VERSAR INC
Form 10-K
September 23, 2010

Table of Contents

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

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

For the fiscal year ended June 25, 2010	**Commission File No. 1-9309**

(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)

(703) 750-3000
(Registrant s telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:
Common Stock, $.01 par value
(Title of Class)
NYSE Amex
(Name of each exchange on which registered)
Securities registered pursuant to Section 12(g) of Act: NONE

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

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

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 _X_ No ___

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes ___ No _X_

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer [ ]	Accelerated filter [ ]	Non-accelerated filer [ ] (Do not check if a smaller	Smaller reporting company [X]

reporting company)

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

Yes ___ No _X_

The aggregate market value of the voting stock held by non-affiliates of the registrant as of December 24, 2009 was approximately $24,975,736.

The number of shares of Common Stock outstanding as of September 3, 2010 was 9,286,486.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s Proxy Statement to be filed with the Securities and Exchange Commission with respect to the 2010 Annual Meeting of Stockholders are incorporated by reference into Part III hereof.

TABLE OF CONTENTS

Table of Contents

PART I

Item 1. Business

Forward-Looking Statements

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 or municipal governments to fund certain programs in which the Company participates; delays in project funding; loss of anticipated new contract vehicles either due to funding changes or competitive factors, and such other risks and uncertainties set forth in this report and in other reports and other documents filed by the Company from time to time with the Securities and Exchange Commission.

Business Overview

Versar, Inc., a Delaware corporation organized in 1969 (the Company or Versar), is a project management company providing sustainable solutions to government and commercial clients in construction management, environmental services, munitions response, telecommunications and energy. Versar provides tailored and secure solutions in harsh environments and offers specialized abilities in rapid response, classified projects and hazardous material management. Our unwavering commitment to quality, safety and best value ensures the highest returns for our clients, shareholders and employees. Versar operates in four business segments: (1) Program Management, (2) Compliance and Environmental Programs, (3) Professional Services, and (4) National Security.

Fiscal year 2010 was difficult for the Company as it dealt with the anticipated wind down of approximately $24 million of work for the Air Force in Iraq. This was further compounded by a worsening economy in the United States that significantly reduced our municipal and commercial work. The Company pursued several business opportunities to offset this business downturn, but due to the lag time associated with the ramping up of these alternatives, it had to reduce its work force by ten percent and close two offices during the year in order to balance its costs with its revenues on a going forward basis.

Due to the financial successes experienced in prior fiscal years, the Company s balance sheet remained strong during fiscal year 2010. The Company was well positioned with its cash balance on hand to handle the business downturn and also be able to pursue merger and acquisition activity. The Company is focused on identifying additional complementary businesses to integrate with its existing four business segments to strengthen the Company s overall depth and breadth in those business market areas.

In January 2010, the Company acquired Professional Protection Systems, Ltd. (PPS), which is located in Milton Keynes, United Kingdom. PPS manufactures and sells personal protective equipment to the nuclear industry, including protective suits, decontamination showers, and emergency shelters. The acquisition of PPS will add approximately $5 million to Versar s annual revenue base and enable the Company to cross sell Versar s existing personal protective offerings along with PPS internationally. PPS has been integrated into the Company s National Security business segment s existing line of personal protective equipment for chemical and biological protection.

In March 2010, the Company acquired Advent Environmental, Inc., (Advent) which is headquartered in Charleston, South Carolina. Advent is a full service Environmental contractor and has significant capabilities in Military Munitions Response Plans (MMRP) and Unexploded Ordinance (UXO) clean up. The acquisition of Advent will add approximately $12 million annually to Versar s revenue base and will provide the Company with access to several new contract vehicles within the Department of Defense. Advent has been integrated into the Company s Compliance and Environmental business segment.

2

Table of Contents

During fiscal year 2010, the Company was successful in winning a follow on contract with the U.S. Air Force Center for Engineering and Environment (AFCEE) as part of sixteen small business contractors for a $3 billion ID/IQ contract to provide environmental restoration, construction and services in support of the MMRP for AFCEE. Historically, the Company has performed more than $35 million of work for AFCEE under the predecessor contract. Also, the Company added additional contract capacity through the U.S. Army and the U.S. Environmental Protection Agency (EPA). This capacity includes a new five year $29.5 million contract with the U.S. Army Corps of Engineers to support the range clean up at Ft. Irwin, California, a $13 million contract in Tooele, Utah to destroy chemical munitions and a 5 year, $7 million contract with the EPA to support the EPA s toxic and substances exposure and risk assessment programs.

The combination of these new acquisitions and new contract vehicles provide for a stronger business base platform going into fiscal year 2011. The Company will continue to pursue additional contract and merger activities to further expand its business base and improve bottom line results.

Program Management Business Segment**:** The Program Management business segment is the largest component of Versar s business base. During fiscal year 2010, the Program Management business segment performed construction related services, as further discussed below in Iraq, Afghanistan, the United Arab Emirates, and the continental United States.

These programs include our Air Force construction management and quality assurance work to support the rebuilding efforts in Iraq and Afghanistan and our personal services support contract with the U.S. Army Corps of Engineers. We also provide personnel to the U.S. Army to manage quality assurance on Army projects in Iraq, and infrastructure related construction work in the United States.

