VERSAR INC
Form DEF 14A
October 11, 2002

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x

Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement

o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

x Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material Pursuant to Section 240.14a-11(c) or Section 240.14a-12

VERSAR, INC.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

---

(2) Aggregate number of securities to which transaction applies:

---

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

---

(4) Proposed maximum aggregate value of transaction:

---

(5) Total fee paid:

---

o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

---

(2) Form, Schedule or Registration No.:

---

(3) Filing Party:

(4) Date Filed:

Dear Stockholder:

You are cordially invited to attend Versar, Inc. s Annual Meeting of Stockholders to be held at our offices, 6850 Versar Center, Springfield, Virginia 22151, on Wednesday, November 20, 2002, at 10:00 a.m. local time.

The matters scheduled for consideration at the meeting are the election of directors and other matters described in the enclosed Proxy Statement. We will also report to you on Versar s condition and performance, and you will have the opportunity to question management on matters that affect the interests of all stockholders.

You can reach the offices of Versar by car, from either I-395 or I-495. From I-395: exit Edsall Road West to Backlick Road; left (south) on Backlick to Hechinger Drive; left on Hechinger Drive to Versar Center. From I-495: exit Braddock Road East to Backlick Road; right (south) on Backlick to Hechinger Drive; left on Hechinger Drive to Versar Center.

The stockholders interest in the affairs of Versar is encouraged and it is important that your shares be represented at the meeting. We hope you will be with us. **Whether you plan to attend or not, please complete, sign, date, and return the enclosed proxy card as soon as possible in the postpaid envelope provided.** Sending in your proxy will not limit your right to vote in person or to attend the meeting, but it will assure your representation if you cannot attend. Your vote is important.

Sincerely yours,

Benjamin M. Rawls
Chairman of the Board

October 15, 2002

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To the Stockholders of Versar, Inc.:

The Annual Meeting of Stockholders of Versar, Inc. (the Company) will be held at the Company s offices, 6850 Versar Center, Springfield, Virginia 22151, on Wednesday, November 20, 2002, at 10:00 A.M. local time for the following purposes:

1. To elect nine directors to serve until the 2003 Annual Meeting of Stockholders;

2. To approve the Versar, Inc. 2002 Stock Incentive Plan;

3. To ratify the appointment of Grant Thornton LLP as independent accountants for fiscal year 2003; and

4. To transact such other business as may properly come before the meeting or any adjournment thereof.

Only stockholders of record at the close of business on September 30, 2002, will be entitled to notice of and to vote at the meeting and any adjournments or postponements thereof.

Your attention is directed to the Proxy Statement accompanying this Notice for a more complete statement regarding the matters to be acted upon at the meeting.

By Order of the Board of Directors,

James C. Dobbs
Secretary

October 15, 2002

IMPORTANT NOTICE

YOUR PROXY IS IMPORTANT

WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING, PLEASE COMPLETE, SIGN, DATE AND RETURN THE ENCLOSED PROXY AS SOON AS POSSIBLE IN THE POST-PAID ENVELOPE PROVIDED.

VERSAR, INC.

PROXY STATEMENT

ANNUAL MEETING OF STOCKHOLDERS
NOVEMBER 20, 2002

GENERAL

This Proxy Statement and the enclosed proxy card are being mailed on or about October 15, 2002, to stockholders (Stockholders) of Versar, Inc. (Versar or the Company) in connection with the solicitation by the Board of Directors of the Company of proxies for use at the 2002 Annual Meeting of Stockholders (the Annual Meeting) and any adjournment or postponement thereof. The Annual Meeting will be held at 10:00 a.m. eastern standard time at the Company s offices at 6850 Versar Center, Springfield, Virginia 22151, on November 20, 2002. Any person giving a proxy pursuant to this Proxy Statement may revoke it at any time before it is exercised at the meeting by filing with the Secretary of the Company an instrument revoking it or by delivering to the Company a duly executed proxy bearing a later date. In addition, if the person executing the proxy is present at the Annual Meeting, he or she may revoke such proxy by voting his or her shares in person. Proxies in the form enclosed, if duly signed and received in time for voting, and not revoked, will be voted at the Annual Meeting in accordance with the directions specified therein.

Record Date and Voting Rights

Only holders of record of Versar s Common Stock, par value $.01 per share (Common Stock), at the close of business on September 30, 2002 (the Record Date) are entitled to notice of and to vote at the Annual Meeting and any adjournment(s) or postponement(s) thereof. There were 7,217,095 shares of Common Stock outstanding and entitled to vote as of the Record Date. Each share of Common Stock is entitled to one vote on all matters of business at the meeting.

The By-laws of the Company require that the holders of a majority of the outstanding shares of the Company s Common Stock entitled to vote at the Annual Meeting be present in person or represented by proxy in order for a quorum to exist for the transaction of business at that meeting. Abstentions and broker non-votes (which occur if a broker or other nominee does not have discretionary authority and has not received voting instructions from the beneficial owner with respect to the particular item) are counted for purposes of determining the presence or absence of a quorum for the transaction of business. Assuming that a quorum is present for the Annual Meeting, then those nine nominees for director who receive the highest number of votes cast will be elected. Abstentions and broker non-votes will have no effect on the outcome of the election of directors.

