

VERSAR INC
Form 10-Q
February 11, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the Quarterly Period Ended

December 28, 2012

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission File Number 1-9309

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

54-0852979
(I.R.S. Employer Identification No.)

6850 Versar Center

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Springfield, Virginia 22151
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (703) 750-3000

Not Applicable

(Former name, former address and former fiscal year, if changed since last report.)

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date.

<u>Class of Common Stock</u>	<u>Outstanding at February 4, 2013</u>
\$.01 par value	9,841,510

VERSAR, INC. AND SUBSIDIARIES

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VERSAR, INC. AND SUBSIDIARIES**Condensed Consolidated Balance Sheets**

(In thousands, except share amounts)

	As of	
	December 31,	June 29,
	2012	2012
	(unaudited)	
ASSETS		
Current assets		
Cash and cash equivalents	\$13,650	\$8,012
Accounts receivable, net	21,785	25,598
Inventory	1,395	1,428
Prepaid expenses and other current assets	1,160	1,938
Deferred income taxes	2,069	2,305
Total current assets	40,059	39,281
Property and equipment, net	2,830	3,341
Deferred income taxes, non-current	582	193
Goodwill	7,515	7,418
Intangible assets, net	2,128	2,283
Other assets	837	861
Total assets	\$53,951	\$53,377
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$6,755	\$5,415
Accrued salaries and vacation	3,129	3,124
Other current liabilities	5,013	7,409
Income tax payable	10	677
Notes payable, current	333	333
Total current liabilities	15,240	16,958
Notes payable, non-current	500	667
Deferred income taxes	647	332
Other long-term liabilities	1,079	1,037
Total liabilities	17,466	18,994
Commitments and contingencies		
Stockholders' equity		
Common stock, \$.01 par value; 30,000,000 shares authorized; 9,792,873 shares and 9,645,149 shares issued; 9,525,560 shares and 9,391,575 shares outstanding	98	96

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Capital in excess of par value	29,385	29,047
Retained earnings	8,733	6,963
Treasury stock, at cost (267,313 and 253,574 shares, respectively)	(1,212)	(1,166)
Accumulated other comprehensive loss; foreign currency translation	(519)	(557)
Total stockholders' equity	36,485	34,383
Total liabilities and stockholders' equity	\$53,951	\$53,377

The accompanying notes are an integral part of these condensed consolidated financial statements.

VERSAR, INC. AND SUBSIDIARIES**Condensed Consolidated Statements of Income****(Unaudited - in thousands, except per share amounts)**

	For the Three Months Ended		For the Six Months Ended	
	December 28,	December 30,	December 28,	December 30,
	2012	2011	2012	2011
GROSS REVENUE	\$ 24,715	\$ 31,280	\$ 48,266	\$ 64,564
Purchased services and materials, at cost	9,891	16,085	18,216	32,243
Direct costs of services and overhead	11,056	11,748	22,969	25,141
GROSS PROFIT	3,768	3,447	7,081	7,180
Selling, general and administrative expenses	2,249	2,126	4,174	4,508
Other expense	—	19	—	53
OPERATING INCOME	1,519	1,302	2,907	2,619
OTHER (INCOME) EXPENSE				
Interest (income)	—	(39)	(1)	(68)
Interest expense	22	19	46	49
INCOME BEFORE INCOME TAXES	1,497	1,322	2,862	2,638
Income tax expense	572	505	1,092	997
NET INCOME	\$ 925	\$ 817	\$ 1,770	\$ 1,641
NET INCOME PER SHARE – BASIC	\$ 0.10	\$ 0.09	\$ 0.19	\$ 0.18
NET INCOME PER SHARE – DILUTED	\$ 0.10	\$ 0.09	\$ 0.19	\$ 0.18
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING				
– BASIC	9,507	9,365	9,450	9,352
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING				
– DILUTED	9,536	9,391	9,479	9,372

The accompanying notes are an integral part of these condensed consolidated financial statements.

VERSAR, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income

(Unaudited – in thousands)

	For the Three Months Ended		For the Six Months Ended	
	December 28, 2012	December 30, 2011	December 28, 2012	December 30, 2011
COMPREHENSIVE INCOME				
Net income	\$ 925	\$ 817	\$ 1,770	\$ 1,641
Foreign currency translation adjustments	186	(53)	38	(474)
TOTAL COMPREHENSIVE INCOME	\$ 1,111	\$ 764	\$ 1,808	\$ 1,167

The accompanying notes are an integral part of these condensed consolidated financial statements.

VERSAR, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows**(Unaudited – in thousands)**

	For the Six Months Ended	
	December 28,	December 30,
	2012	2011
Cash flows from operating activities:		
Net income	\$ 1,770	\$ 1,641
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	894	842
Loss on sale of property and equipment	—	46
Provision for doubtful accounts receivable	(271)	370
Provision for doubtful financing receivable	—	229
Loss on life insurance policy cash surrender value	1	62
Deferred tax benefit	162	(44)
Share based compensation	219	121
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	4,085	(4,551)
Decrease in prepaid and other assets	778	182
Decrease in inventories	33	11
Increase (decrease) in accounts payable	1,340	(17)
Decrease in accrued salaries and vacation	6	13
Decrease in other assets and liabilities	(2,176)	(939)
Decrease in income tax payable	(667)	—
Net cash provided by (used in) operating activities	6,174	(2,034)
Cash flows used in investing activities:		
Purchase of property and equipment	(140)	(689)
Payment for Charron acquisition	(297)	—
Premiums paid on life insurance policies	(42)	(25)
Proceeds from notes receivable	—	337
Net cash used in investing activities	(479)	(377)
Cash flows used in financing activities:		
Earn-out obligation payments for PPS and Advent	—	(1,261)
Borrowings on line of credit	—	12,820
Repayments on line of credit	—	(12,820)
Proceeds from exercise of stock options	119	—
Repayment of notes payable	(167)	(1,198)
Purchase of treasury stock	(47)	(10)
Net cash used in financing activities	(95)	(2,469)