Versar s support for the Air Force construction programs in Iraq and Afghanistan continued in fiscal year 2010 resulting in approximately $39 million of revenue during the fiscal year. This continued work is a direct result of the Air Force s commitment to a quality construction product that meets international construction standards. The Air Force program in Iraq reached completion in fiscal year 2010, however we will continue to support the U.S. Army in Iraq for the next one to two years. Work for the Air Force Title II services is increasing in Afghanistan, but is not at the same level of work that was being performed in Iraq and will not fully offset the decrease in revenues from Iraq. In August 2010, we received an award of a $17 million contract from the U. S. Army to provide 30 electricians in Iraq which will help reverse this shortfall. This contract has an additional year extension exercisable by the Army.

In fiscal year 2009, the Company announced that its international subsidiary, Versar International, Inc., formerly VIAP, Inc. entered into a joint venture with Technical Resources International Limited (TRIL) to create a business venture to provide project and program management to private entities in the United Arab Emirates and other Gulf Cooperation Countries. The new Company, VIAP Technical Resources, Ltd which was originally 50% owned by Versar International and 50% by TRIL, performed approximately $1.6 million in gross revenues for commercial concerns in fiscal year 2010. The parties are currently in the process of revising the ownership structure to increase VIAP s ownership percentage to 73%.

Continental United States (CONUS) based construction work comprised approximately $20 million of Versar s Program Management business segment revenue in fiscal year 2010 compared to $8 million in fiscal year 2009. Such services were primarily provided for various design, build and renovation projects throughout the United States. In fiscal year 2008, the Company, along with its partner Johnson Controls Federal Systems was awarded a construction and design build services contract from SATOC Air Force Civil Engineering Support Agency (AFCESA) to be performed around the world. The Company and Johnson Controls Federal Systems have jointly formed a 50/50 percent owned limited liability corporation to pursue this work. We anticipate this contract will continue to provide a strong business baseline for CONUS construction work for the foreseeable future. In fiscal year 2010, the CONUS based construction team diversified their business line to pursue government/military and commercial telecommunications and technologies in a joint relationship with Lemko Corporation (see Note E of the financial statements for more detail). The Company will continue to pursue other business opportunities to further expand and develop this line of work for telecommunication expansion, green energy initiatives, and various other infrastructure work in the North American hemisphere.

Table of Contents

Compliance and Environmental Programs Business Segment: Versar provides support for regulatory compliance programs involving air, water, cultural resources, chemical and transportation industries. The Company has supported the EPA for the past 25 years providing technical risk assessments for pollution prevention. Furthermore, the Company provides support to the U.S. Army Corps of Engineers and many local municipal entities to help with environmental compliance, biological assessments, and resource management.

For more than 30 years, Versar has supported the states of Virginia, Maryland, New York, Pennsylvania and Delaware on a variety of different projects. We have long term relationships with the EPA, National Oceanic and Atmospheric Administration (NOAA), and the United States Army Corps of Engineers (USACE). We have supported the state of Maryland in the assessment of the ecological health of the Chesapeake Bay for more than 20 years. Through our contracts with the Philadelphia and Wilmington Districts of the U.S. Army Corps of Engineers, Versar continues to help evaluate the marine life and how it is affected by the USACE dredging programs. We also assist several counties in Maryland and Virginia with their watershed programs identifying impaired watersheds and providing cost-effective solutions for their restoration programs.

This business segment and in particular the state and municipal market has been negatively affected by the United States economic downturn. With shrinking state and municipal budgets, municipal revenue streams have been significantly reduced and continued to impact this business segment in fiscal year 2010. We have engaged in several concurrent actions to address the business downturn, including cost reductions, office closings and aggressive marketing and pricing as well as shifted resources to follow the changing business markets. The addition of Advent s capabilities and contract vehicles should help reverse the negative trend we have experienced for the past two years.

Professional Services Business Segment: Versar provides onsite environmental management and professional services to over 20 Department of Defense (DoD) installations and industrial facilities. Our onsite professional services are an increasingly attractive alternative as DoD shifts emphasis to its core military mission. Versar s Professional Services business segment has grown to over 100 professional and administrative onsite support staff and is focused on obtaining larger contract opportunities to further expand our client base as we did with contract wins in fiscal year 2008 at Ft. Lewis and the U.S. Army Mobile District Corps. This segment provides a cost-effective solution to our clients to meet and exceed their requirements and has continued its growth in fiscal year 2010 through follow on work and the strong reputation Versar has with our clients. This segment represented approximately 13% of the Company s overall gross revenues in fiscal year 2010, and has grown revenues organically from $7 million to $12.6 million over the past four years. We continue to seek additional growth through obtaining larger contracts as well as through exploring acquisitions of complementary companies to integrate with our offerings. We believe the success of this business segment will be dependent on our providing cost effective services to our clients and maintaining our employee satisfaction to ensure retention of our experienced personnel.

National Security Business Segment: Versar provides national security services primarily through the operations of our subsidiary GEOMET Technologies, LLC (GEOMET) and PPS. The National Security business segment operates in several defense markets:

Personal Protection Equipment: GEOMET is a leader in developing, testing, and manufacturing personal protection equipment (PPE). GEOMET provides its Disposable Toxicological Agent Protective System (DTAPS®) Level B coverall chemical/biological protective suits, which were the first in the industry to be certified by the Safety Equipment Institute (SEI) to the National Fire Protection Association (NFPA) 1994, Class 2 standards. This certification, called the NFPA 1994, *Standard on Protective Ensembles for Chemical/Biological Terrorism Incidents*, helps fire and emergency services personnel select the proper personal protective equipment to use when conducting assessment, extrication, rescue, triage, and treatment operations at domestic terrorism incidents involving dual-use industrial chemicals. Current efforts involve developing and obtaining new product materials to be integrated into our business lines as well as new cooling vest garments to provide longer term solutions providing improved performance and substantial operational savings to our customers than existing technology.

