VERSAR INC
Form 10-K
September 19, 2011

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 July 1, 2011	**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 o No þ

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 o No þ

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 þ No o

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 o No o

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. o

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 o	Accelerated filter o	Non-accelerated filer o (Do not check if a smaller	Smaller reporting company þ

reporting company)

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

Yes o No þ

The aggregate market value of the voting stock held by non-affiliates of the registrant as of December 31, 2010 was approximately $24.6 million.

The number of shares of Common Stock outstanding as of September 2, 2011 was 9,608,372.

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.

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PART I

Item 1. Business

Unless this report indicates otherwise the terms Versar, the Company, we, us, and our refer to Versar, Inc. consolidated subsidiaries. Versar s financial year end is based upon a 52 week year and therefore does not close on a calendar month end.

Cautionary Statement Regarding Forward-Looking Statements

This report contains certain forward-looking statements that 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. is a Delaware corporation organized in 1969. As a global project management company we provide sustainable value oriented solutions to government and commercial clients in these market areas:

- Construction Management
- Environmental Services and Sustainability
- Munitions Response
- Telecommunication and Technology Integration

We also provide tailored and secure solutions in harsh environments and offer specialized abilities in rapid response, classified projects, and hazardous material management. Our operations in our various market areas are organized into four primary business segments:

- Program Management
- Compliance and Environmental Programs
- Professional Services
- National Security

During fiscal year 2011, we delivered solid financial results reflected by increases in gross revenue and net income compared to fiscal year 2010. In addition, we have a strong balance sheet which reflects both improved liquidity and working capital**.** On one hand, we experienced continued effects of the recessionary environment in the government and commercial sectors with resulting uncertainty in funding for projects. But this, in turn, has caused an increased focus by our customers on the value of services provided, with both the commercial and government sectors adjusting their needs to the new economic environment of reduced budgets and staffing, which compel greater productivity and value-oriented solutions from their service providers.

Selling into this new economic environment has meant increased emphasis on managing customer risk, whether that risk is related to construction oversight, as is the case with our work in Afghanistan and Iraq, or sustainability risk, as is the case with our commercial and US-based government work. Selling into the new economic environment has also meant investing heavily in business development activities designed to specifically tailor responses to a customer s value solution and sustainability needs. We have invested in new internal technologies to streamline productivity and have realized benefits from continued cost reduction efforts concentrated on our fixed and controllable expenses.

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While we did not complete any acquisitions in fiscal year 2011, we remain focused on identifying additional complementary businesses to integrate within our existing business segments to strengthen our overall depth and breadth. Our fiscal year 2010 acquisitions continued to provide increased revenue and have opened various marketing channels in fiscal year 2011 which have not existed in the past.

In January 2010, we acquired Professional Protection Systems, Ltd. (PPS), which is located in Milton Keynes, United Kingdom. PPS manufactures and sells personal protective equipment primarily to the nuclear industry, including protective suits, decontamination showers, and emergency shelters. The operations of PPS added approximately $4.9 million to our fiscal year 2011 revenue. Acquiring PPS enabled us to cross sell Versar s existing personal protective offerings along with PPS offerings internationally, an example being shelter sales to Scotland. PPS has been integrated into our National Security business segment s existing line of personal protective equipment for chemical and biological warfare protection.

In March 2010, we 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 operations of ADVENT added approximately $15.7 million to our fiscal year 2011 revenue. ADVENT provides us with access to several additional contract vehicles within the Department of Defense (DoD).

As a service-based company, our revenue is primarily derived through the provision of labor based services, rather than capital-intensive service offerings. Our revenue opportunities are driven by our ability to retain existing clients as well as attract new ones, providing quality and responsive value-oriented project management at competitive rates, and identifying and retaining a qualified team of employees.

Business Segments

Our four business segments are described below. See Note B Business Segments of the Notes to the Consolidated Financial Statements included elsewhere in this report on Form 10-K for additional information regarding our business segments.

Program Management Business Segment

This business segment performs Title I Design Services, Title II Construction Management Services, Title III Construction, and other related engineering and construction type services both in the United States and internationally. Title I Design entails a broad-range of expertise including project scoping/development, cost estimation, value engineering, and feasibility studies. Title II services involve construction oversight, configuration management, inspection, job site evaluations, and construction documentation among other areas. Other related services include system optimization, scheduling, and quality assurance/control involving engineering consultations. Title III services are the actual construction services. Staff members in this business segment also have national security clearances enabling Versar to provide services for classified construction efforts.

Work in this segment consists of federal, local, and commercial clients. Examples of federal work involves Air Force construction management, quality assurance work and personal services including electrical and engineering support to the U.S. Army Corps of Engineers, and other construction efforts. Work has also been concentrated in the local/municipal marketplace where we manage water and wastewater infrastructure projects.