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Effect of exchange rate changes	38	(147)
Net increase (decrease) in cash and cash equivalents	5,638	(5,027)
Cash and cash equivalents at the beginning of the period	8,012	6,017	
Cash and cash equivalents at the end of the period	\$ 13,650	\$ 990	

The accompanying notes are an integral part of these condensed consolidated financial statements.

VERSAR, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE A – BASIS OF PRESENTATION

The condensed consolidated financial statements of Versar, Inc. and its wholly-owned subsidiaries (“Versar” or the “Company”) contained in this report are unaudited but reflect all normal recurring adjustments which, in the opinion of management, are necessary for the fair presentation of the results of the interim periods reflected. All significant intercompany balances and transactions have been eliminated in consolidation. Certain information and footnote disclosures normally included in the consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been omitted pursuant to applicable rules and regulations of the Securities and Exchange Commission (“SEC”). Therefore, these condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended June 29, 2012. The results of operations for the three-month and six-month periods reported herein are not necessarily indicative of results to be expected for the full year. The fiscal year-end balance sheet data included in this report was derived from audited financial statements. The Company’s fiscal year is based upon a 52 - 53 week calendar, ending on the Friday nearest June 30. The three-month periods ended December 28, 2012 and December 30, 2011 each included 13 weeks and the corresponding six-month periods each include 26 weeks, respectively. Fiscal year 2013 and 2012 will both include 52 weeks.

Prior Year Reclassification: Certain prior year business segment amounts have been reclassified in order to conform to the current year realigned segment presentation. See Note B - Business Segments for additional information.

NOTE B – BUSINESS SEGMENTS

In previous years, the Company operated in four business segments: Program Management, Environmental Services, Professional Services, and National Security. During fiscal year 2012, the Company’s management undertook a strategic initiative to assess the Company’s internal processes and organizational structures with the intention of identifying opportunities to streamline and improve these areas. As a result of this strategic initiative, the Company modified certain organizational structures in fiscal year 2012 which resulted in the realignment of the Company’s business segments. The Company’s operations were first reported based on these realigned segments in the Company’s Annual Report on Form 10-K for the fiscal year ended June 29, 2012. As part of this realignment, the operations of the National Security business segment were primarily allocated to the previous Program Management Segment, which was renamed Engineering and Construction Management, and the remaining National Security operations were allocated to the Environmental Services business segment. Certain management lines of authority were also revised

consistent with these structural changes. These segments were aligned based on the nature of the work, business processes, customer base and the business environment in which each of the segments operates. The Company's resulting three business segments are as follows:

Engineering and Construction Management
Environmental Services
Professional Services

The new alignment of the business segments is consistent with how the Company's Chief Executive Officer, ("CEO") assessed our operations since completion of the 2012 initiative and will assess our operations going forward. The business segments have discrete financial information that is used by the CEO, in allocating resources and making financial decisions. The CEO evaluates and measures the performance of the Company's business segments based on gross revenue and gross profit. Selling, general and administrative expenses, interest and income taxes have not been allocated to the Company's business segments.

The Company's Engineering and Construction Management business segment manages large complex construction projects representing various international and domestic clients. The Environmental Services business segment provides full service environmental consulting including regulatory, risk assessments, unexploded ordnance clean-up/military munitions response programs, natural and cultural resources, and remediation support to several federal government and municipal agencies. The Professional Services business segment provides outsourced personnel to various government agencies providing the Company's clients with cost-effective onsite resources.

Presented below is summary operating information for the Company for the three-month and six-month periods ended December 28, 2012 and December 30, 2011. The presentation of this information for the three-month and six-month periods ended December 30, 2011 has been reclassified to conform to the realigned presentation.

	For the Three Months Ended		For the Six Months Ended	
	December 28, 2012	December 30, 2011	December 28, 2012	December 30, 2011
	(in thousands)			
GROSS REVENUE				
Engineering and Construction Management	\$ 13,047	\$ 20,005	\$ 24,815	\$ 41,837
Environmental Services	7,793	7,525	16,017	15,465
Professional Services	3,875	3,750	7,434	7,262
	\$ 24,715	\$ 31,280	\$ 48,266	\$ 64,564
GROSS PROFIT (a)				
Engineering and Construction Management	\$ 1,559	\$ 2,400	\$ 3,552	\$ 4,926
Environmental Services	1,179	435	1,929	1,040
Professional Services	1,030	612	1,600	1,214
	\$ 3,768	\$ 3,447	\$ 7,081	\$ 7,180
Selling, general and administrative expenses	2,249	2,126	4,174	4,508
Other expenses	—	19	—	53
OPERATING INCOME	\$ 1,519	\$ 1,302	\$ 2,907	\$ 2,619

(a) Gross Profit is defined as gross revenue less purchased services and materials, at cost, less direct costs of services and overhead.

NOTE C – ACCOUNTS RECEIVABLE

	Years Ended	
	December 28, 2012	December 29, 2012
	(in thousands)	
Billed receivables		
U.S. Government	\$ 8,303	\$ 13,596