Chemical Testing Laboratory: GEOMET owns and operates the only declared Schedule I chemical agent laboratory in the United States under the Chemical Weapons Convention, which is overseen by the Department of Commerce. The laboratory provides cost-effective materials testing services to the U.S. government and to private industries, particularly manufacturers of chemical protective equipment and clothing. Other laboratory services

4

include evaluation of new chemical agent detection instrumentation, chemical agent decontamination and destruction techniques, site remediation/environmental cleanup support, analysis of environmental samples of air, soil, water, and sludge for the presence of chemical and biological agents and degradation products, and testing of personal protective systems for component survivability.

GEOMET was selected to be the lead subcontractor; providing nuclear, chemical and biological test and evaluation services to the West Desert Test Center (WDTC) located on the U.S. Army Dugway Proving Ground (DPG), Utah. The prime contract is a cost plus fixed fee contract with a value of $285 million and a one-year base period of performance along with fourteen options and award terms, making the potential total contract period 15 years. Versar s estimated portion of this contract is $30 million over the 15 year period of performance. We are currently in our eighth year under this contract with our teaming partner, Jacobs Engineering, and anticipate that our efforts will remain at 2010 levels in fiscal year 2011.

Also, in fiscal year 2010 the Company added additional contract capacity through the U.S. Army. This capacity includes a new five year $29.5 million contract with the U.S. Army Corps of Engineers to support the range clean up at Ft. Irwin, California, and a $13 million contract in Tooele, Utah to destroy chemical munitions. Both of these high profile projects are key contract wins to further expand the Company s capability in the handling of hazardous materials.

See Note B to our Consolidated Financial Statements included herein for further financial information regarding our business segments.

Markets

Versar s services continue to evolve in response to clients changing needs. Our market opportunities are driven by our clients changing infrastructure requirements. The Company continues to focus on larger programs for government customers, developing long-term level of effort contracts to stabilize the Company s business base, and on several new expanding markets such as rural telecommunications and energy development. The poor U.S. economy for the past two years has required the Company to adapt to changes in demand for its services, pricing pressure and lack of project funding, which may impact the Company s profit margins in 2011 and the foreseeable future. Increased competition resulting from the decline in demand driven by economic conditions will put downward pressure on our margins; however, we are pursuing much larger volume programs with potentially higher margins to offset this pressure.

The Company believes that reduced government capital budgets, unemployment, a weak financial market and deficit reduction pressures that affect increased government spending are our biggest near-term threats. Management believes that each business segment has the expertise to address the challenges raised by these national economic issues. Management further believes that Versar is well positioned in the professional services and national security sectors in the coming years. With the recent addition of rural telecommunications development, the Company will seek to provide turnkey network and tower solutions with rapid deployment for rural carriers in fiscal year 2011. These services combined with the services of our network solutions partner Lemko, may provide carriers with cost effective business solutions at substantial savings.

The environmental marketplace, in our view, will remain highly competitive, as no major new regulatory requirements are expected to be enacted in the near future. Some of our federal sector customers are beginning to return to funding environmental projects, while municipal budgets continue to be constrained. Given the current economic and regulatory situation, we will continue to pursue those opportunities that can be performed profitably. We continue to pursue aggressively many new business opportunities and unlike most larger competitors, we have the ability to adapt our cost structure to address market pressures. Client satisfaction and providing cost effective, timely solutions to our clients will always be our focus.

Success in the federal government markets continues to be driven by a cost-effective set of solutions, outsourcing at the point of need, and relationships with key customers. Pricing pressures from increased competition in an increasingly crowded market will continue to impact our margins. Being able to address these pressures will continue to be a management challenge in the next few years.

Competition

Versar continues to face substantial competition in each market in which we operate as our markets become more crowded and price sensitive. We expect this trend to continue and we will continue to diversify our business to improve our competitive standing. Competitors are often larger and have greater financial resources than Versar, which means that we have to be selective in our marketing and sales program efforts. However, we believe that our larger size relative to many of the smaller, niche companies provides us with competitive advantage.

Our market areas of Program Management, Compliance and Environmental Programs, Professional Services, and National Security reflect a mix of business that we continue to believe will provide stability and allow for growth, while retaining our core capability. The synthesis of our core capabilities, however, is an important selling feature as customers look for one source to meet their needs. We believe that we are among the few firms that combine environmental health and safety/risk assessment, hard engineering design and construction, and chemical and biological defense capability in one package, and we are actively pursuing customers that require these combined services.

We continue to adjust our pricing structure to ensure that we remain competitive across all business segments. Similarly, we are concentrating our marketing efforts on getting the most return on investment, through expanding support for existing customers, developing tasks under existing contracts, and collaborating with firms that need our specialized expertise. We are targeting and identifying specific programs that match our capability.

Historically, we have targeted small business set aside opportunities in the federal marketplace under the North American Industry Classification System (NAICS) codes that provide opportunities for firms with fewer than 500 employees. While we currently are designated a small business and continue to seek these opportunities when appropriate, we believe that based on our growth strategy we will lose this status in fiscal year 2011 or 2012. While, if we do lose this status, we will no longer be able to participate in these programs directly, we will be able to continue to seek work on set-aside projects as a subcontractor to a prime that qualifies under the designation. We will continue to evaluate our contracting strategy together with our growth strategy to optimize the opportunities available to us within the competitive landscape.

