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VERSAR INC
Form 10-Q
February 06, 2009

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549 FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES
EXCHANGE ACT OF 1934.

For the Quarterly Period Ended December 26, 2008

Transition Report Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

For the transition period from _____ to _____
Commission File Number 1-9309

VERSAR, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

54-0852979

(State or other jurisdiction of
incorporation or organization)

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

6850 Versar Center
Springfield, Virginia

22151

(Address of principal executive
offices)

(Zip Code)

Registrant's telephone number, including area code (703) 750-3000

Not Applicable

(Former name, former address and former fiscal year, if changed since last
report.)

Indicate by check mark whether the registrant (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act
of 1934 during the preceding 12 months (or for such shorter period that
the registrant was required to file such reports), and (2) has been
subject to such filing requirements for the past 90 days.

Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting
company)

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [] No [X]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date.

| Class of Common Stock | Outstanding at January 30, 2009 |
|--------------------------|---------------------------------|
| ----- \$.01 par value | ----- 9,126,235 |

VERSAR, INC. AND SUBSIDIARIES

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VERSAR, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
(In Thousands)

| | December 26, 2008 | June 27, 2008 |
|---|----------------------|------------------|
| | ----- | ----- |
| ASSETS | (Unaudited) | |
| Current assets | | |
| Cash and cash equivalents | \$ 7,723 | \$ 11,938 |
| Accounts receivable, net | 24,660 | 21,596 |
| Prepaid expenses and other current assets | 1,347 | 1,080 |
| Deferred income taxes | 861 | 1,015 |
| | ----- | ----- |
| Total current assets | 34,591 | 35,629 |
| Property and equipment, net | 2,490 | 2,152 |
| Deferred income taxes | 496 | 517 |
| Goodwill | 776 | 776 |
| Other assets | 688 | 754 |
| | ----- | ----- |
| Total assets | \$ 39,041 | \$ 39,828 |
| | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities | | |
| Accounts payable | \$ 7,194 | \$ 7,731 |
| Billings in excess of revenue | --- | 156 |
| Accrued salaries and vacation | 1,867 | 1,719 |
| Accrued bonus | 600 | 2,066 |
| Other liabilities | 1,345 | 1,686 |
| | ----- | ----- |
| Total current liabilities | 11,006 | 13,358 |
| Other long-term liabilities | 1,433 | 1,417 |
| | ----- | ----- |
| Total liabilities | 12,439 | 14,775 |
| | ----- | ----- |
| Commitments and contingencies | | |
| Stockholders' equity | | |
| Common stock, \$.01 par value; 30,000,000 shares authorized; 9,078,135 shares and 9,059,135 shares issued; 8,993,189 shares and 8,975,101 shares outstanding at December 26, 2008 and June 27, 2008, respectively | 91 | 91 |
| Capital in excess of par value | 27,637 | 27,115 |
| Accumulated deficit | (465) | (1,554) |
| Treasury stock | (581) | (578) |
| Accumulated other comprehensive loss | (80) | (21) |
| | ----- | ----- |
| Total stockholders' equity | 26,602 | 25,053 |
| | ----- | ----- |
| Total liabilities and stockholders' equity | \$ 39,041 | \$ 39,828 |

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

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VERSAR, INC. AND SUBSIDIARIES
Consolidated Statements of Income
(Unaudited - in thousands, except per share amounts)

| | For the Three-Month Periods Ended | | For the Six-Month Periods Ended | |
|--|--------------------------------------|----------------------|------------------------------------|----------------------|
| | December 26, 2008 | December 28, 2007 | December 26, 2008 | December 28, 2007 |
| GROSS REVENUE | \$ 27,967 | \$ 29,355 | \$ 52,965 | \$ 58,237 |
| Purchased services and materials, at cost | 15,651 | 17,965 | 29,200 | 36,136 |
| Direct costs of services and overhead | 9,111 | 8,323 | 17,382 | 15,535 |
| GROSS PROFIT | 3,205 | 3,067 | 6,383 | 6,566 |
| Selling, general and administrative expenses | 2,198 | 1,856 | 4,234 | 3,632 |
| OPERATING INCOME | 1,007 | 1,211 | 2,149 | 2,934 |
| OTHER EXPENSE | | | | |
| (Gain) loss on marketable securities | (7) | --- | 346 | --- |
| Interest expense (income) | 74 | (52) | 19 | (116) |
| INCOME BEFORE INCOME TAXES | 940 | 1,263 | 1,784 | 3,050 |
| Income tax expense | 375 | 518 | 695 | 1,288 |
| NET INCOME | \$ 565 | \$ 745 | \$ 1,089 | \$ 1,762 |
| NET INCOME PER SHARE - BASIC | \$ 0.06 | \$ 0.08 | \$ 0.12 | \$ 0.20 |
| NET INCOME PER | | | | |

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| | | | | |
|--|---------|---------|---------|---------|
| SHARE - DILUTED | \$ 0.06 | \$ 0.08 | \$ 0.12 | \$ 0.19 |
| | ===== | ===== | ===== | ===== |
| WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING - BASIC | 9,068 | 8,871 | 9,064 | 8,840 |
| | ===== | ===== | ===== | ===== |
| WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING - DILUTED | 9,112 | 9,231 | 9,134 | 9,243 |
| | ===== | ===== | ===== | ===== |

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

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VERSAR, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(Unaudited - in thousands)

| | For the Six-Month Periods Ended | |
|--|---------------------------------|----------------------|
| | December 26, 2008 | December 28, 2007 |
| | ----- | ----- |
| Cash flows from operating activities | | |
| Net income | \$ 1,089 | \$ 1,762 |
| Adjustments to reconcile net income to net cash used in operating activities | | |
| Depreciation and amortization | 496 | 427 |
| Provision for doubtful accounts receivable | --- | 1 |
| Loss on marketable securities | 346 | --- |
| Loss (gain) on life insurance policy cash surrender value | 146 | (20) |
| Share based compensation | 514 | 462 |
| Deferred taxes | 178 | 1,195 |
| Changes in assets and liabilities | | |
| (Increase) decrease in accounts receivable | (3,067) | 1,154 |
| (Increase) decrease in prepaids and other assets | (303) | 437 |
| Decrease in accounts payable | (461) | (3,479) |
| Increase in accrued salaries and vacation | 149 | 96 |
| Decrease in other liabilities | (2,079) | (2,064) |
| | ----- | ----- |
| Net cash used in operating activities | (2,992) | (29) |
| | ----- | ----- |

