VERSAR INC
Form 10-Q
February 16, 2016

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
January 1, 2016

¨ 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

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

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

6850 Versar Center

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

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

Not Applicable
(Former name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No ¨

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

Yes þ No ¨

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

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

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

Yes ¨ 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 February 16, 2016
$.01 par value	9,831,491

VERSAR, INC. and SUBSIDIARIES

INDEX TO FORM 10-Q

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

Condensed Consolidated Balance Sheets

(In thousands, except share amounts)

	As of January 1, 2016 (Unaudited)	June 26, 2015
ASSETS		
Current assets		
Cash and cash equivalents	$3,718	$2,109
Accounts receivable, net	45,574	57,171
Inventory, net	1,243	1,188
Prepaid expenses and other current assets	2,358	1,540
Deferred income taxes	1,412	1,366
Income tax receivable	1,190	2,373
Total current assets	55,495	65,747
Property and equipment, net	1,846	2,084
Deferred income taxes, non-current	449	414
Goodwill	34,299	16,066
Intangible assets, net	4,134	4,643
Other assets	49	252
Total assets	$96,272	$89,206
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$18,965	$35,852
Accrued salaries and vacation	2,331	3,332
Other current liabilities	5,563	1,114
Notes payable, current	5,406	2,313
Line of Credit	14,660	-
Total current liabilities	46,925	42,611
Notes payable, non-current	4,057	5,835
Other long-term liabilities	6,391	1,390
Total liabilities	57,373	49,836
Stockholders' equity		
Common stock $.01 par value; 30,000,000 shares authorized; 10,132, 673 shares issued and 9,831,491 shares outstanding as of January 1, 2106,	102	101

10,128,923 shares issued and 9,805,082 shares outstanding as of June 26, 2015.		
Capital in excess of par value	30,889	30,798
Retained earnings	10,073	10,439
Treasury stock, at cost	(1,475)	(1,460)
Accumulated other comprehensive loss	(690)	(508)
Total stockholders' equity	38,899	39,370
Total liabilities and stockholders' equity	$96,272	$89,206

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

3

VERSAR, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations (Unaudited)

(In thousands, except per share amounts)

	For the Three Months Ended		For the Six Months Ended	
	January 1, 2016	December 26, 2014	January 1, 2016	December 26, 2014
GROSS REVENUE	$ 47,337	$ 34,162	$ 92,242	$ 63,748
Purchased services and materials, at cost	29,351	17,031	59,118	29,258
Direct costs of services and overhead	14,366	13,682	27,192	28,434
GROSS PROFIT	3,620	3,449	5,932	6,056
Selling, general and administrative expenses	3,317	2,925	6,170	5,616
OPERATING INCOME (LOSS)	303	524	(238)	440
OTHER EXPENSE				
Interest expense	176	142	351	198
INCOME (LOSS) BEFORE INCOME TAXES	127	382	(589)	242
Income tax expense (benefit)	62	105	(224)	52
NET INCOME (LOSS)	65	277	(365)	190
NET INCOME (LOSS) PER SHARE-BASIC and DILUTED	$ 0.01	$ 0.03	$ (0.04)	$ 0.02
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING-BASIC	9,850	9,775	9,831	9,742
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING-DILUTED	9,850	9,821	9,831	9,783

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

VERSAR, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Loss (Unaudited)

(In thousands)

	For the Three Months Ended		For the Six Months Ended	
	January 1, 2016	December 26, 2014	January 1, 2016	December 26, 2014
COMPREHENSIVE (LOSS) INCOME				
Net Income (Loss)	$ 65	$ 277	(365)	$ 190
Foreign currency translation adjustments	(78)	(132)	(182)	(214)
TOTAL COMPREHENSIVE (LOSS) INCOME	$ (13)	$ 145	(547)	$ (24)

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

5

VERSAR, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows (Unaudited)

(In thousands)

