VERSAR INC
Form 10-Q
November 10, 2004

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the Quarterly Period Ended October 1, 2004	Commission File Number 1-9309

Versar Inc.
(Exact name of registrant as specified in its charter)

DELAWARE	54-0852979
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
6850 Versar Center 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 X No

Indicate by the check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No X

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

Class of Common Stock	Outstanding at November 1, 2004
$.01 par value	7,862,163

VERSAR, INC. AND SUBSIDIARIES

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VERSAR, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
(In Thousands)

	October 1, 2004	June 30, 2004
ASSETS	(Unaudited)	
Current assets		
Cash and cash equivalents	$ 2,095	$ 817
Accounts receivable, net	14,090	14,144
Prepaid expenses and other current assets	1,133	1,013
Deferred income taxes	168	168
Total current assets	17,486	16,142
Property and equipment, net	1,998	2,108
Deferred income taxes	501	501
Goodwill	776	776
Other assets	562	558
Total assets	$ 21,323	$ 20,085
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 5,521	$ 4,520
Billing in excess of revenue	495	433
Accrued salaries and vacation	1,929	1,967
Other liabilities	1,532	1,728
Total current liabilities	9,477	8,648
Other long-term liabilities	1,144	1,163
Liabilities of discontinued operations, net	199	209
Total liabilities	10,820	10,020
Stockholders' equity		
Common stock, $0.01 par value; 30,000 shares authorized; 7,852,613 shares and 7,837,033 shares issued at October 1, 2004 and June 30, 2004, respectively; 7,837,108 and 7,821,528 shares outstanding at October 1, 2004 and June 30, 2004, respectively	79	78
Capital in excess of par value	21,865	21,835
Accumulated deficit	(11,369)	(11,776)
Treasury stock	(72)	(72)
Total stockholders' equity	10,503	10,065
Total liabilities and stockholders' equity	$ 21,323	$ 20,085

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

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

	October 1, 2004	September 30, 2003
GROSS REVENUE	$ 19,114	$ 13,605
Purchased services and materials, at cost	9,927	5,376
NET SERVICE REVENUE	9,187	8,229
Direct costs of services and overhead	7,277	6,452
Selling, general and administrative expenses	1,490	1,380
OPERATING INCOME	420	397
OTHER EXPENSE		
Interest expense	13	54
INCOME BEFORE TAX	407	343
Income tax expense	---	---
NET INCOME	$ 407	$ 343
NET INCOME PER SHARE - BASIC AND DILUTED	$ 0.05	$ 0.05
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING - BASIC	7,846	7,260
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING - DILUTED	8,312	7,518

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

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VERSAR, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(Unaudited - in thousands)

	October 1, 2004	September 30, 2003
Cash flows from operating activities		
Net income	$ 407	$ 343
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	182	164
Provision for doubtful accounts receivable	1	10
Changes in assets and liabilities		
Decrease in accounts receivable	53	928
(Increase) decrease in prepaids and other assets	(125)	415
Increase in accounts payable	1,001	1
Decrease in accrued salaries and vacation	(38)	(453)
Decrease in other liabilities	(153)	(799)
Net cash provided by continuing operating activities	1,328	609
Changes in net liabilities of discontinued operations	(10)	---
Net cash provided by operating activities	1,318	(609)
Cash flows used in investing activities		
Purchase of property and equipment	(71)	(138)
Cash flows from financing activities		
Net payments on bank line of credit	---	(473)
Proceeds from issuance of common stock	31	5
Net cash provided by (used in) by financing activities	31	(468)
Net increase in cash and cash equivalents	1,278	3
Cash and cash equivalents at the beginning of the period	817	81
Cash and cash equivalents at the end of the period	$ 2,095	$ 84
Supplementary disclosure of cash flow information:		
Cash paid during the period for		
Interest	$ 9	$ 50
Income taxes	5	12

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

VERSAR, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(A) Basis of Presentation

The accompanying consolidated financial statements are presented in accordance with the requirements of Form 10-Q and consequently do not include all of the disclosures normally required by generally accepted accounting principles or those normally made in Versar, Inc.'s Annual Report on Form 10-K filed with the Securities and Exchange Commission. These financial statements should be read in conjunction with the Company's Annual Report filed on Form 10-K for the year ended June 30, 2004 for additional information.

