

VERSAR INC
Form 10-K/A
October 30, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K/A
Amendment No. 1

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

For the fiscal year ended June 30, 2017 Commission File
No. 1-9309

Versar, Inc.
(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, Springfield, Virginia
(Address of principal executive offices)

22151
(Zip code)

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

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, \$.01 par value
(Title of Class)

NYSE American
(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of Act: NONE

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or an "emerging growth company" (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)
company Emerging Growth Company

Smaller reporting

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes No

The aggregate market value of the voting stock held by non-affiliates of the registrant as of December 30, 2016 was approximately \$13,563,911.

The number of shares of Common Stock outstanding as of October 5, 2017 was 10,097,259.

EXPLANATORY NOTE

Versar, Inc. (the “Company,” “Versar,” “we,” “us,” or “our”) is filing this Amendment No. 1 on Form 10-K/A (this “Amendment No. 1”) to amend our Annual Report on Form 10-K for the year ended June 30, 2017 (the “Annual Report”) filed on March 28, 2017 with the Securities and Exchange Commission (the “SEC”) solely for the purpose of including information that was to be incorporated by reference from our definitive proxy statement pursuant to Regulation 14A of the Securities Exchange Act of 1934. We will not file our definitive proxy statement within 120 days of our fiscal year ended June 30, 2017 and therefore, we are amending and restating in their entirety Items 10, 11, 12, 13 and 14 of Part III of the Annual Report. The reference on the cover of the Annual Report to the incorporation by reference to portions of our definitive proxy statement into Part III of the Annual Report is hereby deleted. Except as otherwise expressly noted, this Form 10-K/A does not reflect events occurring after the September 25, 2017 filing of our Annual Report nor does it modify or update the disclosure contained in the Annual Report in any way other than as required to reflect the amendments discussed above and reflected below.

Pursuant to the rules of the SEC, Part IV, Item 15 has also been amended to contain the currently dated certifications from the Company’s principal executive officer and principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. The certifications of the Company’s principal executive officer and principal financial officer are attached to this Amendment No. 1 as Exhibits 31.1 and 31.2. Because no financial statements have been included in this Amendment No. 1 and this Amendment No. 1 does not contain or amend any disclosure with respect to Items 307 and 308 of Regulation S-K, paragraphs 3, 4 and 5 of the certifications have been omitted.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

| NAME | SERVED AS DIRECTOR |
|------------------------|---|
| Robert L. Durfee, Ph.D | <p>1969 to the present</p> <p>Co-founder of the Company; Executive Vice President of the Company from 1986 to June 2004; President of GEOMET Technologies, LLC, a subsidiary of the Company, from 1991 to June 2004. Age 81.</p> <p>Dr. Durfee is a highly experienced executive. His prior roles at Versar, including as one of the Company's founders and as President of a subsidiary GEOMET Technologies, LLC, give him unique insight into the Company's businesses, particularly those aspects of environmental compliance, munitions disposal and control of hazardous or toxic materials.</p> |
| James L. Gallagher | <p>2000 to the present</p> <p>President, Gallagher Consulting Group since September 1999; President of Westinghouse Government and Environmental Services from 1996 to 1999; Executive Vice President of Westinghouse Government and Environmental Services from 1994 to 1996; Vice President and General Manager of Westinghouse Government, Operations</p> |

Business Unit from 1992 to 1994. Age 80.

Mr. Gallagher served as a highly experienced executive of a leading environmental and energy unit of a Fortune 500 company. With his significant financial, business, operations and contracting background, Mr. Gallagher has provided expert leadership to the Board's Audit Committee. His experience in construction management and outsourcing of large government facilities is important to two of the Company's core businesses. As a former consultant to the U.S. Department of Energy, Mr. Gallagher is able to provide knowledge of markets and client needs in the energy sector.

Amoretta M. Hoerber 2000 to the present

President, AMH Consulting since 1992; Director, Strategic Planning of TRW Federal Systems Group and TRW Environmental Safety Systems, Inc. from 1986 to 1992; Deputy Under Secretary, U.S. Army from 1984 to 1986; Principal Deputy Assistant Secretary, U.S. Army from 1981 to 1984. Age 74.

Ms. Hoerber's experience in government contracting, strategic planning and business development brings a unique perspective to the core Versar businesses as well as an understanding of the strategic planning process to advise Versar as it

develops its key business competencies. Her extensive network and membership in several key U.S. government advisory boards also give her insight into the needs and priorities of Versar's biggest client group, the U.S. government, specifically the U.S. Department of Defense.

Paul J. Hoyer

2001 to the present

Business consultant since February 2001; Assistant Secretary of the Army for Acquisition, Logistics and Technology from May 1998 to January 2001; Deputy Under Secretary of Defense, International and Commercial Programs, from March 1996 to May 1998; President of Fortune Financial from 1994 to January 1996. Age 71.

Mr. Hoyer's experience as a merchant banker and senior Department of Defense official, plus his service as a director of several public companies, provide organizational, financial and business experience to the Board. Since leaving the government, Mr. Hoyer has been an active participant and presenter at conferences focusing on general corporate governance and the specific governance needs of companies, like Versar, that focus on government contracts. Mr. Hoyer's participation in various government advisory groups and institutions enhances his leadership of the Board and enables him to contribute in a meaningful way to the

strategic and risk
management tasks of the
Board.

Amir A. Metry, Ph.D 2002 to the present

Business consultant since
1995; part-time Versar
employee from 1995 to April
2002; Founding Principal of
ERM Program Management
Corp. from 1989 to 1995;
Vice President of Roy F.
Weston from 1981 to 1989.
Age 75.

Dr. Metry's prior business
experience in the United
States and overseas and
ongoing charitable work in
Egypt and the Sudan provide
Versar with international
business experience in an
area that has become its
largest business segment. Dr.
Metry's experience includes
launching new business and
operations in the Middle
East, Europe and the Pacific
Rim. Also, Dr. Metry's many
years of experience and
present business
relationships in engineering
and environmental
businesses enhances his
leadership on organizational
and compensation issues
faced by Versar.

Anthony L. Otten 2008 to the present

Chief Executive Officer of
Versar since February 2010;
Director of Orion Energy
Systems, Inc. since August
2015; Managing Member of
Stillwater, LLC from July
2009 to February 2010;
Director of New Stream
Capital, LLC and Operating
Partner of New Stream Asset

Funding, LLC from 2007 to June 2009; Managing Member of Stillwater, LLC from 2004 to 2007; Principal of Grisanti, Galef and Goldress, Inc. from 2001 to 2004. Age 61.

Mr. Otten, as Chief Executive Officer, brings the perspective and input of the senior management team to the Board discussions. As former chief executive officer of a number of companies, senior financial manager and entrepreneur, he brings a strategic vision with practical operating and financial implications to the Board's discussions.

Frederick M. Strader

2014 to the present

Business consultant since 2013. Director of HDT Global from January to September 2016; President and Chief Executive Officer of Textron Systems, Inc. from January 2010 to December 2012; Executive Vice President and Chief Operating Officer of Textron Systems, Inc. from January 2008 to December 2009; President and Chief Executive Officer of United Industrial Corporation from August 2003 to December 2007; Chief Operating Officer and Executive Vice President of United Industrial Corporation from 2001 to 2003. Prior to 2001, he spent 21 years at United Defense, L.P. and its former parent, FMC Corporation, in a variety of finance, strategy, operations and general management positions.

Retired U.S. Army Reserve officer and member of the Army Acquisition Corps. Age 64.

Mr. Strader's experience in government contracting, leadership and management of public companies, and service as a board member provide him with unique insight and experience for the Board. Mr. Strader is a highly experienced executive who has led several companies serving the Department of Defense and other government agencies. He also has significant experience in finance and the government acquisition process which enable him to provide valuable input for Versar's strategic direction.

Jeffrey A. Wagonhurst 2011 to the present

President and Chief Operating Officer of Versar since February 2010; Executive Vice President, Program Management Group of Versar from May 2009 to February 2010; Senior Vice President of Versar from September 2006 to May 2009; joined Versar as Army Program Manager in February 1999; retired from government service in May 1997 as a Colonel after a 30 year career with the U.S. Army. Age 69.

Mr. Wagonhurst is an experienced business executive and leader who brings the perspective and input of Versar's operational management to the Board's discussions. As a long time

Versar executive and senior military officer, he provides a perspective and insight from Versar's largest client, the U.S. Department of Defense.

Our Corporate Governance Guidelines provide that each director nominee must be under the age of 72 at the time of their election to the Board and should not have served as a director for more than fifteen (15) years. However these requirements do not apply to any director who was serving at the time of adoption of the guidelines in July 1, 2008.

