VERSAR INC
Form 10-Q
November 09, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended September 25, 2009

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

For the transition period from _______ to _______

Commission File Number 1-9309

(Exact name of registrant as specified in its charter)

DELAWARE	54-0852979
(State or other jurisdiction of 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 þ No o

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

Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer , accelerated filer , and smaller reporting company in Rule 12b-2 of the Exchange Act.

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

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

Yes o No þ

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 2, 2009
$.01 par value	9,140,338

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

	September 25, 2009 (Unaudited)	June 26, 2009
ASSETS		
Current assets		
Cash and cash equivalents	$ 7,701	$ 8,400
Accounts receivable, net	25,474	27,695
Prepaid expenses and other current assets	2,665	1,207
Deferred income taxes	722	720
Total current assets	36,562	38,022
Property and equipment, net	2,564	2,348
Deferred income taxes	608	765
Goodwill	776	776
Other assets	738	683
Total assets	$ 41,248	$ 42,594
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 6,637	$ 7,405
Accrued salaries and vacation	2,487	1,959
Accrued bonus	445	1,358
Other liabilities	1,218	1,787
Total current liabilities	10,787	12,509
Other long-term liabilities	1,459	1,431
Total liabilities	12,246	13,940
Commitments and contingencies		
Stockholders equity		
Common stock, $.01 par value; 30,000,000 shares authorized; 9,293,635 shares and 9,193,635 shares issued; 9,109,937 shares and 9,074,300 shares outstanding	93	92
Capital in excess of par value	28,053	27,734
Retained earnings	1,852	1,615
Treasury stock (183,698 and 119,335 shares, respectively)	(944)	(706)
Accumulated other comprehensive loss	(52)	(81)

Total stockholders equity		29,002	28,654
Total liabilities and stockholders equity	$	41,248	$ 42,594

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

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

	For the Three-Months Ended September 25, 2009	September 26, 2008
GROSS REVENUE	$ 24,714	$ 24,998
Purchased services and materials, at cost	12,770	13,549
Direct costs of services and overhead	9,591	8,271
GROSS PROFIT	2,353	3,178
Selling, general and administrative expenses	1,975	2,036
OPERATING INCOME	378	1,142
OTHER (INCOME) EXPENSE		
Loss on marketable securities		352
Interest (income)	(32)	(63)
Interest expense	13	8
Income before income taxes	397	845
Income tax expense	160	320
NET INCOME	$ 237	$ 525
NET INCOME PER SHARE BASIC	$ 0.03	$ 0.06
NET INCOME PER SHARE DILUTED	$ 0.03	$ 0.06
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING BASIC	9,011	9,059
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING DILUTED	9,146	9,198

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

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

	For the Three-Months Ended September 25, 2009	September 26, 2008
Cash flows from operating activities		
Net income	$ 237	$ 525
Adjustments to reconcile net income to net cash Provided by operating activities		
Depreciation and amortization	248	243
Provision for doubtful accounts receivable	1	
Loss on marketable securities		352
(Gain) loss on life insurance policy cash surrender value	(38)	29
Share based compensation	82	213
Deferred taxes	157	163
Changes in assets and liabilities		
Decrease in accounts receivable	2,221	3,593
Increase in prepaids and other assets	(488)	11
Decrease in accounts payable	(757)	(2,376)
Increase in accrued salaries and vacation	528	489
Decrease in other liabilities	(1,466)	(2,310)
Net cash provided by continuing operating activities	725	932
Cash flows used in investing activities		
Purchase of property and equipment	(462)	(568)
Purchase of marketable securities		(3,000)
Premium paid on life insurance policies	(16)	(21)
Investment in notes receivable	(950)	
Net cash used in investing activities	(1,428)	(3,589)
Cash flows from financing activities		
Net cash provided by financing activities		
Effect of exchange rate changes	4	37
Net decrease in cash and cash equivalents	(699)	(2,620)

Cash and cash equivalents at the beginning of the period	8,400	11,938
Cash and cash equivalents at the end of the period	$ 7,701	$ 9,318
Supplementary disclosure of cash flow information:		
Cash paid during the period for		
Interest	$ 12	$ 11
Income taxes	657	427
Supplemental disclosures of non-cash financing activities:		
Exercise of stock options	238	
Acquisition of treasury stock	(238)	

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 condensed 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 accounting principles generally accepted in the United States of America or those normally made in Versar, Inc. s Annual Report on Form 10-K filed with the United States 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 fiscal year ended June 26, 2009 for additional information.

