



VERSAR

NEWS RELEASE

FOR IMMEDIATE RELEASE

February 16, 2016

VERSAR, INC. ANNOUNCES SECOND QUARTER FISCAL 2016 RESULTS

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Springfield, VA – February 16, 2016 – Versar, Inc. (NYSE MKT: VSR) today announced financial results for the second quarter and six months ended January 1, 2016.

Financial Results

Revenue for the second quarter of fiscal year 2016 increased 39% to \$47.3 million, compared to revenues of \$34.2 million during the second quarter of the last fiscal year and by 5% sequentially as compared to the fiscal first quarter of 2016. Gross margin decreased to 8%, compared to 10% in the same prior year quarter, primarily due to product mix, but increased sequentially as compared to gross margin of 5% in the first quarter of fiscal 2016. Selling, general and administrative expenses increased \$0.4 million in the second quarter, primarily related to an estimated \$0.6 million in costs associated with the Company's acquisition of VSS, as well as some other payroll-related items. As a percentage of sales, SG&A expenses decreased to 7% compared to 9% in the second quarter of last year. Net income for the quarter was \$67,000 or \$0.01 per share compared to net income of \$277,000 or \$0.03 per share in the same period of fiscal 2015.

For the six months ended January 1, 2016, revenues increased 45% to \$92.2 million compared to revenues of \$63.7 million in the same period of fiscal 2015. The Company reported a decrease in first half gross margin to 6% as compared to gross margin of 9% in the first half of fiscal 2015, related primarily to changes in our portfolio of contracts. Selling, general and administrative expenses increased to \$6.2 million in the first six months of 2016, including approximately \$0.6 million in year to date costs associated with the VSS integration, but decreased to 7% of sales as compared to SG&A of \$5.6 million or 8% of sales in the first six months of 2015. Net loss for the first six months of fiscal 2016 was \$363,000 or \$0.04 per share as compared to net income of \$190,000 or \$0.02 per share in the first six months of fiscal 2015.

Tony Otten, CEO of Versar, said, "We delivered strong revenue growth in the second quarter of fiscal 2016, primarily driven by our Dover Air Force Base contract, a strategically important project for us that has broadened the Company's portfolio of capabilities. Dover is a construction project, and as such, generates lower margins than the balance of our revenue. Sequentially, we saw a significant increase in gross margin with improved performance at both our Engineering & Construction Management business and in our Environmental Services Group. Furthermore, with the acquisition and integration of VSS, we gained new, classified construction capabilities that position us to more effectively compete for higher margin projects."

Funded Backlog

As of January 1, 2016, Versar recorded funded backlog of approximately \$193 million, as compared to \$179 million of funded backlog at the end of fiscal year 2015. Mr. Otten continued, "Funded backlog of \$193 million as of January 1, 2016 represents an 8% increase as compared to funded backlog of \$179 million at the close of fiscal 2015. Our pipeline

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remains strong and we continue to see marketplace interest in our broad range of capabilities and our comprehensive, customized solutions.”

Recent Awards

During the quarter, the Company was awarded a new task order valued at \$7.1 million from the U.S. Army Corps of Engineers (USACE) Engineering and Support Center Huntsville, for the repair and upgrade of fire suppression systems in hangars at Joint Base Andrews in Maryland. Additionally, the Company’s joint venture between Geo-Marine/AECOM was awarded a \$2.1 million task order under its Naval Facilities Engineering Command (NAVFAC) Natural Resources IDIQ contract, to develop predictive models to understand the dynamics of and define the source of sediment/material transportation near and adjacent to the Naval Submarine Base, Kings Bay, Georgia.

“Our diverse capabilities enable us to serve our customers by providing tailored solutions in challenging terrains and we’ve built a solid reputation on completing difficult assignments. As we continue to strengthen our service offerings to meet marketplace demand, we believe we are well positioned to drive continued revenue growth, improved margins and sustained profitability,” Mr. Otten concluded.

Conference Call

The Company will hold a conference call at 2:00 PM Eastern Time today, Tuesday, February 16, to discuss the Company’s operational performance and financial results for the fiscal second quarter ended January 1, 2016.

The dial in number for the US and Canada is toll free, 877-407-8033. The international dial in number is 201-689-8033. Participants should call in a few minutes before 2:00 PM Eastern Time. For those unable to attend the conference call, a replay of the teleconference will be available until March 1, 2016 and may be accessed domestically by dialing (877) 660-6853 and international callers may dial (201) 612-7415. Callers must enter conference code number 13629617. Additionally, the replay will be available on Versar’s Investor Relations website, <http://www.versar.com/investors/corporate.html>.