Backlog

For Versar, firm backlog is identified as funded backlog, which represents orders for goods and services for which firm contractual commitments have been received. Such contractual commitments may take the form of a signed contract, a written task order under a large contract vehicle, a master contract or other types of written authorization, including change orders to existing written agreements. In the case of contracts with governments or governmental agencies amounts are included in funded backlog when the firm contractual commitment is supported by funding that has been appropriated and authorized for expenditure. Based on past experience, the Company believes that at least 90% of funded backlog will be performed in the succeeding twelve month period.

The Company also reports total contract backlog which includes two components: funded backlog and expected backlog. Expected backlog reflects management s estimate of future revenue from existing written contracts, such as master contracts with large corporations and large federal, state and municipal multi-year contracts for which funding for work or tasks has not yet been authorized in writing by the other contracting party. Versar has a number of these large, multi-year (including option periods), multi-million dollar contracts with the federal and state governments. In many cases these contracts are identified as Indefinite Delivery/Indefinite Quantity multi-year contracts. These are unfunded contract vehicles through which the particular government client issues funded work to Versar by written task or work orders. When these task or work orders are issued, the Company then counts the portion covered by the task or work orders as funded backlog.

The amount of expected backlog included in the total contract backlog is not exact or guaranteed; however, it represents what Versar reasonably believes, based upon subjective factors such as past experience with the particular clients, the type of work and present budgetary expectations and information about the clients needs and other business circumstances, will become funded backlog over the next five to seven years. These estimates are based upon the information Versar possesses at the time the estimate is made. If management does not accurately assess each of these factors, or if it does not include all of the variables that affect the revenue it will recognize from existing contracts in the estimating process, the potential value of these contracts, and accordingly, reported total

6

contract backlog, will not reflect the actual revenue received from these contracts and task orders. As a result, there can be no assurance that Versar will ultimately receive amounts included in total contract backlog that are not included in funded backlog or that total contract backlog includes all revenue that Versar may ultimately receive under contracts existing at any one time. Further, many factors that affect the scheduling of projects could alter the actual timing of revenue on projects included in total contract backlog. There is also the possibility that contracts could be adjusted or cancelled in a manner that would affect the realization of revenues reflected in backlog. Nevertheless, the Company believes the number characterized as total contract backlog is important information for investors, reflecting on the potential future performance of the Company.

While total contract backlog is comprised of total funded backlog and management s estimate of additional amounts to be received under existing contracts, total contract backlog does not represent the full amount of the Company s contract capacity. Each of the contracts with unutilized contract capacity is reviewed individually and, based upon the various subjective factors described above, an estimate is made of the amount of this unutilized capacity Versar expects will become funded backlog in five to seven years. There is no specific formula for these estimates. If sufficient information is not available upon which to base an estimate, or the Company does not have prior experience with the particular client, management may not include any unfunded portion of a contract in total contract backlog until such time as a reasonable estimate of expected future funded orders can be made.

Other companies with similar types of contracts to Versar may not calculate backlog in the same manner as Versar, because their calculations are based on different subjective factors or because they use a different methodology. Therefore, information presented by Versar regarding funded backlog and total contract backlog may not be comparable to similar presentations by others.

As of June 25, 2010, funded backlog for Versar was approximately $78 million, an increase of 37% compared to approximately $57 million as of June 26, 2009. Funded backlog increased by $13 million through the acquisitions of Advent and PPS with the remaining balance primarily due to the Tooele contract award to the National Security business segment.

As of June 25, 2010, total contract backlog for Versar, including unfunded expected government task orders, was approximately $745 million, as compared to approximately $735 million as of June 26, 2009, an increase of approximately 1%.

Employees

At June 25, 2010, Versar had approximately 450 full-time employees, of which eighty-five percent are engineers, scientists, and other professionals. Seventy-four percent of the Company s professional employees have a bachelor s degree, twenty-three percent have a master s degree, and three percent have a doctorate degree.

Item 1A. Risk Factors

We are dependent on government contracts for the majority of our revenue, and a reduction or delay in spending by government agencies could adversely affect our business and operating results.

Contracts with agencies of the United States government and various state and local governments represented approximately 90% of our revenue in fiscal year 2010, with only 10% of our revenue coming from commercial sources. Therefore, the majority of our revenue and the success of our business are materially dependent on contracts with governmental agencies. Companies engaged in government contracting are subject to certain unique business risks not shared by the general commercial sector. Among these risks are:

- a competitive procurement process with no guaranty of being awarded contracts;
- dependence on congressional and state appropriations and administrative allotment of funds;
- policies and regulations that can be changed at any time by Congress or a presidential administration;
- competing political priorities and changes in the political climate regarding funding and operations of the services;

Table of Contents

changes in and delays or cancellations of government programs or requirements;

government contracts that are usually awarded for relatively short periods of time and are subject to renewal options in favor of the government; and

many contracts with Federal government agencies require annual funding and may be terminated at the agency s discretion.

Following the award of a Federal government contract, payment for the work is dependent on congressional appropriations of the funds necessary to complete the task. The Federal government contracting laws also provide that the United States government is to do business only with responsible contractors. Accordingly, Federal agencies have the authority under certain circumstances to suspend or debar a contractor from bidding on government contracts.

A reduction or shift in spending priorities by Federal government agencies could limit or eliminate the continued funding of our existing government contracts. These reductions or shifts in spending, if significant, could have a material adverse effect on our business.

Our government contracts are subject to audit and potential reduction of costs and fees.

Contracts with the Federal government and many other state and local governmental agencies are subject to audit by governmental agencies, which could result in the disallowance of certain fees and costs. These audits can result in the disallowance of significant costs and expenses if the auditing agency determines, in its discretion, that certain costs and expenses were not warranted or were excessive. Disallowance of costs and expenses, if pervasive or significant, could have a material adverse effect on our business.