Executive Officers of the Registrant

The current executive officers of Versar, their ages as of June 30, 2017, their current offices or positions and their business experience for at least the past five years are set forth below.

| | | |
|-----------------------|----|--|
| Anthony L. Otten | 61 | Chief Executive Officer |
| Jeffrey A. Wagonhurst | 69 | President and Chief Operating Officer |
| Christine B. Tarrago | 45 | Senior Vice President, Chief Financial Officer, Treasurer and Principal Accounting Officer |
| James D. Villa | 54 | Senior Vice President, General Counsel, Secretary and Chief Compliance Officer |
| Linda M. McKnight | 68 | Senior Vice President of Business Development |
| Wendell A. Newton | 59 | Senior Vice President of Professional Services |
| Suzanne J. Bates | 46 | Senior Vice President of Environmental Services |

Anthony L. Otten, BS, MPP, joined Versar as Chief Executive Officer (CEO) in February 2010. Prior to becoming CEO, he had served on Versar's Board of Directors for two years as an independent board member. Mr. Otten served as Managing Member of Stillwater, LLC from July 2009 to February 2011, as an Operating Partner of New Stream Asset Funding, LLC from 2007 to June 2009 and Managing Member of Stillwater, LLC from 2004 to 2007. Mr. Otten has a Bachelor of Science degree from the Massachusetts Institute of Technology and a Masters in Public Policy from Harvard's Kennedy School of Government. Mr. Otten is an outside member of the board for Orion Energy Systems, Inc. (NASDAQ: OESX).

Jeffrey A. Wagonhurst, BS, MBC, MBA, MNSS, joined Versar in February 1999 as an Army Program Manager. In 2001, he was elected Vice President of Human Resources and Facilities. In September 2006, he was elected Senior Vice President to lead our former Program Management business unit (now ECM). In May 2009, Mr. Wagonhurst was promoted to Executive Vice President, Program Management Group. In February 2010, Mr. Wagonhurst was promoted to President and Chief Operating Officer of Versar. Mr. Wagonhurst concluded his 30 year career with the U.S. Army and retired in May 1997 as a Colonel. He commanded a Combat Engineer Brigade and Battalion during his service as well as previously serving as a Deputy District Commander of the Mobile District, U.S. Army Corps of Engineers.

Christine B. Tarrago, BA, MBA, CPA, joined Versar in June 2017 as Senior Vice President, Chief Financial Officer, Treasurer, and Principal Accounting Officer. Ms. Tarrago came to Versar from ICS Nett, where she served as Vice President and Corporate Controller. Prior to that, Ms. Tarrago served as Vice President Finance at K12, Inc. from March 2016 until January 2017 and as Vice President Finance, Corporate Controller of Lightbridge Communications Corporation from May 2011 to January 2016. She also has had leadership positions at companies including Marlink, Siemens and ALSTOM.

James D. Villa, B.A. J.D., joined Versar in March 2014 as Senior Vice President, General Counsel, Secretary, and Chief Compliance Officer. From 2011 to 2014, he served as Vice President and General Counsel of Colonial Parking, Inc. From 2006 to 2010, he served as Vice President and Chief Counsel of AOL, Inc., where he had responsibility for litigation and regulatory matters. Prior to joining AOL, Mr. Villa was a Trial Attorney in the Antitrust Division of the United States Department of Justice and also served as a Special Assistant United States Attorney in the Eastern District of Virginia. Mr. Villa was formerly in private practice with several different law firms in Washington, D.C. Mr. Villa served as a Captain in the United States Army Reserve and served in Saudi Arabia and Kuwait in support of Operations Desert Shield and Desert Storm. He has a Bachelor of Arts degree from the University of Michigan and a Juris Doctor degree from the University of Michigan Law School.

Linda M. McKnight, AA, joined Versar in April 2013 as Director of Business Development. In May of 2013, she was elected as Senior Vice President in charge of business development and strategy. Ms. McKnight has more than 29 years of experience in sales and marketing for environmental, engineering, construction, and logistics services in both domestic and international markets. She has held senior management sales positions with Tetra Tech and Kellogg Brown & Root (KBR) over the past 24 years. From 2010 to 2013, she provided business development consulting to firms focused on enhancing internal sales processes to grow environmental and engineering services to federal clients. Ms. McKnight is a Fellow and active member in the Society of American Military Engineers and serves on the Board of the Society's Academy of Fellows. She is the Immediate Past President of Women in Defense, Capital Chapter.

Wendell Newton, BS, joined Versar in July 2014 as Senior Vice President of the Professional Services Group. From February 1999 to July 2014, Mr. Newton was the Executive Vice President, Chief Operating Officer and one of the three shareholders of J.M. Waller Associates, Inc. (JMWA). Mr. Newton brings more than twenty-five years of experience in leadership and management in the areas of contracts, operations, finance, project management, human resources, and business development. During his 15-year tenure with JMWA, Mr. Newton was responsible for the executive leadership of the national environmental, facilities and logistics consulting and management groups. He served as senior-level management and provided oversight of environmental and compliance projects as well as projects involving development of facility requirements, master plans, land use and infrastructure plans. He developed and executed capital resource management plans including division and group annual budgets and the management of the technical services support staff. Mr. Newton also served as Vice President for JMWA Division managing the company's professional services resources world-wide and providing oversight to nearly 300 engineering, scientific, management and professional support staff who serve JMWA federal client base.

Suzanne Bates, B.S., M.S., joined Versar in September 2013 as a senior program manager and lead operations manager. Currently, Suzanne serves as Senior Vice President and Group Manager for Versar's Environmental Services Group. Prior to joining Versar, Suzanne served as the Environmental Group Lead for Geo-Marine, Inc., (GMI) leading programs and projects focused on the Department of Defense and other federal agencies. She is a graduate of Texas A&M University-Corpus Christi with a Bachelor of Science degree in biology and chemistry and a Master of Science degree in marine sciences.

For the purpose of calculating the aggregate market value of the voting stock of Versar held by non-affiliates as shown on the cover page of this report, it has been assumed that the directors and executive officers of the Company and the Company's 401(k) Plan are the only affiliates of the Company. However, this is not an admission that all such persons are, in fact, affiliates of the Company.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 (the “Exchange Act”) requires Versar’s executive officers, directors and persons who beneficially own more than 10% of Versar’s Common Stock to file initial reports of ownership and reports of changes in ownership with the SEC. Based solely on Versar’s review of such reports furnished to Versar, Versar believes that all reports required to be filed by persons subject to Section 16(a) of the Exchange Act, and the rules and regulations thereunder, during fiscal 2017, were timely filed, other than Ms. Tarrago who inadvertently had a late filing of her Form 3. Ms. Tarrago filed the Form 3 on October 24, 2017, which should have been filed no later than June 12, 2017.

Audit Committee and Audit Committee Financial Expert

The Audit Committee, which the Board has determined is composed exclusively of non-employee directors who are independent, as defined by the NYSE American LLC (“NYSE America”) listing standards and the rules and regulations of the SEC, consisted of Mr. Gallagher (Chair), Dr. Durfee, Mr. Hoeper and Mr. Strader during fiscal 2017.

The Committee’s primary responsibilities, pursuant to a written charter, which is posted on the Company’s website at www.versar.com under Corporate Governance (located under the “Investors” tab), are to provide oversight of the Company’s accounting and financial controls, review the scope of and procedures to be used in the annual audit, review the financial statements and results of the annual audit, and retain, and evaluate the performance of, the independent accountants and the Company’s financial and accounting personnel. The Board of Directors has determined that Mr. Strader qualifies as an Audit Committee Financial Expert as such term is defined under Item 407(d)(5) of Regulation S-K and is independent as noted above.

Code of Business Ethics and Conduct

The Company’s Board has adopted a Code of Business Ethics and Conduct, most recently restated in April 2016, that applies to all directors and employees, including the Company’s principal executive officer, principal financial officer, principal accounting officer and controller. The Code of Business Ethics and Conduct is posted on the Company’s web site www.versar.com under Corporate Governance (located under the “Investors” tab). The Company intends to disclose on its website any amendments or modifications to the Code of Business Ethics and Conduct and any waivers granted under this Code to its principal executive officer, principal financial officer, principal accounting officer or controller or persons performing similar functions. In fiscal 2017 and through the date of this Annual Report, no waivers have been requested or granted.

Item 11. Executive Compensation

COMPENSATION DISCUSSION AND ANALYSIS

Overview

The following Compensation Discussion and Analysis reviews the executive compensation program, policies and decisions of the Company’s Compensation Committee with respect to the Company’s executive officers listed in the Summary Compensation Table below (the “Named Executive Officers”). The named executive officers of the Company as of the end of fiscal 2017 are:

| Name | Position |
|------|----------|
|------|----------|

| | |
|-----------------------|--|
| Anthony L. Otten | Chief Executive Officer |
| Jeffrey A. Wagonhurst | President and Chief Operating Officer |
| James D. Villa | Senior Vice President, General Counsel, Secretary and Chief Compliance Officer |

Ms. Cynthia Downes served as Executive Vice President, Chief Financial Officer and Treasurer of the Company until June 1, 2017.