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. Certain adjustments to the financial statements are necessary for fair presentation and are of a normal recurring nature as part of the operations of the business. In the opinion of management, the information reflects all adjustments necessary for a fair presentation of the Company s consolidated financial position as of September 25, 2009, and the results of operations for the three-month periods ended September 25, 2009 and September 26, 2008. The results of operations for such periods, however, are not necessarily indicative of the results to be expected for a full fiscal year.

The Company has evaluated subsequent events through November 6, 2009, the date on which the financial statements were available to be issued.

(B) Accounting Estimates

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which require 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 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 type 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 realized 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 September 25, 2009, the Company had approximately $1.3 million in deferred tax assets, which primarily relate to temporary differences between financial statement and income tax reporting. Such differences include depreciation, deferred compensation, accruals and reserves. Given the Company s continued improved financial performance and funded backlog over the last three years, management believes the Company will be able to utilize the full benefit of the tax asset.

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

(E) Debt

The Company has a line of credit facility with United Bank (the Bank) that provides for advances up to $7.5 million based upon qualifying receivables. The line of credit is subject to certain covenants related to the maintenance of financial ratios. These covenants require a minimum tangible net worth of $22.5 million; a maximum total liabilities to tangible net worth ratio not exceed 2.5 to 1; and a minimum current ratio of at least 1.25 to 1. Borrowings under the extended line of credit will be at prime less 1/2% with a floor interest rate of 3.5%. Failure to meet the covenant requirements gives the Bank the right to demand outstanding amounts due under the line of credit, which may impact the Company s ability to finance its working capital requirements. As of September 25, 2009, the Company had no outstanding borrowings and was in compliance with the financial covenants. In October 2006, the Company obtained a letter of credit of approximately $1.6 million under the line of credit facility which serves as collateral for surety bond coverage provided by the Company s insurance carrier against project construction work. The letter of credit was reduced to $455,147 in January 2009. The letter of credit reduces the Company s availability on the line of credit. Availability under the line of credit at September 25, 2009 was approximately $7 million. Obligations under the credit facility are guaranteed by Versar and each subsidiary individually and are secured by accounts receivable, equipment and intangibles, plus all insurance policies on property constituting collateral of Versar and its subsidiaries. The line of credit matures in September 2010.

(F) Notes Receivable

In June and July 2009, the Company provided short term interim financing of $400,000 to General Power Green Energy, LLC (GPC) to cover project start up costs. The project involves the construction of a green 25 mega watt co-generation plant that burns landfill gas in turbine engines equipped with a steam generation unit. The note carries an annual interest rate of 10% and is due by March 31, 2010 or upon completion of project financing, if earlier. In addition, Versar will provide the program management and construct the facility. Versar also received a 7.5% ownership interest in GPC in connection with providing the loan. The Company has not assigned a value to the 7.5% ownership interest due to the fact that GPC is in its developmental stage.

In July 2009, the Company provided $750,000 of short term financing to Lemko Corporation to enable them to buy long lead telecommunication equipment for several upcoming projects. Lemko and Versar had earlier announced a joint initiative to pursue the rural broadband telecommunications market. The note bears an annual interest rate of 12% and is due by May 31, 2010. The note is secured by the equipment inventory purchased. The note also has a conversion feature to a senior convertible debenture, which must be exercised by December 2009, or the remaining terms and conditions will remain in effect. The Company is currently evaluating this feature.

The above notes receivable are included in the accompanying balance sheet under other current assets.

(G) 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

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

stock equivalents outstanding during the period, if dilutive. The Company s common stock equivalent shares consist of shares to be issued under outstanding stock options and unvested shares of restricted stock.

	For the Three-Month Periods Ended	
	September 25, 2009	September 26, 2008
Weighted average common shares outstanding basic	9,011,036	9,059,135
Effect of assumed exercise of options and vesting of restricted stock awards (treasury stock method)	134,915	138,858
Weighted average common shares outstanding Diluted	9,145,951	9,197,993

For fiscal years 2010 and 2009, options to purchase approximately 169,000 and 27,000 shares of common stock were not included in the computation of diluted earnings per share because the effect would be anti-dilutive.