Effective July 1, 2004, the Company changed its fiscal reporting period from the last day of the calendar month end to the last Friday closest to the calendar month end. As such, the first quarter of fiscal year 2005 ended on October 1, 2004.

The accompanying consolidated financial statements include the accounts of Versar, Inc. and its wholly-owned subsidiaries ("Versar" or the "Company"). All significant intercompany balances and transactions have been eliminated in consolidation. The financial information has been prepared in accordance with the Company's customary accounting practices. In the opinion of management, the information reflects all adjustments necessary for a fair presentation of the Company's consolidated financial position as of October 1, 2004, and the results of operations for the three-month periods ended October 1, 2004 and September 30, 2003. The results of operations for such periods, however, are not necessarily indicative of the results to be expected for a full fiscal year.

(B) Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

(C) Contract Accounting

Contracts in process are stated at the lower of actual cost incurred plus accrued profits or net estimated realizable value of incurred costs, reduced by progress billings. The Company records income from major fixed-price contracts, extending over more than one accounting period, using the percentage-of-completion method. During performance of such contracts, estimated final contract prices and costs are periodically reviewed and revisions are made as required. The effects of these revisions are included in the periods in which the revisions are made. On cost-plus-fee contracts, revenue is recognized to the extent of costs incurred plus a proportionate amount of fee earned, and on time-and-material contracts, revenue is recognized to the extent of billable rates times hours delivered plus material and other reimbursable costs incurred. Losses on contracts are recognized when they become known. Disputes arise in the normal course of the Company's business on projects where the Company is contesting with customers for collection of funds because of events such as delays, changes in contract specifications and questions of cost allowability or collectibility. Such disputes, whether claims or unapproved change orders in the process of negotiation, are recorded at the lesser of their estimated net realizable value or actual costs incurred and only when realization is probable and can be reliably estimated. Claims against the Company are recognized where loss is considered probable and reasonably determinable in amount. Management reviews outstanding receivables on a regular basis and assesses the need for reserves taking into consideration past collection history and other events that bear on the collectibility of such receivables.

(D) Income Taxes

At October 1, 2004, the Company had approximately $4.5 million in deferred tax assets which primarily relate to net operating loss and tax credit carryforwards. Due to the Company's history of operating losses, a valuation allowance of approximately $3.8 million has been established. The valuation allowance is adjusted

periodically based upon management's assessment of the Company's ability to derive benefit from the deferred tax assets.

(E) Debt

In September 2003, Versar entered into a new line of credit facility with United Bank (Bank) that provides for advances up to $5,000,000 based upon qualifying receivables. Interest on the borrowings is based on prime plus one and a half percent (6.25% as of October 1, 2004). The line is guaranteed by the Company and each subsidiary individually and is collectively secured by accounts receivable, equipment and intangibles, plus all insurance policies on property constituting collateral. There were no outstanding borrowings on the line of credit as of October 1, 2004. The line is subject to renewal in November 2005. The loan has certain covenants related to the maintenance of financial ratios. At October 1, 2004, the Company was in compliance with the financial covenants.

(F) Discontinued Operations

In fiscal year 1998, the Company discontinued a significant portion of the operations of Science Management Corporation (SMC).

As such, the Company disposed of portions of SMC and wound down the remaining assets and liabilities. The remaining liability at October 1, 2004 of $109,000 is primarily reserved to wind down the remaining benefit plans of SMC.

(G) Contingencies

Versar and its subsidiaries are parties to various legal actions arising in the normal course of business. The Company believes that the ultimate resolution of these legal actions will not have a material adverse effect on its consolidated financial condition and results of operations.

(H) Goodwill and Other Intangible Assets

On January 30, 1998, Versar completed the acquisition of The Greenwood Partnership, P.C. subsequently renamed (Versar Global Solutions, Inc. or VGSI). The transaction was accounted for as a purchase. Goodwill resulting from this transaction was approximately $1.1 million. In fiscal year 2003, the Company adopted the Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets" which eliminated the amortization of goodwill, but does require the Company to test such goodwill for impairment annually. Currently, the carrying value of goodwill is approximately $776,000 relating to the acquisition of VGSI, which is now part of the Engineering & Construction (E&C) reporting unit. In performing its goodwill impairment analysis, management has utilized a discounted cash flow model to determine the estimated fair value of the E&C reporting unit. This model requires management, among other things, to estimate future revenue and expenses of the E&C reporting unit based upon current contract backlog and projected growth resulting from new business. Management engages outside professionals and valuation experts, as necessary, to assist in performing this analysis.