Executive Compensation Philosophies and Policies

The compensation philosophy of the Compensation Committee (the “Committee”) is built on the principles of pay for performance, stock ownership and alignment of management interests with the long-term interest of the Shareholders. The Committee’s executive compensation policies are designed to provide competitive levels of compensation that integrate pay with performance, recognize individual initiative and achievements and assist the Company in attracting and retaining qualified executive officers. The target levels of new executive officers’ overall compensation are intended to be aligned with and benchmarked against compensation in the professional services industry for similar executives. In addition, the Committee seeks to provide a clear and transparent executive compensation process that reflects the understanding, input and decision factors that make the compensation and incentive system a valuable tool to increase shareholder value.

The Company’s executive compensation program includes three components:

Base Salary – Salaries are benchmarked against those paid to other executives in the professional services industry as determined based on information provided from time to time by the Committee’s compensation consultant, as described below.

Long-Term Equity Incentive Awards – The purpose of this element of the Company’s executive compensation program is to link the Company’s most senior managers’ compensation with the long-term interests of the Company’s shareholders, as well as the performance of the Company in a single fiscal year. Long-term incentive awards may be granted to named executive officers and other employees usually in the form of restricted stock or restricted stock units from a pool established under an incentive pay for performance plan at the beginning of each fiscal year by the Committee and approved by the Board. The Committee bases its decision to grant such awards, if a pool is established, on the individual’s performance and potential to contribute to the creation of Shareholder value. In February 2015, the Committee approved a Long-Term Incentive Compensation Program under which long-term incentive awards in the form of restricted stock units may be granted to the Company’s Chief Executive Officer, President/Chief Operating Officer and Chief Financial Officer based on a formula if the Company achieves certain defined growth in diluted earnings per share each year. The Long-Term Incentive Compensation Program was effective from fiscal 2015 through fiscal 2017. The Company had a similar program that operated for fiscal 2011 through 2014.

Non-Equity Incentive Plan Compensation – Non-equity incentive plan compensation is paid in cash pursuant to the above-noted incentive pay for performance plan and seeks to reward performance achieved during the applicable fiscal year. This pay for performance incentive plan balances the short-term and long-term needs of the Company. Under the non-equity incentive plan compensation element of the plan, a cash incentive pool is recommended each fiscal year upon the Company’s attainment of certain financial targets set by the Board. If the Company meets the targets, the Committee then determines the allocation of a pre-determined portion of the cash incentive pool among the executive officers based on each executive officer’s position and individual contribution to the Company’s performance. Each executive officer’s performance is measured against financial, profitability, growth, strategic and operational goals consistent with the Company’s business plan. For the immediate future, greater emphasis is focused

on the short-term well-being of Versar in determining the allocation of cash awards to executive officers.

Impact of 2016 “Say on Pay” Advisory Vote.

We provided our shareholders with an advisory “say on pay” vote on the compensation of our named executive officers at our 2016 Annual Meeting of Shareholders held on June 29, 2017. Approximately 77.1% of shares eligible to vote with respect to this matter (treating broker non-votes as ineligible) were voted in support of our executive compensation. The Compensation Committee evaluated the results of this vote when making the determinations described herein and, as a result, the Compensation Committee has continued to apply substantially similar effective principles and philosophy it has used in previous years in determining executive compensation and made no material changes in fiscal 2017. The Compensation Committee will continue to consider shareholder concerns and feedback in the future.

Incentive Compensation Philosophy and Policies

Incentive Compensation Pay For Performance Plan

Typically, the Committee annually establishes a company-wide Incentive Compensation Pay For Performance Plan (“Incentive Plan”) at its first meeting held during the fiscal year. The Incentive Plan is based on a set of general principles that apply to all elements of compensation and establish the rules for awarding non-equity incentive plan compensation and stock-based compensation. The Incentive Plan consists of two parts: the first part is a written Incentive Compensation Plan, which was adopted in September 2010 and, the second part consists of annual general principles and guidelines for incentive compensation, including performance criteria, defined incentive groups and the target percentages of the pool to be allocated to each group for the fiscal year. The guidelines applicable to all elements of the Company’s compensation program and that apply directly to the Incentive Plan each year include:

The senior management team’s compensation is linked to Versar’s profitability, growth and strategic position;

The Incentive Plan’s key concept, pay for performance, balances short-term needs and long-term goals of the Company and the senior management team;

The Pay For Performance concept is applicable to all elements of compensation, including base salary and merit increases, non-equity incentive plan compensation and restricted stock awards;

The Incentive Plan is simple, rational, consistent and based on agreed-upon measurable parameters;

The Incentive Plan is based upon the Company’s achievement of certain levels of pre-tax income; and

The Incentive Plan is driven by a combination of metrics, depending on the level of management. The intent is that all levels of senior management have a significant portion of their compensation tied to the Company’s performance.

For fiscal 2017, the Committee determined that individual Incentive Plan awards would be based 10% to 65% on financial goals emphasizing the short-term well-being of Versar and 35% to 90% upon meeting strategic growth and sustainability goals of Versar over a longer period.

Restricted Stock Awards. Awards of restricted stock or restricted stock units (“restricted stock”) take into account both past performance and the need to provide the executive officers, other managers and key employees with an incentive to drive future performance of the Company. Restricted stock is also used as an incentive for future performance and long-term retention and commitment to the Company’s future. Restricted stock awards are currently made under the Company’s 2010 Stock Incentive Plan. While this Plan allows the use of stock options and other forms of stock-based

awards, the Committee has determined that all awards will currently be in the form of restricted stock and restricted stock units, because restricted stock provides an opportunity to tie employees' incentives to the growth of Shareholder value while potentially having less of an impact than stock options from an accounting standpoint on the earnings of the Company.

In the fiscal 2017 Incentive Plan, the number of restricted shares available for award was based on the same measure used to establish the size of the cash bonus pool, subject to a minimum and maximum award range. For fiscal 2017, the minimum pool for restricted stock awards was set at 25,000 shares and the maximum pool was 175,000 shares. Shares of restricted stock are awarded from the pool at the discretion of the Compensation Committee. In light of the Company's financial condition at the end of fiscal 2017, no pool was established for fiscal 2018.

Non-Equity Incentive Plan Compensation. Under the Incentive Plan, if the Company meets the minimum pre-tax income targets set in advance by the Board, then a non-equity incentive plan compensation pool is created. For fiscal 2017, the Board set the sole criteria for the creation of the non-equity incentive plan compensation pool as the Company's pre-tax income. The minimum goal for fiscal 2017 was \$950,000 in pre-tax income, with a non-equity incentive plan compensation pool of \$95,000 at that level. The non-equity incentive plan compensation pool was designed to increase as pre-tax income reached higher levels so that at \$2,000,000 of pre-tax income, a \$500,000 non-equity incentive plan compensation pool would be created. An executive officer's participation in the pool, if any, is based on achievement of individually designed performance criteria. The Board and Compensation Committee did not establish an incentive compensation plan for fiscal 2018. While the Company believed that the fiscal 2017 target was challenging but attainable when adopted, based on performance in fiscal 2017, no bonus pool was created.

Long-Term Incentive Compensation Program

On February 3, 2015, the Committee approved the Versar, Inc. 2015 Long-Term Incentive Compensation Program (the "LTICP") adopted under the Company's 2010 Stock Incentive Plan (the "2010 Plan"). The LTICP was effective as of June 28, 2014. The LTICP provides for the creation for each of fiscal 2015, 2016 and 2017 of a performance pool equal to 30% of the amount by which the Company's diluted earnings per share exceeds that fiscal year's target diluted earnings per share (which was \$0.299 for the 2015 Performance Period, \$0.329 for the 2016 Performance Period and \$0.362 for the 2017 Performance Period), times the weighted average number of the Company's common stock outstanding, on a diluted basis (the "LTICP Pool"). The LTICP Pool shall in no event be less than zero for any fiscal year. To the extent that the LTICP Pool is zero in any fiscal year covered by the LTICP, no LTICP Pool will be created for the subsequent fiscal year.

In any year that an LTICP Pool is created, each participant in the LTICP may receive a restricted stock award pursuant to the 2010 Plan. The number of shares of restricted stock received by each participant will be calculated by multiplying the LTICP Pool by each participant's designated percentage and then dividing the result by the fair market value of the Company's common stock on the last day of the fiscal year to which the award relates. Each participant must be employed by the Company on the date the award amounts are determined in order to be eligible to receive an award, except as specified by the LTICP. The participants in the LTICP are the Company's Chief Executive Officer, President/Chief Operating Officer and Chief Financial Officer and their participation percentages are 60%, 25% and 15%, respectively, subject to change by the Compensation Committee for any fiscal year.