As a government contractor, we are subject to a number of procurement laws and regulations; a violation of any such law or regulation could result in sanctions, contract termination, forfeiture of profit, harm to our reputation or loss of our status as an eligible government contractor.

We must comply with and are affected by federal, state and local laws and regulations regarding the formation, administration and performance of government contracts. These laws and regulations affect how we transact business with our government clients and, in some instances, impose additional costs on our business operations. Even though we take precautions to prevent and deter fraud, misconduct and non-compliance, we face the risk that our personnel or outside partners may engage in misconduct, fraud or improper activities. Government contract violations could result in the imposition of civil and criminal penalties or sanctions, contract termination, forfeiture of profit and/or suspension of payment, any of which could make us lose our status as an eligible government contractor and could cause our reputation to suffer serious harm.

Since we depend on federal, state and local governments for a significant portion of our revenue, our inability to win or renew government contracts could harm our operations and financial condition.

Our inability to win or renew government contracts could harm our operations and significantly reduce or eliminate any potential profits. Government contracts are typically awarded through a heavily regulated procurement process. Some government contracts are offered to multiple competitors, causing increases in overall competition and pricing pressure. The competition and pricing pressure may require us to seek to reduce costs in order to realize revenues under these contracts. If we are not successful in reducing the amounts of costs we anticipate, our profitability on these contracts will be negatively impacted. Further, even if we are qualified to work on a government contract, we may not be awarded the contract if a competitor is selected or because of certain government policies.

Robust enforcement of regulations is important to our financial success.

Our business is materially dependent on the continued enforcement by local, state and federal governments of various environmental regulations. From time to time, depending on political pressures, local, state and federal agencies relax environmental clean-up standards to promote economic growth and to discourage industrial businesses from relocating. Any relaxation in clean-up standards impacts our ability to secure additional contracting work with such agencies or with other federal agencies that operate or manage contaminated property. Further, in a period of relaxed environmental standards, private industry may be less willing to allocate funds to consulting services designed to prevent or remediate environmental problems.

A large portion of our backlog is subject to cancellation and adjustments which makes backlog an uncertain indicator of future operating results.

Our funded backlog was approximately $78 million as of June 25, 2010. Funded backlog represents orders for goods and services for which firm contractual commitments have been received. Such contractual commitments may take the form of a signed contract, a written task order under a large contract vehicle, a master contract or other types of written authorization, including change orders to existing written agreements. In the case of contracts with governments or governmental agencies amounts are included in funded backlog when the firm contractual commitment is supported by funding that has been appropriated and authorized for expenditure.

Our total contract backlog was $745 million as of June 25, 2010. Total contract backlog includes two components: funded backlog and expected backlog. Expected backlog reflects management s estimate of future revenue from existing written contracts, such as master contracts with large corporations and large federal, state and municipal multi-year contracts for which funding for work or tasks has not yet been authorized in writing by the other contracting party. The amount of expected backlog included in total contract backlog is not exact or guaranteed; however, it represents what we reasonably believe, based upon subjective factors such as past experience with the particular clients, the type of work and present budgetary expectations and information about the clients needs and other business circumstances, will become funded backlog over the next five to seven years. These estimates are based upon the information in our possession at the time the estimate is made. If Versar s management does not accurately assess each of these factors, or if it does not include all of the variables that affect the revenue it will recognize from existing contracts in the estimating process, the potential value of these contracts, and accordingly, reported total contract backlog, will not reflect the actual revenue received from contracts and task orders.

As a result, there can be no assurance that we will ultimately receive amounts included in total contract backlog that are not included in funded backlog or that total contract backlog includes all revenue that we may ultimately receive under contracts existing at any one time. Further, many factors that affect the scheduling of projects could alter the actual timing of revenue on projects included in total contract backlog. There is also the possibility that contracts could be adjusted or cancelled in a manner that would affect the realization of revenues reflected in backlog. The failure to realize all amounts in backlog could adversely affect our revenues and margins. Due to these uncertainties, our funded backlog and our total contract backlog as of any particular date may not be an accurate indicator of our future earnings.

We could face potential liability for failure to properly design remediation.

A part of our business involves the design and implementation of remediation at environmental clean-up sites. If we fail to properly design and build a remediation system or if someone claims that we did, we could face expensive litigation and settlement costs. If we failed to successfully defend against such a lawsuit, it could materially affect our business.

Our failure to properly manage projects may result in additional costs or claims.

Our engagements often involve complex projects. The quality of our performance on such projects depends in large part upon our ability to manage the relationship with our clients, and to effectively manage the projects and deploy appropriate resources in a timely manner. If we miscalculate the resources or time we need to complete a project with capped or fixed fees, or the resources or time we need to meet contractual milestones, our operating results could be adversely affected. Further, any defects or errors, or failures to meet our client s expectations, could result in claims for damages against us.

Our services expose us to significant risks of liability and it may be difficult to obtain or maintain adequate insurance coverage.

Our services involve significant risks of professional and other liabilities that may exceed the fees we derive from performance. Our business activities could expose us to potential liability under various environmental laws and under workplace health and safety regulations. In addition, we sometimes may assume liability by contract under indemnification agreements. We are not able to predict the magnitude of any such liabilities.

Table of Contents

We obtain insurance from third parties to cover our potential risks and liabilities. It is possible that we may not be able to obtain adequate insurance to meet our needs, may have to pay an excessive amount for the insurance coverage we want, or may not be able to acquire any insurance for certain types of business risks.

