VERSAR INC
Form 10-K
September 23, 2008

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 27, 2008	**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)
American Stock Exchange
(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 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 shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No þ

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

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

company)

The aggregate market value of the voting stock held by non-affiliates of the registrant as of December 31, 2007 was approximately $50,936,759.

The number of shares of Common Stock outstanding as of September 5, 2008 was 9,083,835.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s Proxy Statement to be filed with the Securities and Exchange Commission with respect to the 2008Annual Meeting of Stockholders are incorporated by reference into Part III hereof.

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 government to fund certain programs in which the Company participates; delays in project funding; 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 professional services firm that provides the government and the private sector with value-added, high quality innovative solutions for infrastructure, facilities management, construction, environmental quality, defense and homeland security needs. Versar operates in four primary business segments: (1) Program Management, (2) Compliance and Environmental Programs, (3) Professional Services, and (4) National Security.

In fiscal year 2008, Versar completed over $62 million of work internationally for both the U.S. Air Force and U.S. Army providing Title II engineering services, personal services, and construction management in Iraq, Afghanistan, Kuwait, and the United Arab Emirates. Our Title II work consists of providing quality assurance and quality control to ensure construction projects for the Air Force are being constructed in accordance with building codes and requirements. This work has solidified the Company s baseline business internationally. In order to maintain and expand this business base, the Company is pursing similar business opportunities in the Middle East and the Pacific Rim, as well as BRAC (Base Realignment and Closure) activities both in the United States and around the world.

In fiscal year 2008, the Company continued its initiative to further increase the Company s project management capabilities as well as address the Federal regulatory requirements for earned value management (EVM) as a federal government contractor. EVM is a program management technique that integrates technical performance requirements, and resource planning, with scheduling while taking risk into consideration. EVM allows for better and more effective management decision making to address adverse impacts to project work. Currently, approximately 8% of the Company s professional workforce is certified as a PMP (Project Management Professional) through the Project Management Institute with several other individuals currently in the process of being certified. The Company clearly sees the benefit of investing in this program because it is the backbone of the Company s business of managing projects. The PMP certification process provides a clear, structured and measurable approach along with a specific body of knowledge we use as a standard to be a project manager for Versar. In addition, the Company established a PMO (Project Management Office) in fiscal year 2008 to provide an established structure and resources to assist the Company s PMPs.

***Program Management Business Segment*:** The Program Management business segment is the largest component of Versar s business base. During fiscal year 2008, the Program Management business segment expanded further through the increase of work available in Iraq and Afghanistan. In addition, this segment s operations expanded into Kuwait and the United Arab Emirates following the same construction management business model utilized in Iraq.

The Program Management business segment manages several large programs as a part of our work with the Air Force and the Army. These programs include our Air Force Title II work to support the rebuilding efforts in Iraq, Afghanistan, and Kuwait, our personal services support contract with the U.S. Corps of Engineers to manage personnel who provide quality control on Army projects in Iraq, and renovation construction work in the United States. In fiscal year 2008, the Company began operations in the rapidly expanding United Arab Emirates primarily to support commercial construction efforts for private clients to provide full service construction management services.

Versar s support for the Air Force Title II effort continued to grow in fiscal year 2008 resulting in approximately $41 million of revenues during the fiscal year. This is a direct result of the Air Force s commitment to a quality construction product that can be held to international construction standards. We anticipate that our services will be required through fiscal year 2009, but may be reduced in Iraq and increased in Afghanistan with the shifting of funds from the Air Force to the Army and may also be impacted by political pressure in future years.

In April 2006, Versar was awarded a contract to provide personal services support to the U.S. Army Corps of Engineers (USACE). During fiscal year 2007, the base contract grew to approximately $15 million to serve the Army s growing needs. In April 2008, the second option year on the contract was renewed and the contract has now expanded to $24 million. The Company anticipates that there will be a follow-on procurement to replace this contract. The Company anticipates it will pursue the follow-on contract but cannot estimate the funding level due to political uncertainties and circumstances beyond the Company s control.

