchase and make the Settlement Payment prior to the December 30, 2019 deadline, 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, 2020 was 3.25%, indicating an interest rate of 5.0% on the line of credit. The initial term of the Credit Facility is 5 years, which shall automatically renew for successive 5-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.

(Continued)

TSR, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
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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.

As of May 31, 2020, the net borrowings outstanding against this line of credit facility were \$501,134. 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. (See Note 7.) In exchange for certain releases, the Term Sheet calls 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 can be paid in cash or common stock at the Company’s option. There is no interest due on these payments. The agreement also has protections to defer such payment dates so that the debt covenants with the Company’s lender are not breached. On August 13, 2020, the Company, Zeff, Zeff Holding Company, LLC and Daniel Zeff entered into a settlement agreement to reflect these terms. Any installment payment which is deferred as permitted above will accrue interest at the prime rate plus 3.75%, and Zeff shall thereby have the option to convert such deferred amounts (plus accrued interest if any) into shares of the Company’s stock. 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.

(6) Equity

Common Stock Transactions

On July 24, 2018, Joseph F. Hughes and Winifred Hughes filed Amendments to Schedule 13D with the United States Securities and Exchange Commission (the “SEC”) in which Joseph F. Hughes and Winifred Hughes disclosed that they had collectively sold 819,491 shares of the Company’s Common Stock jointly held by them in a privately-negotiated transaction to Zeff Capital, L.P., QAR Industries, Inc. and Fintech Consulting LLC. Joseph F. Hughes was the former Chairman and Chief Executive Officer of the Company. Zeff Capital, L.P., QAR Industries, Inc. and Fintech Consulting LLC acquired, in the aggregate, 41.8% of the Company’s issued and outstanding Common Stock in this transaction. Amendments to Schedule 13D previously filed by Joseph F. Hughes and Winifred Hughes on July 17, 2018 attached an exhibit wherein it was stated that prior to the transaction described above, Zeff Capital, L.P. owned 77,615 shares or approximately 4% of the Company’s issued and outstanding Common Stock.

The Company became aware on July 30, 2018 that Fintech Consulting LLC and Tajuddin Haslani filed a Schedule 13D with the SEC disclosing beneficial ownership of 376,100 shares of Common Stock, which represents approximately 19.2% of the Company’s issued and outstanding Common Stock.

The Company became aware on August 23, 2018 that Zeff Capital, L.P., Zeff Holding Company, LLC and Daniel Zeff filed an Amendment to Schedule 13D with the SEC disclosing the additional purchase by Zeff Capital, L.P. of an aggregate of 55,680 shares of Common Stock. As a result of these additional purchases of Common Stock, Zeff Capital, L.P., Zeff Holding Company, LLC and Daniel Zeff beneficially own a total of 437,774 shares of Common Stock, which represents approximately 22.3% of the Company’s issued and outstanding Common Stock.

The Company became aware on August 28, 2018 that QAR Industries, Inc. and Robert Fitzgerald filed an Amendment to Schedule 13D with the SEC disclosing the additional purchase by QAR Industries, Inc. of an

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TSR, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
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aggregate of 4,070 shares of Common Stock. As a result of these additional purchases of Common Stock, QAR Industries, Inc. and Robert Fitzgerald beneficially own a total of 143,900 shares of Common Stock, which represents approximately 7.3% of the Company's issued and outstanding Common Stock. The Company became aware on September 10, 2019 that QAR Industries, Inc. and Robert Fitzgerald filed an Amendment to Schedule 13D with the SEC disclosing beneficial ownership of an aggregate of 139,200 shares of Common Stock, which represents approximately 7.1% of the Company's issued and outstanding Common Stock.