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| | | |
|--|----------|----------|
| Cash flows used in investing activities | | |
| Purchase of property and equipment | (848) | (469) |
| Purchase of marketable securities | (3,000) | --- |
| Proceeds from sale of marketable securities | 2,654 | --- |
| Premium paid on life insurance policies | (40) | (38) |
| | ----- | ----- |
| Net cash used in investing activities | (1,234) | (507) |
| | ----- | ----- |
| Cash flows from financing activities | | |
| Proceeds from issuance of common stock | 8 | 697 |
| Purchase of treasury stock | (3) | --- |
| | ----- | ----- |
| Net cash provided by financing activities | 5 | 697 |
| | ----- | ----- |
| Effect of exchange rate changes | 6 | 45 |
| | ----- | ----- |
| Net (decrease) increase in cash and cash equivalents | (4,215) | 206 |
| Cash and cash equivalents at the beginning of the period | 11,938 | 6,296 |
| | ----- | ----- |
| Cash and cash equivalents at the end of the period | \$ 7,723 | \$ 6,502 |
| | ===== | ===== |
| Supplementary disclosure of cash flow information: | | |
| Cash paid during the period for | | |
| Interest | \$ 22 | \$ 22 |
| Income taxes | 1,469 | 92 |

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

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VERSAR, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(A) Basis of Presentation

The accompanying consolidated condensed financial statements are presented in accordance with the requirements of Form 10-Q and consequently do not include all of the disclosures normally required by accounting principles generally accepted in the United States of America or those normally made in Versar, Inc.'s Annual Report on Form 10-K filed with the United States Securities and Exchange Commission. These financial statements should be read in conjunction with the Company's Annual Report filed on Form 10-K for the year ended June 27, 2008 for additional

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information.

The accompanying consolidated financial statements include the accounts of Versar, Inc. and its wholly-owned subsidiaries ("Versar" or the "Company"). All significant intercompany balances and transactions have been eliminated in consolidation. The financial information has been prepared in accordance with the Company's customary accounting practices. Certain adjustments to the financial statements are necessary for fair presentation and are of a normal recurring nature as part of the operations of the business. In the opinion of management, the information reflects all adjustments necessary for a fair presentation of the Company's consolidated financial position as of December 26, 2008, and the results of operations for the six-month periods ended December 26, 2008 and December 28, 2007. The results of operations for such periods, however, are not necessarily indicative of the results to be expected for a full fiscal year.

(B) Accounting 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 revenues and expenses during the reporting period. Actual results may differ from those estimates.

(C) Contract Accounting

Contracts in process are stated at the lower of actual cost incurred plus accrued profits or net estimated realizable value of incurred costs, reduced by progress billings. The Company records income from major fixed-price construction and engineering contracts, extending over more than one accounting period, using the percentage-of-completion method. During performance of such contracts, estimated final contract prices and costs are periodically reviewed and revisions are made as required. The effects of these revisions are included in the periods in which the revisions are made. On cost-plus-fee contracts, revenue is recognized to the extent of costs incurred plus a proportionate amount of fee earned, and on time-and-material contracts, revenue is recognized to the extent of billable rates times hours delivered plus material and other reimbursable costs incurred. Losses on contracts are recognized when they become known. Disputes arise in the normal course of the Company's business on projects where the Company is contesting with customers for collection of funds because of events such as delays, changes in contract specifications and questions of cost allowability or collectibility. Such disputes, whether claims or unapproved change orders in the process of negotiation, are recorded at the lesser of their estimated net realizable value or actual costs incurred and only when realization is probable and can be reliably estimated. Claims against the Company are recognized where loss is considered probable and reasonably determinable in amount. Management reviews outstanding receivables on a regular basis and assesses the need for reserves taking into consideration past collection history and other events that bear on the collectibility of such receivables.

(D) Income Taxes

At December 26, 2008, the Company had approximately \$1.3 million in deferred tax assets, which primarily relate to temporary differences between financial statement and income tax reporting. Such differences include depreciation, deferred compensation, accruals and reserves.

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Given the Company's continued improved financial performance and funded backlog over the last three years, management believes the Company will be able to utilize the full benefit of the tax asset.

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VERSAR, INC. AND SUBSIDIARIES Notes to Consolidated Financial Statements (continued)

(E) Debt

The Company has a line of credit facility with United Bank (the Bank) that provides for advances up to \$7.5 million based upon qualifying receivables. Interest on borrowings is based upon the prime rate of interest minus 0.5% (2.75% as of December 26, 2008). In October 2006, the Company obtained a letter of credit of approximately \$1.6 million which serves as collateral for surety bond coverage provided by the Company's insurance carrier against project construction work. The letter of credit has subsequently been reduced to \$455,147 in January 2009. The letter of credit reduces the Company's availability on the line of credit. Availability under the line of credit at December 26, 2008 was \$5.9 million. Obligations under the credit facility are guaranteed by Versar and each subsidiary individually and are secured by accounts receivable, equipment and intangibles, plus all insurance policies on property constituting collateral of Versar and its subsidiaries. The line of credit matures in November 2009 and is subject to certain covenants related to the maintenance of financial ratios. These covenants require a minimum tangible net worth of \$15 million; a maximum total liabilities to tangible net worth ratio not to exceed 2.5 to 1; and a minimum current ratio of at least 1.25 to 1. The Company was in compliance with such covenants as of December 26, 2008. The Company had no borrowings outstanding under the line of credit as of December 26, 2008.