Proposals No. 2 and No. 3 must be approved by the affirmative vote of a majority of the shares present in person or by proxy at the Annual Meeting and entitled to vote thereon. For purposes of Proposals No. 2 and No. 3, abstentions are counted for purposes of calculating shares entitled to vote but are not counted as shares voting and therefore have the effect of a vote against such proposal. For purposes of Proposals No. 2 and No. 3, broker non-votes are not counted as shares eligible to vote and therefore have no effect.

Any proxy which is returned by a Stockholder properly completed and which is not revoked will be voted at the Annual Meeting in the manner specified therein. Unless contrary instructions are given, the persons designated as proxy holders in the accompanying proxy card (or their substitutes) will vote FOR the election of the Board of Directors nominees, FOR proposals 2 and 3 and in the proxy holders discretion with regard to all other matters. Any unmarked proxies, including those submitted by brokers (other than broker non-votes) or nominees will be voted in favor of the proposals and the nominees for the Board of Directors, as indicated in the accompanying proxy card.

The cost of preparing, assembling and mailing all proxy materials will be borne by Versar. In addition to solicitation by mail, solicitations may be made by personal interview, telephone, and telegram by officers and regular employees of the Company or its subsidiaries, acting without additional compensation. It is anticipated that banks, brokerage houses, and other custodians, nominees, and fiduciaries will forward this material to beneficial owners of shares of Common Stock entitled to vote at the Annual Meeting, and such persons will be reimbursed for the out-of-pocket expenses incurred by them in this regard.

The Annual Report of the Company for fiscal year 2002 (including financial statements), the Notice of Annual Meeting, this Proxy Statement, and the enclosed proxy card were initially mailed in a single envelope to holders of the Common Stock as of the Record Date on or about October 15, 2002.

Principal Shareholders

The table below sets forth, as of September 30, 2002, the only persons known by the Company to be the beneficial owners of more than 5% of the outstanding shares of Common Stock.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class of Stock
Dr. Michael Markels, Jr.(1) **6850 Versar Center** **Springfield, VA 22151**	**845,797**	**11.7%**
Dr. Robert L. Durfee(1) **6850 Versar Center** **Springfield, VA 22151**	**710,187**	**9.8%**
Versar Employee 401(k) Plan(2) **6850 Versar Center** **Springfield, VA 22151**	**1,114,522**	**15.4%**
Radyr Investments, Ltd.(3) **c/o Beacon House Management** **Harbour House, 2nd Floor** **Waterfront Drive** **Road Town, Tortola** **British Virgin Islands**	**714,3664**	**9.4%**

(1) For a description of the nature of the beneficial ownership of Drs. Markels and Durfee, see SECURITY HOLDINGS OF MANAGEMENT . The information with respect to shares of Common Stock held by Drs. Markels and Durfee are based upon filings with the Securities and Exchange Commission.

(2) All of the shares of Common Stock held by the Versar Employee 401(k) Plan (401(k) Plan) are allocated to individual 401(k) Plan participants accounts and are voted by those participants. The 401(k) Plan Trustees have investment power over all shares of Common Stock held by the 401(k) Plan. The 401(k) Plan Trustees are Theodore M. Prociv and Lawrence W. Sinnott. Each disclaims beneficial ownership of the Common Stock held by the 401(k) Plan solely from their position as Trustee. The

information with respect to shares of Common Stock held by the 401(k) Plan is based upon filings with the Securities and Exchange Commission and a report by the Company s stock transfer agent.

(3) The information with respect to Common Shares held by Radyr Investments, Ltd., is based upon filings with the Securities and Exchange Commission and Radyr s contractual arrangements with the Company.

(4) Includes 359,182 shares of Common Stock issuable upon the exercise of warrants held by Radyr. Such warrants provide that Radyr may exercise the warrants for Common Stock only if, following such exercise, Radyr will have aggregate beneficial ownership of outstanding Versar Common Stock of 9.9% or less.

PROPOSAL NO. 1

ELECTION OF DIRECTORS

Nominees for Election

The Board of Directors of the Company recommends the election of the persons named below who will be nominated to serve as directors of Versar until the fiscal year 2003 Annual Meeting of Stockholders and until their successors have been duly elected and qualified. The persons named in the accompanying proxy will vote for the election of the nominees named below unless authority is withheld. Each nominee is presently a director of the Company and has served as such for the time indicated opposite his or her name. If for any reason any of the persons named below should become unavailable to serve, an event that management does not anticipate, proxies will be voted for the remaining nominees and such other person or persons as may be designated by the Board of Directors.