One third of the restricted shares granted from the LTICP Pool will vest immediately following the Compensation Committee meeting at which such award is confirmed, and the remaining restricted shares will vest in equal proportions on the first and second anniversaries of the valuation date applicable to the restricted share award. Such restricted stock shall be forfeited if employment is terminated prior to vesting upon the terms set forth in the award agreement. Any unvested restricted shares will be subject to accelerated vesting if the Company's board of directors determines in its discretion that the award recipients have complied with the terms of and objectives as set forth in the LTICP. Further, vesting will be suspended in any year in which the LTICP Pool is equal to zero or, in periods following fiscal 2017, if the Company fails to achieve the performance measures then established for that fiscal year.

If in a succeeding performance period, as defined by the LTICP, an LTICP Pool is created, the previously suspended restricted stock awards will vest. Participation in the LTICP will generally cease upon termination of a participant's service with the Company provided that if a participant's service with the Company is terminated without cause, or by the participant for good reason, or as a result of retirement, death or disability after the end of a fiscal year but before the receipt of restricted shares under the LTICP has been determined, such participant will continue to participate and receive restricted shares from the LTICP Pool for the then completed fiscal year as if a continuing employee of the Company at that time. Upon a Change in Control, as defined by the 2010 Plan, all participation in the LTICP will cease and no further awards will occur. However, upon a Change in Control, any unvested restricted shares previously granted pursuant to the LTICP will immediately vest.

Compensation Process

Incentive Compensation Pay For Performance Plan

As noted above, in establishing the annual Incentive Plan, the Committee annually reviews the overall compensation of senior management, as well as the size and composition of the non-equity portion and stock-based award portion of the Incentive Plan at the beginning of each fiscal year.

At the same time, the Committee gathers data regarding the Company's performance during the immediately preceding fiscal year to determine the awards to be made under the Incentive Plan for that then completed fiscal year.

In making its compensation decisions, the Committee has historically engaged the services of Steve Parker of HR-3D, a compensation consulting firm. Mr. Parker compiles information from publicly available compensation surveys and benchmarks, including those prepared by Willis Towers Watson, Radford Surveys & Consulting, and Culpepper and Associates, Inc., regarding companies in the professional services industry. The compilation prepared by Mr. Parker, last updated in January 2016, included benchmarked compensation data for different executive levels of professional services companies of various sizes and in various geographic locations, but did not include the names of the individual companies whose salary data is utilized to compile the survey data. The publicly available compensation surveys and benchmarks used to prepare the compilation were chosen by Mr. Parker based on general direction from the Committee. Under the direction of Dr. Metry, Mr. Parker provided detailed information by type of executive position focused on professional service companies with revenues in a range similar to that targeted by Versar over the same period. The compilation included an average of the mid-range of salaries and bonus percentages for the various executive levels within the professional services industry. In making compensation decisions, the Committee's goal is to over time provide for executives' salaries and bonuses within a particular range based on averages as supported by the compilation.

The Committee also considers the accounting and tax impact to the Company of the proposed compensation. Section 162(m) of the Internal Revenue Code has not been a relevant factor in the Committee's compensation decisions to date, because the levels of compensation historically paid to the executive officers have been substantially below the \$1 million threshold set forth in Section 162(m). If the Committee were to consider compensation increases sufficient to reach this threshold, it would seek advice regarding application and impact of Section 162(m). In setting compensation, the Committee also considers ways to minimize the adverse tax consequences from the impact of Section 409A of the Internal Revenue Code. If an executive officer is entitled to nonqualified deferred compensation benefits, as defined by and subject to Section 409A, and such benefits do not comply with Section 409A, such executive officer would be subject to adverse tax treatment (including accelerated income recognition in the first year that benefits are no longer subject to a substantial risk of forfeiture) and a 20% penalty tax. Versar's compensation plans and programs are, in general, designed to comply with the requirements of Section 409A so as to avoid possible adverse tax consequences.

Long-Term Incentive Compensation Program

The Committee annually reviews the LTICP in order to determine if the mechanics of the plan, including the calculation of the LTICP Pool and the vesting schedule of awards, remain appropriate, and to determine if the participants in the pool and their respective participation percentages should be modified. Otherwise, as the process in which awards are granted under the terms of the LTICP is fixed pursuant to the terms of the LTICP, the Committee has no further discretion with respect to awards under the LTICP.

Compensation Decisions

Base Salary

For current executive officers, the Committee intends to focus on providing significant incentive compensation to drive the Company's performance rather than annual base salary increases, except as required in the case of misaligned salary levels or as deemed necessary following review of the executives' overall compensation packages. Given the Company's current financial situation, the Committee determined not to make any changes to base salaries, and has sought to reduce other prerequisites as appropriate.

Stock Based Awards (including Long-Term Incentive Compensation Program)

Restricted stock or restricted stock units may be awarded to executive officers pursuant to the terms of the annual Incentive Plan and the LTICP if the specified criteria are met. In fiscal 2017, the Company did not achieve the targets necessary to trigger the award of restricted stock or restricted stock units under the 2017 Incentive Plan and the LTICP. However, to provide continuing performance incentives to management to address the Company's financial condition and lender requirements, the Committee made a discretionary award of restricted stock units to Mr. Wagonhurst (2500 shares), Ms. Downes (2500 shares), and Mr. Villa (1500 shares) in fiscal 2017.

Non-Equity Incentive Plan Compensation

In fiscal 2017, the Company did not achieve the targets necessary to trigger the accrual of a bonus pool under the 2017 Incentive Plan. Thus, no non-equity incentive plan compensation was paid to the named executive officers for fiscal 2017.

Summary Compensation Table

The following table presents compensation information earned by the Company's Principal Executive Officer, Principal Financial Officer, each of the Company's three other most highly compensated executive officers during the fiscal year ended June 30, 2017, and compared with the two prior years. We refer to these executive officers as our named executive officers in this Annual Report.

| Name and Principal Position | Year | Salary (\$)(1) | Bonus (\$) | Stock Awards (\$)(2) | All Other Compensation (\$)(3) | Total (\$) |
|---|------|----------------|------------|----------------------|--------------------------------|------------|
| Anthony L. Otten Chief Executive Officer | 2017 | 375,000 | - | - | 25,379 | 400,379 |
| Anthony L. Otten Chief Executive Officer | 2016 | 375,000 | - | 84,305 | 36,775 | 496,080 |
| Jeffrey A. Wagonhurst President and Chief Operating Officer | 2017 | 270,000 | - | 2,925 | 21,418 | 294,343 |
| Jeffrey A. Wagonhurst President and Chief Operating Officer | 2016 | 270,000 | - | 32,585 | 30,923 | 339,508 |
| Cynthia A. Downes Former Executive Vice President and Chief Financial Officer | 2017 | 230,000 | - | 5,265 | 212,468 | 447,733 |
| Cynthia A. Downes Former Executive Vice President and Chief Financial Officer | 2016 | 230,000 | - | 40,170 | 23,161 | 293,331 |
| James D. Villa Senior Vice President, General Counsel and Chief Compliance Officer | 2017 | 210,000 | - | 8,606 | 9,163 | 227,769 |
| James D. Villa Senior Vice President, General Counsel and Chief Compliance Officer | 2016 | 210,000 | - | 22,763 | 18,210 | 250,973 |

(1)
Includes regular base salary earnings for fiscal 2017 and 2016.

(2)
Amounts shown are the aggregate grant date fair value of time-based restricted stock unit awards computed in accordance with FASB ASC Topic 718.

(3)
Consists of the following: Any severance payments, payments for accrued personal time off after leaving the Company, Company contributions to health insurance, Company paid life insurance, Company paid disability, Company HSA contribution, and Company match to employee's 401(k) Plan contribution.

Outstanding Equity Awards at Fiscal Year-End

| Name | Option Awards | | | Stock Awards | |
|-----------------------|---|----------------------------|------------------------|---|--|
| | Number of Securities Underlying Unexercised Options (#) Exercisable | Option Exercise Price (\$) | Option Expiration Date | Number of Shares or Units of Stock That Have Not Vested (#) | Market Value of Shares or Units of Stock That Have Not Vested (\$) |
| Anthony L. Otten | 0 | - | - | 9,000 | 13,410 |
| Jeffrey A. Wagonhurst | 0 | - | - | 2,500 | 3,725 |
| Cynthia A. Downes | 0 | - | - | 0 | 0 |
| James D. Villa | 0 | - | - | 1,500 | 2,235 |

(1)

Based on the Fair Market Value of the Company's Common Stock (based on the closing price for the Common Stock on the NYSE American) on June 30, 2017 of \$1.49 per share.