(F) Goodwill and Other Intangible Assets

On January 30, 1998, Versar completed the acquisition of The Greenwood Partnership, P.C. subsequently renamed Versar Global Solutions, Inc. or (VGSI). The transaction was accounted for as a purchase. Goodwill resulting from this transaction was approximately \$1.1 million. Currently, the carrying value of goodwill is approximately \$776,000 relating to the acquisition of VGSI, which is now part of the Company's Program Management business segment. The Company began reporting the Program Management business segment separately in fiscal year 2007, primarily due to the increase in business volume in Iraq and in United States construction related work. In performing its goodwill impairment analysis, management has utilized a market-based valuation approach to determine the estimated fair value of the Program Management business segment. Management engages outside professionals and valuation experts, as necessary, to assist in performing this analysis. An analysis was performed on public companies and company transactions to prepare a market-based valuation. Based upon the analysis, the estimated fair value of the Program Management business segment substantially exceeded the carrying value of the net assets of \$6.5 million as of June 27, 2008. Should the Program Management business segment's financial performance not meet estimates, then impairment of goodwill would have to be further assessed to determine whether a write down of goodwill value would be

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warranted. If such a write down were to occur, it would negatively impact the Company's financial position and results of operations. However, it would not impact the Company's cash flow or financial debt covenants.

(G) Net Income Per Share

Basic net income per common share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted net income per common share also includes common stock equivalents outstanding during the period, if dilutive. The Company's common stock equivalents consist of stock options and restricted stock awards.

| | For the Three-Month Periods Ended | | For the Six-Month Periods Ended | |
|---|--------------------------------------|----------------------|------------------------------------|----------------------|
| | December 26, 2008 | December 28, 2007 | December 26, 2008 | December 28, 2007 |
| Weighted average common shares outstanding - basic | 9,068,212 | 8,871,477 | 9,064,080 | 8,840,366 |
| Effect of assumed exercise of options and vesting of restricted stock awards (treasury stock method) | 44,221 | 359,530 | 69,632 | 402,566 |
| Weighted average common shares outstanding - diluted | 9,112,433 | 9,231,007 | 9,133,712 | 9,242,932 |

VERSAR, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)

For fiscal year 2009, options to purchase approximately 64,000 shares of common stock were not included in the computation of diluted earnings per share because the effect would be anti-dilutive.

(H) Common Stock

Effective January 1, 2005, the Company implemented an Employee Stock Purchase Plan (ESPP) to allow eligible employees of Versar the opportunity to acquire an ownership interest in the Company's common stock. As amended, the Plan permits employees to purchase shares of Versar common stock from the open market at 95% of its fair market value. The Plan qualifies as an "employee stock purchase plan" under Section 423 of the Internal Revenue Code.

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(I) Stock-Based Compensation

In September 2008, the Company awarded 90,000 shares of restricted stock to executive officers and employees. The awards vest over a period of 4.5 months to 16.5 months. Stock-based compensation expense relating to restricted stock and option awards totaled \$514,000 and \$462,000 for the six months ended December 26, 2008 and December 28, 2007, respectively. This expense is included in the direct costs of services and overhead line of the Consolidated Statements of Income. During the first six months of fiscal year 2009, 3,000 shares of Incentive Stock Option with intrinsic value of approximately \$4,500 were exercised.

In November 2005, the stockholders approved the Versar, Inc. 2005 Stock Incentive Plan (the "2005 Plan"). The 2005 Plan provides for grants of incentive awards, including stock options, SARS, restricted stock, restricted stock units and performance based awards, to directors, officers and employees of the Company and its affiliates as approved from time to time by the Company's Compensation Committee. Only employees may receive stock options classified as "incentive stock options", also known as "ISO's". The per share exercise price for options and SARS granted under the 2005 Plan shall not be less than the fair market value of the common stock on the date of grant. A maximum of 400,000 shares of common stock may be awarded under the 2005 Plan. No single director, officer, or employee may receive awards of more than 100,000 shares of common stock during the term of the 2005 Plan. The ability to make awards under the 2005 Plan will terminate in November 2015. As of December 26, 2008, approximately 141,000 shares are available for future grant under the 2005 Plan.

The Company also maintains the Versar 2002 Stock Incentive Plan (the "2002 Plan"), the Versar 1996 Stock Option Plan (the "1996 Plan") and the Versar 1992 Stock Option Plan (the "1992 Plan").

Under the 2002 Plan, restricted stock and other types of stock-based awards were granted to any employee, service provider or director to whom a grant was approved from time to time by the Company's Compensation Committee. A "service provider" is defined for purposes of the 2002 Plan as an individual who is neither an employee nor a director of the Company or any of its affiliates but who provides the Company or one of its affiliates substantial and important services. No shares remain for future grant under the 2002 Plan. The Company will continue to maintain the plan until all previously granted securities have vested, been forfeited or retired. As of December 26, 2008, there were vested stock options to purchase 283,970 shares of common stock under the 2002 Plan.

Under the 1996 Plan, options were granted to key employees, directors and service providers at the fair market value on the date of grant. Each option expires on the earlier of the last day of the tenth year after the date of grant or after expiration of a period designated in the option agreement. The 1996 Plan has expired and no additional options may be granted under this plan. The Company will continue to maintain the plan until all previously granted options have been exercised, forfeited or expire. As of December 26, 2008, there were vested stock options to purchase 176,761 shares of common stock under the 1996 Plan.

Under the 1992 Plan, options were granted to key employees at the fair market value on the date of grant and became exercisable during the five-year period from the date of the grant at 20% per year. Options were granted with a ten year term and expire if not exercised by the tenth anniversary of the grant date. The 1992 Plan

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has expired and no additional options may be granted under this plan. The Company will continue to maintain the plan until all previously granted options have been exercised, forfeited or expire. As of December 26, 2008, there were vested stock options to purchase 83,500 shares of common stock under the 1992 Plan.

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VERSAR, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)

A summary of activity under the Company's stock incentive plans as of December 26, 2008, and changes during the first six months of fiscal year 2009 are presented below:

| Options | Shares (in thousands) | Weighted- Average Exercise Price | Weighted- Average Remaining Contractual Term | Aggregate Intrinsic Value (\$000) |
|----------------------------------|--------------------------|---|--|--|
| Outstanding at June 28, 2008 | 571 | \$ 3.05 | | |
| Exercised | (3) | 2.63 | | |
| Cancelled | (2) | 3.43 | | |
| Outstanding at December 26, 2008 | 566 | \$ 3.05 | 4.58 | \$ 984 |
| Exercisable at December 26, 2008 | 556 | \$ 2.96 | 4.38 | \$ 942 |

As of December 26, 2008, there were unvested options to purchase approximately 10,000 shares outstanding under the plans. Vesting of these options is conditioned on the Company's stock price reaching certain thresholds over a fixed period. The Company expects to recognize estimated compensation costs of \$42,000 if the pricing and service conditions of these options are met in the future.

