



**VERSAR**

## NEWS RELEASE

FOR IMMEDIATE RELEASE

May 8, 2014

### **VERSAR, INC. ANNOUNCES THIRD QUARTER FISCAL 2014 RESULTS**

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**Springfield, VA – May 8, 2014** – Versar, Inc. (NYSE MKT: VSR) today announced financial results for the fiscal third quarter and nine months ended March 28, 2014.

Gross revenue for the third quarter of fiscal year 2014 decreased 9% to \$28.2 million, compared to revenues of \$31.0 million during the third quarter of the last fiscal year. Consolidated revenue performance was impacted by delayed funding for government contracts related to sequestration. Sequentially, revenues were essentially flat as compared to the second quarter of 2014.

The Company reported a reduction in gross margins for the quarter, primarily due to the decrease in gross profit related to the wind down of its Title II work in Afghanistan, which is anticipated to conclude in the summer of 2014 as well as higher direct costs due to the September 2013 acquisition of Geo-Marine (GMI). Additionally, gross profit from the Company's Professional Services Group (PSG) declined as a result of contracts shifting to small business programs. Versar recorded a net loss of \$131,000 or a loss of \$0.01 per share in the third quarter of 2014 (which included a loss of \$0.02 from continuing operations and income of \$0.01 from discontinued operations) as compared to net income of \$1 million or \$0.11 on a fully diluted basis (which included a loss of \$0.16 from discontinued operations) in the same period of 2013.

Nine month gross revenue increased 10% to \$85.4 million, as compared to gross revenue of \$77.5 million in the first nine months of fiscal 2013. The increase in revenue was primarily attributable to the acquisition of GMI. Gross margin decreased to 8% as compared to 17.6% in the first nine months of 2013 for similar reasons to those described above. Versar recorded net income of \$627,000 or \$0.07 per share on a fully diluted basis (which includes \$0.03 from discontinued operations) in the first nine months of fiscal 2014 as compared to net income of \$2.8 million or \$0.30 per share on a fully diluted basis (which includes a loss of \$0.20 from discontinued operations) for the first nine months of fiscal 2013.

As of March 28, 2014, Versar recorded funded backlog of approximately \$119 million, an increase of 10% compared to \$108 million of funded backlog at the end of fiscal year 2013.

Versar closed the fiscal third quarter of 2014 with a cash balance of approximately \$6.6 million and stockholders' equity of \$38.5 million.

Tony Otten, CEO of Versar said, "In the third quarter, we continued to see delayed funding for government contracts related to last fall's government shut down and sequestration. Despite the 2014 appropriations deal, we have not seen the expected increase in funding, although we do expect more money to be obligated by the end of September. As with many in our sector, the slow down has weighed on both our revenues and our margins. That said, our backlog remains strong and we enhanced it with the acquisition of Lime Energy's Facility Repair and Renewal business, which represents five task orders with total revenue of between \$6 million

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and \$10 million. Additionally, we received an extension to our personal services contract in Iraq. Following the close of the quarter, we announced that the Army Corps of Engineers had awarded an environmental services IDIQ contract to our joint venture with Cardno TEC, which has a maximum capacity of \$27.5 million. Additionally, we were awarded a \$2.39 million design/build contract for the replacement of a gas line at Hanscom Air Force Base. We are optimistic about our pipeline for future projects as we enter into the May through September time period, typically the busiest season for government contract awards.”

Mr. Otten continued, “Our integration of GMI continues to progress, but not as quickly as anticipated. Strategically, GMI is a valuable asset to Versar and we are seeing its positive impact in terms of technical capabilities, geography and hence projects we are bidding on. However, the slow down has particularly impacted GMI given their specialty, and we now anticipate that GMI will be accretive in fiscal 2015 as opposed to the first quarter of fiscal 2015 as previously stated.”

**Conference Call:**

The Company will hold a conference call at 2:00 PM Eastern Time today, Thursday, May 8 to discuss the Company's operational performance and financial results for its quarter ended March 28, 2014.