Stock Vested

| Name | Number of Shares Acquired on Vesting #(2) | Value Realized on Vesting \$(1) |
|-----------------------|---|---------------------------------|
| Anthony L. Otten | 9000 | 6,750 |
| Jeffrey A. Wagonhurst | 2500 | 1,875 |
| Cynthia A. Downes | 0 | 0 |
| James D. Villa | 1500 | 1,125 |

(1)

Calculated by multiplying the number of shares by the fair market value of the Company's Common Stock (based on the closing price for the Common Stock on the NYSE American) on the first trading day following the date of vesting of \$0.75 per share.

(2)

Represents the shares that vested on September 2, 2017 from the restricted stock unit award granted on September 2, 2016.

Director Compensation Fiscal Year 2017

During fiscal 2017, each of the Company's non-employee directors received an annual fee consisting of \$8,000 in cash, plus the grant of 8,500 shares of restricted stock, all of which vest over a one-year period. Each non-employee director was paid an attendance fee of \$1,400 in cash for each meeting of the Board or of its committees for which the director was physically present and \$700 in cash for each meeting attended telephonically. In addition, the Chairs of the Audit, Compensation and Nominating & Governance Committees were paid an additional \$6,000 a year in cash as compensation for increased responsibility and work required in connection with those positions. The non-employee Chairman of the Board was paid an additional \$15,000 in cash and was granted an additional 6,000 shares of restricted stock for additional responsibilities and efforts on behalf of the Company.

| Name (1) | Fees Earned or Paid in Cash (\$) (2) | Stock Awards (\$) (3) | Total (\$) |
|----------------------|--------------------------------------|-----------------------|------------|
| Paul J. Hoeper | 39,100 | 870 | 39,970 |
| Robert L. Durfee | 26,900 | 510 | 27,410 |
| James L. Gallagher | 30,100 | 510 | 30,610 |
| Amoretta M. Hoeber | 30,100 | 510 | 30,610 |
| Amir A. Metry | 30,100 | 510 | 30,610 |
| Frederick M. Strader | 26,200 | 510 | 26,710 |

(1)

Anthony L. Otten and Jeffrey A. Wagonhurst are not included in this table because as employees of Versar, they receive no extra compensation for their service as directors. Their compensation for fiscal 2017 is shown on the Summary Compensation Table included herein above.

(2)

Includes all fees earned or paid for services as a director in fiscal 2017, including annual retainer, committee or Board chair fees and meeting fees.

(3)

Represents the grant date fair value of shares of restricted stock granted in fiscal 2017 which is the amount recognized for financial reporting purposes in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification Topic 718 ("Topic 718"). In accordance with Topic 718, the grant date fair value of each share of restricted stock is based on the closing price of Versar's Common Stock on the date of the grant, November 14, 2016 for all stock awards, which was \$0.06 per share. Restricted stock awarded to Directors in fiscal 2017 vested on June 28, 2017, the day before the anticipated first annual meeting of shareholders after the date of grant.

At the end of fiscal 2017, the non-employee directors owned the following number of unvested shares of restricted stock:

| NAME | Unvested Restricted Stock Awards |
|----------------------|----------------------------------|
| Paul J. Hoeper | 13,000 |
| Robert L. Durfee | 8,000 |
| James L. Gallagher | 8,000 |
| Amoretta M. Hoeber | 8,000 |
| Amir A. Metry | 8,000 |
| Frederick M. Strader | 8,000 |

Change in Control Agreements

The Company has entered into Change in Control Severance Agreements (the “Change in Control Agreements” and each a “Change in Control Agreement”) with each of Anthony L. Otten, Jeffrey A. Wagonhurst, James D. Villa, Linda M. McKnight, Alessandria Albers and Christine B. Tarrago (each, for purposes of this section, an “Executive”). The Change in Control Agreements provide for the following severance payments and benefits upon a termination of employment by the Company without Cause or a resignation by the executive officer for Good Reason, in each case, during the term of the agreement, following a change in control or a potential change in control (as such terms are defined within the respective Change in Control Agreements):

Except with respect to Ms. Albers and Ms. Tarrago, a cash payment equal to two (2) times the executive's annual base salary in effect for the respective Executive when employment ends, or, if higher, the annual base salary in effect immediately before the change in control, potential change in control or Good Reason event (as each such term is defined in each Change in Control Agreement);

o

Under the terms of the Change in Control Agreement with Ms. Albers, she would receive an amount of cash equal to one (1) year of her base salary in lieu of the above payment;

o

Under the terms of the Change in Control Agreement with Ms. Tarrago, she would receive an amount of cash equal to nine (9) months of her base salary in lieu of the above payment;

For Executives other than Ms. Tarrago, a cash payment equal to two (2) times the higher of the amounts paid to the executive under any existing bonus or incentive plan in the calendar year preceding the termination of his employment or the calendar year in which the change occurred;

A cash payment for any amounts accrued under any other incentive plan;

For Executives other than Ms. Tarrago, a continuation for twenty-four (24) months of the life, disability and accident benefits the Executive was receiving before the end of his or her employment;

For Executives other than Ms. Tarrago, a continuation for eighteen (18) months of the health and dental insurance benefits he or she was receiving before the end of his or her employment;

For Executives other than Ms. Tarrago, a lump sum cash payment of \$16,000 in lieu of medical benefits made available by the Company to its officers;

All unvested options will immediately vest and remain exercisable for the longest period of time permitted by the applicable stock option plan; and,

All unvested Company Restricted Stock awards will immediately vest.

Payments made pursuant to the Change in Control Agreements will be paid out in a lump sum payment within five days after the day the Executive becomes entitled to severance benefits under the Change in Control Agreement. If the amount due cannot be finally determined in that time, the Executive will receive the minimum amount to which he or she is clearly entitled as estimated in good faith by the Company, and the balance would be paid no later than 30 days following the severance date. The following terms have the following meanings in the Change in Control Agreements:

"Cause" means any of the following:

- (1) The Executive fails to carry out assigned duties after being given prior warning and an opportunity to remedy the failure;
- (2) The Executive breaches any material term of any employment agreement with the Company;
- (3) The Executive engages in fraud, dishonesty, willful misconduct, gross negligence, or breach of fiduciary duty (including without limitation any failure to disclose a conflict of interest) in the performance of his or her duties for the Company; or
- (4) The Executive is convicted of a felony or crime involving moral turpitude.

"Good Reason" means the occurrence of any of the following events arising without the Executive's consent:

- (1) Demotion: The Executive's duties and responsibilities are materially and adversely altered from those in effect immediately before the change in control (or, the potential change in control), or there is a material and adverse change in the Executive's reporting responsibilities or in the size of the budget the Executive administers in effect immediately before the change in control (or, the potential change in control), provided that no demotion will be deemed to occur solely as a result of the Company ceasing to be a public company, a change in the Executive's title, or the Executive's transfer to an affiliate.
- (2) Pay Cut: The Executive's annual base salary is materially reduced.
- (3) Relocation: The Executive's principal office is materially relocated, which increases the Executive's one-way commute to work by more than fifty (50) miles, based on the Executive's residence when the transfer was announced.
- (4) Breach of Contract: The Company materially breaches the Change in Control Agreement, the Executive's employment agreement or any other agreement between Executive and the Company pursuant to which the Executive performs services for the Company or compensation and benefits are provided to the Executive.
- (5) Improper Termination: The Company terminates the Executive's employment, other than pursuant to a notice of termination satisfying the requirements of provisions of the Change in Control Agreement.

In connection with that certain Agreement and Plan of Merger, dated as of September 22, 2017, as subsequently amended and restated on September 27, 2017, by and among Kingswood Genesis Fund I, LLC, KW Genesis Merger Sub, Inc. and the Company (the "Merger Agreement"), the Company has entered into amendments to the Change in Control Severance Agreements (as amended, the "Amended Change in Control Agreements" and each an "Amended Change in Control Agreement") with each Executive. The Amended Change in Control Agreements (except as otherwise noted) will be effective upon the closing of the transactions contemplated by the Merger Agreement and alter the payment timing set forth in the agreements for payments made as a result of the transactions contemplated by the Merger Agreement. Under the terms of the Amended Change in Control Agreement with Mr. Otten, he would receive an amount of cash equal to \$390,625 in lieu of the above cash payment. Payments made pursuant to the

Amended Change in Control Agreements will be paid out in equal bi-weekly installments over two payment periods following the Executive's termination of employment.