Name	Served as Director	Business Experience and Age
Benjamin M. Rawls	1991 to the present	Chairman of the Board of Versar since November 1993, President of Versar from 1991 to October 1999 and Chief Executive Officer of Versar from 1991 to June 2001. Age 61.
Michael Markels, Jr.	1969 to the present	Independent consultant; Chairman of the Board, President and Chief Executive Officer of Ocean Farming, Inc. from 1995 to August 2001 and March 2002 to the present; Co-founder of the Company; Chairman Emeritus of the Board of Versar; retired former Chairman of the Board of Directors from April 1991 to November 1993; President, Chief Executive Officer, and Chairman of the Board and director from 1969 to March 1991. Age 76.
Robert L. Durfee	1969 to the present	Co-founder of the Company; Executive Vice President of the Company since 1986; and President of GEOMET Technologies, Inc., a subsidiary of the Company, since 1991. Age 66.
Theodore M. Prociv	1999 to the present	President of Versar since November 1999; Chief Executive Officer of Versar since July 1, 2000; Deputy Assistant Secretary of the Army from May 1998 to October 1999; Deputy Assistant to the Secretary of Defense from April 1994 to April 1998. Age 54.
James L. Gallagher	2000 to present	President, Gallagher Consulting Group since September 1999; President of Westinghouse Government and Environmental Services from 1996 to 1999; Executive Vice President from 1994 to 1996; Vice President and General Manager Westinghouse Government Operations Business Unit 1992 to 1994; Age 65.
Fernando V. Galaviz	2000 to present	Chairman, President and Chief Operating Officer of The Centech Group, Inc. from 1988 to the present. Age 67.

Name	Served as Director	Business Experience and Age
Amoretta M. Hoeber	2000 to present	President, AMH Consulting since 1992; Director, Strategic Planning, TRW Federal Systems Group and TRW Environmental Safety Systems, Inc., from 1986 to 1992; Deputy Under Secretary U.S. Army from 1984 to 1986; Principal Deputy Assistant Secretary, U.S. Army from 1981 to 1984. Age 60.
Paul J. Hoeper	2001 to present	Business consultant since February 2001; Assistant Secretary of the Army for Acquisition, Logistics and Technology, from May 1998 to January 2001; Deputy Under Secretary of Defense, International and Commercial Programs, from March 1996 to May 1998; President Fortune Financial from 1994 to January 1996; and a director of United Industrial Corporation. Age 56.
Amir A. Metry	February 2002 to present	Business consultant since 1995; part-time Versar employee from 1995 to May 2002; Founding Principal of ERM Program Management Corp. from 1989 to 1995; and Vice President, Roy F. Weston from 1981 to 1989. Age 60.

Thomas J. Shields, a director since 1996, has decided not to stand for re-election to the Board.

Committees of the Board of Directors

The Board of Directors of Versar has standing Executive, Audit, Compensation, Nominating and Investment Committees.

During the fiscal year 2002, the members of the Executive Committee were Mr. Rawls (Chairman), Dr. Prociv, Dr. Durfee, Dr. Markels and Mr. Hoeper. The primary duty of the Executive Committee is to act in the Board s stead when the Board is not in session, during which time the committee possesses all the powers of the Board in the management of the business and affairs of the Company, except as otherwise limited by law.

During fiscal year 2002, the Audit Committee, composed exclusively of non-employee directors who are independent, as defined by the American Stock Exchange listing standard, consisted of Messrs. Gallagher (Chairman), Hoeper and Galaviz. This Committee s primary responsibilities, as defined by its written charter, are to provide oversight of the Company s accounting and financial controls, review the scope of and procedures to be used in the annual audit, review the financial statements and results of the annual audit, and evaluate the performance of the independent accountants and the Company s financial and accounting personnel.

The Compensation Committee, the members of which, during fiscal year 2002, were Messrs. Shields (Chairman) and Gallagher and Ms. Hoeber, reviews and adjusts compensation paid to the President of the Company and all executive officers, and administers the Company s cash bonus and stock option plans.

The Nominating Committee, the members of which, during fiscal year 2002, were Dr. Prociv (Chairman), Dr. Markels and Ms. Hoeber, develops criteria for Board membership and proposes Board members who meet the criteria for the annual election of directors. The Committee also identifies potential Board members to fill vacancies which may occur between annual stockholder meetings. Stockholders may submit nominees for the Board of Directors in writing to the Nominating Committee at the Company s Springfield office no later than June 30, 2003 for the 2003 Annual Meeting of Stockholders.

The Investment Committee, the members of which, during fiscal year 2002, were Messrs. Hoeper (Chairman) and Shields and Drs. Prociv and Markels, develop criteria for and review all major investments by the Company requiring substantial capital or funds.

Board and Committee Meetings

During fiscal year 2002, the Board of Directors met seven times. The Executive Committee did not meet. The Audit Committee met seven times. The Compensation Committee met twice. The Nominating and Investments Committees did not meet. All directors of the Company attended at least 75% of all meetings of the Board and committees on which they served, except Ms. Hoeber who attended four of seven Board of Directors meetings.

Directors Compensation

Beginning with fiscal year 2002, the directors annual fee of $3000 is paid in stock options. Each year non-qualified stock options will be granted in lieu of a cash payment on the date of the Board s Annual Meeting. Each non-employee director will receive non-qualified options to purchase that number of shares of Common Stock calculated by dividing $3,000 by the closing price of Versar s Common Stock on the date of the Annual Meeting and multiplying by three. The stock options will vest over a period of one year. Each director continues to be paid an attendance fee in cash of $1,000 for each meeting of the Board or of its committees where the director is physically present and of $500 for each meeting attended telephonically.

This change in director s compensation was adopted to more closely align directors interests with those of the Stockholders.

SECURITY HOLDINGS OF MANAGEMENT

The following table sets forth certain information regarding the ownership of Versar s Common Stock by the Company s directors and each executive officer named in the Summary Compensation Table, each nominee for director and the Company s directors and executive officers as a group, as of September 30, 2002.