Rights Plan / Preferred Stock

On August 29, 2018, the Board of Directors of the Company declared a dividend of one preferred share purchase right (a "Right") for each share of Common Stock of the Company outstanding on August 29, 2018 (the "Record Date") to the stockholders of record on that date. In connection with the distribution of the Rights, the Company entered into a Rights Agreement (the "Rights Agreement"), dated as of August 29, 2018, between the Company and Continental Stock Transfer & Trust Company, as Rights Agent. Each Right entitles the registered holder to purchase from the Company one one-hundredth of a share of Class A Preferred Stock, Series One, par value \$0.01 per share ("Preferred Stock"), of the Company at a price of \$24.78 per one one-hundredth of a share of Preferred Stock represented by a Right (the "Purchase Price"), subject to adjustment.

On August 30, 2019, the Company entered into a settlement and release agreement (the "Settlement Agreement") with Zeff Capital, L.P., Zeff Holding Company, LLC, Daniel Zeff, QAR Industries, Inc., Robert Fitzgerald, Fintech Consulting LLC and Tajuddin Haslani (collectively, the "Investor Parties"), pursuant to which the Company agreed to, among other things, amend and restate the Rights Agreement to provide that a "Distribution Date" (as defined below) shall not occur as a result of any request by any of the Investor Parties calling for a special meeting pursuant to Article II, Section 5 of the Amended and Restated By-Laws of the Company in accordance with the terms of the Settlement Agreement. (See Note 7, "Other Matters.")

Distribution Date; Exercisability; Expiration

Initially, the Rights will be attached to all certificates for shares of Common Stock and no separate certificates evidencing the Rights ("Rights Certificates") will be issued. Until the Distribution Date (as defined below), the Rights will be transferred with and only with shares of Common Stock. As long as the Rights are attached to the shares of Common Stock, the Company will issue one Right with each new share of Common Stock so that all such shares of Common Stock will have Rights attached.

The Rights will separate and begin trading separately from the Common Stock, and Rights Certificates will be issued to evidence the Rights, on the earlier to occur of (a) the Close of Business (as such term is defined in the Rights Agreement) on the tenth day following a public announcement, or the public disclosure of facts indicating, that a Person (as such term is defined in the Rights Agreement), group of affiliated or associated Persons or any other Person with whom such Person is Acting in Concert (as defined below) has acquired Beneficial Ownership (as defined below) of 5% or more of the outstanding Common Stock (an "Acquiring Person") (or, in the event an exchange is effected in accordance with Section 27 of the Rights Agreement and the Board of Directors determines that a later date is advisable, then such later date) or (b) the Close of Business on the tenth Business Day (as such term is defined in the Rights Agreement) (or such later date as may be determined by action of the Board of Directors prior to such time as any Person becomes an Acquiring Person) following the commencement of a tender offer or exchange offer the consummation of which would result in the Beneficial Ownership by a Person or group of 5% or more of the outstanding Common Stock (the earlier of such dates, the "Distribution Date"). As soon as practicable after the Distribution Date, unless the Rights are recorded in book-entry or other uncertificated form, the Company will prepare and cause the Right Certificates to be sent to each record holder of Common Stock as of the Close of Business on the Distribution Date.

An "Acquiring Person" will not include (i) the Company, (ii) any Subsidiary (as such term is defined in the Rights Agreement) of the Company, (iii) any employee benefit plan or employee stock plan of the Company or any Subsidiary of the Company, or any trust or other entity organized, appointed, established or holding Common Stock for or pursuant to the terms of any such plan, or (iv) any Person who or which, at the time of the first public

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TSR, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
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announcement of the Rights Agreement, is a Beneficial Owner of 5% or more of the Common Shares then outstanding (a “Grandfathered Stockholder”). However, if a Grandfathered Stockholder becomes, after such time, the Beneficial Owner of any additional shares of Common Stock (regardless of whether, thereafter or as a result thereof, there is an increase, decrease or no change in the percentage of shares of Common Stock then outstanding beneficially owned by such Grandfathered Stockholder) then such Grandfathered Stockholder shall be deemed to be an Acquiring Person unless, upon such acquisition of Beneficial Ownership of additional shares of Common Stock, such Person is not the Beneficial Owner of 5% or more of the Common Stock then outstanding. In addition, upon the first decrease of a Grandfathered Stockholder’s Beneficial Ownership below 5%, such Grandfathered Stockholder will cease to be a Grandfathered Stockholder. In the event that after the time of the first public announcement of the Rights Agreement, any agreement, arrangement or understanding pursuant to which any Grandfathered Stockholder is deemed to be the Beneficial Owner of Common Stock expires, terminates or no longer confers any benefit to or imposes any obligation on the Grandfathered Stockholder, any direct or indirect replacement, extension or substitution of such agreement, arrangement or understanding with respect to the same or different shares of Common Stock that confers Beneficial Ownership of Common Stock shall be considered the acquisition of Beneficial Ownership of additional shares of Common Stock by the Grandfathered Stockholder and render such Grandfathered Stockholder an Acquiring Person for purposes of the Rights Agreement unless, upon such acquisition of Beneficial Ownership of additional shares of Common Stock, such Person is not the Beneficial Owner of 5% or more of the Common Stock then outstanding.