(J) Business Segments

The Company's business is operated through four business segments as follows: Program Management, Compliance and Environmental Programs, Professional Services, and National Security. The Company evaluates and measures the performance of its business segments based on gross revenue, gross profit and operating income. As such, selling, general and administrative expenses, interest and income taxes have not been allocated to the Company's business segments. These segments were segregated based on the nature of the work, business processes, customer base and business environment in which each of the segments operates.

The Program Management business segment manages larger, more complex projects whose business processes and management are unique to the rest of the Company. The Compliance and Environmental Programs business segment provides consulting support to several federal government and municipal agencies. The Professional Services business segment provides outsourced personnel to various government agencies

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providing our clients with cost-effective resources. The National Security business segment provides unique solutions to the federal government including testing and evaluation and personal protective solutions to meet our clients' needs.

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VERSAR, INC. AND SUBSIDIARIES Notes to Consolidated Financial Statements (continued)

Summary of financial information for each of the Company's segments follows:

| | For the Three-Month Periods Ended | | For the Six-Month Periods Ended | |
|--|--------------------------------------|----------------------|------------------------------------|----------------------|
| | December 26, 2008 | December 28, 2007 | December 26, 2008 | December 28, 2007 |
| GROSS REVENUE | | | | |
| Program Management | \$ 17,080 | \$ 16,541 | \$ 32,730 | \$ 33,804 |
| Compliance and Environmental Programs | 5,704 | 8,699 | 10,464 | 16,925 |
| Professional Services | 2,784 | 2,323 | 4,962 | 3,778 |
| National Security | 2,399 | 1,792 | 4,809 | 3,730 |
| | <u>\$ 27,967</u> | <u>\$ 29,355</u> | <u>\$ 52,965</u> | <u>\$ 58,237</u> |
| GROSS PROFIT (A) | | | | |
| Program Management | \$ 2,158 | \$ 2,090 | \$ 4,471 | \$ 4,372 |
| Compliance and Environmental Programs | 309 | 480 | 535 | 1,160 |
| Professional Services | 388 | 366 | 809 | 614 |
| National Security | 350 | 133 | 568 | 420 |
| | <u>\$ 3,205</u> | <u>\$ 3,067</u> | <u>\$ 6,383</u> | <u>\$ 6,566</u> |
| Selling, general and administrative expenses | (2,198) | (1,856) | (4,234) | (3,632) |
| OPERATING INCOME | <u>\$ 1,007</u> | <u>\$ 1,211</u> | <u>\$ 2,149</u> | <u>\$ 2,934</u> |

(A) Gross profit is defined as gross revenue less purchased services and materials and direct costs of services and overhead.

Periods Ended

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| | December 26, 2008 | June 27, 2008 |
|------------------------|----------------------|------------------|
| | ----- | ----- |
| | (In thousands) | |
| IDENTIFIABLE ASSETS | | |
| ----- | | |
| Program Management | \$ 14,956 | \$ 11,405 |
| Compliance and | | |
| Environmental Programs | 6,805 | 8,762 |
| Professional Services | 2,938 | 1,554 |
| National Security | 2,687 | 2,693 |
| Corporate and Other | 11,655 | 15,414 |
| | ----- | ----- |
| Total Assets | \$ 39,041 | \$ 39,828 |
| | ===== | ===== |

(K) Marketable Securities

During the first quarter of fiscal year 2009, the Company recorded a \$352,000 loss on marketable securities the Company was holding in the FISCO Income Plus Funds. The FISCO fund received an immediate demand margin call from its broker, UBS. Rather than allow the fund the customary time to satisfy the margin call at the end of the day, UBS demanded the fund cover all calls and puts at high premiums immediately or indicated it would take control of the fund and start liquidating the fund itself. The fund has terminated its relationship with UBS and transferred the assets to a new custodian. The fund has indicated it will seek legal action against UBS to cover its losses. The Company will participate in any recovery from any such action. The Company has reallocated its remaining assets from marketable securities to its primary bank due to the volatile nature of the market.

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ITEM 2 Management's Discussion and Analysis of Financial Condition and Results of Operations

This report contains certain forward-looking statements which are based on current expectations. Actual results may differ materially. The forward-looking statements include without limitation, those regarding the continued award of future work or task orders from government and private clients, cost controls and reductions, the expected resolution of delays in billing of certain projects, and the possible impact of current and future claims against the Company based upon negligence and other theories of liability. Forward-looking statements involve numerous risks and uncertainties that could cause actual results to differ materially, including, but not limited to, the possibility that the demand for the Company's services may decline as a result of possible changes in general and industry specific economic conditions and the effects of competitive services and pricing; the possibility that the Company will not be able to perform work within budget or contractual limitations; one or more current or future claims made against the Company may result in substantial liabilities; the possibility that the Company will not be able to attract and retain key professional employees; changes to or failure of the Federal government to fund certain programs in which the Company participates; delays in project funding; and such other risks and uncertainties, described in our Form 10-K for fiscal year ended June 27, 2008 and in other reports

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and other documents filed by the Company from time to time with the Securities and Exchange Commission.

Financial Trends

In fiscal year 2006, the Company's gross revenues declined primarily due to the continuation of federal government delays in federal government funding, which in certain instances, spanned as much as nine months and the continued diversion of funding to the war in Iraq. The Company adapted to the funding shifts by expanding its services in Iraq work under existing contracts and seeking new contract work in Iraq. By the end of fiscal year 2006, the project funding began to return to normal levels and as a result the Company's funded backlog increased by 55% to \$48 million. By the end of fiscal year 2007, as a result of continued efforts to grow the business and with new contracts, funded backlog had increased by an additional 19% to \$57 million. During fiscal year 2008, backlog continued to grow, increasing by 12% to \$64 million at June 27, 2008.