	For the Six Months Ended	
	January 1, 2016	December 26, 2014
Cash flows from operating activities:		
Net income (loss)	$(365)	$ 190
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	1,065	1,318
Provision for (recovery of) doubtful accounts receivable	412	(93)
Loss on life insurance policy cash surrender value	-	(16)
Deferred income taxes	(81)	36
Share based compensation	90	222
Changes in assets and liabilities, net of effects of acquisitions:		
Decrease (increase) in accounts receivable	17,977	(3,217)
Increase in prepaid and other assets	(813)	-
Increase in inventories	(134)	(257)
Decrease in accounts payable	(18,544)	(1,508)
Decrease in accrued salaries and vacation	(1,203)	(520)
Decrease in income tax receivable	1,152	65
Increase (decrease) in other assets and liabilities	1,559	(946)
Net cash provided by (used in) operating activities	1,114	(4,726)
Cash flows from investing activities:		
Purchase of property and equipment	(287)	(411)
Payment for JCSS acquisition, net of cash acquired	(10,460)	-
Payment for Waller acquisition, net of cash acquired	-	(6,544)
Premiums paid on life insurance policies	-	(23)
Net cash used in investing activities	(10,747)	(6,978)
Cash flows from financing activities:		
Borrowings on line of credit	25,348	394
Repayments on line of credit	(10,687)	-
Loan for Waller Purchase	-	4,000
Repayment of Loan for Waller Purchase	(3,644)	(808)
Loan for JCSS Purchase	1,667	-
Repayment of notes payable	(1,447)	(1,379)
Purchase of treasury stock	(15)	(56)
Net cash provided by financing activities	11,220	2,151
Effect of exchange rate changes on cash and cash equivalents	22	44
Net increase (decrease) in cash and cash equivalents	1,609	(9,509)

Cash and cash equivalents at the beginning of the period	2,109	9,674
Cash and cash equivalents at the end of the period	$3,718	$ 165
Supplemental disclosure of cash and non-cash activities:		
Promissory notes-payable issued in connection with Waller acquisition	$-	$ 6,000
Contingent consideration payable related to JCSS acquisition	$9,500	$ -
Cash paid for interest	$359	$ 198
Cash paid for income taxes	$30	$ 14

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

6

VERSAR, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – BASIS OF PRESENTATION

The condensed consolidated financial statements of Versar, Inc. and its wholly-owned subsidiaries (“Versar” or the “Company”) contained in this report are unaudited, but reflect all normal recurring adjustments which, in the opinion of management, are necessary for the fair presentation of the results of the interim periods reflected. All intercompany balances and transactions have been eliminated in consolidation. Certain information and footnote disclosures normally included in the consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) have been omitted pursuant to applicable rules and regulations of the Securities and Exchange Commission (SEC). Therefore, these condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10–K for the fiscal year ended June 26, 2015, filed with the SEC on September 15, 2015. The results of operations for the six-month periods reported herein are not necessarily indicative of results that may be expected for the full fiscal year. The fiscal year-end balance sheet data included in this report was derived from audited financial statements. The Company’s fiscal year is based upon a 52 - 53 week calendar, and ends in most cases on the last Friday of the fiscal period except for the Company’s second quarter during fiscal year 2016 which ended on the first Friday in January 2016. The three-month periods ended January 1, 2016 included 14 weeks compared to the period ended December 26, 2014 which included 13 weeks. Fiscal year 2016 will include 53 weeks and fiscal year 2015 included 52 weeks. Therefore, for comparative purposes, the year to date numbers presented will include an additional week of results for fiscal year 2016.

Recent Accounting Pronouncements

In September 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2015-16 – “*Simplifying the Accounting for Measurement-Period Adjustments (Topic 805): Business Combinations*” (“ASU 2015-16”), which replaces the requirement that an acquirer in a business combination account for measurement period adjustments retrospectively with a requirement that an acquirer recognize adjustments to the provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. ASU 2015-16 requires that the acquirer record, in the same period’s financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. For public business entities, ASU 2015-16 is effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The guidance is to be applied prospectively to adjustments to provisional amounts that occur after the effective date of the guidance, with earlier application permitted for financial statements that have not been issued.

In November 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update NO. 2015-17 – *"Balance Sheet Classifications of Deferred Taxes"* (ASU 2015-17"). To simplify the presentation of deferred income taxes, ASU 2015-17 require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. ASU 2015-17 eliminate the guidance in Topic 740 that requires an entity to separate deferred tax liabilities and assets into a current amount and a noncurrent amount in a classified statement of financial position. ASU 2017 -17 is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The guidance is to be applied prospectively to adjustments to provisional amounts that occur after the effective date of the guidance, with earlier application permitted for financial statements that have not been issued. The Company is currently evaluating the potential impact of the adoption of this guidance on its consolidated financial statements.