Economic downturn.

Because of the present worldwide economic downturn and increasing competition, the Company may not be able to win all the competitive work it expects or has in the past. This could adversely affect the Company s financial performance while this situation exists.

If our partners fail to perform their contractual obligations on a project, we could be exposed to legal liability, loss of reputation or reduced profits.

We, from time to time, enter joint venture agreements and other contractual arrangements with outside partners to jointly bid on and execute a particular project. The success of these joint projects depends in part on the satisfactory performance of the contractual obligations by our partners. If any of our partners fail to satisfactorily perform their contractual obligations, we may be required to make additional investments and provide additional services to complete projects, increasing our cost on those projects. If we are unable to adequately address a partner s performance issues, then our client could terminate the joint project, exposing us to legal liability, loss of reputation or reduced profits.

Loss of our status as a small business may adversely affect our ability to compete for certain federal government contracts.

Historically, we have been classified as a small business as determined by the Small Business Administration based upon the North American Industry Classification Systems (NAICS) and product specific codes which are regulated in the United States by the Small Business Administration. Such status, generally based on the number of employees, has enabled us to compete for federal contracts which are set aside for small businesses as a key element of our strategy. Based on our growth strategy, we anticipate that we may lose our designation as a small business in fiscal year 2011 or 2012. As a result of loss of this designation, we would not be able to propose on small business set-aside programs, except as a subcontractor to a prime contractor that qualifies as a small business. Further, we may be required to re-certify our small business status under existing contract awards periodically, and if unable to do so, could lose future work under such contract vehicles. As a result, the loss of small business status could adversely impact our ability to compete for certain government contracts and limit our ability to partner with other business entities which are seeking to team with small business entities as may be required under specific programs. As a result, we may be required to modify our competitive strategy going forward.

We operate in highly competitive industries.

The markets for many of our services are highly competitive. There are numerous professional architectural, engineering, construction management, and environmental consulting firms, and other organizations which offer many of the same services offered by us. We compete with many companies, many of which have greater resources than us and we cannot assure you that such competitors will not substantially increase the resources devoted to their business in a manner competitive with the services provided by us. Competitive factors include reputation, performance, price, geographic location and availability of technically skilled personnel. In addition, we face competition from the use by our clients of in-house environmental, engineering and other staff.

Our quarterly and annual revenue, expenses and operating results may fluctuate significantly, which could have a negative effect on the price of our common stock.

Table of Contents

Our quarterly and annual revenues, expenses and operating results have and may continue to fluctuate significantly because of a number of factors, including:

- the seasonality of the spending cycle of our public sector clients, notably the Federal government, and the spending patterns of our private sector clients;
- employee hiring and utilization rates in the United States and internationally;
- the number and significance of client engagements commenced and completed during the period;
- delays incurred in connection with an engagement because of weather or other factors;
- ability to work within foreign countries regulations, tax requirements and obligations;
- business and financial risk working in foreign countries;
- the ability of clients to terminate engagements without penalties;
- the creditworthiness and solvency of clients;
- the size and scope of engagements;
- the ability to perform contracts within budget or contractual limitations;
- the timing of expenses incurred for corporate initiatives;
- threatened or pending litigation matters;
- reductions in the prices of services offered by our competitors;
- winning re-bids of our existing large government contracts;
- general economic and political conditions; and
- volatility of currencies in foreign countries.

Variations in any of these factors could cause significant fluctuations in our operating results from quarter to quarter and could result in net losses and have a material adverse affect on our stock price.

We are highly dependent on key personnel.

Our business is managed by a small number of key management and operating and professional personnel, the loss of certain of whom could have a material adverse effect on the Company. The market for these professionals is competitive and we believe that our ability to manage planned growth successfully will depend in large part on our continued ability to attract and retain highly skilled and qualified personnel.

Item 1B. Unresolved Staff Comments

Not Applicable.

Item 2. Properties

The Company s executive office is located in Springfield, Virginia, a suburb of Washington, D.C. Versar currently leases 47,222 square feet from Springfield Realty Investors, LLC. The rent is subject to a two and one half percent escalation per year through November 30, 2015.

Table of Contents

As of June 25, 2010, the Company had under lease an aggregate of approximately 163,000 square feet of office, laboratory and manufacture space in the following locations: Springfield, Lynchburg, Richmond and Norfolk, VA; Fair Oaks, CA; Westminster, CO; Louisville, KY; Baltimore, Columbia, Gaithersburg and Germantown, MD; Charleston, SC; San Antonio, TX; Makati City, the Republic of Philippines; Milton Keynes, U.K. and Abu Dhabi, United Arab Emirates. The lease terms primarily range from two to six years with the exception of the Springfield and Lynchburg offices. Lease terms for these two offices expire in 2015 and 2020, respectively.

The Company s National Security business segment office space is located in the Germantown and Gaithersburg, MD facilities listed above with the remainder of the office space being used by the other business segments.

Item 3. 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.

Table of Contents

EXECUTIVE OFFICERS OF THE REGISTRANT

The current executive officers of Versar, and their ages as of September 10, 2010, their current offices or positions and their business experience for at least the past five years are set forth below.