In the first six months of fiscal year 2009, the Company was awarded an additional \$88 million in additional work, which increased funded backlog to \$99 million as of December 26, 2008. The Company has continued to experience success with the award of additional work. During the first six months of fiscal year 2009, the Company experienced a 9% decline in gross revenues. This decline was primarily attributable to a decrease in the award of construction projects in the U.S. in the Project Management segment in fiscal year 2009 and a decline in aquatic facility work in the Compliance and Environmental Programs segment. Several awards of new, larger projects for the Project Management segment were received late during the first quarter of fiscal year 2009 and the Company anticipates that these new awards will result in additional construction work during the second half of fiscal year 2009. There continues to be a decline in the award of additional aquatic facility work and the Company expects the Compliance and Environmental Program segment to continue to experience a decline in revenues during the 2009 fiscal year.

Approximately 53% of the Company's business volume was related to the reconstruction efforts in Iraq for fiscal year 2008. However, the Company is taking steps during fiscal year 2009 to further diversify its business to prepare for a time when opportunities in Iraq may be reduced or eliminated. The Company's primary focus is on BRAC efforts and requirements which have been delayed as a result of the war in Iraq. We continue to follow the funding shifts in Iraq and Afghanistan to maintain and expand our business basis. We believe the funding of BRAC work world-wide represents our greatest opportunity for growth in the second half of fiscal year 2009.

There are a number of risk factors or uncertainties that could significantly impact our future financial performance including the following:

- * General economic or political conditions;
- * Threatened or pending litigation;
- * The timing of expenses incurred for corporate initiatives;
- * Employee hiring, utilization, and turnover rates;
- * The seasonality of spending in the federal government and for commercial clients;
- * Delays in project contracted engagements;
- * Unanticipated contract changes impacting profitability;
- * Increased pricing competition due to reductions in prices

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by our competitors;

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ITEM 2 Management's Discussion and Analysis of Financial Condition
and Results of Operations (continued)

- * The ability to obtain follow-on project work;
- * Failure to properly manage projects resulting in additional costs;
- * The cost of compliance for the Company's laboratories;
- * The results of a negative government audit potentially impacting our costs, reputation and ability to work with the federal government;
- * Loss of key personnel;
- * The ability to compete in a highly competitive environment; and
- * Federal funding delays due to the war in Iraq.

Results of Operations

Second Quarter Comparison of Fiscal Year 2009 and 2008

| | For the Three-Month Periods Ended | |
|---------------------------------------|-----------------------------------|----------------------|
| | December 26, 2008 | December 28, 2007 |
| | ----- | ----- |
| GROSS REVENUE | | |
| ----- | | |
| Program Management | \$ 17,080 | \$ 16,541 |
| Compliance and Environmental Programs | 5,704 | 8,699 |
| Professional Services | 2,784 | 2,323 |
| National Security | 2,399 | 1,792 |
| | ----- | ----- |
| | \$ 27,967 | \$ 29,355 |
| | ===== | ===== |

Gross revenue for the second quarter of fiscal year 2009 was \$27,967,000, a decrease of \$1,388,000 (5%) from the second quarter of fiscal year 2008. Gross revenue in the Program Management business segment for the second quarter of fiscal year 2009 was \$17,080,000, an increase of \$539,000 (3%) from that reported in the second quarter of fiscal year 2008. The increase is due to new project work in the United Arab Emirates. Gross revenue in the Compliance and Environmental Programs business segment for the second quarter was \$5,704,000, a decrease of \$2,995,000 (34%) from the second quarter of fiscal year 2008. The decrease is due to the completion of several large municipal aquatic facility projects at the end of fiscal year 2008, and a reduction in new aquatic facility projects due to municipal budget constraints resulting from the poor economy. Gross revenue in the Professional Services business segment for the second quarter of fiscal year 2009 was \$2,784,000, an increase of \$461,000 (20%) from the second quarter of fiscal year 2008. The increase is attributable to continuing work in larger professional services outsourcing awards received in fiscal year 2008. Gross revenue for the National Security

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business segment for the second quarter of fiscal year 2009 was \$2,399,000, an increase of \$607,000 (34%) from the second quarter of fiscal year 2008. The increase is attributable to additional chemical laboratory work, personal protective suit sales and meteorological work during the quarter.

Purchased services and materials decreased by \$2,314,000 (13%) in the second quarter of fiscal year 2009 compared to the second quarter of fiscal year 2008. The decrease is attributable to the decrease in municipal aquatic facility work in the Compliance and Environmental Programs business segment as mentioned above.

Direct costs of services and overhead include the cost to Versar of direct and overhead staff, including recoverable and unallowable costs that are directly attributable to contracts. Direct costs of services and overhead increased by \$788,000 (9%) in the second quarter of fiscal year 2009 compared to the second quarter of 2008. The increase is primarily due to additional costs required to support business growth efforts in the Program Management business segment supporting United Arab Emirates business expansion and Continental United States based construction activity.

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ITEM 2 Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Gross profit for the second quarter of fiscal year 2009 was \$3,205,000, an increase of \$138,000 (4%) from the second quarter of fiscal year 2008. The increase is primarily due to improved profitability in the National Security business segment, offset in part by a decline in the Compliance and Environmental Programs segment, as shown in the table below.

| | For the Three-Month Periods Ended | |
|---------------------------------------|-----------------------------------|----------------------|
| | December 26, 2008 | December 28, 2007 |
| | ----- | ----- |
| GROSS PROFIT | | |
| ----- | | |
| Program Management | \$ 2,158 | \$ 2,090 |
| Compliance and Environmental Programs | 309 | 480 |
| Professional Services | 388 | 366 |
| National Security | 350 | 133 |
| | ----- | ----- |
| | \$ 3,205 | \$ 3,067 |
| | ===== | ===== |

Gross profit for the Program Management business segment for the second quarter of fiscal year 2009 was \$2,158,000, an increase of \$68,000 (3%) from the second quarter of fiscal year 2008. Gross profit in the Compliance and Environmental Programs business segment for the second quarter of fiscal year 2009 was \$309,000, a decrease of \$171,000 (36%) compared to the second quarter of fiscal year 2008. The decrease is due to the reduced gross revenues as previously mentioned above resulting from poor economic conditions. Gross profit in the Professional Services business segment for the second quarter of fiscal year 2009 was

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\$388,000, an increase of \$22,000 (6%) over that reported in the second quarter of fiscal year 2008. Gross profit in the National Security business segment for the second quarter of fiscal year 2009 was \$350,000, an increase of \$217,000 (163%) from the second quarter of fiscal year 2008. The increase is directly attributable to the increased gross revenue as mentioned above.