VERSAR, INC., headquartered in Springfield, Virginia, is a publicly-traded global project management company providing sustainable value-oriented solutions to government and commercial clients in engineering and construction management, environmental, and professional services.

VERSAR operates the following web sites, www.versar.com and www.versarpps.com.

This news release contains forward-looking information. The forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may be significantly impacted by certain risks and uncertainties described herein and in Versar’s Annual Report on Form 10-K filed with the Securities and Exchange Commission for the fiscal year ended June 26, 2015, as updated from time to time in the Company’s periodic filings. The forward-looking statements are made as of the date hereof and Versar does not undertake to update its forward-looking statements.

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VERSAR, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(In thousands, except share amounts)

	As of	
	January 1, 2016 (Unaudited)	June 26, 2015
ASSETS		
Current assets		
Cash and cash equivalents	\$ 3,718	\$ 2,109
Accounts receivable, net	45,574	57,171
Inventory, net	1,243	1,188
Prepaid expenses and other current assets	2,358	1,540
Deferred income taxes	1,412	1,366
Income tax receivable	1,190	2,373
Total current assets	55,495	65,747
Property and equipment, net	1,846	2,084
Deferred income taxes, non-current	449	414
Goodwill	34,299	16,066
Intangible assets, net	4,134	4,643
Other assets	49	252
Total assets	\$ 96,272	\$ 89,206
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 18,965	\$ 35,852
Accrued salaries and vacation	2,331	3,332
Line of Credit	14,660	-
Other current liabilities	5,563	1,114
Notes payable, current	5,406	2,313
Total current liabilities	46,925	42,611
Notes payable, non-current	4,057	5,835
Other long-term liabilities	6,391	1,390
Total liabilities	57,373	49,836
Commitments and contingencies	-	-
Stockholders' equity		
Common stock \$.01 par value; 30,000,000 shares authorized; 10,132,673 shares issued and 9,831,491 shares outstanding as of January 1, 2016,		
10,128,923 shares issued and 9,805,082 shares outstanding as of June 26, 2015.	102	101
Capital in excess of par value	30,889	30,798
Retained earnings	10,073	10,439
Treasury stock, at cost	(1,475)	(1,460)
Accumulated other comprehensive loss	(690)	(508)
Total stockholders' equity	38,898	39,370
Total liabilities and stockholders' equity	\$ 96,272	\$ 89,206

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VERSAR, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations (Unaudited)
(In thousands, except per share amounts)

	For the Three Months Ended		For the Six Months Ended	
	January 1, 2016	December 26, 2014	January 1, 2016	December 26, 2014
GROSS REVENUE	\$ 47,337	\$ 34,162	\$ 92,242	\$ 63,748
Purchased services and materials, at cost	29,351	17,031	59,118	29,258
Direct costs of services and overhead	14,366	13,682	27,192	28,434
GROSS PROFIT	<u>3,620</u>	<u>3,449</u>	<u>5,932</u>	<u>6,056</u>
Selling, general and administrative expenses	3,317	2,925	6,170	5,616
Other operating income	-	-	-	-
OPERATING INCOME (LOSS)	<u>303</u>	<u>524</u>	<u>(238)</u>	<u>440</u>
OTHER EXPENSE				
Interest expense	176	142	351	198
(LOSS) BEFORE INCOME TAXES	<u>127</u>	<u>382</u>	<u>(589)</u>	<u>242</u>
Income tax expense (benefit)	<u>62</u>	<u>105</u>	<u>(224)</u>	<u>52</u>
NET INCOME (LOSS) from continuing operations	\$ 65	\$ 277	\$ (365)	\$ 190
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET INCOME (LOSS)	<u>67</u>	<u>277</u>	<u>(363)</u>	<u>190</u>
NET INCOME (LOSS) PER SHARE- BASIC and DILUTED	\$ 0.01	\$ 0.03	\$ (0.04)	\$ 0.02
WEIGHTED AVERAGE NUMBER OF SHARES				
OUTSTANDING-BASIC	<u>9,850</u>	<u>9,775</u>	<u>9,831</u>	<u>9,742</u>
WEIGHTED AVERAGE NUMBER OF SHARES				
OUTSTANDING-DILUTED	<u>9,850</u>	<u>9,821</u>	<u>9,831</u>	<u>9,783</u>

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