Michael Kirk Goode
[contact info redacted]

Board of Directors:
Joseph F. Hughes
Raymond A. Roel
James J. Hill
John H. Hochuli, Jr.
Robert A. Esernio
Christopher Hughes
c/o Corporate Secretary
TSR, Inc.
400 Oser Avenue
Hauppauge, NY 11778

Dear Sirs,

I write to you as a shareholder (beneficially owning [redacted] of shares currently outstanding, all held in 'Street' name). I would first like thank you for your stewardship of the company. Too often directors and management collude to provide for high management compensation unrelated to operating performance. Also, too often owner/founders act with the approval of directors to extract profits from a company that rightfully belongs to all shareholders. The reasonable executive pay and executive incentive pay structure of TSRI is a testament to the integrity of each of you.

There are, however, two concerns I have regarding TSR Inc. My first concern is the classified structure of the board of directors. Such a structure reduces accountability of directors and reduces the probability of a value-enhancing takeover. I should also note that even if the Board were to wish to prevent a hostile takeover (violating its fiduciary duty to shareholders), it would be nearly impossible for a hostile acquirer to buy the company due to the illiquidity of the company's stock and Mr. Joseph Hughes' large stock holdings.

I do not lightly advise you to change your board structure. Prominent proxy advisory firms such as Institutional Shareholder Services[1] and Glass Lewis[2] are proponents of non-classified boards of directors. Classified boards are on the decline as more directors and shareholders realize that they add no value[3]. Several studies by finance professors have found that classified boards (along with other takeover defenses) harm shareholder returns[4]. One study found that the presence of a staggered board *caused*

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[1] See the article "Classification Cancels Corporate Accountability" written by ISS' special counsel in the Stanford Law Journal (PDF): http://www.law.harvard.edu/faculty/bebchuk/pdfs/McGurn.pdf
[2] See for example Glass Lewis' report on Arcelor, freely downloadable at the following website address: http://www.glasslewis.com/downloads/sampleresearch/proxypaper/arcelor.pdf
[3] See the following in ISS' blog: http://blog.issproxy.com/2006/04/director_pay_rises_another_14s.html
[4] See "Corporate Governance and Equity Prices" by Gompers, Ishii, & Metrick, *Quarterly Journal of Economics, Vol. 118, No. 1, pp. 107-155, February 2003;*
http://papers.ssrn.com/sol3/papers.cfm?abstract_id=278920

an average 5% reduction of a firm's market value[5]. Furthermore, the presence of a classified board does not even lead to an increased buyout premium in the event of a hostile takeover[6].

I urge you to act in the best interests of shareholders and eliminate your classified directorate and require that each director stand for yearly re-election.

The second matter that concerns me as a shareholder is the conservatism of the company's balance sheet. The company holds $8.5 million in cash and marketable securities, even though its market capitalization is only $18 million. This excess cash is completely unnecessary: the company's business requires little capital and is highly scalable. Even when business is poor, such as is currently the case, the company is able to turn a profit (and would be able to do so even without the current dividend and interest income from short term investments). By eliminating the company's excess cash, TSRI would improve return on equity, which should significantly increase the company's value, commensurately increasing the company's share price[7].

The company has several good options regarding its excess cash. The first option is to give the money back to shareholders. The company's generous dividend (with a payout ratio currently over 100%) helps in this regard. I also encourage you to consider opportunistic stock buybacks, especially considering the low current price of the company's stock and the favorable tax treatment of share repurchases relative to dividends. Considering that such astute individuals as Joseph Hughes and myself have bought the company's stock at current prices, it would behoove the company to consider doing the same.

The second option the company could take would be to acquire another operating business. While I am usually not enthusiastic about acquisitions, an acquisition of a private company at a good price would provide more value to shareholders than the cash the company currently holds. Even the acquisition of a company in an unrelated field would add value (though I do not endorse this option). For example, I am personally aware of a private chemical distributor that could be bought for around $8 million and an after-tax earnings yield of 12.5% (more than double the yield on your cash assets). This option has the benefit of increasing the company's market capitalization rather than decreasing it. This is an important consideration in light of how the company's small size harms its shareholders by increasing the costs to buy and own the company's stock.

The third possible option regarding the company's over-capitalization would be to sell the company. With an enterprise value of under $6 million, the company's operating business is seriously undervalued. I believe it would be easy to sell the company to a larger staffing firm for $24 million (giving the company an EV of $12 million) and

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[5] See "The Cost of Entrenched Boards" by Bebchuk and Cohen, *Journal of Financial Economics, Vol. 78, pp. 409-433, 2005* http://papers.ssrn.com/sol3/papers.cfm?abstract_id=556987

[6] See "The Powerful Antitakeover Force of Staggered Boards: Theory, Evidence, and Policy" by Bebchuk, Coates, and Subramanian *Stanford Law Review, Vol. 54, pp. 887-951, 2002;* http://papers.ssrn.com/sol3/papers.cfm?abstract_id=304388

[7] See "The Productivity Premium in Equity Returns" by Brown and Rowe; available at SSRN: http://ssrn.com/abstract=993467. We of course do not need an academic study to prove the obvious point that the key driver of shareholder value is the ability of the company to provide a return on investment. A 5% yield in treasury securities that comprise the majority of a company's equity is *ipso facto* inadequate for *any* corporation.

higher prices still would be obtainable once the company's operating performance improves.

At least for the moment, I would advise you to pursue opportunistic share buybacks to reduce TSRI's over-capitalization.

I thank you for your time and hope to continue this discussion of how to enhance shareholder value.

Sincerely,

Michael Kirk Goode