Renovation work in the United States comprised approximately $6 million of Versar s revenues in fiscal year 2008. Such services were primarily provided for the Department of Defense School system to renovate several school facilities by updating their roofing, mechanical and electrical systems to current standards. This work is cyclical in nature depending on federal funding, which can be delayed or cancelled depending on budgets and federal financial requirements. In fiscal year 2008, the Company along with its partner Johnson Controls Federal was awarded a construction and design build services contract from Air Force Civil Engineering Support Agency (AFCESA) to be performed around the world. The Company has entered into a limited liability corporation with Johnson Controls Federal Systems to pursue this work. We anticipate this contract, along with prior infrastructure contract awards to support Ft. Lee s expansion, will provide a strong baseline of business for the future. The Company will continue to pursue other business opportunities to further expand and develop this line of work.

Compliance and Environmental Programs Business Segment: Versar provides support for regulatory compliance programs involving air, water, chemical and transportation industries. The Company supports the EPA providing technical risk assessments for pollution prevention. Furthermore, the Company provides support to the U.S. Army Corps of Engineers and several 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, and Delaware as well as the EPA, National Oceanic and Atmospheric Administration (NOAA), and the USACE in the assessment of the ecological health of the Chesapeake Bay. 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 impacted 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.

Federal environmental restoration program revenue slightly increased in fiscal year 2008 even though funds are being reprogrammed to the Iraq war effort. The Air Force continues to be our largest remediation customer, and through our existing Air Force Center for Environmental Excellence (AFCEE) contracts we continue to bid on a significant number of task orders. In fiscal year 2008, Versar continued to perform restoration support services at Vandenberg AFB, Beale AFB, Buckley AFB, and Pueblo, CO. We continue to provide field personnel at Nellis AFB under a 15-year subcontract to CSC Corporation to perform UXO services to clean up the Nellis range. In addition, we provide remediation services to several municipal clients in California and in the Midwest to help restore properties and make them commercially viable once environmental problems have been resolved.

Professional Services Business Segment: Versar provides on-site environmental management and professional services to over 18 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 on-site support staff and is focused on obtaining larger contract opportunities to further expand our client base as we have done with contract wins in fiscal year 2008 for 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.

National Security Business Segment consists primarily of the operations of GEOMET Technologies, LLC (GEOMET). 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). In fiscal year 2004, GEOMET announced its Disposable Toxicological Agent Protective System (DTAPS®) Level B coverall chemical/biological protective suits, which are 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*, will help 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, chemical terrorism agents, or biological terrorism agents. The DTAPS® Level B coverall ensemble is a fully integrated and chemical warfare agent tested protective system including a coverall suit, a reusable chemical splash hood, boots, and breathing system.

Chemical Testing Laboratory: Versar 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 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, and 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 also 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. The WDTC test programs include evaluation of munitions, chemical/biological detection and protection devices, testing to determine nuclear, biological, chemical contamination and decontamination survivability of various Department of Defense material and equipment, and a wide range of developmental testing and applied research related to tactics, techniques, and procedures.

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 and our market opportunities are being driven by the customer s 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 the challenging homeland security market.

The Company believes that terrorism and defense issues are the biggest near-term threats facing the economy, well ahead of government spending and the deficit. Management believes that each business segment has expertise to address the needs raised by these national security issues. Management believes that Versar is well positioned in the defense and national security sectors in the coming years.

The industrial 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 private sector customers are beginning to return to funding capital expenses for environmental projects. Given the current economic and regulatory situation, we will continue to pursue those opportunities that can be performed profitably.

Success in the federal markets continues to be driven by a cost-effective set of solutions, such as the Guaranteed Fixed Price Remediation Program, outsourcing at the point of need, and relationships with key customers.

Initially, we expected that Base Realignment and Closure (BRAC) funding would occur late in fiscal year 2006. However, due to funding constraints from the war in Iraq, the BRAC funding to revitalize military bases infrastructure work did not start until fiscal year 2008 and will continue into our fiscal year 2009.

Competition

Versar continues to face substantial competition in each market in which we operate and expects this to continue as we diversify our business. 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 with which we compete is an advantage. We are better able to compete with these smaller companies for certain contracts available only to companies qualifying as a small business under federal regulations because we have greater resources than they do, while we are small enough to continue meeting the small business criteria. Generally, a company with more than 500 employees will not qualify as a small business so our larger competitors are unable to compete with us on these contracts. In addition, there has been major consolidation in the environmental services market, with two brackets of firms emerging the large, diversified firms with a wide range of capabilities, and the smaller, niche firms with limited capability in specific horizontal or vertical markets.

Our market areas of Program Management, Compliance and Environmental Programs, Professional Services, and National Security reflect a mix of business that we believe will be stable 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.