For fiscal years 2004 and 2003, management concluded, based upon its impairment analysis, that goodwill relating to the E&C reporting unit was not impaired. Goodwill impairment testing for fiscal year 2005 will be performed in the fourth quarter.

(I) Net Income Per Share

Basic net income per common share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted net income per common share also includes common

stock equivalents outstanding during the period if dilutive. The Company's common stock equivalents shares consist of stock options.

For the Three-Months Periods Ended

	October 1, 2004	September 30, 2003
Weighted average common shares outstanding - basic	7,845,905	7,259,770
Assumed exercise of options (treasury stock method)	466,538	257,871
Weighted average common shares outstanding - diluted	8,312,443	7,517,641

(J) Common Stock

The Company issued 15,580 shares of common stock upon the exercise of stock options during the first quarter of fiscal year 2005. Total proceeds from the exercise of such stock options were approximately $31,000.

(K) Recently Issued Accounting Standards

In January 2003, the FASB issued FASB Interpretation No. 46 (FIN 46), "Consolidation of Variable Interest Entities." This Interpretation clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to variable interest entities defined as certain entities in which the equity investors lack certain characteristics of a controlling financial interest or have insufficient equity investment for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 requires an enterprise to consolidate a variable interest entity if that enterprise will absorb a majority of the entity's expected losses, is entitled to receive a majority of the entity's expected residual returns, or both. FIN 46 also requires disclosures about unconsolidated variable interest entities in which an enterprise holds a significant variable interest. Application of FIN 46, as revised in December 2003, is required for financial statements of public entities that have interest in variable interest entities, or potential variable interest entities commonly referred to as special-purpose entities for periods ending after December 15, 2003. Application by public companies for all other types of entities is required in financial statements for periods ending after March 15, 2004. The Company does not have any variable interest entities and as such, the adoption of FIN46 did not have a significant impact on the Company's financial position or results of operations.

In May 2003, the FASB issued, Statement of Financial Accounting Standard No. 150 (SFAS 150), "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS 150 changes the classification in the statement of financial position of certain common financial instruments from either equity or mezzanine presentation to liabilities and requires an issuer of those financial statements to recognize changes in fair value or redemption amount, as applicable, in earnings. SFAS 150 requires an issuer to classify the following financial instruments as liabilities: a) mandatorily redeemable preferred and common stocks; b) forward purchase contracts that obligate the issuer to repurchase shares of its stock by transferring assets; c) freestanding put options that may obligate the issuer to repurchase shares of its stock by transferring assets; and d) freestanding financial instruments that require or permit the issuer to settle an obligation by issuing a variable number of its shares if, at inception, the monetary value of the obligation is based solely or predominantly on a fixed monetary amount known at inception, variations in something other than the issuer's shares, such as the price of gold multiplied by a fixed notional amount, or variations inversely related to changes in the value of the issuer's shares, such as a written put option that can be net share settled. The effect of adopting SFAS 150 will be recognized as a cumulative effect of an accounting change as of the beginning of the period of adoption. Restatement of prior

periods is not permitted. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003 and, with one exception, is effective at the beginning of the first interim period beginning after June 15, 2003 (July 1, 2003 for calendar year companies). Since the Company does not have any financial instruments that meet the criteria of SFAS 150, the adoption did not have an impact on the Company's financial position or results of operations.

(L) Stock Based Compensation

The Company accounts for employee stock option grants using the intrinsic method in accordance with Accounting Principles Board (APB) Opinion No. 25 "Accounting for Stock Issued to Employees" and related interpretations. Accordingly compensation expense, if any, is measured as the excess of the underlying stock price over the exercise price on the date of grant. The Company complies with the disclosure option of Statement of Financial Accounting Standards (SFAS) No. 123 "Accounting for Stock-Based Compensation", as amended by SFAS No. 148 "Accounting for Stock-Based Compensation - Transition and Disclosure" which requires pro-forma disclosure of compensation expense associated with stock options under the fair value method.

