

VERSAR INC
Form 10-Q
May 13, 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

March 29, 2013

☐ 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	54-0852979
(State or other jurisdiction of	(I.R.S. Employer Identification No.)
incorporation or organization)	

6850 Versar Center	22151
Springfield, Virginia	
(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 ☒

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 May 6, 2013</u>
\$.01 par value	9,613,587

VERSAR, INC. AND SUBSIDIARIES

INDEX TO FORM 10-Q

	PAGE
PART I – FINANCIAL INFORMATION	
ITEM 1. Financial Statements.	
Condensed Consolidated Balance Sheets as of March 29, 2013 (unaudited) and June 29, 2012.	3
Unaudited Condensed Consolidated Statements of Income for the Three Months and Nine Months Ended March 29, 2013 and March 30, 2012.	4
Unaudited Condensed Consolidated Statements of Comprehensive Income for the Three Months and Nine Months Ended March 29, 2013 and March 30, 2012.	5
Unaudited Condensed Consolidated Statements of Cash Flows for the Nine Months Ended March 29, 2013 and March 30, 2012.	6
Unaudited Notes to Condensed Consolidated Financial Statements.	7
ITEM 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.	12
ITEM 3. Quantitative and Qualitative Disclosures About Market Risk.	20
ITEM 4. Controls and Procedures.	20
PART II – OTHER INFORMATION	
ITEM 1. Legal Proceedings.	20
ITEM 6. Exhibits.	20
SIGNATURES	21
EXHIBITS	

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

(In thousands, except share amounts)

	As of March 29, June 29, 2013 2012 (unaudited)	
ASSETS		
Current assets		
Cash and cash equivalents	\$8,195	\$8,012
Accounts receivable, net	30,961	25,598
Inventory	1,232	1,428
Prepaid expenses and other current assets	2,449	1,938
Deferred income taxes	2,446	2,305
Total current assets	45,283	39,281
Property and equipment, net	2,501	3,341
Deferred income taxes, non-current	551	193
Goodwill	7,515	7,418
Intangible assets, net	1,911	2,283
Other assets	919	861
Total assets	\$58,680	\$53,377
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$11,286	\$5,415
Accrued salaries and vacation	2,504	3,124
Other current liabilities	4,445	7,409
Income tax payable	-	677
Notes payable, current	333	333
Total current liabilities	18,568	16,958
Notes payable, non-current	417	667
Deferred income taxes	792	332
Other long-term liabilities	1,098	1,037
Total liabilities	20,875	18,994
Commitments and contingencies		
Stockholders' equity		
Common stock, \$.01 par value; 30,000,000 shares authorized; 9,826,373 shares and 9,645,149 shares issued; 9,559,060 shares and 9,391,575 shares outstanding	98	96
Capital in excess of par value	29,583	29,047

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Retained earnings	9,775	6,963
Treasury stock, at cost (267,313 and 253,574 shares, respectively)	(1,212)	(1,166)
Accumulated other comprehensive income loss; foreign currency translation	(439)	(557)
Total stockholders' equity	37,805	34,383
Total liabilities and stockholders' equity	\$ 58,680	\$ 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 Nine Months Ended	
	March 29, 2013	March 30, 2012	March 29, 2013	March 30, 2012
GROSS REVENUE	\$ 31,600	\$ 25,748	\$ 79,865	\$ 90,312
Purchased services and materials, at cost	15,763	9,950	33,979	42,193
Direct costs of services and overhead	12,620	11,507	35,588	36,648
GROSS PROFIT	3,217	4,291	10,298	11,471
Selling, general and administrative expenses	1,877	2,120	6,051	6,399
Other expense	-	2	-	55
OPERATING INCOME	1,340	2,169	4,247	5,017
OTHER (INCOME) EXPENSE				
Interest (income)	(3)	(4)	(4)	(72)
Interest expense	21	13	66	62
Write-off of uncollectible financing receivable	-	465	-	694
INCOME BEFORE INCOME TAXES	1,322	1,695	4,185	4,333
Income tax expense	280	732	1,372	1,729
NET INCOME	\$ 1,042	\$ 963	\$ 2,813	\$ 2,604
NET INCOME PER SHARE – BASIC	\$ 0.11	\$ 0.10	\$ 0.30	\$ 0.28
NET INCOME PER SHARE – DILUTED	\$ 0.11	\$ 0.10	\$ 0.30	\$ 0.28
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING				
– BASIC	9,545	9,383	9,482	9,361
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING				
– DILUTED	9,575	9,406	9,512	9,379