NAME	AGE	POSITION WITH THE COMPANY
Anthony L. Otten	54	Chief Executive Officer
Jeffrey A. Wagonhurst	62	President
Lawrence W. Sinnott	48	Executive Vice President, Chief Financial Officer and Treasurer
J. Joseph Tyler	61	Senior Vice President, Director of Corporate Initiatives & Integration (CI^2)
James C. Dobbs	65	Senior Vice President, General Counsel and Secretary
Gina L. Foringer	42	Senior Vice President, Professional Services Business Segment
Michael J. Abram	54	Senior Vice President and Chief Administrative Officer
Lee A. Staab	53	Senior Vice President and President, Versar International, Inc.
Jeffrey M. Moran	47	Senior Vice President, Compliance and Environmental Programs Segment
Peter J. Cooper	61	Senior Vice President, National Security Business Segment
Daniel J. Cummings	48	Senior Vice President, CONUS Based Program Management Business Segment

Anthony L. Otten, BS, MPP, joined Versar as Chief Executive Officer (CEO) in February of 2010. Prior to becoming CEO, he had served on Versar s Board of Directors for two years as an independent board member. Mr. Otten served as Managing Member of Stillwater, LLC from July 2009 to February 2010, as an Operating Partner of New Stream Asset Funding, LLC from 2007 to June 2009 and Managing Member of Stillwater, LLC from 2004 to 2007. Mr. Otten has a B.S. degree from MIT and a Masters in Public Policy from Harvard s Kennedy School of Government.

Jeffrey A. Wagonhurst, MBC, MBA, joined Versar in February 1999 as an Army Program Manager. In 2001, he was elected Vice President of Human Resources and Facilities. In September 2006, he was elected Senior Vice President to lead the business unit that is now our Program Management business segment. In May 2009, Mr. Wagonhurst was promoted to Executive Vice President, Program Management Group. In February 2010, Mr. Wagonhurst was promoted to President. Mr. Wagonhurst concluded his 30 year career with the U.S. Army and retired in May 1997 as a Colonel. He commanded a Combat Engineer Brigade and Battalion during this period. He also served as a Deputy District Commander of the Mobile District, U.S. Army Corps of Engineers.

Lawrence W. Sinnott, MBA, CPA, joined Versar in 1991 as Assistant Controller. In 1992, he became Corporate Controller. In 1993, he was elected Treasurer and Corporate Controller. In 1994, he became Vice President, Chief Financial Officer and Treasurer. In October 1999, he was elected Senior Vice President. In September 2005, he was elected Executive Vice President. He also served as Chief Operating Officer from September 2005 until February 2010. From 1989 to 1991, he was Controller of a venture capital company, Defense Group, Inc.

J. Joseph Tyler, BS, MPA, PE joined Versar in March 2010 and was elected Senior Vice President for Corporate Initiatives and Integration. He concluded a 40 year career with the US Army Corps of Engineers in January 2010 when he retired as a member of the Senior Executive Service in the position of the Director of Military Programs in the Headquarters, US Army Corps of Engineers. He was promoted to the position of the Director in March 2008 from the position of Deputy Director. He was the Chief of the Program Integration/Management Division in the Headquarters from April 2001 until February 2006 when he became the Deputy Director. He held various technical, management and executive positions throughout the US Army Corps of Engineers in the US and overseas during his career.

James C. Dobbs, J.D., L.L.M., joined Versar in 1992 as Vice President, General Counsel, and Secretary. In October 1999, he was elected Senior Vice President. From 1984 to 1992, Mr. Dobbs was employed by Metcalf & Eddy, Inc. as Vice President and General Counsel where he was responsible for providing legal and regulatory advice to senior management.

Gina L. Foringer, MBA, PMP joined Versar in September 1999 as Senior Project Manager to support Army programs. In November 2003, she was elected Vice President of the Professional Services business segment. In April 2006, Ms. Foringer was elected Senior Vice President for Outsourcing and the Professional Services Group. Prior to joining Versar, Ms. Foringer served as a U.S. Army Transportation Officer. After leaving the Army, she worked for the Norfolk District, U.S. Army Corps of Engineers as an outsourced employee managing the Military Support Program.

Michael J. Abram, BS, joined Versar in 2001 as Director of Acquisition Strategy. In 2002, he was appointed Vice President of the former Architect and Engineering Operations and in 2004 elected as a Corporate Vice President in charge of quality assurance. In July 2006, Mr. Abram became a Vice President of Versar supporting the former Infrastructure and Management Services segment which is now part of the Compliance and Environmental Programs business segment. He was elected Senior Vice President in September 2007 and promoted to Senior Vice President and Chief Administrative Officer in May 2009. Mr. Abram oversees the Company s Mergers and Acquisitions, Strategic Planning, Investor Relations and Human Resource functions. Prior to joining Versar, Mr. Abram worked 15 years for Mobil Oil Corporation.

Lee A. Staab, joined Versar in July 2008 as Vice President and Chief Operations Officer of Versar International. Additionally, he served as Country Manager for Versar operations in the United Arab Emirates. In January 2010, he was elected as Versar Senior Vice President and President of Versar International responsible for all of Versar s International Programs. Mr. Staab concluded his 27 year career with the United States Army and retired in October 2006 as a colonel. His last assignment on active duty was as the Assistant Division Commander for the 24^{th} Infantry Division at Fort Riley, Kansas. He also served as the Commander of the Europe District of the US Army Corps of Engineers and Executive Officer for the Assistant Secretary of the Army, Installations and Environment.

Jeffrey M. Moran, PE, was elected a Senior Vice President for Versar s Compliance and Environmental Programs business segment in May 2009. Mr. Moran brings more than 20 years of experience to Versar and most recently has worked in management positions for Tetra Tech from February 1992 to June 1995; Dewberry from June 1995 to June 2003 and Tetra Tech from June 2003 to May 2009. Mr. Moran has managed over $50 million in United States Army Corps of Engineer contracts. He is a Civil Engineer registered in the states of Maryland, Virginia and the District of Columbia. Mr. Moran is also active in the Society of American Military Engineers (SAME) where he has held various executive posts with the Northern Virginia Chapter and the Mid-Atlantic Region.

