



NEWS RELEASE

FOR IMMEDIATE RELEASE

March 28, 2017

VERSAR, INC. ANNOUNCES FISCAL YEAR 2016 FINANCIAL RESULTS

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Springfield, VA – March 28, 2017 – Versar, Inc. (NYSE MKT: VSR) today announced financial results for the fourth quarter and fiscal year ended July 1, 2016

- FY16 Gross Revenue of \$167.9 Million
- Funded Backlog of \$136 Million as of July 1, 2016
- FY16 Operating Loss (before taxes) of \$36.6 Million
- FY16 Adjusted EBITDA of \$3.6 Million¹

Additionally, Versar reiterated that it expects to adhere to its previously announced timeline for completing its remaining delinquent filings. The Company continues to work towards filing its Form 10-Q for the first fiscal quarter ended September 30, 2016 and the second fiscal quarter ended December 30, 2016 by the end of April. At that time, Versar expects to return to being on-time in its filings and meeting the requirements of both the Securities and Exchange Commission and the New York Stock Exchange.

Consistent with its obligations to its lender, Bank of America, N.A., the Company continues to seek a replacement credit facility or other financial arrangement. In parallel, Versar has successfully implemented improvements to its cost structure, financial strength and business focus, making it a leaner, more focused company to maximize profitable growth at scale and optimize its funded backlog, standing at \$136 million as of July 1, 2016.

Financial Results

Fiscal 2016 gross revenue increased 5% to \$167.9 million, compared to revenues of \$159.9 million in fiscal 2015. Versar Security Systems (VSS) and the Dover Air Force Base (DAFB) projects contributed primarily to this increase. These two elements of the Company's business also contributed to the increase in Purchased Services and Materials from \$90.3 million in fiscal 2015 to \$107.2 million in fiscal 2016. VSS requires the purchase of services and equipment to provide its specialized security services and the DAFB project requires significant use of subcontracted services. The increase in Purchased Services and Materials, along with a number of other non-recurring charges, resulted in a decrease in gross profit from \$13.8 million in fiscal 2015 to \$3.2 million in fiscal 2016. The non-recurring charges include a loss of \$2.1 million in our PPS subsidiary, which we are in the process of divesting, \$0.9 million to complete the Homestead Air Force Base project, which we obtained as part of the GMI acquisition, \$1.2 million for a dispute involving working capital adjustments in the acquisition of GMI, and \$1.3 million in contingency accruals related to ESG projects.

Selling, General and Administrative (SG&A) expenses increased from fiscal 2015 by approximately \$2.0 million to \$13.0 million in fiscal 2016. This increase can be evenly attributed to: (1) acquisition and integration costs for VSS, (2) fees associated with borrowings from Bank of America, and (3) costs associated with exiting leased facilities that the Company no longer

¹ Non-GAAP metric – see definition at end of this earnings release

required. Operating Loss in fiscal 2016 was \$35.9 million, compared to operating income of \$2.8 million in fiscal 2015. This swing is the result of three non-cash one-time write downs: (1) Goodwill associated with previous acquisitions, (2) Intangibles associated with previous acquisitions, and (3) the loss on a potential sale of the PPS subsidiary, since the subsidiary is currently classified as held for sale.

These non-cash one-time write downs flowed through to Net Income and Earnings/Loss Per Share. Fiscal 2016 Net Loss was \$37.9 million, compared with Net Income of \$1.4 million in fiscal 2015. Fiscal 2015 earnings per share were \$0.14, while fiscal 2016 loss per share was \$3.84.

Versar CEO, Tony Otten, said, "We are pleased to be able to share our financial results with the public as we continue our drive to return to profitability. Versar continues to provide superb services to a wide variety of clients throughout the world and we're excited about taking the next steps in our corporate growth."

To assist our investors and other users of our financial statements, we have provided a non-GAAP metric to show company performance without the non-cash and one-time write-downs. We are calling this metric Adjusted EBITDA. More details can be found at the end of this earnings release.

Conference Call

Versar will host a conference call today, March 28, 2017 at 2:00 p.m. Eastern Time to discuss its operational performance and financial results for fourth quarter and fiscal year ended July 1, 2016.

The dial in number for the U.S. and Canada is toll free, 866-682-6100. The international dial in number is 862-255-5401. 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 April 11, 2017 and may be accessed domestically by dialing 877-481-4010 and international callers may dial 919-882-2331. Callers must enter conference ID number 10266. Additionally, the replay will be available on Versar's Investor Relations website, <http://www.versar.com/investorrelations/index.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 the construction management, environmental services, and professional services market areas.

VERSAR operates the following websites: www.versar.com and www.versarpps.com.