NOTE 2 – BUSINESS SEGMENTS

The Company is aligned into three reportable segments: Engineering and Construction Management (“ECM”), Environmental Services (“ESG”), and Professional Services (“PSG”), all described below.

· ECM

This business segment performs Title I Design Services, Title II Construction Management Services, Title III Construction Services and specialized security integration services for Federal Government clients . This business segment also provides other related engineering and construction type services both in the United States and internationally and provides national security services in several markets that require ongoing services and support and which have received funding priority from the federal government.

· ESG

This business segment provides full-service environmental solutions and includes the Company’s remediation and compliance, exposure and risk assessment, natural resources, unexploded ordnance (“UXO”)/military munitions response program (“MMRP”), air, greenhouse gas, and cultural resources services. Clients include a wide-range of federal and state agencies.

· PSG

This business segment provides onsite environmental management, planning and engineering services to the Department of Defense (DOD) installations and to the U.S. Departments of Justice and Transportation. Versar provides on-site or staff augmentation services that enhance the customer’s mission using subject matter experts who are fully dedicated to accomplish mission objectives. These services are particularly attractive as the DOD continues its shift toward its core military mission and downsizes due to increased budgetary pressure. Primarily at the U.S. Army Installation level or DOD Joint Base level (two or more DOD facilities realigning management functions to establish a single entity), this segment also serves government clients by supporting them in areas where their capabilities and capacities are lacking.

Presented below is summary operating information by segment for the Company for the three-month and six-month periods ended January 1, 2016 and December 26, 2014.

	For the Three Months Ended		For the Six Months Ended	
	January 1, 2016	December 26, 2014	January 1, 2016	December 26, 2014
	(in thousands)		(in thousands)	
GROSS REVENUE				
ECM	$ 31,868	$ 15,975	$ 61,889	$ 29,024
ESG	10,456	12,415	20,496	22,680
PSG	5,013	5,772	9,857	12,044
	$ 47,337	$ 34,162	$ 92,242	$ 63,748
GROSS PROFIT (a)				
ECM	$ 1,786	$ 2,079	$ 3,053	$ 3,599
ESG	1,552	638	2,217	954
PSG	282	732	661	1,503
	$ 3,620	$ 3,449	$ 5,932	$ 6,056
Selling, general and administrative expenses	3,317	2,925	6,169	5,616
OPERATING INCOME (LOSS)	$ 303	$ 524	$ (238)	$ 440

(a) – Gross profit is defined as gross revenues less purchased services and materials, at cost, less direct costs of services and overhead allocated on a proportional basis.

8

NOTE 3 – ACQUISITIONS

On September 30, 2015, the Company completed the acquisition of a specialized federal security integration business from Johnson Controls, Inc., formerly known as Johnson Controls Security Systems (JCSS). which is now known as Versar Security Systems (“VSS”). This group is headquartered in Germantown, Maryland and generated approximately $34 million in the trailing twelve month revenues from the acquisition date from key long term customers such as the Federal Aviation Administration and the Federal Emergency Management Agency. The acquisition brings significant funded backlog and was accretive during the quarter.

VSS expands the Company’s service offerings to include higher margin classified construction, enables Versar to generate more work with existing clients and positions the Company to more effectively compete for new opportunities.

At closing, the Company paid a cash purchase price of $10.5 million. In addition, the Company agreed to pay contingent consideration of up to a maximum of $9.5 million (undiscounted) based on certain events within the earn out period of 3 years from September 30, 2015. Based on the facts and circumstances at that time of acquisition, management believes that the full amount of the contingent consideration will be earned within the earn out period and therefore the full amount of the contingent consideration was recognized as consideration and as a liability, of which $4.8 million is presented within other current liabilities and $4.7 milllion presented within other long-term liabilities on the condensed consolidated balance sheet as of January 1, 2016. The potential undiscounted amount of all future payments that the Company could be required to make under the contingent consideration agreement ranges from $0 to $9.5 million.