Our pricing structure has been adjusted to ensure that we remain competitive, particularly for outsourcing, where procurement decisions are very price sensitive. 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.

Versar will also continue to target 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. We continue to work with customers to make them aware of the benefits of setting aside work under these NAICS codes, and expect that trend to continue. Typically, for large, environmental contracts, at least one of the awards is targeted for a small business, and Versar believes it is well equipped with its depth of expertise to compete in that sector.

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 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 in Versar s possession 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 contract backlog, will not reflect the actual revenue received from 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 27, 2008, funded backlog for Versar was approximately $64 million, an increase of 12% compared to approximately $57 million as of June 29, 2007.

As of June 27, 2008, total contract backlog for Versar, including unfunded expected government task orders, was approximately $610 million, as compared to approximately $503 million as of June 29, 2007, an increase of 21%. The increase is due to the award of the SATOC AFCESA contract to the Program Management business segment and the Mobile Army support contract that supports all of the Company s business segments.

Employees

At June 27, 2008, Versar had approximately 443 full-time employees, of which eighty-three percent are engineers, scientists, and other professionals. Seventy-nine percent of the Company s professional employees have a bachelor s degree, twenty percent have a master s degree, and four 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 95% of our revenue in fiscal year 2008, with only 5% 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 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;
- 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 or 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 $64 million as of June 27, 2008. 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 $610 million as of June 27, 2008. 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.

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.

We operate in highly competitive industries.

The markets for many of our services are highly competitive. There are numerous professional architectural, engineering 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.

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.

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

None.

Item 2. Properties

The Company s executive office is located in Springfield, Virginia, a suburb of Washington, D.C. Versar currently leases 47,742 square feet in two buildings 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 September 5, 2008, the Company had under lease an aggregate of approximately 138,000 square feet of office and laboratory space in the following locations: Springfield, Lynchburg, Richmond and Norfolk, VA; Mesa, AZ; Fair Oaks, CA; Westminster, CO; Lombard, IL; Baltimore, Columbia, Gaithersburg and Germantown, MD; San Antonio, TX; Makati City, the Republic of Philippines; 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 Germantown and Gaithersburg, MD 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.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of the Company s security holders during the last quarter of fiscal year 2008.

EXECUTIVE OFFICERS OF THE REGISTRANT

The current executive officers of Versar, and their ages as of September 5, 2008, 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
Theodore M. Prociv	60	President and Chief Executive Officer
Lawrence W. Sinnott	46	Executive Vice President, Chief Operating Officer, Chief Financial Officer and Treasurer
Jeffrey A. Wagonhurst	60	Senior Vice President, Program Management Business Segment
Paul W. Kendall	55	Senior Vice President, National Security Business Segment
James C. Dobbs	63	Senior Vice President, General Counsel and Secretary
Gina Foringer	39	Senior Vice President, Professional Services Business Segment
Michael Abram	52	Senior Vice President, Compliance and Environmental Programs Business Segment

Theodore M. Prociv, Ph.D., joined Versar as President on November 1, 1999 and was elected Chief Executive Officer on July 1, 2000. From 1995 to August 1998, Dr. Prociv served as the Deputy Assistant to the Secretary of Defense for Chemical and Biological Matters, and subsequently as the Deputy Assistant Secretary of Army for Chemical Demilitarization. Before joining the Department of Defense, Dr. Prociv was Corporate Vice President of Environmental Business at Science Applications International Corporation, (SAIC) from 1993 to 1994, and served as the Vice President for Government Systems at Battelle Memorial Institute from 1979 to 1993.

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. On September 6, 2005, he was elected Executive Vice President and Chief Operating Officer. From 1989 to 1991, he was Controller of a venture capital company, Defense Group, Inc.

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. 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.

Paul W. Kendall, B.S., J.D., joined Versar in 1994 as Manager of Business Development, was elected Vice President in 2000, served as Vice President of Corporate Development from January to October 2003, and since November 2003 as Senior Vice President, National Security business segment and President of GEOMET Technologies LLC.

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 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 of the business unit that is now our Professional Services business segment. Prior to joining Versar, she was a US Army Transportation Officer, and worked for the Norfolk District, US Army Corps of Engineers as an on-site contractor.

Michael Abram, B.S., 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 was the 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. Prior to joining Versar, Mr. Abram worked 15 years for Mobil Oil Corporation.