Individual or Group	Shares of Common Stock Beneficially Owned as of September 30, 2002 (1)	
	Number	Percent
Michael Markels, Jr.(2)	845,797	11.7%
Robert L. Durfee(3)	710,187	9.8%
Benjamin M. Rawls(4)	358,488	4.7%
Amir Metry	10,860	*
James L. Gallagher	2,260	*
Fernando V. Galaviz	5,260	*
Amoretta M. Hoeber	2,460	*
Theodore M. Prociv(5)	149,643	2.0%
Paul J. Hoeper	2,260	*
Lawrence A. White(6)	100,549	1.4%
Gayaneh Contos(7)	149,115	2.0%
James C. Dobbs(8)	75,399	1.0%
George J. Anastos(9)	24,972	*
All directors and executive officers as a group (15 persons)(10)	2,532,527	31.9%

* Less than 1%

(1) For the purposes of this table, beneficial ownership has been determined in accordance with the provisions of Rule l3d-3 under the Securities Exchange Act of 1934, as amended, under which, in general, a person is deemed to be the beneficial owner of a security if he or she has or shares the power to vote or to direct the voting of the security or the power to dispose or to direct the disposition of the security, or if he or she has the right to acquire

beneficial ownership of the security within 60 days of September 30, 2002. With respect to ownership of shares which are held in the Employee 401(k) Plan and Employee Stock Ownership Plan but allocated to individuals accounts, the information is current as of September 30, 2002.

(2) Includes 419,400 shares owned by adult children of Dr. Markels as to which he shares voting and investment power and 3,782 shares owned by his spouse. Includes 3,260 shares that may be purchased upon the exercise of stock options exercisable within 60 days after September 30, 2002.

(3) Includes 34,000 shares owned by adult children of Dr. Durfee as to which he shares voting and investment power. Includes 16,000 shares that may be purchased upon the exercise of stock options exercisable within 60 days after September 30, 2002.

(4) Includes 334,789 shares that may be purchased upon the exercise of stock options exercisable within 60 days after September 30, 2002.

(5) Includes 100,000 shares that may be purchased upon the exercise of stock options within 60 days after September 30, 2002. Dr. Prociv is a Trustee of the Employee 401(K) Plan and the Employee Stock

Ownership Plan and as such he has shared investment power over 1,253,043 shares and shared voting power over 1,253,043 shares held by these two plans. Dr. Prociv disclaims beneficial ownerships of the Plans shares solely from his position as Trustee, none of which are included in the above table.

(6) Includes 78,000 shares that may be purchased upon the exercise of stock options within 60 days after September 30, 2002.

(7) Includes 61,000 shares that may be purchased upon the exercise of stock options within 60 days after September 30, 2002.

(8) Includes 60,000 shares that may be purchased upon the exercise of stock options within 60 days after September 30, 2002.

(9) Includes 7,200 shares that may be purchased upon the exercise of stock options within 60 days after September 30, 2002.

(10) Includes 723,250 shares that may be purchased upon the exercise of stock options within 60 days after September 30, 2002. Excludes shares held by the Employee 401(k) Plan and Employee Stock Option Plan as described in note (5).

Section 16(a) Beneficial Ownership Reporting Compliance

Based upon copies of reports furnished to Versar, the Company believes that all reports required to be filed by persons subject to Section 16 of the Securities Exchange Act of 1934, and the rules and regulations thereunder, have been timely filed, except the Form 3 for Paul J. Hoeper which was inadvertently filed late.

EXECUTIVE COMPENSATION

Cash Compensation

The following table sets forth information on compensation paid by Versar for services rendered in all capacities during the three fiscal years ended June 30, 2002, to the Company s Chief Executive Officer and the four most highly compensated executive officers of the Company (collectively the Named Executive Officers).

SUMMARY COMPENSATION TABLE

	Annual Compensation			Long-term Compensation Awards	
Name, Principal Position, and Fiscal Year	**Salary $**	**Bonus $**	**Other Annual Compensation $(1)**	**Securities Underlying Options/SARs #**	**All Other Compensation**
Theodore M. Prociv Chairman of the Board, President and Chief Executive Officer					
2002	$234,998	$10,000	0	0	$ 5,877(2)
2001	235,028	0	0	0	5,497(2)
2000	149,104	0	0	250,000	5,051(2)
Lawrence A. White Executive Vice President					
2002	$194,615	$ 5,000	0	0	$ 8,925(3)
2001	190,000	0	0	0	8,775(3)
2000	188,654	35,654(7)	0	0	9,127(3)
Gayaneh Contos Executive Vice President					
2002	$194,615	$10,000	0	0	$11,501(4)
2001	186,120	10,000	0	0	10,117(4)
2000	173,496	12,000	0	0	8,870(4)
James C. Dobbs Senior Vice President and General Counsel					
2002	$155,769	$ 5,000	0	0	$ 7,581(5)
2001	150,000	0	0	0	7,290(5)
2000	148,654	32,269(7)	0	0	7,581(5)
George J. Anastos Executive Vice President					

2002	$162,162	0	0	0	$ 6,462(6)
2001	144,615	$ 5,000	0	0	6,441(6)
2000	130,000	0	0	6,000	9,547(6)

(1) No amounts are shown in Other Annual Compensation column for fiscal years 2002, 2001 and 2000 because the aggregate amount of any perquisites or other personal benefits for each of the Named Executive Officers did not exceed the lesser of (i) $50,000 or (ii) 10 percent of the combined fiscal year 2002, 2001 and 2000 salary and bonus for the Named Executive Officer and the Company does not pay any other type of compensation constituting Other Annual Compensation.