The following table estimates and summarizes potential payments and benefits, other than the benefits ordinarily available to salaried employees, that Mr. Otten would have received had his employment been terminated on the last day of fiscal 2017 under the circumstances described below.

| | Salary | Bonus | Benefits |
|--|---------|-------|----------|
| | \$ | \$ | \$(1) |
| Termination or resignation following a change of control | 750,000 | 0 | 45,486 |
| Termination or resignation following a potential change of control | 750,000 | 0 | 45,486 |
| Successor fails to assume the contract | 750,000 | 0 | 45,486 |

(1)
Payment for benefit costs paid by the Company on behalf of Mr. Otten that are not generally available to other employees for insurance and medical benefits calculated based on current applicable premiums.

The following table estimates and summarizes potential payments and benefits, other than the benefits ordinarily available to salaried employees, that Mr. Wagonhurst would have received had his employment been terminated on the last day of fiscal 2017 under the circumstances described below.

| | Salary | Bonus | Benefits |
|--|---------|-------|----------|
| | \$ | \$ | \$(1) |
| Termination or resignation following a change of control | 540,000 | 0 | 47,176 |
| Termination or resignation following a potential change of control | 540,000 | 0 | 47,176 |
| Successor fails to assume the contract | 540,000 | 0 | 47,176 |

(1)
Payment for benefit costs paid by the Company on behalf of Mr. Wagonhurst that are not generally available to other employees for insurance and medical benefits calculated based on current applicable premiums.

The following table estimates and summarizes potential payments and benefits, other than the benefits ordinarily available to salaried employees, that Mr. Villa would have received had his employment been terminated on the last day of fiscal 2017 under the circumstances described below.

| | Salary | Bonus | Benefits |
|--|---------|-------|----------|
| | \$ | \$ | \$(1) |
| Termination or resignation following a change of control | 420,000 | 0 | 21,333 |
| Termination or resignation following a potential change of control | 420,000 | 0 | 21,333 |
| Successor fails to assume the contract | 420,000 | 0 | 21,333 |

(1)
Payment for benefit costs paid by the Company on behalf of Mr. Villa that are not generally available to other employees for insurance and medical benefits calculated based on current applicable premiums.

Risk Oversight

Management of risk is the direct responsibility of the Company's CEO and the senior management team. The Board has oversight responsibility focusing on key enterprise risk management issues and evaluating the risk mitigation processes established by senior management.

Versar faces a variety of enterprise risks, including legislative and regulatory risk, liquidity risk, compliance risk and operational risk. The Board believes that an effective risk management process should (1) identify in a timely fashion the material risks facing the Company, (2) communicate to the Board the relevant information regarding senior executive management strategies and their associated risks, (3) implement appropriate and responsive risk management strategies consistent with the Company's risk profile, and (4) integrate risk management throughout the Company's decision-making processes.

In addition to the formal compliance program, the Board and senior management promote a corporate culture that incorporates risk management into the Company's corporate strategy and daily operations. The Board also continually works, with the input of senior management, to assess and analyze the most likely areas of future risk for the Company. We believe that the Board's leadership structure, including strong Board committee chairs and open communication between senior management and directors, promotes effective oversight of Versar's risk management program.

During fiscal 2017, the Compensation Committee considered the impact of the Company's executive compensation policies and practices, and the incentives created by its policies and practices, on the Company's risk profile, and concluded that such policies and practices do not motivate imprudent risk taking. In addition, the Committee periodically reviews all of the Company's compensation policies and procedures, including the incentives they create, and factors that may reduce the likelihood of excessive risk taking, to determine whether they present a significant risk to the Company. In conducting this review, the Committee also reviews the compensation program for any design features which have been identified by experts as having the potential to encourage excessive risk-taking, including:

excessive focus on equity;

compensation mix overly weighted toward annual incentives;

highly leveraged payout curves and uncapped payouts;

unreasonable goals and thresholds; and

steep payout cliffs at performance levels that may encourage short-term business decisions to meet payout thresholds.

In reaching its conclusion, the Committee identified several features of its compensation program that reduce the likelihood of excessive risk taking:

the Company's program and policies are designed to provide a balanced mix of cash and restricted equity, annual and longer-term incentives;

maximum payout levels for non-equity incentive plan compensation are capped based on a review of the Company's economic position and prospects, as well as the benchmarking of compensation offered by comparable companies; and

the Committee has discretion to alter, including to reduce, incentive plan payouts or make discretionary awards.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Stock Ownership of Certain Beneficial Owners

The table below sets forth, as of October 16, 2017, the only persons known by the Company to be the beneficial owners of more than 5% of the outstanding shares of Common Stock.

| Name and Address of Beneficial Owner | Amount and Nature of Beneficial Ownership | Percent of Class of Stock |
|--|---|---------------------------|
| Kingswood Capital Management, LLC (1) 11777 San Vicente Blvd. Suite 650 Los Angeles, CA 90049 | 2,259,099 | 22.37 |
| Ridgedale Partners, LLC (2) 1999 Avenues of the Stars Suite 2040 Los Angeles, CA 90067 | 985,000 | 9.75 |
| Wedbush, Inc. (3) 1000 Wilshire Boulevard Los Angeles, California 90017 | 698,514 | 6.91 |
| Dr. Robert L. Durfee (4) 6850 Versar Center Springfield, VA 22151 | 589,023 | 5.83 |
| Illinois Municipal Retirement Fund (5) 2211 York Road, Suite 500 Oak Brook, IL 60523 | 557,335 | 5.52 |

(1)

The information with respect to the shares of Common Stock held by Kingswood Capital Management, LLC (“Kingswood”) is based on a filing made on Schedule 13G on October 2, 2017 with the U.S. Securities and Exchange Commission (the “SEC”) by Kingswood on behalf of itself and Kingswood Genesis Fund I, LLC, KW Genesis Merger Sub, Inc. and Alexander M. Wolf (collectively with Kingswood, the “Kingswood Reporting Persons”). The Kingswood Reporting Persons report shared voting and dispositive power as to 2,259,033 shares, held beneficially through a warrant and via Tender and Support Agreements. The Kingswood Reporting Persons expressly disclaim beneficial ownership of the 1,250,668 shares subject to Tender and Support Agreements.

(2)

The information with respect to the shares of Common Stock held by Ridgedale Partners, LLC (“Ridgedale”) is based on a filing made on Schedule 13G on October 6, 2017 with the SEC by Ridgedale. Ridgedale reports sole voting power as to 985,000 shares and sole dispositive power as to 985,000 such shares.

(3)

The information with respect to the shares of Common Stock held by Wedbush, Inc. is based on filings made on Schedule 13G/A on February 15, 2017 with the SEC by Wedbush, Inc., Edward W. Wedbush and Wedbush Securities, Inc. (collectively, “Wedbush”) filing as a group. Wedbush reports that Wedbush, Inc. has sole voting and sole dispositive power as to 218,268 shares. Edward W. Wedbush has the sole voting and sole dispositive power as to 365,255 shares. Wedbush Securities, Inc. has sole voting and sole dispositive power as to zero shares. Wedbush, Inc. has shared voting and dispositive power as to 218,268 shares. Edward W. Wedbush has shared

voting power as to 583,523 and shared dispositive power as to 698,514 shares. Wedbush Securities, Inc. has shared voting power as to 218,268 shares and shared dispositive power as to 328,259.

(4)

For a description of the nature of the beneficial ownership of Dr. Durfee, see “Stock Ownership of Directors and Officers” below. The information with respect to shares of Common Stock held by Dr. Durfee is based upon filings with the SEC and information supplied by Dr. Durfee.

(5)

The information with respect to the shares of Common Stock held by Illinois Municipal Retirement Fund (“IMRF”) is based on filings made on Schedule 13G on February 11, 2013 with the SEC by IMRF. IMRF reports sole voting and shared dispositive power with respect to all such shares.

Stock Ownership of Directors and Officers

The following table sets forth certain information regarding the ownership of Versar's Common Stock by the Company's Directors and each named executive officer listed in the Summary Compensation Table, each nominee for Director and the Company's Directors and executive officers as a group, as of October 16, 2017.

| Individual or Group | Shares of Common Stock Beneficially Owned as of October 16, 2017 (1) | |
|--|---|---------|
| | Number (5) | Percent |
| Paul J. Hoeper | 153,590 | 1.52 |
| Robert L. Durfee | 589,023 | 6.00 |
| James L. Gallagher | 75,390 | * |
| Amoretta M. Hoerber | 73,790 | * |
| Amir A. Metry | 91,519 | * |
| Anthony L. Otten (2) | 137,442 | 1.36 |
| Frederick M. Strader | 42,000 | * |
| Jeffrey A. Wagonhurst | 87,346 | * |
| Christine B. Tarrago | 0 (3) | * |
| James D. Villa (4) | 24,180 | * |
| Linda M. McKnight | 26,498 | * |
| All directors and executive officers as a group (11 persons) (4) | 1,317,778 | 13.05 |

* = Less than 1%

(1)

For the purposes of this table, beneficial ownership has been determined in accordance with the provisions of Rule 13d-3 under the Securities and Exchange Act, as amended. The table includes all unvested shares of restricted stock and restricted stock units owned by the individual.