Find out more about **VERSAR** at



<https://twitter.com/VersarInc>



<https://www.facebook.com/VersarInc>



<http://www.linkedin.com/company/38251>

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 July 1, 2016, 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

Consolidated Balance Sheets

(In thousands, except share amounts)

	As of	
	July 1, 2016	June 26, 2015
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,549	\$ 2,109
Accounts receivable, net	47,675	57,171
Inventory, net	221	1,188
Prepaid expenses and other current assets	1,007	1,540
Deferred income taxes	-	1,366
Income tax receivable	1,513	2,373
Total current assets	<u>51,965</u>	<u>65,747</u>
Property and equipment, net	1,328	2,084
Deferred income taxes, non-current	-	414
Goodwill	-	16,066
Intangible assets, net	7,248	4,643
Other assets	775	252
Total assets	<u>\$ 61,316</u>	<u>\$ 89,206</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 18,156	\$ 35,852
Billings in excess of revenue	7,156	-
Accrued salaries and vacation	2,478	3,332
Bank line of credit	14,854	-
Notes payable, current	3,831	2,313
Other current liabilities	7,724	1,114
Total current liabilities	<u>54,199</u>	<u>42,611</u>
Notes payable, non-current	2,494	5,835
Other long-term liabilities	3,555	1,390
Total liabilities	<u>60,248</u>	<u>49,836</u>
Commitments and contingencies		
Stockholders' equity		

Common stock \$.01 par value; 30,000,000 shares authorized;
 10,217,227 shares issued and 9,982,778 shares outstanding
 as of July 1, 2016; 10,128,923 shares issued and 9,805,082 shares
 outstanding as of June 26, 2015. "(10,217,277 shares issued and
 9,950,958 shares outstanding as of March 1, 2017)"

Capital in excess of par value	102	101
	31,128	30,798
(Accumulated deficit) Retained earnings	(27,448)	10,439
Treasury stock, at cost	(1,480)	(1,460)
Accumulated other comprehensive loss; foreign currency translation	(1,234)	(508)
Total stockholders' equity	<u>1,068</u>	<u>39,370</u>
Total liabilities and stockholders' equity	\$ <u>61,316</u>	\$ <u>89,206</u>

VERSAR, INC. AND SUBSIDIARIES

Consolidated Statements of Operations
(In thousands, except per share amounts)

	For the Fiscal Year Ended		
	July 1, 2016	June 26, 2015	June 27, 2014
GROSS REVENUE	\$ 167,917	\$ 159,877	\$ 110,280
Purchased services and materials, at cost	107,199	90,289	55,108
Direct costs of services and overhead	<u>57,544</u>	<u>55,797</u>	<u>46,653</u>
GROSS (LOSS) PROFIT	3,174	13,791	8,519
Selling, general and administrative expenses	13,031	11,003	10,175
Other operating expense (income)	1,937	-	(1,596)
Goodwill impairment	20,331	-	1,381
Intangible impairment	<u>3,812</u>	<u>-</u>	<u>-</u>
OPERATING (LOSS) INCOME	(35,937)	2,788	(1,441)
OTHER (INCOME) EXPENSE			
Interest income	(19)	(2)	(15)
Interest expense	<u>702</u>	<u>447</u>	<u>133</u>
(LOSS) INCOME BEFORE INCOME TAXES, FROM CONTINUING OPERATIONS	(36,620)	2,343	(1,559)
Income tax expense (benefit)	<u>1,267</u>	<u>936</u>	<u>(1,043)</u>
NET (LOSS) INCOME FROM CONTINUING OPERATIONS	(37,887)	1,407	(516)
Income (Loss) from discontinued operations, net of tax	<u>-</u>	<u>-</u>	<u>182</u>
NET (LOSS) INCOME	\$ <u>(37,887)</u>	\$ <u>1,407</u>	\$ <u>(334)</u>
NET (LOSS) INCOME PER SHARE-BASIC and DILUTED			
Continuing operations	\$ (3.84)	0.14	\$ (0.05)
Discontinued operations	<u>-</u>	<u>-</u>	<u>0.02</u>
NET (LOSS) INCOME PER SHARE-BASIC and DILUTED	\$ <u>(3.84)</u>	\$ <u>0.14</u>	\$ <u>(0.03)</u>
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING-BASIC	<u>9,857</u>	<u>9,771</u>	<u>9,663</u>
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING-DILUTED	<u>9,857</u>	<u>9,771</u>	<u>9,663</u>

VERSAR, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(In thousands)