Selling, general and administrative expenses increased by \$342,000 (18%) during the second quarter of fiscal year 2009 compared to the second quarter of fiscal year 2008. The increase is primarily due to increased business development activities.

Operating income for the second quarter of fiscal year 2009 was \$1,007,000, a decrease of \$204,000 (17%) compared to the second quarter of fiscal year 2008. The decrease is attributable to the higher selling, general and administrative costs as mentioned above.

Interest expense for the second quarter of fiscal year was \$74,000, compared to interest income of \$52,000 reported in the second quarter of fiscal year 2008. The expense is attributable to the cost of financing the Company's various insurance policies together with a reduction in interest income as a result of the reduced federal government borrowing rates on the Company's cash balances invested in overnight repurchase agreements.

Income tax expense for the second quarter of fiscal year 2009 was \$375,000 compared to \$518,000 in the second quarter of fiscal year 2008. The effective tax rates were 40% and 41% for the second quarter of fiscal years 2009 and 2008, respectively.

Versar's net income for the second quarter of fiscal year 2009 was \$565,000 compared to \$745,000 in the second quarter of fiscal year 2008. The decreased gross revenues coupled with higher selling, general and administrative costs accounted for the reduced net income for the second quarter of fiscal year 2009.

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ITEM 2 Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Six Month Comparison of Fiscal Year 2009 and 2008

| | For the Six-Month Periods Ended | |
|---------------------------------------|---------------------------------|----------------------|
| | December 26, 2008 | December 28, 2007 |
| GROSS REVENUE | | |
| ----- | | |
| Program Management | \$ 32,730 | \$ 33,804 |
| Compliance and Environmental Programs | 10,464 | 16,925 |
| Professional Services | 4,962 | 3,778 |
| National Security | 4,809 | 3,730 |
| | ----- | ----- |

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| | | | |
|-------|--------|-------|--------|
| \$ | 52,965 | \$ | 58,237 |
| ===== | | ===== | |

Gross revenue for the first six months of fiscal year 2009 was \$52,965,000, a decrease of \$5,272,000 (9%) from the first six months of fiscal year 2008. Gross revenue in the Program Management business segment for the first six months of fiscal year 2009 was \$32,730,000, a decrease of \$1,074,000 (3%) from the first six months of fiscal year 2008. The decrease is due to lower construction related work in the United States as several large projects in the pipeline were not awarded until late in the first quarter of fiscal year 2009. Gross revenue in the Compliance and Environmental Programs business segment for the first six months was \$10,464,000, a decrease of \$6,461,000 (38%) from the first six months of fiscal year 2008. The decrease is due to the completion of several large municipal aquatic facility projects at the end of fiscal year 2008, and a reduction in new aquatic facility projects due to municipal budget constraints resulting from the poor economy. Gross revenue in the Professional Services business segment for the first six months of fiscal year 2009 was \$4,962,000, an increase of \$1,184,000 (31%) from the first six months of fiscal year 2008. The increase is attributable to continuing work on larger professional services outsourcing awards received in fiscal year 2008. Gross revenue for the National Security business segment for the first six months of fiscal year 2009 was \$4,809,000, an increase of \$1,079,000 (29%) from the first six months of fiscal year 2008. The increase is attributable to additional chemical laboratory work, personal protective suit sales and meteorological work during the period.

Purchased services and materials decreased by \$6,936,000 (19%) in the first six months of fiscal year 2009 compared to the first six months of fiscal year 2008. The decrease is attributable to the decrease in construction work in the Program Management business segment and in municipal aquatic facility work in the Compliance and Environmental Programs business segment as mentioned above.

Direct costs of services and overhead include the cost to Versar of direct and overhead staff, including recoverable and unallowable costs that are directly attributable to contracts. Direct costs of services and overhead increased by \$1,847,000 (12%) in the first six months of fiscal year 2009 compared to the first six months of 2008. The increase is primarily due to additional costs required to support business growth efforts in the Program Management and Professional Services business segments.

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ITEM 2 Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Gross profit for the first six months of fiscal year 2009 was \$6,383,000, a decrease of \$183,000 (3%) from the first six months of fiscal year 2008. The decrease is primarily attributable to reduced gross revenues and profitability in the Compliance and Environmental Programs business segment offset in part by increases in the Professional Services and National Security business segments as shown in the table below.

For the Six-Month Periods Ended

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| | December 26, 2008 | December 28, 2007 |
|---------------------------------------|----------------------|----------------------|
| GROSS PROFIT | | |
| Program Management | \$ 4,471 | \$ 4,372 |
| Compliance and Environmental Programs | 535 | 1,160 |
| Professional Services | 809 | 614 |
| National Security | 568 | 420 |
| | \$ 6,383 | \$ 6,566 |

Gross profit for the Program Management business segment for the first six months of fiscal year 2009 was \$4,471,000, an increase of \$99,000 (2%) from the first six months of fiscal year 2008. Gross profit in the Compliance and Environmental Programs business segment for the first six months of fiscal year 2009 was \$535,000, a decrease of \$625,000 (54%) compared to the first six months of fiscal year 2008. The decrease is due to the reduced gross revenues as mentioned above resulting from poor economic conditions. Gross profit in the Professional Services business segment for the first six months of fiscal year 2009 was \$809,000, an increase of \$195,000 (32%) from the first six months of fiscal year 2008. Gross profit in the National Security business segment for the first six months of fiscal year 2009 was \$568,000, an increase of \$148,000 (35%) from the first six months of fiscal year 2008. These increases are directly attributable to the increased gross revenue as mentioned above.

Selling, general and administrative expenses increased by \$602,000 (17%) during the first six months of fiscal year 2009 compared to that reported in the first six months of fiscal year 2008. The increase is primarily due to increased business development activities.

Operating income for the first six months of fiscal year 2009 was \$2,149,000, a decrease of \$785,000 (27%) compared to the first six months of fiscal year 2008. The decreased is primarily attributable to the higher selling, general and administrative costs as mentioned above.

