



VERSAR

NEWS RELEASE

FOR IMMEDIATE RELEASE

February 10, 2014

VERSAR, INC. ANNOUNCES SECOND QUARTER FISCAL 2014 RESULTS

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Springfield, VA – February 10, 2014 – Versar, Inc. (NYSE MKT: VSR) today announced financial results for the fiscal second quarter and six months ended December 27, 2013.

Gross revenue for the second quarter of fiscal year 2014 was \$28.0 million, an increase of 16% compared to \$24.1 million during the second quarter of the last fiscal year. The increase was attributable to revenue generated by Geo-Marine, Inc. (GMI); continued activity associated with its ongoing contract with the U.S. Army Corps of Engineers (USACE) for construction support services in Afghanistan; and the continued ramp up of the Company's performance based remediation (PBR) work for the U.S. Air Force in New England and the Great Lakes Region.

The company reported a reduction in gross margins for the quarter primarily due to the decrease in gross profit related to Title II work in Afghanistan, which is anticipated to end in the summer of 2014. The Company reported net income of \$100,000, or \$0.01 per share on a fully diluted basis (which includes \$0.02 from discontinued operations) compared to net income of \$925,000 or \$0.09 per share on a fully diluted basis (which included a loss of \$0.03 from discontinued operations) for the second quarter last year.

For the six months ended December 27, 2013, Versar had gross revenue of \$57.2 million, an increase of 23% as compared to gross revenue of \$46.5 million in the first six months of fiscal 2013. This revenue increase and lower gross margins for the six months was primarily a result of factors noted above in the second quarter discussion. Versar recorded net income of \$757,000 or \$0.08 per share on a fully diluted basis (which includes \$0.02 from discontinued operations) in the first six months of fiscal 2014 as compared to \$1.8 million or \$0.18 per share on a fully diluted basis (which includes a loss of \$0.04 from discontinued operations) for the first six months of fiscal 2013.

As of December 27, 2013, Versar recorded funded backlog of approximately \$120 million, an increase of 12% compared to \$108 million of funded backlog at the end of fiscal year 2013.

Versar closed the fiscal second quarter of 2014 with a cash balance of approximately \$4 million and stockholders' equity of \$38.5 million.

Tony Otten, CEO of Versar said, "We achieved solid revenue growth in the second quarter and are particularly pleased with this result, given the government shutdown during the quarter that delayed some contract awards and caused a temporary slowdown in activity for some of our existing projects. While revenue increased, profitability for the quarter was below historical levels due to higher purchased services and materials related to our PSC and PBR programs. In addition, we had some one-time costs associated with final tax payments related to our fiscal year 2012 acquisition of Charron Construction Consulting, Inc. and severance costs associated with our recent acquisition of GMI

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“Our backlog grew 12% from our June 28, 2013 fiscal year end. During the quarter, we were awarded \$1.1 million in new awards and \$440,000 in subcontract extensions from HDR for continued construction management and quality assurance operations in support of the Air Force in Afghanistan. This is in addition to the \$8.8 million in awards we received during the last quarter of fiscal 2013 and the first quarter of this fiscal year. These extensions bring our HDR subcontract total to just under \$40 million over the life of the subcontract. This is one of our many contracts in the region and demonstrates the level of confidence our government has in the services we provide. Additionally, following the close of the quarter we were awarded a \$2.25 million contract with Frederick County, Maryland to provide municipal stormwater permit support and a \$1.5 million extension of our personal services and support contract with the U.S. Army Corps of Engineers in Iraq.”

Mr. Otten continued, “We continue to make progress with the GMI integration and are encouraged by the strategic benefits of their technical capabilities and diverse customer base. Our balance sheet remains solid, positioning us well for continued organic growth and providing flexibility for our pursuit of complementary acquisitions.”

Conference Call:

The Company will hold a conference call at 2:00 PM Eastern Time today, Monday, February 10 to discuss the Company's operational performance and financial results for its quarter ended December 27, 2013.

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

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, www.geomet.com, www.viap.com, www.dtaps.com, www.adventenv.com, www.charronconsulting.com, and 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	
	December 27, 2013 (Unaudited)	June 28, 2013
ASSETS		
Current assets		
Cash and cash equivalents	\$ 4,045	\$ 8,728
Accounts receivable, net	35,689	29,342
Inventory	1,189	1,225
Prepaid expenses and other current assets	1,192	1,074
Deferred income taxes	1,993	2,314
Income tax receivable	1,922	1,764
Total current assets	46,030	44,447
Property and equipment, net	2,256	2,108
Deferred income taxes, non-current	890	622
Goodwill	9,420	7,515
Intangible assets, net	2,887	1,798
Other assets	1,188	887
Total assets	\$ 62,671	\$ 57,377
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 11,904	\$ 10,788
Accrued salaries and vacations	3,541	3,042
Other current liabilities	3,527	3,304
Income tax payable	293	-
Notes payable, current	1,641	333
Total current liabilities	20,906	17,467
Notes payable, non-current	635	333
Deferred income taxes	1,098	849
Other long-term liabilities	1,501	1,104
Total liabilities	24,140	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		
	100	99
Capital in excess of par value	30,101	29,758
Retained earnings	10,122	9,366
Treasury stock, at cost	(1,396)	(1,224)
Accumulated other comprehensive loss; foreign currency translation	(396)	(375)
Total stockholders' equity	38,531	37,624
Total liabilities and stockholders' equity	\$ 62,671	\$ 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 Six Months Ended	
	December 27, 2013	December 28, 2012	December 27, 2013	December 28, 2012
GROSS REVENUE	\$ 28,037	\$ 24,122	\$ 57,158	\$ 46,518
Purchased services and materials, at cost	14,359	9,540	28,769	17,237
Direct costs of services and overhead	11,347	10,617	23,105	21,845
GROSS PROFIT	2,331	3,965	5,284	7,436
Selling, general and administrative expenses	2,415	2,249	4,285	4,174
OPERATING (LOSS) INCOME	(84)	1,716	999	3,262
OTHER (INCOME) EXPENSE				
Interest income	(13)	-	(13)	(1)
Interest expense	42	22	67	46
(LOSS) INCOME BEFORE INCOME TAXES, from continuing operations	(113)	1,694	945	3,217
Income tax (benefit) expense	(34)	511	364	1,092
NET (LOSS) INCOME FROM CONTINUING OPERATIONS	(79)	1,183	581	2,125
Income (Loss) from discontinued operations, net of tax (expense) benefit of \$(105) and \$121 and \$(105) and \$174	179	(258)	176	(355)
NET INCOME	\$ 100	\$ 925	\$ 757	\$ 1,770
NET (LOSS) INCOME PER SHARE-BASIC and DILUTED				
Continuing operations	\$ (0.01)	0.12	\$ 0.06	0.22
Discontinued operations	0.02	(0.03)	0.02	(0.04)
NET INCOME PER SHARE-BASIC and DILUTED	\$ 0.01	\$ 0.09	\$ 0.08	\$ 0.18
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING-BASIC	9,653	9,507	9,611	9,450
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING-DILUTED	9,789	9,536	9,748	9,479

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