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 will be available on Versar's website, [www.versar.com](http://www.versar.com)

**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 the construction management, environmental services, munitions response, and professional services market areas.

**VERSAR** operates a number of web sites, including the corporate web sites, [www.versar.com](http://www.versar.com), [www.geomet.com](http://www.geomet.com), [www.viap.com](http://www.viap.com), [www.dtaps.com](http://www.dtaps.com), [www.adventenv.com](http://www.adventenv.com), [www.charronconsulting.com](http://www.charronconsulting.com), and [www.ppsgb.com](http://www.ppsgb.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 28, 2013, 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	
	March 28, 2014 (Unaudited)	June 28, 2013
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 6,630	\$ 8,728
Accounts receivable, net	31,695	29,342
Inventory	1,156	1,225
Prepaid expenses and other current assets	1,425	1,074
Deferred income taxes	2,083	2,314
Income tax receivable	2,446	1,764
Total current assets	45,435	44,447
Property and equipment, net	2,242	2,108
Deferred income taxes, non-current	1,614	622
Goodwill	9,454	7,515
Intangible assets, net	3,096	1,798
Other assets	1,014	887
Total assets	\$ 62,855	\$ 57,377
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable	\$ 12,432	\$ 10,788
Accrued salaries and vacations	2,326	3,042
Other current liabilities	5,174	3,304
Notes payable, current	1,301	333
Total current liabilities	21,333	17,467
Notes payable, non-current	396	333
Deferred income taxes	1,489	849
Other long-term liabilities	1,092	1,104
Total liabilities	24,310	19,753
Commitments and contingencies		
Stockholders' equity		
Common stock, \$.01 par value; 30,000,000 shares authorized; 9,962,885 shares issued and 9,658,107 shares outstanding as of December 27, 2013		
9,849,773 shares issued and 9,579,753 shares outstanding as of June 28, 2013		
Capital in excess of par value	100	99
Retained earnings	30,247	29,758
Treasury stock, at cost	9,994	9,366
Accumulated other comprehensive loss; foreign currency translation	(1,396)	(1,224)
Total stockholders' equity	(400)	(375)
Total liabilities and stockholders' equity	\$ 62,855	\$ 57,377

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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 Nine Months Ended	
	March 28, 2014	March 29, 2013	March 28, 2014	March 29, 2013
GROSS REVENUE	\$ 28,225	\$ 30,981	\$ 85,383	\$ 77,499
Purchased services and materials, at cost	14,322	15,304	43,091	32,540
Direct costs of services and overhead	12,770	9,453	35,874	31,298
GROSS PROFIT	1,133	6,224	6,418	13,661
Selling, general and administrative expenses	1,946	1,877	6,231	6,051
Other income	(327)	-	(327)	-
OPERATING (LOSS) INCOME	(486)	4,347	514	7,610
OTHER (INCOME) EXPENSE				
Interest income	(1)	(3)	(14)	(4)
Interest expense	36	21	103	66
(LOSS) INCOME BEFORE INCOME TAXES, from continuing operations	(521)	4,329	425	7,548
Income tax (benefit) expense	(301)	1,776	63	2,868
NET (LOSS) INCOME FROM CONTINUING OPERATIONS	(220)	2,553	362	4,680
Income (Loss) from discontinued operations, net of tax (expense) benefit of \$60 and \$121 and \$(45) and \$174	89	(1,511)	265	(1,867)
NET INCOME	\$ (131)	\$ 1,042	\$ 627	\$ 2,813
NET (LOSS) INCOME PER SHARE-BASIC and DILUTED				
Continuing operations	\$ (0.02)	0.27	\$ 0.04	0.50
Discontinued operations	0.01	(0.16)	0.02	(0.20)
NET INCOME PER SHARE-BASIC and DILUTED	\$ (0.01)	\$ 0.11	\$ 0.06	\$ 0.30
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING-BASIC	9,702	9,545	9,645	9,482
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING-DILUTED	9,758	9,575	9,703	9,512

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