(2) The amounts shown in this column for Dr. Prociv are comprised of the following: (i) in 2002 a payment of $1,159 for life insurance premiums on term life insurance, in 2001 a payment of $1,159 for life insurance premiums on term life insurance, and in 2000 a payment of $4,500 for life insurance premiums on term life insurance; and (ii) in 2002 a contribution of $4,718 to the Company s 401(k) Plan on behalf of Dr. Prociv, in 2001 a contribution of $4,338 to the Company s 401(k) Plan on behalf of Dr. Prociv, and in 2000 a contribution of $5,714 to the Company s 401(k) Plan on behalf of Dr. Prociv.

(3) The amounts shown in this column for Mr. White are comprised of the following: (i) in 2002 a payment of $1,750 for life insurance premiums on term life insurance, in 2001 a payment of $1,703 for life insurance premiums on term life insurance, and in 2000 a payment of $2,166 for life insurance premiums on term life insurance; and (ii) in 2002 a contribution of $7,175 to the Company s 401(k) Plan on behalf of Mr. White, in 2001 a contribution of $7,072 to the Company s 401(k) Plan on behalf of Mr. White, and in 2000 a contribution of $6,962 to the Company s 401(k) Plan on behalf of Mr. White.

(4) The amounts shown in this column for Mrs. Contos are comprised of the following: (i) in 2002 a payment of $5170 for life insurance premiums on term life insurance, in 2001 a payment of $3,757 for life insurance premiums on term life insurance, and in 2000 a payment of $3,044 for life insurance premiums on term life insurance; and (ii) in 2002 a contribution of $6,331 to the Company s 401(k) Plan on behalf of Mrs. Contos, in 2001 a contribution of $6,360 to the Company s 401(k) Plan on behalf of Ms. Contos, and in 2000 a contribution of $4,106 to the Company s 401(k) Plan on behalf of Mrs. Contos.

(5) The amounts shown in this column for Mr. Dobbs are comprised of the following: (i)) in 2002 a payment of $1,350 for life insurance premiums on term life insurance, in 2001 a payment of $1,290 for life insurance premiums on term life insurance, and in 2000 a payment of $1,635 for life insurance premiums on term life insurance; and (ii)) in 2002 a contribution of $6,231 to the Company s 401(k) Plan on behalf of Mr. Dobbs, in 2001 a contribution of $6,000 to the Company s 401(k) Plan on behalf of Mr. Dobbs, and in 2000 a contribution of $5,946 to the Company s 401(k) Plan on behalf of Mr. Dobbs.

(6) The amounts shown in this column for Dr. Anastos are comprised of the following: (i)) in 2002 a payment of $754 for life insurance premiums on term life insurance, in 2001 a payment of $660 for life insurance premiums on term life insurance, and in 2000 a payment of $822 for life insurance premiums on term life insurance; and (ii) in 2002 a contribution of $5,708 to the Company s 401(k) Plan on behalf of Dr. Anastos, in 2001 a contribution of $5,781 to the Company s 401(k) Plan on behalf of Dr. Anastos, and in 2000 a contribution of $5,200 to the Company s 401(k) Plan on behalf of Dr. Anastos.

(7) The bonuses for fiscal year 2000 also include certain salary amounts as to which several executive officers of the Company agreed to forego payments in the previous year.

Option/ SAR Grants in Last Fiscal Year

No stock options were granted to the Named Executive Officers during the fiscal year ended June 30, 2002.

AGGREGATED OPTION/ SAR EXERCISES IN LAST FISCAL YEAR

AND FISCAL YEAR-END OPTION/ SAR VALUE

(a) Name	(b) Shares Acquired on Exercise (#)	(c) Value Realized ($)	(d) Number of Securities Underlying Unexercised Options at 6/30/02 (#) Exercisable/Unexercisable	(e) Value of Unexercised In-the-Money Options at 6/30/02 Exercisable/Unexercisable(1)
Theodore M. Prociv	100,000	$172,590	50,000/100,000	$14,750/$29,500
George Anastos	3,600	0	7,200/1,200	$1,104/$1,104(2)
Lawrence A. White	50,000	$150,075	78,000/2,000	$7,360/$1,840(3)
Gayaneh Contos	40,000	$ 25,111	61,000/2,000	$9,560/$1,840(4)
James C. Dobbs	20,000	$ 30,000	60,000/2,000	$8,393/$1,840(5)

(1) On June 28, 2002, the closing price of the Company s Common Stock was $2.67

(2) 6,000 options granted to Mr. Anastos were out-of-the money which means that the option exercise price for those options exceeded the closing price of the Company s Common Stock on the American Stock Exchange on June 28, 2002.

(3) 70,000 options granted to Mr. White were out-of-the money.

(4) 43,000 options granted Mrs. Contos were out-of-the money.

(5) 48,500 options granted Mr. Dobbs were out-of-the money.