Table of Contents

Peter J. Cooper joined Versar in April 2008, and during the past fiscal year, re-established GEOMET s revenue and profit in each of its core competencies: Laboratory Services, Personal Protective Equipment, and outsourced T&E service. Mr. Cooper has over 23 years experience in government manufacturing and developing international network of sales operations. Mr. Cooper has an HND in electrical engineering from the United Kingdom and has resided in the United States for the past 20 years. Prior to joining Versar, Mr. Cooper worked for TVI Corporation, an international supplier of personal protection products, from 2004 to 2008. From 2008 as SVP & GM of Geomet Technologies, he redirected the products group to commercial opportunities, the acquisition of PPS UK LTD being part of that strategy. Mr. Cooper supported the establishment of the direction into UXO and Chem demilitarization contract awards.

Daniel J. Cummings, MS, PE, PMP, LEED AP joined Versar in January 2009 as Vice President of US Engineering and Construction Division. In September 2009 he was elected as Senior Vice President of US Engineering and Construction Group responsible for all Versar s domestic Engineering and Construction. Mr. Cummings concluded his 26 year career with the U.S. Army and retired in January 2009 as a Colonel. His last assignment on active duty was as the Executive Director, Military Programs Directorate, Headquarters, U.S. Army Corps of Engineers. He also served as Deputy District Commander of Savannah District, USACE; Commander 84th Engineer Battalion, Schofield Barracks, Hawaii; and as Deputy Chief of Staff, G3/5/7 on the Army Staff in the Pentagon.

Table of Contents

PART II

Item 5. Market for Registrant s Common Stock, Related Stockholder Matters and Issuer Purchases of Equity Securities

Common Stock

The Company s common stock is traded on the NYSE Amex LLC, and was traded on the American Stock Exchange (AMEX) prior to its acquisition by NYSE Euronext, under the symbol VSR. At June 25, 2010, the Company had 978 stockholders of record, excluding stockholders whose shares were held in nominee name. The quarterly high and low sales prices as reported on the NYSE Amex or AMEX, as applicable, during fiscal years 2010 and 2009 are presented below.

Fiscal Year 2010	**High**	**Low**
4th Quarter	$ 4.74	$ 2.90
3rd Quarter	3.90	2.53
2nd Quarter	4.71	2.90
1st Quarter	5.70	3.50
Fiscal Year 2009	**High**	**Low**
4th Quarter	$ 5.20	$ 2.25
3rd Quarter	4.62	2.07
2nd Quarter	4.35	2.26
1st Quarter	6.00	4.20

No cash dividends have been paid by Versar since it began public trading of its stock in 1986. The Board of Directors intends to retain any future earnings for use in the Company s business and does not anticipate paying cash dividends in the foreseeable future. Under the terms of the Company s revolving line of credit, approval would be required from the Company s primary bank for the payment of any dividends.

The Company has established equity compensation plans to attract, motivate and reward good performance of high caliber employees, directors and service providers serving Versar, Inc. and its affiliates. Currently, there are four stock option plans under which options remain outstanding, which were previously approved by the stockholders: the 2005 and 2002 Stock Incentive Plans, the 1996 Stock Option Plan, and the 1992 Stock Option Plan. The Company does not maintain any equity compensation plans not approved by stockholders.

Equity Compensation Plan Information

Plan Category	Number of Securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	419,000	$3.27	46,700

Table of Contents

During the last quarter of fiscal year 2010, employees of the Company surrendered shares of common stock to the Company to pay tax obligations due upon the vesting of restricted stock as reflected in the table below. The purchase price of this stock was based on the closing price of the Company s common stock on the NYSE Amex on the date of surrender.

Purchase of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased Under the Plans or Programs
April 1-30, 2010	3,278	$ 3.40		
May 1-31, 2010	779	$ 3.25		
June 1-30, 2010	581	$ 3.00		
Total	4,638	$ 3.22		

Table of Contents

The following graph compares the cumulative 5-year total return provided shareholders on Versar, Inc. s common stock relative to the cumulative total returns of the S&P 500 index, and a customized peer group of four companies that includes: Arcadis N.V., Michael Baker Corp., Ecology & Environment, Inc. and Matrix Service Company. An investment of $100 (with reinvestment of all dividends) is assumed to have been made in our common stock, in the peer group and the index on June 30, 2005 and its relative performance is tracked through June 30, 2010.

	6/05	6/06	6/07	6/08	6/09	6/10
Versar, Inc.	**100.00**	**128.75**	**262.88**	**150.00**	**124.06**	**100.00**
S&P 500	**100.00**	**108.63**	**131.00**	**113.81**	**83.98**	**96.09**
Peer Group	**100.00**	**183.56**	**348.89**	**285.92**	**228.46**	**226.00**

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

Table of Contents

Item 6. Selected Financial Data (unaudited)

The selected consolidated financial data set forth below should be read in conjunction with Versar s consolidated financial statements and notes thereto beginning on page F-2 of this report. The financial data is as follows:

	For the Years Ended				
	June 25, 2010	June 26, 2009	June 27, 2008	June 29, 2007	June 30, 2006
	(In thousands, except per share data)				
Consolidated Statements of (Loss) income					
Related data:					
Gross Revenue	$ 100,763				