During the first quarter of fiscal year 2009, the Company recorded a \$352,000 loss on marketable securities the Company was holding in the FISCO Income Plus Funds. The FISCO fund received an immediate demand margin call from its broker, UBS. Rather than allow the fund the customary time to satisfy the margin call at the end of the day, UBS demanded the fund cover all calls and puts at high premiums immediately or indicated it would take control of the fund and start liquidating the fund itself. The fund has terminated its relationship with UBS and transferred the assets to a new custodian. The fund has indicated it will seek legal action against UBS to cover its losses. The Company will participate in any recovery from any such action. The Company has reallocated its remaining assets from marketable securities to its primary bank due to the volatile nature of the market.

Interest expense for the first six months of fiscal year 2009 was \$19,000, compared to interest income of \$116,000 for the first six months of fiscal year 2008. The expense is attributable to the cost of financing the Company's various insurance policies together

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with reduced interest income resulting from reduced federal government borrowing rates on the Company's cash balances invested in overnight repurchase agreements.

Income tax expense for the first six months of fiscal year 2009 was \$695,000 compared to \$1,288,000 in the first six months of fiscal year 2008. The effective tax rates were 39% and 41% for the first six months of fiscal years 2009 and 2008, respectively.

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ITEM 2 Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Versar's net income for the first six months of fiscal year 2009 was \$1,089,000 compared to \$1,762,000 in the first six months of fiscal year 2008. The decrease in gross revenue along with higher selling, general and administrative costs, and the loss on marketable securities accounted for the reduced net income for the first six months of fiscal year 2009.

Liquidity and Capital Resources

The Company's working capital as of December 26, 2008 approximated \$23,585,000, an increase of \$1,314,000 (6%) from June 27, 2008. In addition, at December 26, 2008, the Company's current ratio was 3.14, an improvement over the 2.67 current ratio reported on June 27, 2008. The increase was due to the reduction of current liabilities during the first six months of fiscal year 2009.

The Company has a line of credit facility with United Bank (the Bank) that provides for advances up to \$7.5 million based upon qualifying receivables. Interest on borrowings is based upon the prime rate of interest minus 0.5% (2.75% as of December 26, 2008). In October 2006, the Company obtained a letter of credit of approximately \$1.6 million which serves as collateral for surety bond coverage provided by the Company's insurance carrier against project construction work. The letter of credit has subsequently been reduced to \$455,147 in January 2009. The letter of credit reduces the Company's availability on the line of credit. Availability under the line of credit at December 26, 2008 was \$5.9 million. There are no borrowings outstanding under the line of credit as of December 26, 2008. Obligations under the credit facility are guaranteed by Versar and each subsidiary individually and are secured by accounts receivable, equipment and intangibles, plus all insurance policies on property constituting collateral of Versar and its subsidiaries. The line of credit matures in November 2009 and is subject to certain covenants related to the maintenance of financial ratios. These covenants require a minimum tangible net worth of \$15 million; a maximum total liabilities to tangible net worth ratio not to exceed 2.5 to 1; and a minimum current ratio of at least 1.25 to 1. The Company was in compliance with such covenants as of December 26, 2008.

Management believes that the current cash balance of over \$7.7 million along with anticipated cash from operations and existing availability under the line of credit, are sufficient to meet its liquidity needs within the next year. Expected capital requirements for the remainder of fiscal year 2009 are approximately \$450,000 primarily to maintain our existing information technology systems and software applications. Such capital requirements will be funded

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through existing working capital.

The global economic business downturn has primarily impacted our commercial and state and municipal work in our Compliance and Environmental Programs business segment. As such, we are adjusting the Company's cost structure to minimize the impact to the overall Company financial performance.

Critical Accounting Policies and Related Estimates That Have a Material Effect on Versar's Consolidated Financial Statements

Below is a discussion of the accounting policies and related estimates that we believe are the most critical to understanding the Company's consolidated financial position and results of operations, which require management judgments and estimates, or involve uncertainties. Information regarding our other accounting policies is included in the notes to our consolidated financial statements included elsewhere in this report on Form 10-Q and in our annual report on Form 10-K filed for the 2008 fiscal year.

Revenue recognition: Contracts in process are stated at the lower of actual costs incurred plus accrued profits or incurred costs reduced by progress billings. On cost-plus fee contracts, revenue is recognized to the extent of costs incurred plus a proportionate amount of fee earned, and on time-and-material contracts, revenue is recognized to the extent of billable rates times hours delivered plus material and other reimbursable costs incurred. The Company records income from major fixed-price contracts, extending over more than one accounting period, using the percentage-of-completion method. During the performance of such contracts, estimated final contract prices and costs are periodically reviewed and revisions are made as required. Fixed price contracts can be significantly impacted by changes in contract performance, contract delays, liquidated damages and penalty provisions and contract change orders, which may affect the revenue recognition on a project. Revisions to such estimates are made when they become known.

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ITEM 2 Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

There is the possibility that there will be currently unforeseeable adjustments to our estimated contract revenues, costs and margins for fixed price contracts in the future, particularly in the later stages of these contracts. Such adjustments are common in the construction industry given the nature of the contracts. These adjustments could either positively or negatively impact our estimates due to the circumstances surrounding the negotiations of change orders, the impact of schedule slippage, subcontractor claims and contract disputes which are normally resolved at the end of the contract.

Allowance for doubtful accounts: Disputes arise in the normal course of the Company's business on projects where the Company is contesting with customers for collection of funds because of events such as delays, changes in contract specifications and questions of cost allowability and collectibility. Such disputes, whether claims

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or unapproved change orders in process of negotiation, are recorded at the lesser of their estimated net realizable value or actual costs incurred and only when realization is probable and can be reliably estimated. Management reviews outstanding receivables on a regular basis and assesses the need for reserves, taking into consideration past collection history and other events that bear on the collectibility of such receivables.

Asset retirement obligation: The Company has recorded an asset retirement obligation associated with the estimated clean-up costs for its chemical laboratory in its National Security business segment. In accordance with SFAS 143, the Company estimated the costs to clean up the laboratory and return it to its original state at a present value of approximately \$497,000. The Company currently estimates the amortization and accretion expense to be approximately \$180,000 to \$190,000 per year over the next 2 1/2 years. The Company is rigorously pursuing reimbursement for such costs and other costs from the U.S. Army as a significant portion of the chemical agent that was used in the chemical laboratory was government owned. If the Company determines that the estimated clean up cost is higher than expected or the likelihood of recovery from the U.S. Army is remote, such adjustments will be reflected when they become known in accordance with SFAS 143. At December 26, 2008, the Company has accrued approximately \$562,000 long-term liability to clean up the chemical laboratory.