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 Nine Months Ended	
	March 29, 2013	March 30, 2012	March 29, 2013	March 30, 2012
COMPREHENSIVE INCOME				
Net income	\$ 1,042	\$ 963	\$ 2,813	\$ 2,604
Foreign currency translation adjustments	81	203	118	(271)
TOTAL COMPREHENSIVE INCOME	\$ 1,123	\$ 1,166	\$ 2,931	\$ 2,333

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 Nine Months Ended March 29, 2013	March 30, 2012
Cash flows from operating activities:		
Net income	\$ 2,813	\$ 2,604
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,376	1,280
Loss on sale of property and equipment	-	46
Change in provision for doubtful accounts receivable	(2)	414
Write-off of uncollectible financing receivable	-	694
(Gain)/Loss on life insurance policy	(23)	9
Deferred tax benefit	(39)	(407)
Share based compensation	314	199
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(5,361)	4,574
Decrease (increase) in prepaid and other assets	557	(517)
Decrease in inventories	199	4
	5,871	(4,875)

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Increase (decrease) in accounts payable				
Decrease in accrued salaries and vacation	(619)	(569)
Decrease in other assets and liabilities	(2,683)	(1,110)
Decrease in income tax payable	(1,748)		
Net cash provided by operating activities	655		2,346	
Cash flows used in investing activities:				
Purchase of property and equipment	(175)	(825)
Payments to settle earn-out obligations	0		(1,261)
Payment for Charron acquisition	(298)	-	
Premiums paid on life insurance policies	(42)	(25)
Proceeds from notes receivable	0		346	
Net cash used in investing activities	(515)	(1,765)
Cash flows used in financing activities:				
Borrowings on line of credit	-		765	
Repayments on line of credit	-		(765)
Proceeds from exercise of stock options	221		-	
Repayment of notes payable	(249)	(1,417)
Purchase of treasury stock	(47)	(16)
Net cash used in financing activities	(75)	(1,433)
Effect of exchange rate changes	118		(43)
Net increase (decrease) in cash and cash equivalents	183		(895)
Cash and cash equivalents at the	8,012		6,017	

beginning of the
period

Cash and cash
equivalents at the
end of the period

\$ 8,195

\$ 5,122

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 nine 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 March 29, 2013 and March 30, 2012 each included 13 weeks and the corresponding nine month periods each included 39 weeks, respectively. Fiscal years 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 ("ECM")
Environmental Services ("ESG")
Professional Services ("PSG")

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 although selling, general and administrative expenses, interest and income taxes have not been allocated to the Company's business segments, for this analysis.

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 nine month periods ended March 29, 2013 and March 30, 2012. The presentation of this information for the three month and nine month periods ended March 30, 2012 has been reclassified to conform to the realigned presentation.

	For the Three Months Ended		For the Nine Months Ended	
	March 29, 2013	March 30, 2012	March 29, 2013	March 30, 2012
	(in thousands)			
<u>GROSS REVENUE</u>				
Engineering and Construction Management	\$ 15,149	\$ 14,854	\$ 39,966	\$ 56,691
Environmental Services	12,796	7,089	28,813	22,554
Professional Services	3,655	3,805	11,086	11,067
	\$ 31,600	\$ 25,748	\$ 79,865	\$ 90,312

GROSS PROFIT (a)