The Company's pro forma information follows (in thousands, except per share data):

	For the Three-Month Periods Ended	
	October 1, 2004	September 30, 2003
Net income, as reported	$ 407	$ 343
Less: Total Stock-Based Compensation determined under the fair-value based method	(102)	(75)
Pro-forma net income	305	268
Net income per share - basic, as		

reported	$ 0.05	$ 0.05
Pro-forma net income per share - basic	0.04	0.04
Net income per share - diluted, as reported	$ 0.05	$ 0.05
Pro-forma net income per share	0.04	0.04

(M) Business Segments

Effective July 1, 2004, the Company renamed and made minor organizational changes to its business segments. The Environmental Business segment has been renamed to the Infrastructure and Management Services segment and now includes the Company's Pennsylvania, Ohio, and Arizona offices which were formerly part of the Architecture and Engineering business segment. The Architecture and Engineering business segment has been renamed the Engineering and Construction segment and now is focused on larger construction projects. The Defense segment has been renamed the National Security segment. Previous year segment information has been reclassified to conform to the current presentation.

The Infrastructure and Management Services segment provides a full range of services including remediation/corrective actions, site investigations, remedial designs, and construction, operation and maintenance of remedial systems. The Engineering and Construction segment provides engineering, design and construction management to industrial and commercial facilities. The National Security segment provides expertise in developing, testing and providing personal protection equipment, and detecting and destroying biological and chemical agents.

VERSAR, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)

Management evaluates and measures the performance of its business segments based on net service revenue and operating income. As such, selling, general and administrative expenses, interest and income taxes have not been allocated to the Company's business segments.

Summary financial information for each of the Company's segments follows:

	For the Three-Month Periods Ended	
	October 1, 2004	September 30, 2003
GROSS REVENUE		
Infrastructure and Management Services	$ 10,884	$ 10,344
Engineering and Construction	5,733	1,547
National Security	2,497	1,714

	$ 19,114	$ 13,605
NET SERVICE REVENUE		
Infrastructure and Management Services	$ 6,540	$ 5,923
Engineering and Construction	993	906
National Security	1,654	1,400
	$ 9,187	$ 8,229
OPERATING INCOME(A)		
Infrastructure and Management Services	$ 1,408	$ 1,232
Engineering and Construction	298	218
National Security	204	327
	1,910	1,777
Selling, general and administrative expenses	1,490	1,380
	$ 420	$ 397

(A) Operating income is defined as net service revenue less direct costs of services and overhead.

IDENTIFIABLE ASSETS	October 1, 2004	June 30, 2004
Infrastructure and Management Services	$ 8,607	$ 10,856
Engineering and Construction	6,338	3,762
National Security	2,138	2,997
Corporate and Other	3,854	2,470
	$ 20,937	$ 20,085

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ITEM 2 Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

First Quarter Comparison of Fiscal Year 2005 and 2004

This report contains certain forward-looking statements which are based on current expectations. Actual results may differ materially. The forward-looking statements include those regarding the continued award of future work or task orders from government and private clients, cost controls and reductions, the expected resolution of delays in billing of certain projects, and the possible impact of current and future claims against the Company based upon negligence and other theories of liability, and changes to or failure of the Federal government to fund certain programs in which the Company participates. Forward-looking statements involve numerous risks and uncertainties that could cause actual results to differ materially, including, but not limited to, the possibilities that the demand for the Company's services may decline as a result of possible changes in general and industry specific economic conditions and the effects of competitive services and pricing; the possibility the Company will not be able to perform work within budget or contractual limitations; one or more current or future claims made against the Company may result in substantial liabilities; the possibility the Company will not be able to attract and retain key professional employees; and such other risks and uncertainties as are described in reports and other documents filed by the Company from time to time with the Securities and Exchange Commission.

Gross Revenue for the first quarter of fiscal year 2005 was $19,114,000, a $5,509,000 (40%) increase over that reported in the first quarter of fiscal year 2004. Approximately 62% of the increase is attributable to significantly higher subcontracted construction work in the Engineering and Construction Services business segment in support of the Air Force roofing project. The balance of the increase was primarily in the Infrastructure and Management Services business segment in support of Air Force remediation work.

Purchased Services and materials increased by $4,551,000 (85%) in the first quarter of fiscal year 2005 compared to that reported in the first quarter of fiscal year 2004. Approximately 90% of the increase was due to increased subcontractor activity in the Engineering and Construction business segment in support of the Air Force and other government agencies.