Goodwill and other intangible assets: The carrying value of goodwill relating to the acquisition of Versar Global Solutions, Inc., which is now part of the Program Management business segment is approximately \$776,000. In performing its goodwill impairment analysis, management has utilized a market-based valuation approach to determine the estimated fair value of the Program Management business segment. Management engages outside professionals and valuation experts, as necessary, to assist in performing this analysis on an annual basis. An analysis is performed on public companies and company transactions to prepare a market-based valuation. Based upon the latest analysis as of June 27, 2008, the estimated fair value of the Program Management business segment exceeded the carrying value of the net assets of \$6.5 million on an enterprise value basis by a substantial margin. Should the Program Management business segment's financial performance not meet estimates, then impairment of goodwill would have to be further assessed to determine whether a write down of goodwill value would be warranted. If such a write down were to occur, it would negatively impact the Company's financial position and results of operations. However, it would not impact the Company's cash flow or financial debt covenants.

New accounting pronouncements: In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, including an Amendment of FASB Statement No. 115 ("SFAS 159"). SFAS 159 permits entities to measure many financial instruments and certain other items at fair value to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting. Most of the provisions in SFAS 159 are elective and may be applied prospectively. Early adoption is permitted, provided the Company also elects to apply the provisions of SFAS 157. The Company has adopted the provisions of SFAS 159 in fiscal year 2009 and determined that there was no material impact on its financial position, results of operations or cash flows.

In November 2008, the Financial Accounting Standards Board ratified a consensus opinion reached by the Emerging Issues Task Force (EITF) on

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EITF Issue 08-6, "Equity Method Investment Accounting Considerations," to clarify accounting and impairment considerations involving equity method investments after the effective date of both FASB Statement 141 (revised 2007), Business Combinations, and FASB Statement 160, Noncontrolling Interests in Consolidated Financial Statements. EITF Issue 08-6 includes the Task Force's conclusions on how an equity method investor should (1) initially measure its equity method investment, (2) account for impairment charges recorded by its investee, and (3) account for shares issued by the investee. EITF Issue 08-6 is effective for fiscal years beginning on or after December 15, 2008. The Company intends to adopt EITF Issue 08-6 effective January 1, 2009 on a prospective basis. The Company does not currently have any

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ITEM 2 Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

investments that are accounted for under the equity method and as a result, does not believe the adoption of EITF Issue 08-6 will have a significant effect on its financial statements.

Impact of Inflation

Versar seeks to protect itself from the effects of inflation. The majority of contracts the Company performs are for a period of a year or less or are cost-plus-fixed-fee type contracts and, accordingly, are less susceptible to the effects of inflation. Multi-year contracts include provisions for projected increases in labor and other costs.

Contingencies

Versar and its subsidiaries are parties to various legal actions arising in the normal course of business. The Company believes that the ultimate resolution of these legal actions will not have a material adverse effect on its consolidated financial position and results of operations. (See Part II, Item 1 - Legal Proceedings).

Business Segments

Versar currently has four business segments: Program Management, Compliance and Environmental Programs, Professional Services, and National Security. See Note J of the Notes to the Consolidated Financial Statements for details regarding these segments.

Item 3 - Quantitative and Qualitative Disclosures About Market Risk

The Company has not entered into any transactions using derivative financial instruments or derivative commodity instruments and believes that its exposure to interest rate risk and other relevant market risk is not material.

Item 4T - Controls and Procedures

As of the last day of the period covered by this report, the Company carried out an evaluation, under the supervision of the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and

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procedures pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective, as of such date, to ensure that required information will be disclosed on a timely basis in its reports under the Exchange Act.

Further, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures have been designed to ensure that information required to be disclosed in reports filed by us under the Exchange Act is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, in a manner to allow timely decisions regarding the required disclosure.

There were no changes in the Company's internal control over financial reporting during the last quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1 - Legal Proceedings

Versar and its subsidiaries are parties from time to time to various legal actions arising in the normal course of business. The Company believes that any ultimate unfavorable resolution of these legal actions will not have a material adverse effect on its consolidated financial condition and results of operations.

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Item 4 - Submission of Matters to a Vote of Stockholders

The Company's Annual Meeting of Stockholders (the "Annual Meeting") was held on November 19, 2008. The matters voted on at the Annual Meeting were as follows:

(1) The Election of Directors

The election of ten nominees to serve as directors of the Company was approved as indicated below:

| | For | Withheld |
|----------------------|-----------|-----------|
| ----- | ----- | |
| Robert L. Durfee | 7,016,980 | 792,386 |
| Fernando V. Galaviz | 6,457,885 | 1,351,481 |
| James L. Gallagher | 7,671,703 | 138,145 |
| James V. Hansen | 7,629,428 | 179,938 |
| Amoretta M. Hoeber | 7,673,303 | 136,063 |
| Paul J. Hoeper | 7,671,703 | 137,663 |
| Michael Markels, Jr. | 7,037,394 | 771,972 |
| Amir A. Metry | 7,671,103 | 138,263 |
| Anthony L. Otten | 7,672,803 | 136,563 |
| Theodore M. Prociv | 7,669,242 | 140,124 |

(2) The appointment of Grant Thornton LLP as independent accountants for fiscal year 2009 was ratified as indicated below:

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| | For | Against | Abstain |
|--|-----------|---------|---------|
| | 7,735,431 | 40,632 | 33,303 |

Item 6 - Exhibits

(a) Exhibits

31.1 and 31.2 - Certification pursuant to Securities Exchange Act Section 13a-14.

32.1 and 32.2 - Certification under Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

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

VERSAR, INC.

(Registrant)

/S/ Theodore M. Prociv
By: _____
Theodore M. Prociv
Chief Executive Officer,
President, and Director

/S/ Lawrence W. Sinnott
By: _____
Lawrence W. Sinnott
Executive Vice President,
Chief Operating Officer,
Chief Financial Officer,
Treasurer, and Principal
Accounting Officer

Date: February 6, 2009