(H) Common Stock

The Company has implemented an Employee Stock Purchase Plan (ESPP) to allow eligible employees of Versar the opportunity to acquire an ownership interest in the Company s common stock. As amended, the ESPP permits employees to purchase shares of Versar common stock from the open market at 95% of its fair market value. The ESPP qualifies as an employee stock purchase plan under Section 423 of the Internal Revenue Code.

(I) Stock-Based Compensation

In September 2009, the Company awarded 46,000 shares of restricted stock to executive officers and employees. The awards vest over a period of 7 months to 19 months. 5,000 shares were also awarded to a senior officer that vest over a 3 year period. Stock-based compensation expense relating to all outstanding restricted stock and option awards totaled $82,000 and $213,000 for the three months ended September 25, 2009 and September 26, 2008, respectively. These expenses were included in the direct costs of services and overhead lines of the Consolidated Statements of Income.

In November 2005, the stockholders approved the Versar, Inc. 2005 Stock Incentive Plan (the 2005 Plan). The 2005 Plan provides for grants of incentive awards, including stock options, SARS, restricted stock, restricted stock units and performance based awards, to directors, officers and employees of the Company and its affiliates as approved from time to time by the Company s Compensation Committee. Only employees may receive stock options classified as incentive stock options , also known as ISO s . The per share exercise price for options and SARS granted under the 2005 Plan may not be less than the fair market value of the common stock on the date of grant. A maximum of 400,000 shares of common stock may be awarded under the 2005 Plan. No single director, officer, or employee may receive awards of more than 100,000 shares of common stock during the term of the 2005 Plan. The ability to make awards under the 2005 Plan will terminate in November 2015. As of September 25, 2009, approximately 90,000 shares are available for future grant under the 2005 Plan.

The Company also maintains the Versar 2002 Stock Incentive Plan (the 2002 Plan), the Versar 1996 Stock Option Plan (the 1996 Plan) and the Versar 1992 Stock Option Plan (the 1992 Plan).

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Notes to Consolidated Financial Statements (continued)

Under the 2002 Plan, restricted stock and other types of stock-based awards may be granted to any employee, service provider or director to whom a grant is approved from time to time by the Company s Compensation Committee. A service provider is defined for purposes of the 2002 Plan as an individual who is neither an employee nor a director of the Company or any of its affiliates but who provides the Company or one of its affiliates substantial and important services. As of September 25, 2009, approximately 37,500 shares are available for future grant.

Under the 1996 Plan, options were granted to key employees, directors and service providers at the fair market value on the date of grant. Each option expires on the earlier of the last day of the tenth year after the date of grant or after expiration of a period designated in the option agreement. The 1996 Plan has expired and no additional options may be granted under this plan. The Company will continue to maintain the plan until all previously granted options have been exercised, forfeited or expire. As of September 25, 2009, there were vested stock options to purchase 50,761 shares of common stock outstanding under the 1996 Plan.

Under the 1992 Plan, options were granted to key employees at the fair market value on the date of grant and became exercisable during the five-year period from the date of the grant at 20% per year. Options were granted with a ten year term and expire if not exercised by the tenth anniversary of the grant date. The 1992 Plan has expired and no additional options may be granted under this plan. The Company will continue to maintain the plan until all previously granted options have been exercised, forfeited or expire. As of September 25, 2009, there were vested stock options to purchase 83,500 shares of common stock outstanding under the 1992 Plan.

A summary of activity under the Company s stock incentive plans for both ISOs and un-qualified options as of September 25, 2009, and changes during the first three months of fiscal year 2010 are presented below:

Options	Shares (in thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value ($000)
Outstanding at June 26, 2009	542	$ 3.11		
Granted				
Exercised	(100)	2.38		
Cancelled	(3)	2.63		
Outstanding at September 25, 2009	439	$ 3.27	4.60 yrs.	$ 220
Exercisable at September 25, 2009	429	$ 3.16	4.39 yrs.	$ 262

As of September 25, 2009, there were unvested options to purchase approximately 10,000 shares outstanding under the plans. Vesting of these options is conditioned on the Company s stock price reaching certain thresholds over a fixed period. The Company expects to recognize estimated compensation costs of $42,000 immediately when the pricing and service conditions of these options are met in the future.