The Rights are not exercisable until the Distribution Date. The Rights will expire on the Close of Business on August 29, 2021 (the “Expiration Date”).

Redemption

At any time prior to the Close of Business on the earlier of (a) the tenth day following the Stock Acquisition Date or (b) the Expiration Date, the Board of Directors may redeem the Rights in whole, but not in part, at a price of \$0.01 per Right (the “Redemption Price”). The “Stock Acquisition Date” is the first date on which there is a public announcement by the Company or an Acquiring Person that an Acquiring Person has become such, or such earlier date as a majority of the Board of Directors becomes aware of the existence of an Acquiring Person. The redemption of the Rights may be made effective at such time, on such basis and with such conditions as the Board of Directors in its sole discretion may establish. Immediately upon the action of the Board of Directors ordering the redemption of the Rights, the right to exercise the Rights will terminate and the only right of the holders of Rights will be to receive the Redemption Price.

Preferred Stock Rights

The Preferred Stock will not be redeemable. Each share of Preferred Stock will be entitled to receive, when, as and if declared by the Board of Directors, (a) cash dividends in an amount per share (rounded to the nearest cent) equal to 100 times the aggregate per share amount of all cash dividends declared or paid on the Common Stock and (b) a preferential quarterly cash dividend (the “Preferential Dividends”) in an amount equal to \$50.00 per share of Preferred Stock less the per share amount of all cash dividends declared on the Preferred Stock pursuant to clause (a) of this sentence. Each share of Preferred Stock will entitle the holder thereof to 100 votes per share, voting together with the holders of the Common Stock as a single class, except as otherwise provided in the Certificate of Designations of Class A Preferred Stock Series One filed by the Company with the Delaware Secretary of State or the Company’s Amended and Restated Certificate of Incorporation, as amended, or Amended and Restated By-laws. In the event of any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case each outstanding share of Preferred Stock shall at the same time be similarly exchanged for or changed into the aggregate amount of stock, securities, cash and/or other property (payable in like kind), as the case may be, for which or into which each share of Common Stock is changed or exchanged, multiplied by 100. Upon any voluntary or involuntary liquidation, dissolution or winding up of the Company, (a) no distribution shall be made to the holders of shares of stock ranking junior to the Preferred Stock unless the holders of the Preferred Stock shall have received the greater of (i) \$100 per share of Preferred Stock plus an amount equal to accrued and unpaid dividends and distributions thereon or (ii) an amount equal to 100 times the aggregate amount to be distributed per share to holders of the Common Stock, and (b) no distribution shall be made to the holders of stock ranking on a parity upon

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TSR, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
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liquidation, dissolution or winding up with the Preferred Stock unless simultaneously therewith distributions are made ratably to the holders of the Preferred Stock and all other shares of such parity stock in proportion to the total amounts to which the holders of shares of Preferred Stock are entitled under clause (a)(i) of this sentence and to which the holders of such parity shares are entitled, in each case upon such liquidation, dissolution or winding up.

The foregoing rights are protected by customary anti-dilution provisions.

The foregoing description of the rights of the Preferred Stock does not purport to be complete and is qualified in its entirety by reference to the Certificate of Designations of Class A Preferred Stock Series One.