This segment also continues to expand its business line via the pursuit of commercial and defense projects related to telecommunication integration. The segment maintains joint relationships with several firms designed to enhance our pursuit of telecommunications related technologies and infrastructure. In addition, this segment continues to expand and develop opportunities in energy/green initiatives in conjunction with the Compliance and Environmental Programs Business Segment.

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Compliance and Environmental Programs Business Segment

This business segment provides full service environmental solutions and includes our remediation and compliance, exposure and risk assessment, natural resources, UXO/MMRP, air, greenhouse gas, energy, and cultural resources services. Clients include a wide-range of federal and state agencies. Some examples include the following:

We have supported the US Environmental Protection Agency (EPA) for the past 25 years providing a wide-range of mandated services involving exposure assessment and regulatory review. Furthermore, we provide support to the U.S. Army Corps of Engineers and many local municipal entities assisting with environmental compliance, biological assessments, and natural 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. For example, we have supported the State of Maryland in the assessment of the ecological health and natural resources risk of the Chesapeake Bay. Versar continues to assess the Delaware River (PA, NJ, and DE) and how it is affected by dredging programs. We assist several counties in Maryland and Virginia with their watershed programs identifying impaired watersheds and providing cost-effective solutions for their restoration programs. We provide energy feasibility review, measurement and verification to the State of New York.

The services in this segment have involved advisory, evaluative assessment, and implementation of risk reduction measures for federal, state, local and commercial clients. Many of these services are mandated by regulation.

Professional Services Business Segment

Versar provides onsite environmental management and professional services to DoD installations and industrial facilities. Our onsite professional services are attractive in the new economic environment as DoD shifts emphasis to its core military mission and begins to downsize due to increasing budgetary pressure. Key outsourcing services we offer are:

Net Zero (energy secure and energy efficient DoD bases), sustainability and mission program support
Restoration and reuse of military bases
Base realignment and closure (BRAC) support
Pollution prevention (P2) and waste management
Natural and cultural resources management services
Facility services
Public outreach and training services
Biological and physical sciences support.

This segment provides a cost-effective solution to our clients in order to meet their requirements. This segment is consistent with our philosophy of selling into government business and supporting them in areas where their capabilities and capacities are lacking.

National Security Business Segment

Versar provides national security services primarily through the operations of our subsidiaries GEOMET Technologies, LLC (GEOMET) and PPS. The National Security business segment operates in several markets which require ongoing services and support and which have received funding priority. These include:

Onsite range support services
Unexploded ordnance cleanup (called UXO)
Chemical agent testing, equipment and related services.

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We hold a key UXO removal contract supporting one of the largest Air Force testing and training ranges in the country and support (via a subcontract) a large DoD chemical warfare agent testing center. We exclusively provide UXO cleanup services at Ft. Irwin, CA, which is the National Training Center for DoD. This center is the size of Rhode Island and provides live fire training for U.S. Army forces. We are also undertaking a large chemical warfare munitions destruction project for the U.S. Army. The technology used to destroy the chemical warfare munitions is unique and is being applied for the first time in the United States.

We continue to provide to first responders, a Disposable Toxicological Agent Protective System (DTAPS®) Level B coverall chemical/biological protective suit, which is the first in the industry to be certified by the Safety Equipment Institute (SEI) to the National Fire Protection Association (NFPA) Class 2 standards. In addition, we own and operate 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.

Revenue Earned by Geographic Location

Our consolidated gross revenue for fiscal year 2011 was $137.6 million, of which approximately $132 million was funded with U.S. currency and approximately $4.9 million of the remainder was derived from our PPS subsidiary in the United Kingdom. Approximately 36% of our fiscal year 2011 business was conducted in international locations, which included our reconstruction work in Iraq and Afghanistan. Substantially all of our consolidated gross revenue in fiscal years 2010 and 2009 was funded with U.S. currency, with approximately 40% and 65% of our work conducted in international locations in fiscal year 2010 and 2009, respectively.

Our Strategy

For the near-term, it appears that the economy will continue to be challenged by reduced government funding, high unemployment, a weak financial market, and debt reduction pressures that affect government spending patterns. We believe that each of our business segments have the expertise to address the challenges raised by these national economic issues and is positioned in the coming year to address these concerns. This is because of value-driven economic metrics that are dictating more efficient services for our clients, coupled with mandated government program areas that utilize our services (e.g. UXO, cleanup, etc.). Continued diversification in telecommunications and other areas will allow us to undertake effective infrastructure projects and create value added solutions with substantial savings to clients.