(J) New Accounting Pronouncements

In June 2009, the FASB issued the FASB Accounting Standards Codification TM and the Hierarchy of Generally Accepted Accounting Principles (Codification) codified in ASC 105. The Codification is now the source for authoritative United States generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. The guidance in ASC 105 is effective for financial statements issued for interim and annual periods ending after September 15, 2009 the Codification will supersede all then-existing non-SEC accounting and reporting standards. Effective with our first quarter of 2010, references to legacy GAAP will be replaced by references to the Codification, where appropriate.

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

In September 2009, the FASB ratified the final consensus on Emerging Issues Task Force (EITF) Issue 08-1, *Revenue Arrangements With multiple Deliverables,* (Issue 08-1) which will supersede ASC 605-25 (formerly EITF Issue 00-21, *Revenue Arrangements With Multiple Deliverables*). Issue 08-1 addresses how arrangement consideration should be allocated to separate units of accounting, when applicable. Although Issue 08-1 retains the criteria from ASC 605-25 for when delivered items in a multiple deliverable arrangement should be considered separate units of accounting, it removes the previous separation criterion under ASC 605-25 that objective and reliable evidence of the fair value of any undelivered items must exist for the delivered items to be considered a separate unit or separate units of accounting. The final consensus is effective for fiscal years beginning on or after June 15, 2010. Entities can elect to apply Issue 08-1 prospectively to new or materially modified arrangements after the effective date or retrospectively for all periods presented. Issue 08-1 was issued as Accounting Standards Update (ASU) 2009-13 in October 2009 and amended ASC 605-25. The Company does not anticipate that ASU 2009-13 will have any impact on the Company s financial position or results of operations.

In September 2009, the FASB ratified the final consensus on EITF Issue 09-3, *Software Revenue Recognition,* (Issue 09-3) which will amend ASC 985-605 (formerly EITF Issue 03-5, *Applicability of AICPA Statement of Position 97-2 to Certain Arrangements That Contain Software Elements*). Issue 09-3 excludes from the scope of Issue 09-3 all tangible products containing both software and non-software components that function together to deliver the product s essential functionality. As such, the entire product would be outside the scope of ASC 985-605 and would be accounted for under other accounting literature (e.g., ASC 605-25 (as amended by Issue 08-1)). The final consensus is effective for fiscal years beginning on or after June 15, 2010. Entities can elect to apply Issue 09-3 prospectively to new or materially modified arrangements after the effective date or retrospectively for all periods presented. Issue 09-3 was issued as ASU 2009-14 in October 2009. The Company does not anticipate that ASU 2009-14 will have any impact on the Company s financial position or results of operations.

In August 2009, the FASB issued ASU 2009-05 to provide guidance on measuring fair value of liabilities under ASC 820 (formerly FSP FAS 157-f). The guidance clarifies how entities should estimate the fair value of liabilities. ASC 820, as amended, includes clarifying guidance for circumstances in which a quoted price in an active market is not available, the effect of the existence of liability transfer restrictions, and the effect of quoted prices for the identical liability, including when the identical liability is traded as an asset. ASU 2009-05 is effective for the first interim or annual reporting period beginning after August 29, 2008. . The Company will adopt this guidance during the second quarter of fiscal year 2010, and does not believe that the adoption of the amended guidance in ASC 820 will have a significant effect on its consolidated financial statements.

In April 2009, the FASB issued authoritative guidance for fair value measurements and disclosures. The guidance provides companies with guidelines on how to determine fair value measurements when the volume and level of activity for an asset or liability have significantly decreased and how to identify transactions that are not orderly. This guidance is effective for interim reporting periods ending after June 15, 2009. We adopted this guidance for the year ended June 26, 2009, which did not have any impact on our consolidated financial statements.

In April 2009, the FASB issued authoritative guidance for interim disclosures for financial instruments. This guidance amends prior authoritative guidance by requiring disclosures of the fair value of financial instruments included within the scope of the prior guidance whenever a public company issues summarized financial information for interim reporting periods. This guidance is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009 under certain circumstances. The Company adopted this guidance for the quarter ended September 25, 2009, but it did not have an impact on its unaudited condensed consolidated financial statements. The carrying amounts of Versar s cash and cash equivalents, accounts receivable, accounts payable and amounts included in other current assets and current liabilities that meet the definition of a financial instrument approximate fair value because of the short-term nature of these amounts.