Rights of Holders

Until a Right is exercised, the holder thereof, as such, will have no rights as a stockholder of the Company, including, without limitation, the right to vote or to receive dividends.

Pursuant to the Settlement Agreement, the Company amended and restated the Rights Agreement on September 3, 2019 to confirm that a Distribution Date (as defined in the Amended and Restated Rights Agreement) shall not occur as a result of any request by any of the Investor Parties for a special meeting of the Company's stockholders.

(7) 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 below.

On October 16, 2018, the Company was served with a complaint filed on October 11, 2018 in the Supreme Court of the State of New York, Queens County, by Susan Paskowitz, a stockholder of the Company, against the Company; Joseph F. Hughes and Winifred M. Hughes; former directors Christopher Hughes, Raymond A. Roel, Brian J. Mangan, Regina Dowd, James J. Hill, William Kelly, and Eric Stein; as well as stockholders Zeff Capital, L.P., QAR Industries, Inc. and Fintech Consulting LLC (the "Stockholder Litigation"). The complaint purports to be a class action lawsuit asserting claims on behalf of all minority stockholders of the Company. Ms. Paskowitz alleges the following: the sale by Joseph F. Hughes and Winifred M. Hughes of an aggregate of 819,491 shares of the Company's common stock ("controlling interest") to Zeff Capital, L.P., QAR Industries, Inc. and Fintech Consulting LLC was in breach of Joseph F. Hughes' and Winifred M. Hughes' fiduciary duties and to the detriment of the Company's minority stockholders; the former members of the Board of Directors of the Company named in the complaint breached their fiduciary duties by failing to immediately adopt a rights plan that would have prevented Joseph F. Hughes and Winifred M. Hughes from selling their shares and preserved a higher premium for all stockholders; Zeff, QAR, and Fintech are "partners" and constitute a "group." Ms. Paskowitz also asserts that Zeff Capital, L.P., QAR Industries, Inc. and Fintech Consulting LLC aided and abetted Joseph F. Hughes' and Winifred M. Hughes' conduct, and ultimately sought to buy out the remaining shares of the Company at an unfair price.

On June 14, 2019, Ms. Paskowitz filed an amended complaint in the Stockholder Litigation in the Supreme Court of the State of New York, Queens County against the members of the Board of Directors and Zeff Capital, L.P., QAR Industries, Inc. and Fintech Consulting LLC, which asserts substantially similar allegations to those contained in the October 11, 2018 complaint, but omits Regina Dowd, Joseph F. Hughes and Winifred M. Hughes as defendants. In addition to the former members of the Board of Directors named in the original complaint, the amended complaint names former directors Ira Cohen, Joseph Pennacchio, and William Kelly as defendants. The amended complaint also asserts a derivative claim purportedly on behalf of the Company against the named former members of the Board of Directors. The amended complaint seeks declaratory judgment and unspecified monetary damages. The complaint requests: (1) a declaration from the court that the former members of the Board of Directors named in the complaint breached their fiduciary duties by failing to timely adopt a stockholder rights plan, which resulted in the

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TSR, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
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loss of the ability to auction the Company off to the highest bidder without interference from Zeff Capital, L.P., QAR Industries, Inc. and Fintech Consulting LLC; (2) damages derivatively on behalf of the Company for unspecified harm caused by the former Directors' alleged breaches of fiduciary duties; (3) damages and equitable relief derivatively on behalf of the Company for the former Directors' alleged failure to adopt proper corporate governance practices; and (4) damages and injunctive relief against Zeff Capital, L.P., QAR Industries, Inc. and Fintech Consulting LLC based on their knowing dissemination of false or misleading public statements concerning their status as a group. The complaint has not assigned any monetary values to alleged damages.

On July 15, 2019, the Company filed an answer to the amended complaint in the Stockholder Litigation and cross-claims against Zeff Capital, L.P., QAR Industries, Inc. and Fintech Consulting LLC for breaches of their fiduciary duties, aiding and abetting breaches of fiduciary duties, and indemnification and contribution based on their misappropriation of material nonpublic information and their failure to disclose complete and accurate information in SEC filings concerning their group actions to attempt a creeping takeover of the Company, which was thereafter amended on July 26, 2019.