	For the Fiscal Year Ended		
	July 1, 2016	June 26, 2015	June 27, 2014
Cash flows from operating activities:			
Net income (loss)	\$ (37,887)	\$ 1,407	\$ (334)
Adjustments to reconcile net income (loss) from continuing operations to net cash provided by operating activities:			
Depreciation and amortization	5,756	2,566	1,973
(Gain) loss on sale of property and equipment	(79)	59	34
Change in contingent notes	-	-	(1,590)
Provision for (recovery of) doubtful accounts receivable	1,001	(27)	(886)
Loss on life insurance policy cash surrender value	-	(35)	(63)
Provision (benefit) for income taxes expense	1,779	1,008	(913)
Share based compensation	329	405	502
Goodwill impairment	20,331	-	1,381
Intangible impairment	3,812	-	-
Changes in assets and liabilities:			
Decrease (increase) in accounts receivable	15,192	(26,239)	10,682
(Increase) decrease in income tax receivables	-	-	-
Decrease (increase) in prepaid and other assets	1,148	(344)	356
(Increase) decrease in inventories	(96)	7	64
(Decrease) increase in accounts payable	(19,635)	23,013	(2,190)
Decrease in accrued salaries and vacation	(1,055)	(938)	(130)
Decrease in income tax payable	829	(15)	(141)
Decrease in inter-company transactions	-	(705)	(1,998)
Decrease (increase) in other assets and liabilities	6,503	(705)	(1,998)
Net cash (used in) provided by operating activities	(2,072)	162	6,747
Cash flows from investing activities:			
Purchase of property and equipment	(686)	(839)	(971)
Payment for VSS acquisition, net of cash acquired	(11,080)	-	-
Payment for JMWA acquisition, net of cash acquired	-	(7,164)	-
Payment for GMI acquisition, net of cash acquired	-	-	(2,788)
Proceeds from sale of office equipment	270	-	-
Premiums paid on life insurance policies	-	(23)	(23)
Proceeds received on life insurance policies	-	835	-
Proceeds from sale of property and equipment	-	-	-
Net cash used in investing activities	(11,496)	(7,191)	(3,782)

Cash flows from financing activities:

Borrowings on line of credit	73,464	19,943	-
Repayments on line of credit	(58,611)	(19,943)	-
Loan for JMWA Purchase	-	4,000	-
Repayment of Loan for JMWA Purchase	(1,266)	(1,189)	-
Loan for VSS Purchase	5,000	-	-
Repayment of Loan for VSS Purchase	(2,500)	-	-
Proceeds from exercise of stock options	-	-	99
Repayments of notes payable	(3,058)	(3,559)	(2,045)
Purchase of treasury stock	(20)	(64)	(171)
Net cash provided by (used in) financing activities	<u>13,009</u>	<u>(812)</u>	<u>(2,117)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(1)</u>	<u>276</u>	<u>98</u>
Net decrease in cash and cash equivalents	(560)	(7,565)	946
Cash and cash equivalents at the beginning of the period	<u>2,109</u>	<u>9,674</u>	<u>8,728</u>
Cash and cash equivalents at the end of the period	\$ <u><u>1,549</u></u>	\$ <u><u>2,109</u></u>	\$ <u><u>9,674</u></u>

Supplemental disclosure of cash and non-cash activities:

Promissory notes-payable issued in connection with JMWA acquisition	\$ -	\$ 6,000	\$ -
Promissory notes-payable issued in connection with GMI acquisition	\$ -	\$ -	\$ 1,250
Contingent consideration payable related to VSS acquisition	\$ 3,154	\$ -	\$ -
Cash paid for interest	\$ 133	\$ 429	\$ 133
Cash paid for income taxes	\$ 254	\$ 48	\$ 254

Versar, Inc. Fiscal Year 2016: Non-GAAP Financial Measures Disclosure

Reported GAAP Operating (Loss) before taxes **(\$36,619,000)**

One-Time Adjustments

Impairments (Goodwill and Intangibles)	24,144,000
Abandon Lease Accruals (Office Furniture and Office Leaseholds)	921,100
Bank of America Outside Auditor Fees	145,000
JCSS Acquisition (Transaction and Integration Costs)	1,284,800
ARA/GMI Working Capital Accrual	1,200,000
ESG Related Expenses (GSA Rate audit, PBR pump, Ft. Irwin Class Action Suit)	1,174,300
Homestead AFB Project	868,000
PPS Adjustments (Fiscal Year Operating Loss and Loss in excess of sale proceeds)	4,031,700
Total One-Time Adjustments	33,768,900

Adjusted Operating (Loss) **(2,850,100)**

EBITDA Add-backs

Interest Expense	702,000
Depreciation and Amortization	5,756,000
	6,458,000

Adjusted EBITDA **\$3,607,900**

Non-GAAP Financial Measures Disclosure: This earnings release contains non-GAAP (Generally Accepted Accounting Principles) financial measures, as defined by the Securities and Exchange Commission Regulation G and indicated by a footnote in the text of the release. While we believe that investors and other users of our financial statements may find these non-GAAP financial measures useful in evaluating our financial performance and operational trends, they should be considered as supplemental in nature, and therefore, should not be considered as a substitute for financial information prepared in accordance with GAAP. Reconciliations are provided for the non-GAAP measures in the table above. Other companies may define these measures differently or may use different non-GAAP measures.