

TSR INC  
Form 10-K  
July 28, 2016

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, 2016

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)

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Delaware 13-2635899  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) 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	Name of Each Exchange on Which Registered
Common Stock, par value, \$0.01 per share	The NASDAQ Capital Market

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

None

(Title of Class)

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

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer    Accelerated filer    Non-accelerated filer    Smaller Reporting Company

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 \$4.83 at November 30, 2015 was \$4,999,000.

The number of shares of the Registrant's common stock outstanding as of June 30, 2016 was 1,962,062.

Documents incorporated by Reference:

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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 2016 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, 2016

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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, 2016, the Company provided IT staffing services to 77 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](http://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.

#### Contract Computer Programming Services

#### 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 mainframe and mid-range computer operations, personal computers and client-server support, internet and e-commerce operations, voice and data communications (including local and wide area networks) and help desk support. 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 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 computer 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 the 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.



## OPERATIONS

The Company provides contract computer programming services in the New York metropolitan area, New England, and the Mid-Atlantic region. 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.

In the fall of 2010, the Company established a program to hire and train recent college graduates to become technical recruiters. The initial costs associated with the hiring and training of such personnel have increased the costs of recruitment, although, over time, the Company believes this program will provide the Company with a larger pool of skilled technical recruiters at a lower cost than hiring experienced technical recruiters. Competition from larger competitors for the newly trained recruiters has created more turnover than expected, making it more difficult to increase the number of technical recruiters on staff. The Company has also hired additional account executives in an effort to increase growth. Turnover has also been greater than expected with account executives due to increased competition. As of May 31, 2016, the Company employed 23 persons who are responsible for recruiting technical personnel and 13 persons who are account executives. As of May 31, 2015, the Company had employed 24 technical personnel recruiters and 13 account executives. Although the number of technical recruiters and account executives has remained substantially the same in fiscal 2016 and fiscal 2015, there have been several personnel changes within each group.

## 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 77 customers during the year ended May 31, 2016 as compared to 74 in the prior fiscal year. The Company has historically derived a significant percentage of its total revenue from a relatively small number of customers. In the fiscal year ended May 31, 2016, the Company had four customers which each provided more than 10% of consolidated revenues: Pontoon, formerly Beeline (17.7%), Citigroup (16.3%), Credit Suisse (10.7%) and Consolidated Edison (10.3%). Pontoon provides vendor management services under an arrangement where the Company enters into a subcontract with Pontoon and Pontoon directly contracts with five end customers. The Pontoon end customers for which the Company provides services include Bristol Myers Squibb, which alone constituted 9.8% of the Company's consolidated revenue for the year ended May 31, 2016. Additionally, the Company's top ten customers (including end customers of vendor management companies) accounted for 82% of consolidated revenue in fiscal 2016 and 80% in fiscal 2015. While continuing its efforts to further expand its client base, the Company's marketing efforts are focused primarily on increasing business from its existing accounts. Approximately 35% of the Company's revenue is derived from end customers in the financial services business. Continuing economic pressures in financial services have affected the net effective rates that the Company charges to certain of the Company's end customers in this industry, which has negatively affected the Company's gross profit margins.

Many of the Company's major customers, totaling over 46% 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 down 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. The Company does not believe that backlog is material to its business.

#### PROFESSIONAL STAFF AND RECRUITMENT

In addition to using internet based job boards such as Dice, Monster 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 recruits technical personnel by posting jobs on the Internet, publishing advertisements in local newspapers and attending job fairs on a periodic basis. The Company devotes significant resources to recruiting technical personnel, maintaining 23 recruiters based in the U.S. and contracting with an India based company for 6 recruiters in India to help locate U.S. based technical consultants. 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, 2016, the Company employed 320 people including its 3 executive officers. Of such employees, 13 were engaged in sales, 23 were recruiters for programmers, 268 were technical and programming consultants, and 13 were in administrative and clerical functions. None of the Company's employees belong to unions.

### Item 1A. Risk Factors

Certain statements contained in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Business”, including statements concerning the Company’s future prospects and the Company’s future cash flow requirements are forward-looking statements, as defined in the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those projections in the forward-looking statements, which statements involve risks and uncertainties, including but not limited to the factors set forth below.