Specifically, we see the following three elements driving our strategy:

Pursuit of larger contract opportunities. Our move to a large-business, coincident with development of a strong internal infrastructure and associated technologies, is allowing us to focus on pursuing larger prime contract opportunities. Strategic partnering, joint-ventures, and long-lead positioning coupled with Versar branding should provide increased growth and services.

Leveraging of our services. This will allow us to work efficiently in the new economic environment whether that is selling of sustainability risk management utilizing our energy and environmental skill-sets, or via effective use of our construction management skills in relation to complex project oversight. Our existing core capabilities coupled with new and emerging capabilities provides us with the understanding and insight necessary to reduce client risk.

Expanding our international footprint. While strong internationally in the construction management business, incorporation of our non-construction services into our overseas client-base will allow for replication of our proven domestic skills into the international market and will help us meet growing overseas client needs.

Competition

We 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 look 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 and diversified service offerings relative to many of the smaller, niche companies with which we also compete provide us with competitive advantage.

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Our market segments 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, 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 as we sell into the new economic environment.

We continue to adjust our pricing structure to ensure that we remain competitive across all business segments, while remaining conscious of the need to drive overall corporate profitability. 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.

Backlog

We report funded backlog, which represents orders for goods and services for which firm contractual commitments have been received. We also report 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. Based on past experience, the Company believes that at least 90% of funded backlog will be performed in the succeeding twelve month period. However, no assurance can be given that we will ultimately realize our full backlog. Additionally, other companies with similar types of contracts to ours may not calculate backlog, particularly expected backlog, in the same manner we do, because their calculations are based on different subjective factors or because they use a different methodology. Therefore, information presented by us regarding funded backlog and total contract backlog may not be comparable to similar presentations by others.

As of July 1, 2011, funded backlog was approximately $78 million, flat compared to the total at the end of the fiscal year 2010. As of July 1, 2011, total contract backlog, including unfunded expected government task orders was approximately $719 million, a decrease of 3% compared to approximately $745 million as of June 25, 2010.

Employees

At July 1, 2011, we had approximately 550 full-time employees, of which eight-five percent are engineers, scientists, and other professionals. Seventy-five percent of our professional employees have a bachelor s degree, fifteen 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 96% of our revenue in fiscal year 2011, with only 4% 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;

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- 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.

The Federal government contracting laws 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 or awards of new contracts or new task orders under existing contracts. These reductions or shifts in spending, if significant, could have a material adverse effect on our business.

Continued inability of the legislative and executive branches of the Federal government to agree on a budget for key agencies or to enact appropriations in a timely manner could delay and has delayed the award of contracts, which delays, if significant, could have a material adverse effect on our operating results.

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. Loss of our status as an eligible government contractor would have a material adverse effect on our operations and financial condition.

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.

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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 environmental and compliance standards could impact 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 July 1, 2011. 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 $719 million as of July 1, 2011. 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 will become funded backlog over the next five to seven years, 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. 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 potential revenue expected 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. 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 revenues or 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 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.

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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.

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 we may not be able to win all the competitive work expected or that we have in the past. This could adversely affect our 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 lost our designation as a small business during the third quarter of fiscal year 2011 (except for telecommunications projects in our Program Management business segment). As a result of loss of this designation, we are not able to propose on small business set-aside programs, except as a subcontractor to a prime contractor that qualifies as a small business and for existing contracts where we are required to periodically recertify our small business status; we may be ineligible for future work. 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 provide assurance 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.

Future acquisitions may require us to incur costs and liabilities or have other unexpected consequences which may adversely affect our operating results and financial condition.

In addition to internal growth, our current strategy involves growth through acquisitions of complementary businesses as well as acquisitions that would diversify our service offerings. Like other companies with similar growth strategies, we may be unable to continue to implement our growth strategy, and this strategy may be ultimately unsuccessful. A portion of our expected future growth in revenues may result from acquisitions. We frequently engage in evaluations of potential acquisitions and negotiations for possible acquisitions, certain of which, if consummated, could be significant to us. Although it is our general objective only to acquire companies in transactions which will be accretive to both earnings and cash flow, any potential acquisitions may result in material transaction expenses, increased interest and amortization expense, increased depreciation expense and increased operating expense, any of which could have a material adverse effect on our operating results. Acquisitions may entail integration and management of the acquired businesses to realize economies of scale and control costs. In addition, acquisitions may involve other risks, including diversion of management resources otherwise available for ongoing development of our business and risks associated with entering new markets. We may not be able to identify suitable acquisition candidates in the future, obtain acceptable financing or consummate any future acquisitions. Finally, as a result of acquisitions of other businesses, we may be subject to the risk of unanticipated business uncertainties or legal liabilities relating to those acquired businesses for which the sellers of the acquired businesses may not indemnify us. Future acquisitions may also result in potentially dilutive issuances of securities.

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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.