Employment Contracts

On November 1, 1999, the Company entered into a new Employment Agreement with Mr. Rawls for a period of fifty-one months which provides for him to serve as Chairman and Chief Executive Officer at a base salary of $100,000 plus any fringe benefits available to executive officers of the Company including participation in any incentive compensation programs which may be in effect. If Mr. Rawls employment is terminated during the term of the Employment Agreement, except for voluntary termination or termination for cause and, except as noted below, he will be paid $550,000 plus 12 months of fringe benefits, and any incentive compensation then due and shall be entitled to immediate vesting of all stock options. The Agreement provided that the transfer of the CEO title and duties which occurred in June 2000 would not trigger any liability of the Company. If there is a change in circumstances (change in title other than transfer of the CEO title, salary reduction, or change in geographic location) or change in control of the Company (as defined in this agreement), Mr. Rawls could terminate the agreement and upon termination be paid

$550,000 lump sum plus 24 months of fringe benefits and would be entitled to immediate vesting of all stock options.

On November 1, 1999, the Company entered into an Employment Agreement with Dr. Prociv for a period of thirty-six months which provides for him to serve as President at a base salary of $235,000 plus any fringe benefits available to executive officers of the Company including participation in any incentive compensation programs which may be in effect. If Dr. Prociv s employment is terminated during the term of the Employment Agreement, except for voluntary termination or termination for cause and, except as noted below, he will be paid 12 months salary, fringe benefits, and any incentive compensation then due and shall be entitled to immediate vesting of all stock options. If there is a change in circumstances (change in title, salary reduction, or change in geographic location) or change in control of the Company (as defined in this agreement), Dr. Prociv could terminate the agreement and upon termination would be paid 24 months salary and fringe benefits and would be entitled to immediate vesting of all stock options.

Change in Control Agreements

On January 30, 1999, the Company entered into Change-in-Control Severance Agreements with Lawrence W. Sinnott, Senior Vice President and Chief Financial Officer and James C. Dobbs, Senior Vice President and General Counsel, for a period of twenty-four months. In January 2001, these agreements were extended to January 31, 2004. These agreements provide that if there is a change in circumstances (change in title, salary reduction or change in geographic location) or change in control of the Company (as defined in the Agreement), Messrs. Sinnott or Dobbs could terminate their employment and upon termination receive 24 months salary, fringe benefits, and incentive compensation due and would be entitled to immediate vesting of all stock options.

STOCK PERFORMANCE GRAPH

The following graph and table show a comparison of the cumulative total return for the last five fiscal years on $100 invested on July 1, 1997 in Versar Common Stock, the Standard & Poor s, 500 Stock Index and Versar s Peer Group. The Peer Group consists of four companies: CET Environmental Services, Inc.; Duratek, Inc.; Ecology & Environment, Inc.; and Matrix Service Company. The table includes the reinvestment of dividends, where applicable. IT Group, Inc. and Sevenson Environmental Services were dropped from the peer group because they are no longer publicly traded, IT filed for bankruptcy protection and Sevenson became privately held.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

AMONG VERSAR, INC., THE S&P 500 INDEX
AND A PEER GROUP

---

* $100 invested on 6/30/97 in stock or index including reinvestment of dividends. Fiscal year ending June 30.

www.researchdatagroup.com/ S&P.htm

CUMULATIVE SHAREHOLDER S RETURN TABLE

Cumulative Shareholder s Return						
	Last trading date in fiscal years					
	1997	**1998**	**1999**	**2000**	**2001**	**2002**
Versar, Inc.	$100	$103.33	$65.00	$51.68	$54.67	$71.20
S&P 500	$100	$130.16	$159.78	$171.36	$145.95	$119.70
Peer Group	$100	$104.74	$70.85	$70.28	$81.74	$104.31

REPORT OF COMPENSATION COMMITTEE ON EXECUTIVE COMPENSATION

The Compensation Committee (Committee) of the Board of Directors has furnished the following report on executive compensation for fiscal year 2002. The compensation decisions reported below were made in September 2001 based upon the Company s and each executive s performance during the fiscal year ended June 30, 2001. The Committee provides oversight of all policies under which compensation is paid to the Company s executive officers and stock options are granted under the Company s stock option plans. The Committee consists entirely of non-employee directors. This report does not reflect the performance of the Company or its executives for fiscal year 2002 which will be reported in next year s Proxy Statement.

Executive Compensation Philosophies and Policies

The Committee s executive compensation policies are designed to provide competitive levels of compensation which integrate pay with performance, recognize individual initiative and achievements and assist the Company in attracting and retaining qualified executives. Target levels of the executive officers overall compensation are intended to be consistent with compensation in the Company s industry for similar executives, but are also weighed toward rewarding performance that contribute to increases in stockholder value and enhance the Company s long-term performance.

The Company s executive compensation program includes three components:

(1) Base salary;
(2) Annual Bonus (stock or cash); and
(3) Long-term incentive awards.

Base Salary ranges of appropriate base salaries are determined by analysis of salary data for positions of comparable responsibility within the environmental services industry. Committee approval of individual salary changes is based upon performance of the executive evaluated against the Company s financial and strategic objectives and of the position of the executive in the competitive salary range.