In addition, on December 21, 2018, the Company filed a complaint in the United States District Court, Southern District of New York, against Zeff Capital, L.P., Zeff Holding Company, LLC, Daniel Zeff, QAR Industries, Inc., Robert Fitzgerald, Fintech Consulting LLC, and Tajuddin Haslani for violations of the disclosure and anti-fraud requirements of the federal securities laws under Sections 13(d) and 14(a) of the Securities Exchange Act of 1934 ("Exchange Act"), and the related rules and regulations promulgated by the SEC, for failing to disclose to the Company and its stockholders their formation of a group and the group's intention to seize control of the Company (the "SDNY Action"). The complaint requests that the court, among other things, declare that the defendants have solicited proxies without filing timely, accurate and complete reports on Schedule 13D and Schedule 14A in violation of Sections 13(d) and 14(a) of the Exchange Act, direct the defendants to file with the SEC complete and accurate disclosures, enjoin the defendants from voting any of their shares prior to such time as complete and accurate disclosures have been filed, and enjoin the defendants from further violations of the Exchange Act with respect to the securities of the Company.

On January 7, 2019, Ms. Paskowitz filed a related action against Zeff Capital, L.P., Zeff Holding Company, LLC, Daniel Zeff, QAR Industries, Inc., Robert Fitzgerald, Fintech Consulting LLC, and Tajuddin Haslani in the Southern District of New York, which asserts claims against them for breach of fiduciary duty and under federal securities laws similar to those asserted in the Company's action. Although the Company is not a party to Ms. Paskowitz's action, the court has determined to treat the Company's and Ms. Paskowitz's respective actions as related.

On August 7, 2019, following the Company's initial rescheduling of the 2018 Annual Meeting for September 13, 2019 and the filing of Preliminary Proxy Statements by the Company and Zeff Capital, L.P., Zeff Capital, L.P. filed a complaint in the Delaware Court of Chancery against the Company seeking an order requiring the Company to hold its next annual meeting of stockholders on or around September 13, 2019, and obligating the Company to elect Class I and Class III directors at that annual meeting.

On August 13, 2019, the Company filed a motion for preliminary injunction in the SDNY Action in advance of the Company's 2018 Annual Meeting originally scheduled for September 13, 2019, and requested leave to file a motion for expedited discovery. The Court denied the Company's motion for preliminary injunction but ordered Zeff to "make clear that the second set of directors" described by Zeff in its preliminary proxy statement "is contingent upon the resolution of a proceeding in Delaware Chancery Court."

On August 30, 2019, the Company entered into the Settlement Agreement with the Investor Parties with respect to the proxy contest pertaining to the election of directors at the 2018 Annual Meeting, which was held on October 22, 2019. Pursuant to the Settlement Agreement, the parties agreed to forever settle and resolve any and all disputes between the parties, including without limitation disputes arising out of or relating to the following litigations:

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TSR, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
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(i) The complaint relating to alleged breaches of fiduciary duties filed on November 1, 2018 by Fintech Consulting LLC against the Company in the Delaware Court of Chancery, which was previously dismissed voluntarily;

(ii) The complaint for declaratory and injunctive relief for violations of the federal securities laws filed on December 21, 2018 by the Company against the Investor Parties in the United States District Court in the Southern District of New York;

(iii) Cross-claims relating to alleged breaches of fiduciary duties and for indemnification and contribution filed on July 26, 2019 by the Company against the Investor Parties in New York Supreme Court, Queens County; and

(iv) The complaint to compel annual meeting of stockholders filed on August 7, 2019 by Zeff Capital, L.P. against the Company in the Delaware Court of Chancery.

No party admitted any liability by entering into the Settlement Agreement. The Settlement Agreement did not resolve the Stockholder Litigation filed by Susan Paskowitz against the Company, Joseph F. Hughes, Winifred M. Hughes and certain former directors of the Company in the Supreme Court of the State of New York on October 11, 2018.