VSS has contributed approximately $6.5 million in revenue and $5.6 million in expenses through January 1, 2016. Additionally, the Company has incurred approximately $0.6 million of transaction costs through January 1, 2016, recorded in selling, general, and administrative expenses.

The purchase price allocation in the table below reflects the Company’s estimate of the fair value of the assets acquired and liabilities assumed on the September 30, 2015 acquisition date. Goodwill will be allocated to our ECM segment. Goodwill represents the value in excess of fair market value that the Company paid to acquire JCSS. The allocation of intangibles is still under review by an independent third party and is not available at this time. Therefore goodwill currently represents an amount that will subsequently be allocated between intangibles and goodwill.

Description	Amount (in thousands)

Accounts receivable	$	6,955
Prepaid and other		15
Property and equipment		29
Goodwill		18,233
Assets Acquired		25,232
Account payable		1,994
Other liabilities		3,192
Liabilities Assumed		5,186
Acquisition Purchase Price	$	20,046

9

The table below summarizes the unaudited pro forma statements of operations for the six months ended January 1, 2016, and the three and six months ended December 26, 2014 assuming that the JCSS acquisition had been completed as of the first day of the three-month and six-month periods. These pro forma statements do not include any adjustments that may have resulted from synergies derived from the acquisition or for amortization of intangibles other than during the period the acquired entity was part of the Company.

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

	For the Six Months ended January 1, 2016 (in thousands)		
	Versar	JCSS	Pro Forma Combined
GROSS REVENUE	$92,242	6,497	98,739
Purchased services and materials, at cost	59,118	3,816	62,934
Direct costs of services and overhead	27,192	1,043	28,235
GROSS PROFIT	5,932	1,638	7,570
Selling, general and administrative expenses	6,170	450	6,620
OPERATING (LOSS) INCOME	(238)	1,188	950
OTHER EXPENSE			
Interest expense	351	-	351
(LOSS) INCOME BEFORE INCOME TAXES	(589)	1,188	599
Income tax (benefit) expense	(224)	457	233
NET (LOSS) INCOME	$(365)	731	366
NET (LOSS) INCOME PER SHARE-BASIC AND DILUT ED	$(0.04)		0.04
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING-BASIC	9,711		9,831
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING-DILUTED	9,711		9,831

10

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

	For theThree Months ended December 26, 2014 (in thousands)			For the Six Months ended December 26, 2014 (in thousands)		
	Versar	JCSS	Pro Forma Combined	Versar	JCSS	Pro Forma Combine
GROSS REVENUE	$34,162	6,497	40,659	$63,748	12,993	76,741
Purchased services and materials, at cost	17,031	3,816	20,847	29,258	7,631	36,889
Direct costs of services and overhead	13,682	1,043	14,725	28,434	2,086	30,520
GROSS PROFIT	3,449	1,638	5,087	6,056	3,276	9,332
Selling, general and administrative expenses	2,925	450	3,375	5,616	900	6,516
OPERATING (LOSS) INCOME	524	1,188	1,712	440	2,376	2,816
OTHER EXPENSE						
Interest expense	142	-	142	198	-	198
(LOSS) INCOME BEFORE INCOME TAXES	382	1,188	1,570	242	2,376	2,618
Income tax (benefit) expense	105	457	562	52	915	967
NET (LOSS) INCOME	$277	731	1,008	$190	1,461	1,651
NET (LOSS) INCOME PER SHARE-BASIC AND DILUTED	$0.03		0.10	$0.02		0.17
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING-BASIC	9,775		9,775	9,742		9,742
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING-DILUTED	9,821		9,821	9,783		9,783

NOTE 4 – ACCOUNTS RECEIVABLE

	As of January 1, 2016 (in thousands)	June 26, 2015
Billed receivables		
U.S. Government	$15,075	$ 8,787
Commercial	8,419	8,074
Unbilled receivables		
U.S. Government	19,659	40,769

Commercial	2,545	157
Total receivables	45,698	57,787
Allowance for doubtful accounts	(124)	(616)
Accounts receivable, net	$45,574	$ 57,171

11

Unbilled receivables represent amounts earned which have not yet been billed and other amounts which can be invoiced upon completion of fixed-price contract milestones, attainment of certain contract objectives, or completion of federal and state governments' incurred cost audits. Management anticipates that such unbilled receivables will be substantially billed and collected during fiscal year 2016; therefore, in accordance with industry practice, they have been presented as current assets.