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 American Stock Exchange (AMEX), under the symbol VSR. At June 27, 2008, the Company had 1,009 stockholders of record, excluding stockholders whose shares were held in nominee name. The quarterly high and low sales prices as reported on the AMEX during fiscal years 2008 and 2007 are presented below.

Fiscal Year 2008	High	Low
4th Quarter	$ 6.44	$4.70
3rd Quarter	7.00	5.36
2nd Quarter	9.25	5.42
1st Quarter	15.35	6.80

Fiscal Year 2007	High	Low
4th Quarter	$9.15	$4.75
3rd Quarter	5.40	3.98
2nd Quarter	4.48	3.46
1st Quarter	4.45	3.56

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 to serve Versar, Inc. and its affiliates. Currently, there are four stock option plans which were previously approved by the security holders: the 2005 and 2002 Stock Incentive Plans, the 1996 Stock Option Plan, and the 1992 Stock Option Plan.

Equity Compensation Plan Information
(In thousands, except share price)

	Number of Securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))

Plan Category	(a)	(b)	(c)
Equity compensation plans approved by security holders	572	$ 3.04	681

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The graph below matches Versar, Inc s cumulative 5-year total shareholder return on common stock with the cumulative total returns of the S&P 500 index, and a customized peer group of five companies that includes: Arcadis N V oting, Baker Michael Corp., Ecology & Environment Inc., CET Services and Matrix Service Company. The graph tracks the performance of a $100 investment in our common stock, in the peer group, and the index (with the reinvestment of all dividends) from June 30, 2003 to June 30, 2008.

	6/03	**6/04**	**6/05**	**6/06**	**6/07**	**6/08**
Versar, Inc.	100.00	189.66	122.61	157.85	322.30	183.91
S&P 500	100.00	119.11	126.64	137.57	165.90	144.13
Peer Group	100.00	126.37	160.73	295.18	559.28	458.88

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

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 27, 2008	June 29, 2007	June 30, 2006	July 1, 2005	June 30, 2004
	(In thousands, except per share data)				
Consolidated Statement of Operations related data:					
Gross Revenue	$115,602	$102,726	$60,888	$67,678	$60,067
Gross Profit	13,788	10,822	6,354	7,759	7,377
Operating Income	5,491	4,153	681	1,419	1,913
Income from Continuing Operations	3,391	5,282	1,637	1,361	1,827
Loss from Discontinued Operations			(290)	(1,159)	(636)
Net Income	3,391	5,282	1,347	202	1,191
Income per share from Continuing Operations Diluted	$ .36	$ .62	$ .20	$ .16	$ .24
Loss per share from Discontinued Operations Diluted	$	$	$ (.04)	$ (.14)	$ (.09)
Net Income per share Diluted	$ .36	$ .62	$ .16	$ .02	$ .16
Weighted Average Shares Outstanding Diluted	9,331	8,466	8,347	8,263	7,675
Consolidated Balance Sheet related data:					
Working Capital	$ 22,271	$ 16,176	$ 9,119	$ 7,887	$ 7,494
Current Ratio	2.67	2.01	1.99	1.86	1.87
Total Assets	39,828	36,817	22,802	20,912	20,085
Stockholders Equity	$ 25,053	$ 19,422	$12,572	$10,552	$10,065

ITEM 7 Management s Discussion and Analysis of Financial Condition and Results of Operations

Financial Trends

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

Approximately 53% of the Company s business volume related to the reconstruction efforts in Iraq in fiscal year 2008. However, the Company is taking steps to further diversify its business if opportunities in Iraq are reduced or are eliminated. The Company s primary focus is on BRAC efforts and requirements which have been delayed as a result of the war in Iraq. Gross revenues and gross profit increased among all business segments in fiscal year 2008. We see the Compliance and Environmental business segment being impacted by the funding of work into fiscal year 2009. We continue to follow the funding shifts in Iraq and Afghanistan to maintain and expand our business basis. The funding of BRAC work world-wide represents our greatest opportunity for growth in fiscal year 2009.

The Company re-evaluated its segment reporting in fiscal year 2007 due to the business growth and changes in the business mix during the year. The Company s business is now operated through four segments as follows: Program Management, Compliance and Environmental Programs, Professional Services, and National Security. Program Management continues to be the largest business segment of the Company.

These segments were segregated based on the nature of the work, business processes, customer base and the business environment each of the segments operates in. Information in previous periods has been allocated among these segments as discussed below for comparative purposes.