#### Dependence Upon Key Personnel

The Company is dependent on its Chairman of the Board, Chief Executive Officer, President and Treasurer, Joseph F. Hughes. The Company does not have an employment agreement with Mr. Joseph F. Hughes. The Company is also dependent on its Senior Vice President and President of TSR Consulting Services, Inc., Christopher Hughes. The Company has an employment agreement with Mr. Christopher Hughes which expires February 28, 2017. 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 these persons. 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.

### Dependence on Significant Customers

In the fiscal year ended May 31, 2016, the Company's four largest customers Pontoon, Citigroup, Credit Suisse and Consolidated Edison, accounted for 17.7%, 16.3%, 10.7% and 10.3% of the Company's consolidated revenue, respectively. Pontoon is a vendor management company through which the Company provides services to five end customers, of which Bristol Myers Squibb is the most significant. In total, the Company derives over 46% of its revenue from accounts with vendor management companies. The Company's ten largest customers provided 82% of consolidated revenue in fiscal 2016. Client contract terms vary depending on the nature of the engagement, and there can be no assurance that a client will renew a contract when it terminates. In addition, the Company's contracts are generally cancelable by the client at any time on short notice, and customers may unilaterally reduce their use of the Company's services under such contracts without penalty. Approximately 35% of the Company's revenue is derived from end customers in the financial services business. Continuing economic pressures in financial services have 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. See "Rapidly Changing Industry" below.

The accounts receivable balances associated with the Company's largest customers were \$3,735,000 for four customers at May 31, 2016 and \$2,109,000 for two customers at May 31, 2015. 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, 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. 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.

#### 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, 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 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 these companies now comprise in excess of 46% of the Company's revenue. 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. 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. As a result, any significant economic downturn could have material adverse effect on the Company's results of operations. As a result of the broad based economic downturn, the Company experienced a decrease in the number of consultants on billing with customers, only recently returning to the early 2008 numbers of consultants on billing with customers. While customers' IT spending during the 2016 fiscal year appears to have increased, any improvements have been slow and uncertain, with a decrease in profitability on placements,

particularly those with financial services customers. 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 increasing its penetration with existing customers or expanding its customer base. 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. Recently, 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 could also increase as a result of health care reforms and the imposition of penalties for failure to provide health insurance to employees under the Affordable Care Act which went into effect January 1, 2015. Additionally, the New York City Council has approved a measure which went into effect in April 2014 requiring the Company to provide five paid sick days per year. Several municipalities, such as Newark and Jersey City, New Jersey, have enacted similar statutes. 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 medical leave. It is too early to determine how this will affect the Company's profitability.

#### 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 contributed to the decline 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 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. Current and future restrictions on the availability of such 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 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's 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. The holiday season and winter weather cause 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.

### 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. 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. However, 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 contract computer programming services business involves assigning technical 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 technical 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 such exposures, the Company maintains insurance policies and a fidelity bond covering general liability, worker's 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 Major Stockholder

Joseph F. Hughes and members of his family own Common Stock representing approximately 46.9% of the Company's voting power as of June 30, 2016. As such, Joseph F. Hughes has significant voting power on all matters submitted to a vote of the Company's common stockholders.

### Certain Anti-Takeover Provisions May Inhibit a Change of Control

In addition to the significant ownership of Common Stock by Joseph F. Hughes and his family, 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.

## 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.

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 could affect the Company's stock price 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 rentals of approximately \$80,000. This space is used as executive and administrative offices for the

Company and the Company's operating subsidiary. The Company also leases sales and technical recruiting offices in New York City (lease expires July 2017) and Edison, New Jersey (lease expires February 2019), with aggregate annual rentals of approximately \$282,000.

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

Item 3. Legal Proceedings

There are no material legal proceedings.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for 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, 2016 and 2015:

	JUNE 1, 2015 – MAY 31, 2016			
	1 <sup>ST</sup>	2 <sup>ND</sup>	3 <sup>RD</sup>	4 <sup>TH</sup>
	QUARTER	QUARTER	QUARTER	QUARTER
High Sales Price	\$4.77	\$ 4.83	\$ 5.03	\$ 4.12
Low Sales Price	3.51	4.00	3.49	3.37

	JUNE 1, 2014 – MAY 31, 2015			
	1 <sup>ST</sup>	2 <sup>ND</sup>	3 <sup>RD</sup>	4 <sup>TH</sup>
	QUARTER	QUARTER	QUARTER	QUARTER