NOTE 5 – GOODWILL AND INTANGIBLE ASSETS

Goodwill

The carrying value of goodwill at January 1, 2016 and June 26, 2015 was $34.3 and $16.1 million, respectively. The Company's goodwill balance was derived from the acquisition of JCSS in September 2015, the acquisition of J.M. Waller Associates, Inc. ("JMWA") in fiscal year 2015, the acquisition of Geo-Marine, Inc. ("GMI") in fiscal year 2014, the acquisition of Charron Construction Consulting, Inc. ("Charron") in fiscal year 2012, the acquisitions of Professional Protective Systems Limited ("PPS") and ADVENT Environmental, Inc. ("ADVENT") in fiscal year 2010, and the acquisition of Versar Greenwood, Inc. in fiscal year 1998.

	Goodwill Balances			
	ECM	ESG	PSG	Total
Balance, June 26, 2015	$7,222	$4,402	$4,442	$16,066
JCSS Acquisition	18,233			18,233
Balance, January 1, 2016	$25,455	$4,402	$4,442	$34,299

Intangible Assets

In connection with the acquisitions of JMWA, GMI, Charron, PPS, and ADVENT, the Company identified certain intangible assets. These intangible assets were customer-related, marketing-related and technology-related. As of January 1, 2016 an independent third party is reviewing the allocation of intangible assets related to the JCSS acquisition (Note 3 – Acquisitions). After this review is completed, the intangible asset value assigned to JCSS will be included in the Company's balance sheet and described herein. A summary of the Company's intangible asset balances as of January 1, 2016 and June 26, 2015, as well as their respective amortization periods, is as follows (in thousands):

As of January 1, 2016	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Amortization Period
Customer-related	$ 5,689	$ (1,873)	$ 3,816	5-15 yrs
Marketing-related	1,084	$ (886)	198	2-7 yrs
Technology-related	841	$ (721)	120	7 yrs
Total	7,614	(3,480)	4,134	

As of June 26, 2015	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Amortization Period
Customer-related	$ 5,689	$ (1,613)	$ 4,076	5-15 yrs
Marketing-related	1,084	(698)	386	5-7 yrs
Technology-related	841	(660)	181	7 yrs
Total	7,614	(2,971)	4,643	

Amortization expense for intangible assets was approximately $0.3 million for the three month and $0.5 million for the six month periods ending January 1, 2016, respectively. Expected future amortization expense in the fiscal quarters and years subsequent to January 1, 2016 is as follows:

Years	Amounts (in thousands)
2016	$ 482
2017	548
2018	455
2019	455
2020	440
Thereafter	1,754
Total	$ 4,134

NOTE 6 – INVENTORY

The Company’s inventory balance includes the following:

	As of January 1, 2016	June 26, 2015
	(in thousands)	
Raw Materials	$766	$ 722
Finished Goods	412	400
Work-in-process	129	152
Reserve	(64)	(86)
Total	$1,243	$ 1,188

NOTE 7 – OTHER CURRENT LIABILITIES

The Company’s other current liabilities balance includes the following:

	As of January 1, 2016	June 26, 2015
	(in thousands)	
Project related reserves	$57	$ 57
Payroll related	30	221
Deferred rent	44	63
Acquired capital lease liability	129	176
Warranty reserves	494	-
JCSS contingent consideration payable	4,793	-
Other	16	597
Total	$5,563	$ 1,114

As of January 1, 2016, other accrued liabilities include accrued legal, audit, value added tax liabilities, and foreign entity obligations.

NOTE 8 – DEBT

Notes Payable

As part of the purchase price for JMWA in July 2014, the Company issued notes payable to the three stockholders with an aggregate principal balance of up to $6.0 million, which are payable quarterly over a four and a half-year period with interest accruing at a rate of 5% per year (the “JMWA Notes”). Accrued interest is recorded within the note payable line item in the consolidated balance sheet. As of January 1, 2016, the outstanding principal balance of the JMWA notes payable was $4.5 million.