Annual Bonus bonuses are paid pursuant to an executive incentive bonus plan established each year by the Board of Directors for key employees and managers of the Company and its subsidiaries. Under the bonus plan, an incentive pool is created each fiscal year and is distributed if certain pre-established financial goals for the Company are met. The amount of the incentive pool distributed depends on the extent to which the Company s consolidated net income before tax exceeds targeted amounts as set forth in the bonus pool schedule.

Long-Term Incentive Awards the purpose of this element of the executive compensation program is to link management pay with the long-term interest of stockholders, rather than only the performance of the Company in a single fiscal year. The Committee is currently using incentive stock options from the Company s 1996 Stock Option Plan for key employees and managers. In determining annual stock option grants, the Committee bases its decision on the individual s performance or potential to improve shareholder value.

In determining executive compensation for fiscal year 2002, the Committee took into account the performance of the Company s stock, the financial performance of the Company and the continued revenue growth of the Company during fiscal year 2001. The performance in fiscal year 2001 was disappointing with lower operating income and impacted by a large lawsuit settlement. This resulted in significant negative earnings per share.

Compensation of Chief Executive Officer

The Committee reviewed Dr. Prociv s performance and his development of a new business organization. Dr. Prociv assumed the title and responsibilities of Chief Executive Officer on July 1, 2000. Dr. Prociv was compensated pursuant to his Employment Agreement described on page 11. Dr. Prociv was paid a bonus of $10,000.

Compensation for Named Executive Officers

Because of the satisfactory performance of the Environmental Sector units reporting to Mrs. Contos, she was given a salary increase of $8,000 and a bonus of $10,000

Mr. Anastos, as the new head of the Architectural and Engineering Sector, was given a salary increase of $20,000, but no bonus because of his business sector s performance.

Mr. White, head of Corporate Marketing, came within one million dollars of the Company s new order goals and developed a strategic plan for Versar s new organization. He was given a salary increase of $8,000 and a bonus of $5,000.

Mr. Dobbs, the Company s Chief Legal Officer, was heavily involved in major litigation and corporate cost reductions. He was given a salary increase of $10,000 and a bonus of $5,000.

No stock options were granted to Dr. Prociv and the Named Executive Officers.

Compensation Committee of the Board of Directors

Thomas J. Shields, Chairman

James L. Gallagher
Amoretta M. Hoeber

REPORT OF THE AUDIT COMMITTEE

The Board s Audit Committee consists of three non-employee directors, James L. Gallagher, as Chairman; Paul J. Hoeper; and Fernando V. Galaviz, each of whom has been determined to be independent directors under the American Stock Exchange standards. Pursuant to the Committee s written charter, it evaluates audit performance, manages the relationship with the Company s independent accountants and assesses policies and procedures relating to internal controls. This report relates to the activities taken by the Audit Committee in carrying out such role for the past year.

The Audit Committee oversees the Company s financial reporting process on behalf of the Board of Directors. The Company s management has the primary responsibility for the financial statements and reporting process, which includes the Company s systems for internal control. In carrying out its oversight responsibilities, the Committee met with management and reviewed with management the audited financial statements included in the Annual Report on Form 10-K for the fiscal year ended June 30, 2002. The review included a discussion of the quality and acceptability of the Company s financial reporting and controls, including the reasonableness of significant judgments and the clarity of disclosures in the consolidated financial statements.

The Committee also reviewed with the Company s independent accountants, who are responsible for expressing an opinion on the conformity of the Company s audited financial statements with generally accepted accounting principles, their judgments as to the quality and the acceptability of the Company s financial reporting and such other matters as are required to be discussed with the Committee under generally accepted auditing standards. In addition, the Committee discussed with the independent accountants their independence from management and the Company, including the matters in their written disclosures required by the Independence Standards Board, including Standard No. 1, and received written disclosures required by that standard. The Committee held a private session with the Company s independent auditors, Grant Thornton LLP, at which candid discussions of financial management, accounting and internal controls took place.

The Committee meets periodically with the independent accountants to discuss the results of their examinations, their evaluations of the Company s internal controls, and the overall quality of the Company s financial reporting.

In reliance on the reviews and discussions referred to above, the Committee recommended to the Board of Directors that the audited financial statements be included in the Annual Report on Form 10-K for the fiscal year ended June 30, 2002 for filing with the Securities and Exchange Commission.

In early April, 2002, the Committee became concerned with the ability of Arthur Andersen LLP (Andersen), who has served as the Company s independent accountants for fiscal years 1996 through 2001, to continue to perform its functions. The Committee directed management to monitor Andersen s legal situation and draft a request for proposal for auditing services.

At the Committee s next regularly scheduled meeting, it was informed by Andersen that it would likely not be able to perform the year end audit for fiscal year 2002 because of employee defections. The Committee instructed management to contact other qualified independent accounting firms and issue a request for proposals to interested firms.

The Committee reviewed the proposals submitted by several independent accounting firms, conducted interviews, asked for answers to written questions and the submission of a best and final offer. Based upon its review, the Committee selected and recommended to the Company s Board of Directors that Grant Thornton LLP be appointed the Company s independent accountant. This recommendation was approved unanimously by the Board.

Submitted by the Audit Committee of the Board of Directors.