Concurrently with the Settlement Agreement, the parties entered into a share repurchase agreement (the “Repurchase Agreement”) which provided for the purchase by the Company and Christopher Hughes, the Company’s former President and Chief Executive Officer, of the shares of the Company’s Common Stock held by the Investor Parties (the “Repurchase”). The Settlement Agreement also contemplated that, if the Repurchase was completed, the Company would make a settlement payment to the Investor Parties at the closing of the Repurchase in an amount of approximately \$1,500,000 (the “Settlement Payment”). However, the Repurchase and Settlement Payment were not completed by the deadline of December 30, 2019.

Pursuant to the Settlement Agreement, (1) the Company agreed to adopt an amendment to the Company’s Amended and Restated By-Laws, dated April 9, 2015 (the “By-Laws Amendment”), providing that stockholders of the Company owning at least forty percent (40%) of the issued and outstanding Common Stock may request a special meeting of stockholders; (2) the Investor Parties agreed not to take any action to call or otherwise cause a special meeting of stockholders to occur prior to December 30, 2019 (unless the Company had failed to hold the 2018 Annual Meeting); (3) the Company agreed to amend and restate the Company’s Rights Agreement, dated August 29, 2018 (the “Amended Rights Agreement”), to confirm that a Distribution Date (as defined in the Amended Rights Agreement) shall not occur as a result of any request by any of the Investor Parties for a special meeting; (4) the Company agreed that prior to the earlier of (A) the completion of the Repurchase and the payment of the Settlement Payment and (B) January 1, 2020, the Board of Directors shall not consist of more than seven (7) directors.

Pursuant to the terms of the Settlement Agreement, the two nominees for director made by Zeff Capital, L.P. were elected as directors at the Company’s 2018 Annual Meeting held on October 22, 2019. Please see the Company’s current Report on Form 8-K filed with the SEC on October 21, 2019 for more information about the background of the election of directors at the Company’s 2018 Annual Meeting.

Pursuant to the terms of the Settlement Agreement, inasmuch as the Repurchase was not completed and the Settlement Payment was not made by December 30, 2019, the members of the Board of Directors (other than the two directors who were nominated by Zeff Capital, L.P. and elected as directors at the 2018 Annual Meeting) resigned from the Board effective 5:00 p.m. Eastern Time on December 30, 2019. Immediately thereafter, the two remaining directors appointed Robert Fitzgerald to the Board of Directors. Please see the Company’s Current Report on Form 8-K filed with the SEC on December 31, 2019 for more information about the background and the appointment of Robert Fitzgerald.

The foregoing is not a complete description of the terms of the Settlement Agreement and the Share Repurchase Agreement. For a further description of the terms of the Settlement Agreement and the Share Repurchase Agreement, including copies of the Settlement Agreement and Share Repurchase Agreement, please see the Company’s Current Report on Form 8-K filed by the Company with the SEC on September 3, 2019.

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TSR, INC. AND SUBSIDIARIES
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On October 21, 2019, the Company entered into a Memorandum of Understanding (the “MOU”) with Susan Paskowitz providing for the settlement of the Stockholder Litigation filed by Ms. Paskowitz on October 11, 2018. The MOU provides for the settlement of the claims by Ms. Paskowitz that (1) the former members of the Board named in the original complaint allegedly breached their fiduciary duties by failing to immediately adopt a rights plan that would have prevented the sale by Joseph F. Hughes and Winifred M. Hughes of an aggregate of 819,491 shares of the Company’s common stock to the Investor Parties; (2) the former members of the Board named in the amended complaint allegedly breached their fiduciary duties and failed to adopt proper corporate governance practices; and (3) the Investor Parties acted as “partners” and constituted a “group” in their purchase of shares from Joseph F. Hughes and Winifred M. Hughes and knowingly disseminated false or misleading public statements concerning their status as a group.