14

On September 30, 2015, Versar, together with certain of its domestic subsidiaries acting as guarantors (collectively, the “Guarantors”), entered into a loan agreement (the “Loan Agreement”) with Bank of America, N.A., as the lender and letter of credit issuer for a revolving credit facility in the amount of $25.0 million, $14.6 million of which was drawn on the date of closing, and a term facility in the amount of $5.0 million, which was fully drawn on the date of closing.

The maturity date of the revolving credit facility is September 30, 2018 and the maturity date of the term facility is March 31, 2017. The principal amount of the term facility amortizes in quarterly installments equal to $0.8 million with no penalty for prepayment. Interest accrues on the revolving credit facility and the term facility at a rate per year equal to the LIBOR Daily Floating Rate (as defined in the Loan Agreement) plus 1.95% and was payable in arrears on December 31, 2015 and on the last day of each quarter thereafter. Obligations under the Loan Agreement are guaranteed unconditionally and on a joint and several basis by the Guarantors and secured by substantially all of the assets of Versar and the Guarantors. The Loan Agreement contains customary affirmative and negative covenants and contains financial covenants related to the maintenance of a Consolidated Total Leverage Ratio, Consolidated Senior Leverage Ratio, Consolidated Fixed Charge Coverage Ratio and a Consolidated Asset Coverage Ratio.

The proceeds of the term facility and borrowings under the revolving credit facility were used to repay amounts outstanding under the Company’s Second Amended and Restated Loan and Security Agreement with United Bank and to pay a portion the purchase price for the acquisition of JCSS.

As of January 1, 2016, the outstanding principal balance of the term loan was $9.4 million and is related to the Bank of America facility term loan balance of $4.2 million, JMWA Note balance of $4.5 million and a note balance related to the financing of certain company insurance coverages of $0.7 million. The following maturity schedule presents all outstanding debt as of January 1, 2016;

Years	Amounts (in thousands)
2016	$ 3,138
2017	3,831
2018	1,398
2019	1,096
Total	$ 9,463

Line of Credit

As noted above, the Company has a $25 million revolving line of credit facility pursuant to the Loan Agreement with Bank of America, N.A.. The revolving credit facility is scheduled to mature on September 30, 2018. The Company borrowed $14.7 million under its line of credit during the three month period ended January 1, 2016.

Debt Covenants

The Company was in compliance with all covenants under the Loan Agreement as of January 1, 2016.

NOTE 9 – NET INCOME PER SHARE

Basic net income per common share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted net income per common share also includes common stock equivalents outstanding during the period, if dilutive. The Company's common stock equivalent shares consist of shares to be issued under outstanding stock options and unvested restricted stock units.

	For the Three Months Ended		For the Six Months Ended	
	January 1, 2016	December 26, 2014	January 1, 2016	December 26, 2014
	(in thousands)		(in thousands)	
Weighted average common shares outstanding-basic	9,850	9,775	9,831	9,742
Effect of assumed exercise of options and vesting of restricted stock unit awards, using the treasury stock method	-	46	-	41
Weighted average common shares outstanding-diluted	9,850	9,821	9,831	9,783

NOTE 10 – SHARE-BASED COMPENSATION

Restricted Stock Unit Activity

In November 2010, the stockholders approved the Versar, Inc. 2010 Stock Incentive Plan (the "2010 Plan"), under which the Company may grant incentive awards to directors, officers, and employees of the Company and its affiliates and to service providers to the Company and its affiliates. One million shares of Versar common stock were reserved for issuance under the 2010 Plan. The 2010 Plan is administered by the Compensation Committee of the Board of Directors. Through January 1, 2016, a total of 524,103 restricted stock units have been issued under the 2010 Plan and there are 478,897 shares remaining available for future issuance of awards (including restricted stock units) under the 2010 Plan.

During the six months period ended January 1, 2016, the Company awarded 66,500 restricted stock units to its executive officers and certain employees, which vest over a period of two years following the date of grant. The total unrecognized compensation cost, measured on the grant date, that relates to non-vested restricted stock awards at January 1, 2016, was approximately $220,000, which if earned, will be recognized over the weighted average remaining service period of two years. Share-based compensation expense relating to all outstanding restricted stock unit awards totaled approximately $64,000 and $96,000 for the three month