(2)

Mr. Otten is a Trustee of Versar Inc.'s 401(k) Plan and as such, he has shared investment power as to 174,696 shares and shared voting power as to 174,696 shares held by this plan. Mr. Otten disclaims beneficial ownership of the plan shares arising solely from his position as Trustee, none of which are included in the above table.

(3)

Ms. Tarrago is a Trustee of Versar Inc.'s 401(k) Plan and as such she has shared investment power over 174,696 shares and shared voting power over 174,696 shares held by this plan. Ms. Downes disclaims beneficial ownerships of the plan shares arising solely from her position as Trustee, none which are included in the above table.

(4)

Mr. Villa is a Trustee of Versar Inc.'s 401(k) Plan and as such he has shared investment power over 174,696 shares and a shared voting power over 174,696 shares held by this plan. Mr. Villa disclaims beneficial ownerships of the plan shares arising solely from his position as Trustee, none of which are included in the above table.

(5)

Excludes shares held by Versar Inc.'s 401(k) Plan as described in notes 2, 3, and 4. Includes restricted stock units that have not yet vested.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The Company does not generally engage in related party transactions with its directors or executive officers or their affiliates. If a proposed related transaction arises, the Company will present such a transaction to the full Board for its review and approval.

The Board believes that independent directors must constitute a substantial majority of the Board. The Board has determined that all of the following six (6) non-employee directors in fiscal 2017 are independent directors: Paul J. Hoeper, Robert L. Durfee, James L. Gallagher, Amoretta M. Hoeber, Amir A. Metry and Frederick M. Strader. Throughout fiscal 2017, all Board members, except Mr. Otten and Mr. Wagonhurst, met the NYSE American and SEC standards for independence.

Item 14. Principal Accountant Fees and Services

The Audit Committee has adopted a pre-approval policy for services and fees by its registered public accounting firm. Pursuant to this policy, the Audit Committee is required to pre-approve the audit and non-audit services to be performed by the independent registered public accounting firm in order to assure that the provision of such services does not impair the firm's independence. The services and estimated fees are presented to the Audit Committee for consideration in the following categories: Audit, Audit-Related, Tax and All Other (each as defined in Schedule 14A of the Securities Exchange Act of 1934). All services by Grant Thornton rendered in fiscal 2016 and 2015 received prior approval by the Audit Committee. The Committee expects that all services performed by Urish Popeck in fiscal 2017 will be subject to pre-approval by the Audit Committee.

Audit Fees

In fiscal 2017 and 2016, Versar paid Grant Thornton \$178,500 and \$400,260, respectively, for quarterly reviews and the annual fiscal year audit. Versar also made payments of \$10,026 and \$9,567 in fiscal 2017 and 2016 to SGV & Co. for audit services in the Philippines. During fiscal 2017 the Company changed independent auditors from Grant Thornton to Urish Popeck & Co. We paid Urish Popeck \$210,000 to complete our fiscal 2016 audit and \$152,173 for our fiscal 2017 audit and quarterly reviews.

Audit-Related Fees

Versar paid Grant Thornton \$75,953 in fiscal 2016 for audit-related fees for assurance and related services.

Tax Fees

In fiscal 2017, Versar paid \$122,239 to Urish Popeck & Co. for federal and state tax compliance services. In fiscal 2017 and 2016, Versar paid \$141,029 and \$158,445, respectively, to Grant Thornton for federal and state tax compliance services. Versar paid \$6,810 and \$4,686 in fiscal 2017 and 2016 to SGV & Co. for tax advisory services in the Philippines.

All Other Fees

In fiscal 2016, Versar paid \$25,351 to Grant Thornton for various tax consulting, including acquisition accounting advice.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(1) Financial Statements:

The following consolidated financial statements of Versar, Inc. and Subsidiaries are included as part of this report on Form 10-K in Item 8. Financial Statements and Supplementary Data.

- a) Report of Independent Registered Public Accounting Firm
- b) Consolidated Balance Sheets as of June 30, 2017 and July 1, 2016
- c) Consolidated Statements of Operations for the Years Ended June 30, 2017 and July 1, 2016.
- d) Consolidated Statements of Comprehensive Income (Loss) for the Years Ended June 30, 2017 and July 1, 2016.
- e) Consolidated Statements of Changes in Stockholders' Equity for the Years Ended June 30, 2017 and July 1, 2016.
- f) Consolidated Statements of Cash Flows for the Years Ended June 30, 2017 and July 1, 2016,
- g) Notes to Consolidated Financial Statements

(2) Financial Statement Schedules:

- a) Schedule II - Valuation and Qualifying Accounts for the Years Ended June 30, 2017 and July 1, 2016.

All other schedules, except those listed above, are omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

(3) Exhibits:

The exhibits to this Form 10-K are set forth in a separate Exhibit Index which is included on this report.

Exhibit Index

| Item No | Description | Reference |
|---------|---|-----------|
| 3.1 | Restated Certificate of Incorporation of Versar, Inc. filed on September 25, 1986 | (L) |
| 3.2 | | (L) |

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Certificate of Amendment of Restated Certificate of Incorporation of Versar, Inc. filed on December 24, 1996

- 3.3 Certificate of Amendment of Restated Certificate of Incorporation of Versar, Inc. filed on January 26, 1999 (L)
- 3.4 Second Amended and Restated By-laws of Versar, Inc. Specimen of Certificate of Common Stock of Versar, Inc. (A) (B)
- 4.1 Versar, Inc. Restated Employee 401(k) Plan (C)
- 4.2 Amendment to the Versar, Inc. Restated Employee 401(k) Plan implementing automatic enrollment unless the participant makes a contrary election (C)
- 4.3 Amendment merging the Advent 401(k) Profit Sharing Plan and Trust to the Versar, Inc. Restated Employee 401(k) Plan (C)
- 4.4 Amendment to the Versar, Inc. Restated Employee 401(k) Plan implementing 1% automatic annual increase of deferral amount to all participants under 6% deferral rate effective January 1, 2013 until it reached the maximum cap of 6% (C)
- 4.5 Amendment to the Versar, Inc. Restated Employee 401(k) Plan excluding employees who are already eligible to participate in the Charron Construction Consulting, Inc. 401(k) Plan (C)
- 4.6 Amendment to the Versar, Inc. Restated Employee 401(k) Plan adding Roth Deferrals in the Contribution types and merging the Charron Construction Consulting, Inc. 401(k) Plan with and into the Plan (C)
- 10.1 Executive Tax and Investment Counseling Program (A)
- 10.2 Form of Indemnification Agreement* (F)
- 10.3 Change in Control Severance Agreement between Anthony L. Otten and Versar, Inc. effective as of May 24, 2011* (E)
- 10.4 2010 Stock Incentive Plan* (G)
- 10.4.1 Form of Restricted Share Award Agreement* (G)

| | | |
|--------|---|-----|
| 10.4.2 | Form of Performance Stock Award Agreement* | (G) |
| 10.4.3 | Form of Deferral Election Agreement for Deferred Share Units* | (G) |
| 10.4.4 | Form of Stock Option Award Agreement* | (G) |
| 10.4.5 | Form of Stock Appreciation Right Award Agreement* | (G) |
| 10.4.6 | Form of Restricted Stock Unit Award Agreement* | (G) |
| 10.5 | Change in Control Severance Agreement between Cynthia A. Downes and Versar, Inc. effective as of September 8, 2011* | (H) |
| 10.6 | Amendment to Change in Control Severance Agreement dated March 9, 2012 between Versar, Inc. and Anthony L. Otten* | (D) |
| 10.7 | Versar, Inc. 2012 Long-Term Incentive Compensation Program* | (I) |
| 10.8 | Amended and Restated Loan and Security Agreement date September 13, 2012 between the Registrant, certain of the Registrant's subsidiaries and United Bank | (M) |
| 10.9 | Amended and Restated Revolving Commercial Note dated September 14, 2012 | (N) |
| 10.10 | Change in Control Severance Agreement between Versar, Inc. and Anthony L. Otten | (J) |
| 10.11 | Change in Control Severance Agreement between Versar, Inc. and Jeffrey A. Wagonhurst | (J) |
| 10.12 | Change in Control Severance Agreement between Versar, Inc. and Cynthia A. Downes | (J) |
| 10.13 | Change in Control Severance Agreement between Versar, Inc. and Linda M. McKnight | (J) |
| 10.14 | Change in Control Severance Agreement between Versar, Inc. and James D. Villa | (K) |
| 10.15 | | (O) |

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Loan Agreement, dated September 30, 2015, by and among Versar, Inc. and Bank of America, N.A.