Pursuant to the terms of the MOU, the Company will (1) implement certain corporate governance reforms described in the MOU within 30 days of a final order and judgment entered by the court, and keep these corporate governance reforms in place for 5 years from the time of the final order and judgment; and (2) acknowledge that the plaintiff, Ms. Paskowitz, and her counsel provided a substantial benefit to the Company and its stockholders through the prosecution of the Stockholder Litigation and other related actions filed by Ms. Paskowitz described above.

On December 16, 2019, the Company entered into a Stipulation and Agreement of Settlement (the “Stipulation”) with Susan Paskowitz in the Stockholder Litigation. The Stipulation retains the terms and conditions of settlement of the Stockholder Litigation contained in the MOU described in the preceding paragraph, with the addition that the Company will pay to plaintiff’s counsel an award of attorneys’ fees and reimbursement of expenses in the amount of \$260,000 (collectively, the “Stockholder Litigation Settlement”). The Stockholder Litigation Settlement is intended to fully, finally, and forever compromise, settle, release, resolve, and dismiss with prejudice the Stockholder Litigation and all claims asserted therein directly against all present and former defendants and derivatively against them on behalf of the Company. The Stockholder Litigation Settlement does not contain any admission of liability, wrongdoing or responsibility by any of the parties, and provides for mutual releases by all parties. Each stockholder of the Company is a member of the plaintiff class unless such stockholder opts out of the class. The Company expects that the full amount of the \$260,000 settlement payment will be covered by insurance proceeds. The Stipulation remains subject to approval by the court. The Stipulation is independent of the Settlement Agreement and Share Repurchase Agreement that the Company had entered into with the Investor Parties.

On December 24, 2019, Ms. Paskowitz moved for preliminary approval of the Stipulation. On May 21, 2020, the Court entered an order preliminarily approving the Stipulation. The parties have agreed on a proposed scheduling order for final approval of the Stipulation and a proposed mailing notice of the stipulation to TSR stockholders, which are both currently pending Court approval. If approved, the Court will set a settlement hearing for final approval of the Stipulation. Although the Company believes that the Stipulation represents a fair and reasonable compromise of the matters in dispute in the Stockholder Litigation, there can be no assurance that the court will approve the Stipulation as proposed, or at all.

Inasmuch as the Company did not complete the Repurchase and make the Settlement Payment prior to the December 30, 2019 deadline, the members of the Board of Directors (other than the two directors who were elected as directors at the 2018 Annual Meeting) resigned from the Board effective at 5:00 p.m. Eastern Time on December 30, 2019. Immediately thereafter, the two remaining directors, Bradley M. Tirpak and H. Timothy Eriksen, appointed Robert Fitzgerald as a new director. Each of Messrs. Tirpak, Eriksen and Fitzgerald qualifies as an “independent director” under the NASDAQ Stock Market Rules. These three individuals were also appointed to the Audit Committee, Nominating Committee, Compensation Committee and Special Committee. The Board appointed Mr. Tirpak as Chairman of the Board to succeed Christopher Hughes. Mr. Hughes continued to serve as the Chief Executive Officer, President and Treasurer of the Company until January 17, 2020. Additionally, the Board appointed Mr. Eriksen as Lead Independent Director, Chairman of the Audit Committee and Chairman of the Nominating Committee. The Board also appointed Mr. Fitzgerald as the Chairman of the Compensation Committee and Chairman of the Special Committee.

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TSR, INC. AND SUBSIDIARIES
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During the quarter ending February 29, 2020, the Company negotiated a settlement with Zeff Capital, L.P. to reimburse it for legal expenses of \$900,000 (net present value of \$818,000 accrued at February 29, 2020) by entering into a binding term sheet on April 1, 2020. The parties entered into a final agreement reflecting these terms on August 13, 2020. (See Note 5.)