Net service revenue is derived by the deducting of the costs of purchased services from gross revenue. Versar considers it appropriate to analyze operating margins and other ratios in relation to net service revenue, because such revenues reflect the actual work performed by the Company's labor force. Net service revenue increased by 12% in the first quarter of fiscal year 2005 primarily due to the profit on the higher subcontracted construction activities as mentioned above.

Direct costs of services and overhead include the cost to Versar of direct and overhead staff, including recoverable and unallowable costs that are directly attributable to contracts. The percentage of these costs to net service revenue increased to 79.2% in the first quarter of fiscal year 2005 compared to 78.4% in the first quarter of fiscal year 2004. The increase was primarily due to the lower labor utilization resulting in higher indirect labor costs in the National Security business segment with the continued reduced volume in the chemical and biological laboratories.

Selling, general and administrative expenses approximated 16.2% of net service revenue in the first quarter of fiscal year

2005, compared to 16.8% in fiscal year 2004. The decrease is primarily due to the increased business volume in first quarter of fiscal year 2005, while expenses were relatively stable.

Operating income for the first quarter of fiscal year 2005 was $420,000, a 6% increase over that reported in the prior fiscal year. The increase is primarily due to growth in revenue as mentioned above.

ITEM 2 Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Interest expense for the first quarter of fiscal year 2005 was $13,000, a decrease of $41,000 (76%) over that reported in the prior fiscal year. The decrease was due to the Company's improved financial performance, which has resulted in the Company paying off the Company's line of credit and significantly reducing the Company's reliance on its line of credit to meet the working capital requirements.

Versar's net income for the first quarter of fiscal year 2005 was $407,000 compared to $343,000 in the prior fiscal year. The improved earnings were primarily attributable to the increase in gross revenue as well as the reduced interest costs in the first quarter of fiscal year 2005.

Liquidity and Capital Resources

The Company's working capital as of October 1, 2004 approximated $8,009,000, an increase of $515,000 (7%) compared to the prior fiscal year. The increase is primarily due to the improved operating cash flows in the first quarter of fiscal year 2005. In addition, the Company's current ratio at October 1, 2004 was 1.85, which was slightly higher than that reported on June 30, 2004.

Versar's line of credit with United Bank (Bank) provides for advances up to $5,000,000 based upon qualifying receivables. Interest on the borrowings is based on prime plus one and a half percent (6.25% as of October 1, 2004). The line is guaranteed by the Company and each subsidiary individually, and is collectively secured by accounts receivable, equipment and intangibles, plus all insurance policies on property constituting collateral. Unused borrowing availability at October 1, 2004 was $5,000,000. The line is subject to renewal in November 2005. The loan has certain covenants related to the maintenance of financial ratios. At October 1, 2004, the Company was in compliance with the financial covenants. The Company intends to expand approximately $450,000 for capital purposes, primarily associated with updating existing information technology systems. Such working capital requirements will be funded through the use of existing cash or the Company's lease line of credit.

Impact of Inflation

Versar seeks to protect itself from the effects of inflation. The majority of contracts the Company performs are for a period of a year or less or are cost plus fixed-fee type contracts and, accordingly, are less susceptible to the effects of inflation. Multi-year contracts provide for projected increases in labor and other costs.

Item 3 - Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes regarding the Company's market risk position from the information provided on Form 10-K for the fiscal year end June 30, 2004.

Item 4 - Procedures and Controls

As of the last day of the period covered by this report, the Company carried out an evaluation, under the supervision of the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective, as of such date, to ensure that required information will be disclosed on a timely basis in its reports under the Exchange Act.

There were no changes in the Company's internal control over financial reporting during the last quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1 - Legal Proceedings

In August 1997, Versar entered into a contract with the Trustees for the Enviro-Chem Superfund Site (the "Superfund Site"), which provided that, based upon an existing performance specification, Versar would refine the design, and construct and operate a soil vapor extraction system. During the performance of the contract, disputes arose between Versar and the Trustees regarding the scope of work. Eventually, Versar was terminated by the Trustees for convenience. The Trustees then failed to pay certain invoices and retainages due Versar.