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, financial, and security risks related to 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;
- volatility of currencies in foreign countries; and
- the integration of any acquisition or the ability of an acquisition to continue to perform as in the past.

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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 number of key management and operating and professional personnel, the loss of certain of who 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

Our 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.

As of July 1, 2011, we had under lease an aggregate of approximately 148,000 square feet of office, laboratory and manufacture space in the following locations: Springfield, Lynchburg, Richmond, and Virginia Beach, VA; Sacramento, CA; Westminster, CO; Louisville, KY; Baltimore, Columbia, Gaithersburg, and Germantown, MD; Dillsburg, PA; 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 Lynchburg office lease, which expires in 2020.

Our 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 our 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. We believe that any ultimate unfavorable resolution of these legal actions will not have a material adverse effect on its consolidated financial condition and results of operations.

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EXECUTIVE OFFICERS OF THE REGISTRANT

The current executive officers of Versar, and their ages as of September 19, 2011, 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	55	Chief Executive Officer
Jeffrey A. Wagonhurst	63	President
Cynthia A. Downes	50	Executive Vice President, Chief Financial Officer and Treasurer
J. Joseph Tyler	62	Senior Vice President, Director of Corporate Initiatives & Integration (C2I)
James C. Dobbs	66	Senior Vice President, General Counsel and Secretary
Michael J. Abram	55	Senior Vice President and Chief Administrative Officer
Gina L. Foringer	43	Senior Vice President, Professional Services Business Segment
Lee A. Staab	54	Senior Vice President and President, Versar International, Inc.
Jeffrey M. Moran	48	Senior Vice President, Compliance and Environmental Programs Business Segment
Peter J. Cooper	62	Senior Vice President, National Security Business Segment
Daniel J. Cummings	49	Senior Vice President, Telecommunications and Technology Group

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 prior 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.

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Cynthia A. Downes, MBA, CPA, joined Versar in April 2011 as Executive Vice President, Chief Financial Officer (CFO) and Treasurer. From April 2009 to April 2011 Ms. Downes was Vice President and Chief Financial Officer of Environmental Design International, an engineering firm, based in Chicago, specializing in environmental and civil engineering. From January 2007 to April 2009, she was Vice President of Finance of GDI Advanced Protection Solutions and during 2005 to 2007, she was a consultant at Huron Consulting Group, Inc. Also, from 1990 to 2005, Ms. Downes spent 15 years at Tetra Tech, ultimately serving as Vice-President and Chief Financial Officer of Tetra Tech, EM 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 U.S. 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, U.S. 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 U.S. 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.

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, Information Technology, and Human Resource functions. Prior to joining Versar, Mr. Abram worked 15 years for Mobil Oil Corporation.

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 both stateside and in Mogadishu Somalia during Operation Continue Hope in 1993. 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 valued over $60 million.

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 24th Infantry Division at Fort Riley, Kansas. He also served as the Commander of the Europe District of the U.S. 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.

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 Test and Evaluation 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 VP & GM of GEOMET, 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 GEOMET s strategy regarding UXO and Chem demilitarization contract awards.

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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 of Versar s domestic Engineering and Construction. In November 2010, Mr. Cummings was assigned as Group Manager of a new business line, Versar s Telecommunications and Technology Group (VT2). Mr. Cummings concluded his 26 year career with the U.S. Army and retired in January 2009 as an Engineer 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.

PART II

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

Common Stock

Our common stock is traded on the NYSE Amex LLC under the symbol VSR. At July 1, 2011, the Company had 925 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 during fiscal years 2011 and 2010 are presented below.

Fiscal Year 2011	**High**	**Low**
4th Quarter	$ 3.45	$ 2.90
3rd Quarter	3.94	3.16
2nd Quarter	3.86	2.75
1st Quarter	3.34	1.98

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

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 our business and does not anticipate paying cash dividends in the foreseeable future. Under the terms of our revolving line of credit, approval would be required from our primary bank for the payment of any dividends.

We have 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 five stock option plans under which options remain outstanding, which were previously approved by the stockholders: 2010, 2005 and 2002 Stock Incentive Plans, the 1996 Stock Option Plan, and the 1992 Stock Option Plan. We do not maintain any equity compensation plans not approved by stockholders.

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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	249,000	$ 3.30	731,000

During the last quarter of fiscal year 2011, our employees surrendered shares of common stock to us to pay tax obligations due upon the vesting of restricted stock units as reflected in the table below. The purchase price of this stock was based on the closing price of our 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, 2011	2,957	$ 3.16		
May 1-31, 2011		$		
June 1-30, 2011	2,342	$ 3.32		
Total	5,299	$ 3.23		

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The following graph compares the cumulative 5-year total return provided shareholders on our 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, 2006 and its relative performance is tracked through June 30, 2011.