James L. Gallagher, Chairman

Paul J. Hoeper
Fernando V. Galaviz

Audit Fees

In fiscal year 2002, Versar was billed by its former independent accountant, Arthur Andersen, LLP (Andersen) $123,750 in fees for auditing services that included fiscal year 2001 audit and three quarterly reviews in fiscal year 2002. The fees for Grant Thornton, LLP s (Grant Thornton) fiscal year 2002 audit will be paid in fiscal year 2003.

Financial Information System Design and Implementation Fees All Other Fees

Neither Andersen nor Grant Thornton provided any information technology services in fiscal year 2002; therefore, no fees were billed for these services.

All Other Fees

Versar was billed by its previous accountant, Andersen, $67,500 in fiscal year 2002 for other non-audit services, principally tax services and audit of the Company s 401(k) Plan.

PROPOSAL NO. 2

APPROVAL OF 2002 STOCK INCENTIVE PLAN

On September 11, 2002, the Board of Directors adopted, subject to the approval of the Stockholders, a 2002 Stock Incentive Plan (the 2002 Plan) under which options to purchase the Company s Common Stock, restricted stock and other forms of stock-based awards may be granted to such employees, Service Providers, as defined below, and directors of the Company or any of its Affiliates, as defined by the 2002 Plan, as are selected from time to time by the Administrator of the 2002 Plan.

Purpose of Proposal

The 2002 Plan is designed to provide an incentive to employees, Service Providers and directors of Versar and its Affiliates, to encourage proprietary interest in the Company by such persons, to encourage such persons to remain in the service of the Company and its Affiliates and to attract new employees and directors with outstanding qualifications. The Company is proposing approval of the 2002 Plan because, at September 30, 2002, only approximately 160,000 shares remained available for grants under the Company s 1996 Stock Option Plan and approximately 370,000 shares under the Company s 1992 Stock Option Plan. However, the 1992 Stock Option Plan terminates November 30, 2002. It is necessary for the Company to continue to grant options to employees, Service Providers and directors as part of their compensation to provide appropriate incentives. Further, the 1996 Stock Option Plan provides only for the grant of stock options and does not provide for other forms of stock-based awards, such as restricted stock or stock appreciation rights. With the changing landscape of executive compensation, including possible changes in the accounting for stock options, the Board of Directors deems it advisable to allow more flexibility with respect to the types of stock-based awards available for grant in the future. By adopting the 2002 Plan now, the Board will have this flexibility available as changes with respect to the accounting for stock options or other events occur which lead the Board of Directors and the Administrator of the 2002 Plan to determine that other forms of awards are advisable.

Summary of the 2002 Plan

The 2002 Plan provides for the grant of options, restricted stock and other types of stock-based awards to any employee, Service Provider or director to whom a grant is approved from time to time by the Administrator. 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, in the opinion of the Administrator, substantial and important services. The aggregate number of shares of the Company s Common Stock that may be issued upon exercise of options or granted as restricted stock or other stock-based awards under the 2002 Plan is 700,000. Grants of restricted stock, performance equity awards, options and stock appreciation rights in any one fiscal year to any one participant may not exceed 250,000 shares. The maximum amount of compensation that may be received by any one employee with respect to performance unit grants in any one fiscal year may not exceed $250,000. The following is a summary of certain provisions of the 2002 Plan and is qualified by reference to the complete plan, a copy of which is attached to this proxy statement as Appendix A.

Administration of 2002 Plan

The 2002 Plan will be administered in the discretion of the Board of Directors by a compensation committee appointed by the Board (the Administrator). The committee shall consist of not less than two (2) members of the Board of Directors who qualify as non-employee directors within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934, or any successor rule or regulation, as outside directors for purposes of the Internal Revenue Code of 1986, as amended (the Code), and as independent in accordance with the continued listing requirements of the American Stock Exchange or such other exchange or the Nasdaq Stock Market to the extent then explicable to the Company. The Board of Directors currently intends to appoint the existing Compensation Committee as the Administrator under the 2002 Plan.

The Administrator shall, from time to time, at its discretion, select employees, directors and Service Providers to receive options and other awards under the 2002 Plan, determine the number of shares to be covered by any such option or included in any award and designate options as Incentive Stock Options or Nonqualified Stock Options; provided that Incentive Stock Options may be granted only to employees (including directors who are also employees). The Administrator has full power, discretion and authority to interpret, construe and administer the 2002 Plan and any part thereof, and its interpretations and constructions thereof, and the actions taken thereunder, will be final, conclusive and binding on all persons for all purposes, except as otherwise determined by the Board of Directors of the Company. The Administrator s powers include the power to set additional terms with respect to the grant of options or other awards, determine the transferability or non-transferability of options or awards, determine a vesting schedule with respect to options or other awards (which may include performance objectives), and set such other terms, restrictions and privileges with respect to any options or other awards granted not inconsistent with the terms of the 2002 Plan. To date, no options or other awards have been granted under the 2002 Plan. No determination has yet been made as to the grant of any options or other awards to any participant (including executive officers and directors) under the 2002 Plan assuming stockholder approval is received.

Types of Awards

The 2002 Plan provides for the award of:

- options to acquire Common Stock;
- shares of restricted stock, which may be subject to restrictions which lapse over time with or without regard to performance objectives;
- performance awards, w