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

- General economic or political conditions;
- Threatened or pending litigation;
- The timing of expenses incurred for corporate initiatives;
- Employee hiring, utilization, and turnover rates;
- The seasonality of spending in the federal government and for commercial clients;
- Delays in project contracted engagements;
- Unanticipated contract changes impacting profitability;
- Reductions in prices by our competitors;
- The ability to obtain follow-on project work;
- Failure to properly manage projects resulting in additional costs;
- The cost of compliance for the Company s laboratories;

The results of a negative government audit potentially impacting our costs, reputation and ability to work with the federal government;

Loss of key personnel;

The ability to compete in a highly competitive environment; and

Federal funding delays due to war in Iraq.

ITEM 7 Management s Discussion and Analysis of Financial Condition and Results of Operations (continued)
Results of Operations

Versar s gross revenue for fiscal year 2008 totaled $115,602,000, an increase of $12,876,000 (13%) compared to gross revenue of $102,726,000 for fiscal year 2007. Gross revenue for fiscal year 2007 increased by $41,838,000 (69%) over that reported in fiscal year 2006. The following table presents gross revenue by business segment for the Company.

	June 27, 2008	Years Ended June 29, 2007 (In thousands)	June 30, 2006
GROSS REVENUE			
Program Management	$ 68,896	$ 58,765	$ 19,507
Compliance and Environmental Programs	30,429	29,839	26,958
Professional Services	8,101	7,318	7,010
National Security	8,176	6,804	7,413
	$ 115,602	$ 102,726	$ 60,888

Gross revenue for the Program Management business segment for fiscal year 2008 was $68,896,000, an increase of $10,131,000 (17%) over that reported in fiscal year 2007 and for fiscal year 2007 increased by $39,258,000 (201%) over that reported in fiscal year 2006. The increases in both periods are attributable to the Company s continued efforts to support both the Air Force and the Army in Iraq as part of the reconstruction support efforts. Gross revenue for the Compliance and Environmental Programs business segment for fiscal year 2008 was $30,429,000, an increase of $590,000 (2%) over that reported in fiscal year 2007 and for fiscal year 2007 was $2,881,000 (11%) over that reported in fiscal year 2006. The increases are primarily attributable to increased work for municipal aquatic facilities. Gross revenue for the Professional Services business segment for fiscal year 2008 was $8,101,000, an increase of $783,000 (11%) over that reported in fiscal year 2007 and for fiscal year 2007 was $308,000 (4%) over that reported in fiscal year 2006. The increases are attributable to additional work obtained from the U.S. Army to provide additional professional services. Gross revenue for the National Security business segment for fiscal year 2008 was $8,176,000, an increase of $1,372,000 (20%) over that reported in fiscal year 2007. Gross revenue in the National Security business segment for fiscal year 2007 was $609,000 (8%) lower than that reported in fiscal year 2006. The increase in fiscal year 2008 is attributable to higher commercial laboratory testing work and a decline in the level of activity in fiscal year 2007. The decrease in fiscal year 2007 compared to fiscal year 2006 was attributable to reduced chemical laboratory work in fiscal year 2007.

Purchased services and materials increased by $5,757,000 (9%) in fiscal year 2008 compared to that reported in fiscal year 2007. Purchased services and materials for fiscal year 2007 increased by $36,152,000 (136%) over that reported in fiscal year 2006. The increases in both periods were attributable to increases in gross revenues in the Program Management business segment as mentioned above.

Direct costs of services and overhead include the cost to Versar of direct and overhead staff, including recoverable and unallowable costs that are directly attributable to contracts. Direct costs of services and overhead increased by $4,153,000 (14%) in fiscal year 2008 compared to that reported in fiscal year 2007. Direct costs of services and overhead in fiscal year 2007 increased by $1,218,000 (4%) over that reported in fiscal year 2006. The increase is due to increased marketing and sales costs, staffing and recruiting costs in support of the Company s business growth in fiscal years 2008 and 2007.

ITEM 7 Management s Discussion and Analysis of Financial Condition and Results of Operations (continued)

Gross profit for fiscal year 2008 was $13,788,000, a $2,966,000 (27%) increase over that reported in fiscal year 2007. Gross profit for fiscal year 2007 increased by $4,468,000 (70%) over that reported in fiscal year 2006. The increases are attributable to the increase in gross revenue discussed.

	Years Ended		
	June 27, 2008	June 29, 2007	June 30, 2006
	(In thousands)		
GROSS PROFIT			