Effective June 27, 2009, the Company adopted new accounting guidance related to the reporting of subsequent events. This guidance establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In particular, this guidance sets forth the

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

period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements; and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The Company evaluated events occurring subsequent to the balance sheet date through November 6, 2009 for purposes of this report. No subsequent events were identified that required disclosure.

(K) Fair Value Measures

Financial assets and liabilities

We analyze our financial assets and liabilities measured at fair value and categorize them within the fair value hierarchy based on the level of judgment associated with the inputs used to measure their fair value in accordance with the authoritative guidance for fair value instruments and the fair value option for financial assets and financial liabilities.

The levels as defined by the fair value hierarchy are as follows:

Level 1 Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly at the measurement date.

Level 3 Inputs are unobservable for the asset or liability and usually reflect the reporting entity s best estimate of what market participants would use in pricing the asset or liability at the measurement date.

The financial assets and financial liabilities measured at fair value are as follows (in thousands):

	Fair Value Measurements at Reporting Date Using:			
	September 25, 2009	(Level 1)	(Level 2)	(Level 3)
Assets:				
Notes receivable	$1,180	$	$	$1,180
Total assets	$1,180	$	$	$1,180

The following table summarizes the change in the fair value during the period for the notes receivable using Level 3 inputs (in thousands):

Balance at June 27, 2009	$ 200
Total realized gains included in earnings	30
Purchases, sales, issuances and settlements	950
Balance at September 25, 2009	$ 1,180

Non financial assets and liabilities

The Company applies fair value techniques on a non-recurring basis associated with (1) valuing potential impairment losses related to goodwill which are accounted for pursuant to the authoritative guidance for intangibles goodwill and other, (2) valuing potential impairment losses related to long-lived assets which are accounted for pursuant to the authoritative guidance for property, plant and equipment, and (3) valuing an asset retirement liability initially measured at fair value under the authoritative guidance for asset retirement obligations.

The Company currently has four separate reporting units. Goodwill impairment is tested at the reporting unit level. All of the goodwill is associated with the Program Management business segment, and the Company determines the fair value of this reporting unit based on a combination of inputs including the market capitalization of the company as well as Level 3 inputs such as discounted cash flows which are not observable from the market, directly or indirectly. The

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

Company conducts the goodwill impairment analysis annually during the fourth quarter of the fiscal year, or upon the occurrence of certain triggering events. No such triggering events occurred during the three months ended September 25, 2009. Historically, the fair value of the Program Management segment has significantly exceeded its carrying value.

The Company tests for the impairment of long-lived assets when triggering events occur and such impairment, if any, is measured at fair value. The inputs for fair value of the long lived assets would be based on Level 3 inputs as data used for such fair value calculations would be based on discounted cash flows which are not observable from the market, directly or indirectly. During the three months ended September 25, 2009, there have been no triggering events associated with long lived assets and thus no impairment analysis was conducted during the period.

The Company recorded an asset retirement liability at fair value per the authoritative guidance for asset retirement obligations. The inputs for fair value of the asset retirement obligation would be based on Level 3 inputs as data used for such fair value calculations would be based on discounted cash flows which are not observable from the market, directly or indirectly.

(L) Other Current Liabilities

Other current liabilities include accrued 401k benefits, accrued tax withholdings, lease liabilities, and miscellaneous accruals.

(M) Business Segments

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

The Company s business is currently operated through four business segments as follows: Program Management, Compliance and Environmental Programs, Professional Services, and National Security.

These segments were segregated based on the nature of the work, business processes, customer base and the business environment in which each of the segments operates.

The Program Management business segment manages larger more complex projects with business processes and management unique to the rest of the Company. The Compliance and Environmental Programs business segment provides regulatory and environmental consulting support to several federal government and municipal agencies. The Professional Services business segment provides outsourced personnel to various government agencies providing our clients with cost-effective resources. The National Security business segment provides unique solutions to the federal government including testing and evaluation and personal protective solutions.

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

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

	For the Three-Month Periods Ended	
	September 25, 2009	September 26, 2008
	(In thousands)	
GROSS REVENUE		
Program Management	$ 16,403	$ 15,850
Compliance and Environmental Programs	3,525	4,560
Professional Services	2,738	2,178
National Security	2,048	2,410
	$ 24,714	$ 24,998