- 10.16 Security Agreement, dated September 30, 2015, by and among Versar, Inc. and GEO-Marine, Inc., Versar International, Inc., J.M. Waller Associates, Inc. and Bank of America, N.A. (O)
- 10.17 First Amendment and Waiver dated as of December 9, 2016, by and among Versar, Inc. and Bank of America, N.A. as lender and l/c issuer (Q)
- 10.18 Second Amendment and Waiver dated as of May 5, 2017, by and among Versar, Inc. and Bank of America, N.A. as lender and l/c issuer (R)
- 10.19 Letter Agreement, dated June 1, 2017, by and between Versar, Inc. and Christine B. Tarrago* (S)
- 10.20 Change in Control Severance Agreement, dated June 15, 2017, by and between Versar, Inc. and Christine B. Tarrago* (T)
- 10.21 Separation Agreement and General Release dated June 12, 2017, by and between Versar, Inc. and Cynthia A. Downes* (T)
- 10.22 Common Stock Purchase Warrant dated August 8, 2017 by and between Versar, Inc. and Bank of America, N.A. (U)
- 10.23 Change in Control Severance Agreement between Versar, Inc. and Alessandria Albers dated May 12, 2014.* (V)
- 10.24 Amendment to Change in Control Severance Agreement between Versar, Inc. and Anthony L. Otten.* (W)
- 10.25 Amendment to Change in Control Severance Agreement between Versar, Inc. and Jeffrey A. Wagonhurst.* (W)
- 10.26 Amendment to Change in Control Severance Agreement between Versar, Inc. and Linda M. McKnight.* (W)
- 10.27 Amendment to Change in Control Severance Agreement between Versar, Inc. and James D. Villa.* (W)
- 10.28 Amendment to Change in Control Severance Agreement between Versar, Inc. and Alessandria Albers.* (W)
- 10.29 Amendment to Change in Control Severance Agreement between Versar, Inc. and Christine B. Tarrago.* (W)

**21 Subsidiaries of the Registrant

**23.1 Consent of Independent Registered Public Accounting Firm, Urish Popeck & Co., LLC

†31.1 Certifications by Anthony L. Otten, Chief Executive Officer Pursuant to Securities Exchange Rule 13a-14

†31.2 Certifications by Christine B. Tarrago, Senior Vice President, Chief Financial Officer and Treasurer pursuant to Securities Exchange Rule 13a-14

**32.1 Certifications Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 Of the Sarbanes-Oxley Act of 2002, for the period ending July 1, 2016 by Anthony L. Otten, Chief Executive Officer

**32.2 Certifications Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 Of the Sarbanes-Oxley Act of 2002, for the period ending July 1, 2016 by Cynthia A. Downes, Exec. Vice President, Chief Financial Officer and Treasurer

**101+ The following materials from Versar Inc.'s Annual Report on Form 10-K for the fiscal year ended July 1, 2016, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets as of July 1, 2016, June 29, 2014; (ii) Consolidated Statements of Operations for the years ended June 29, 2012; (iii) Consolidated Statements of Comprehensive Income (Loss) for the years ended June 27, 2014 and June 29, 2012; (iv) Consolidated Statements of Changes in Stockholders' Equity for the years ended June 27, 2014 and June 29, 2012; (v) Consolidated Statements of Cash Flows for the years ended July 1, 2016, June 29, 2012; (vi) Schedule II — Valuation and Qualifying Accounts; and (vi) Notes to Consolidated Financial Statements, tagged as blocks of text

(A) Incorporated by reference to the similarly numbered exhibit to the Registrant's Form S-1 Registration Statement effective November 20, 1986.

(B) Incorporated by reference to the exhibit to the Registrant's Form 8-K filed with the Commission on February 17, 2010.

(C) Incorporated by reference to exhibits 4.1 through 4.6 to the Registrant's Form S-8 Registration Statement filed with the Commission on March 22, 2013.

(D) Incorporated by reference to exhibit 10.30 to the Registrant's Form 10-K Annual Report for the fiscal year ended June 27, 2014 filed with the Commission on September 18, 2012.

(E) Incorporated by reference to exhibit 10.1 to the Registrant's Form 10-Q filed with the Commission on November 8, 2010.

- (F) Incorporated by reference to exhibit 10.1 to the Registrant's Form 8-K filed with the Commission on May 11, 2009.
- (G) Incorporated by reference to exhibits 4.1 through 4.7 to the Registrant's Form S-8 filed with the Commission on February 15, 2011.
- (H) Incorporated by reference to exhibit 10.1 to the Registrant's Form 8-K filed with the Commission on September 13, 2011.
- (I) Incorporated by reference to exhibit 10.1 to the Registrant's Form 8-K filed with the Commission on May 9, 2012.
- (J) Incorporated by reference to exhibits 10.35 through 10.37 and exhibit 10.40 to the Registrant's Form 8-K filed with the Commission on September 18, 2013.
- (K) Incorporated by reference to exhibit 10.1 to the Registrant's Form 8-K filed with the Commission on May 14, 2014.
- (L) Incorporated by reference to exhibit 3.1 to the Registrant's Form 10-K filed with the Commission on September 10, 2014.
- (M) Incorporated by reference to exhibit 10.34 to the Registrant's Form 8-K filed with the Commission on September 17, 2012.
- (N) Incorporated by reference to exhibit 10.33 to the Registrant's Form 8-K filed with the Commission on September 17, 2012.
- (O) Incorporated by reference to exhibit 10.1 to the Registrant's Form 8-K filed with the Commission on October 6, 2015.
- (P) Incorporated by reference to exhibit 10.2 to the Registrant's Form 8-K filed with the Commission on October 6, 2015.
- (Q) Incorporated by reference to exhibit 10.1 to the Registrant's Form 8-K filed with the Commission on December 12, 2016
- (R) Incorporated by reference to exhibit 10.1 to the Registrant's Form 8-K filed with the Commission on June 5, 2017

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- (S) Incorporated by reference to exhibit 10.2 to the Registrant's Form 8-K filed with the Commission on June 5, 2017
- (T) Incorporated by reference to exhibit 10.1 to the Registrant's Form 8-K filed with the Commission on June 22, 2017
- (U) Incorporated by reference to exhibit 10.1 to the Registrant's Form 8-K filed with the Commission on August 15, 2017
- (V) Incorporated by reference to exhibit (e)(9) to the Registrant's Schedule 14D-9 filed with the Commission on October 6, 2017
- (W) Incorporated by reference to exhibits (e)(12) through (e)(17) to the Registrant's Schedule 14D-9 filed with the Commission on October 6, 2017

* Indicates management contract or compensatory plan or arrangement

† Filed herewith.

** Previously filed with the Annual Report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

October 30, 2017

By: /s/ Paul J. Hoepfer
 Paul J. Hoepfer
 Chairman and
 Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

| Signature | Title | Date |
|---|--|---------------------|
| /s/ Paul J Hoepfer Paul J Hoepfer | Chairman and Director | October 30, 2017 |
| /s/ Anthony L. Otten Anthony L. Otten | Chief Executive Officer and Director | October 30, 2017 |
| /s/ Christine B. Tarrago Christine B. Tarrago | Senior Vice President, Chief Financial Officer, Treasurer, and Principal Accounting Officer | October 30, 2017 |
| /s/ Frederick M. Strader Frederick M. Strader | Director | October 30, 2017 |
| /s/ Robert L. Durfee Robert L. Durfee | Director | October 30, 2017 |
| /s/ James L. Gallagher James L. Gallagher | Director | October 30, 2017 |
| /s/ Amoretta M. Hoerber Amoretta M. Hoerber | Director | October 30, 2017 |
| /s/ Amir A. Metry | Director | October 30, 2017 |

Amir A. Metry

/s/ Jeffrey A. Wagonhurst President and Chief Operating Officer October 30, 2017
Jeffrey A. Wagonhurst

Schedule II

VERSAR, INC. AND SUBSIDIARIES
Valuation and Qualifying Accounts

| | BALANCE AT BEGINNING OF YEAR | ADDITIONS CHARGED TO COSTS AND EXPENSES | CHARGEOFFS | BALANCE AT END OF YEAR |
|-------------------------------------|---------------------------------|--|-------------|---------------------------|
| Allowance for Doubtful Accounts | | | | |
| 2017 | \$1,001,000 | \$- | \$845,000 | \$156,000 |
| 2016 | \$616,000 | \$890,000 | \$(505,000) | \$1,001,000 |
| Deferred Tax Valuation Allowance | | | | |
| 2017 | \$14,781,000 | \$4,470,000 | \$(883,000) | \$18,368,000 |
| 2016 | \$756,000 | \$14,025,000 | \$- | \$14,781,000 |