(8) Termination of Former CEO

The Company terminated Christopher Hughes, the former Chief Executive Officer of the Company (“Hughes”), effective February 29, 2020 for “Cause” as defined in Section 6(a) of his Amended and Restated Employment Agreement dated August 9, 2018 (the “Employment Agreement”) and on March 2, 2020, the Company received a letter from Mr. Hughes, providing notice of his intent to resign for “Good Reason” as defined in Section 7(c) of the Employment Agreement pursuant to which he claimed to be entitled to the “Enhanced Severance Amount” under the Employment Agreement. 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 duty of good faith and fair dealing. Plaintiff Hughes alleges 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 Plaintiff. Plaintiff Hughes seeks contractual severance pay in the amount of \$1,000,000 and reasonable costs and attorney’s fees. The Company denies Plaintiff’s allegations in their entirety and has filed counterclaims against Plaintiff for (1) declaratory relief; (2) breach of confidence/non-compete agreement; (3) declaratory and injunctive relief – confidence/non-compete; (4) tortious interference with current and prospective contractual and economic relations; (5) breach of fiduciary duty; (6) misappropriation of trade secrets; (7) declaratory and injunctive relief – unfair competition; and (8) conversion.

(9) COVID-19

The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closing of various businesses. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings. Therefore, the Company expects this matter to negatively impact its operating results in future periods. However, the full financial impact and duration cannot be reasonably estimated at this time.

(10) Payroll Protection Program Loan

On April 15, 2020, TSR, Inc. (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 recent 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 is being made through JPMorgan Chase Bank, N.A., a national banking association (the “Lender”).

The original term of the PPP Loan was two years. The term has been extended to five years by the SBA. The annual interest rate on the PPP Loan is 0.98%. Payments of principal and interest on the loan will be deferred for the first six months of the term of the loan. The promissory note evidencing the PPP Loan contains customary events of default relating to, among other things, payment defaults, breach of representations and warranties, or provisions of the promissory note. The occurrence of an event of default may trigger the immediate repayment of all amounts outstanding, collection of all amounts owing from the Company, and/or filing suit and obtaining a judgment against the Company.

Under the terms of the CARES Act, PPP Loan recipients may apply for and be granted forgiveness for all or a portion of loans granted under the PPP. Such forgiveness will be determined, subject to limitations, based on the use of loan proceeds for payroll costs and mortgage interest, rent or utility costs and the maintenance of employee and compensation levels. While the Company believes that it has acted in compliance with the program and plans to seek forgiveness of the PPP Loan, no assurance can be provided that the Company will obtain forgiveness of the PPP Loan in whole or in part.

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, 2020.

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

As previously disclosed, 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 mutual releases, the Term Sheet calls 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 \$300,00 also on June 30, 2022, which can be paid in cash or common stock at the Company's option. There is no interest due on these payments. The agreement also has protections to defer such payment dates so that the debt covenants with the Company's lender are not breached. On August 13, 2020, the Company, Zeff, Zeff Holding Company, LLC and Daniel Zeff entered into a settlement agreement to reflect these terms. Any installment payment which is deferred as permitted above will accrue interest at the prime rate plus 3.75%, and Zeff shall thereby have the option to convert such deferred amounts (plus accrued interest if any) into shares of the Company's common stock. The foregoing descriptions do not purport to be complete and are qualified in their entirety by the full text of the agreement, which is attached to this Annual Report as Exhibit 10.6 and incorporated herein by reference.

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 2020 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 2020 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 2020 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 2020 Annual Meeting of Stockholders.

Item 14. Principal Accounting 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 2020 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 24.

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 50.

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 17, 2020

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 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 17, 2020

DIRECTORS

Bradley M. Tirpak
Chairman of the Board
Palm Active Partners LLC

Tim Eriksen
Director
Eriksen Capital
Management LLC

Robert E. Fitzgerald
Director
QAR Industries LLC

OFFICERS

Thomas C. Salerno
Chief Executive Officer,
President and Treasurer

John G. Sharkey
Senior Vice President,
Chief Financial Officer
and Secretary

CORPORATE HEADQUARTERS

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631-231-0333

SUBSIDIARIES

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**Geneva Consulting
Group, Inc.**
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516-767-6692

TRANSFER AGENT

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212-509-4000

AUDITORS

CohnReznick LLP
100 Jericho Quadrangle
Suite 223
Jericho, NY 11753

COUNSEL

Squire Patton Boggs LLP
1211 Avenue of the Americas
26th Floor
New York, NY 10036

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