On March 19, 2001, Versar instituted a lawsuit against the Trustees and three environmental consulting companies in the U.S. District Court of the Eastern District of Pennsylvania, entitled Versar, Inc. v. Roy O. Ball, Trustee, URS Corporation, Environmental Resources Management and Environ Corp., No. 01CV1302. Versar, in seeking to recover amounts due under the remediation contract from the Trustees of the Superfund Site, claimed breach of contract, interference with contractual relationships, negligent misrepresentations, breach of good faith and fair dealing, unjust enrichment and implied contract. Mr. Ball and several defendants moved to dismiss the action or, in the alternative, transfer the action to the U.S. District Court for the Southern District of Indiana, where, on April 20, 2001, the two Trustees had filed suit against Versar in the U.S. District Court for the Southern District of Indiana, entitled, Roy O. Ball and Norman W. Bernstein, Trustees v. Versar, Inc., Case No. IPO1-0531 C H/G. The Trustees alleged breach of contract and breach of warranty with respect to the remediation contract and asked for a declaratory judgment on a number of the previously stated claims.

On July 12, 2001, the Federal District Court in Pennsylvania granted defendants' motion to transfer the Pennsylvania lawsuit and consolidate the two legal actions in Indiana. The Company filed an answer and counterclaim to the Indiana lawsuit. The plaintiffs and third-party defendants filed Motions to Dismiss the Company's counterclaim. The court granted the motions in part and denied them in part. Versar amended its answer and counterclaim. In the meantime, plaintiffs filed a Motion for Partial Summary Judgment which the Judge granted in part and denied in part. The Judge held that certain agreements entered into by the parties prevented Versar from recovering certain amounts under its counterclaim but that Versar could pursue its claim for fraud in other areas. Written and oral discovery has commenced and has continued for several years. The court recently granted Versar's demand that the Trustees supply requested information and documents. Versar continues to seek additional discovery compliance by the Trustees. Discovery is expected to be completed by the end of calendar 2004. Trial is scheduled for May 2005. Based upon discussions with outside counsel, management does not believe that the ultimate resolution under the Trustees' lawsuit will have a materially adverse effect on the Company's consolidated financial condition and results of operations.

Versar and its subsidiaries are parties from time to time to various other legal actions arising in the normal course of business. The Company believes that any ultimate unfavorable resolution of these legal actions will not have a material adverse effect on its consolidated financial condition and results of operations.

Item 6 - Exhibits and Reports on Form 8-K

(a) Exhibits

31.1 and 31.2 - Certification pursuant to Securities Exchange Act Section 13a-14.

32.1 and 32.2 - Certification under Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

Pursuant to the Securities Exchange Release No. 33-8216, Form 8-K, which reported the Company's annual Results of Operations and Financial Condition, was furnished to, but not filed with the Securities and Exchange Commission on September 16, 2004.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

VERSAR, INC.
(Registrant)

/S/ Theodore M. Prociv
By:________________________
Theodore M. Prociv
Chief Executive Officer,
President, and Director

/S/ Lawrence W. Sinnott
By:________________________
Lawrence W. Sinnott
Senior Vice President,
Chief Financial Officer,
Treasurer, and Principal
Accounting Officer

Date: November 8, 2004

Exhibit 31.1

CERTIFICATION BY THEODORE M. PROCIV PURSUANT TO SECURITIES EXCHANGE ACT RULE 13a-14

I, Theodore M. Prociv, Chief Executive Officer of Versar, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Versar, Inc. (the "Registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in

light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2004

/S/ Theodore M. Prociv

Theodore M. Prociv

President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION BY LAWRENCE W. SINNOTT PURSUANT TO SECURITIES EXCHANGE ACT RULE 13a-14

I, Lawrence W. Sinnott, Senior Vice President and Chief Financial Officer of Versar, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Versar, Inc. (the "Registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's

auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2004

/S/ Lawrence W. Sinnott

Lawrence W. Sinnott
Senior Vice President and Chief Financial Officer

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Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Versar, Inc. (the "Company") on Form 10-Q for the period ending October 1, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Theodore M. Prociv, Chief Executive Officer and President of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material aspects, the financial condition and results of operations of the Company.

/S/ Theodore M. Prociv

Theodore M. Prociv
President and CEO

November 8, 2004

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Versar, Inc. (the "Company") on Form 10-Q for the period ending October 1, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Lawrence W. Sinnott, Senior Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material aspects, the financial condition and results of operations of the Company.

/S/ Lawrence W. Sinnott

Lawrence W. Sinnott
Senior Vice President and
Chief Financial Officer

November 8, 2004