

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the Quarter Ended June 30, 2001 Commission File Number: 0-3676

VSE CORPORATION
(Exact Name of Registrant as Specified in its Charter)

DELAWARE 54-0649263
(State or Other Jurisdiction of (I.R.S. Employer
Incorporation or Organization) Identification No.)

2550 Huntington Avenue
Alexandria, Virginia 22303-1499
(Address of Principal Executive Offices) (Zip Code)

Registrant's Telephone Number, Including Area Code: (703) 960-4600

Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value \$.05 per share
(Title of Class)

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 []

Number of shares of Common Stock outstanding as of July 31, 2001: 2,145,863.

<TABLE>
VSE Corporation and Subsidiaries
Consolidated Financial Statements (Unaudited)

Consolidated Balance Sheets

(in thousands, except share amounts)

<CAPTION>

	June 30, December 31,	
	2001	2000
	----	----
	<C>	<C>
<S>		
Assets		
Current assets:		
Cash and cash equivalents	\$ 585	\$ 647
Accounts receivable, principally		
U.S. Government, net	18,303	19,215
Deferred tax assets	935	853
Other current assets	2,112	1,533
	-----	-----
Total current assets	21,935	22,248
Property and equipment, net	3,512	3,336
Deferred tax assets	841	847
Intangible assets, net	1,978	2,134

Other assets	2,916	2,958
	-----	-----
Total assets	\$ 31,182	\$ 31,523
	=====	=====
Liabilities and Stockholders' Investment		
Current liabilities:		
Accounts payable	\$ 6,448	\$ 8,678
Accrued expenses	5,161	5,121
Dividends payable	85	85
	-----	-----
Total current liabilities	11,694	13,884
Long-term debt	1,338	-
Deferred compensation	1,798	1,846
	-----	-----
Total liabilities	14,830	15,730
	-----	-----
Commitments and contingencies		
Stockholders' investment:		
Common stock, par value \$.05 per share, authorized 5,000,000 shares; issued 2,145,863 shares in 2001 and 2,197,863 shares in 2000	107	110
Paid-in surplus	3,264	3,914
Retained earnings	12,981	12,561
Treasury stock, at cost (72,000 shares in 2000) ..	-	(792)
	-----	-----
Total stockholders' investment	16,352	15,793
	-----	-----
Total liabilities and stockholders' investment .	\$ 31,182	\$ 31,523
	=====	=====

</TABLE>

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

<TABLE>

VSE Corporation and Subsidiaries
Consolidated Financial Statements (Unaudited)

Consolidated Statements of Income For the three and six months ended June 30,

(in thousands, except share amounts)

<CAPTION>

	Three Months		Six Months	
	2001	2000	2001	2000
	----	----	----	----
<S>	<C>	<C>	<C>	<C>
Revenues, principally from contracts	\$ 24,633	\$ 31,435	\$ 55,075	\$ 62,511
Costs and expenses of contracts .	24,010	30,765	53,958	60,600
	-----	-----	-----	-----
Gross profit	623	670	1,117	1,911
Selling, general and administrative expenses	64	24	113	192
Interest expense (income)	14	(13)	29	39
	-----	-----	-----	-----
Income before income taxes . . .	545	659	975	1,680
Provision for income taxes . . .	211	257	385	660
	-----	-----	-----	-----
Net income	\$ 334	\$ 402	\$ 590	\$ 1,020
	=====	=====	=====	=====

Basic earnings per share:

Net income	\$.16	\$.19	\$.28	\$.48
	=====	=====	=====	=====

Basic weighted average shares

outstanding	2,130,863	2,122,289	2,128,720	2,122,289
-------------	-----------	-----------	-----------	-----------

Diluted earnings per share:

Net income	\$.16	\$.19	\$.28	\$.48
Diluted weighted average shares outstanding	2,130,863	2,122,289	2,128,720	2,122,289

</TABLE>

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

<TABLE>

VSE Corporation and Subsidiaries
Consolidated Financial Statements (Unaudited)

Consolidated Statements of Stockholders' Investment

(in thousands)

<CAPTION>

	Common Stock Shares	Common Stock Amount	Paid-In Surplus	Retained Earnings	Treasury Stock
Balance at December 31, 1999	2,194	\$ 110	\$ 3,894	\$ 11,933	\$ (792)
Net income for the year	--	--	968	--	--
Issuance of stock	4	--	20	--	--
Dividends declared (\$.16)	--	--	(340)	--	--
Balance at December 31, 2000	2,198	110	3,914	12,561	(792)
Net income for the period	--	--	590	--	--
Issuance of Treasury stock	--	--	(81)	--	220
Retirement of Treasury stock	(52)	(3)	(569)	--	572
Dividends declared (\$.08)	--	--	(170)	--	--
Balance at June 30, 2001	2,146	\$ 107	\$ 3,264	\$ 12,981	\$ --

</TABLE>

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

<TABLE>

VSE Corporation and Subsidiaries
Consolidated Financial Statements (Unaudited)

Consolidated Statements of Cash Flows For the six months ended June 30,

(in thousands)

<CAPTION>

	2001	2000
	<C>	<C>

<S>

Cash flows from operating activities:		
Net income	\$ 590	\$ 1,020
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	754	802
Loss (gain) on sale of property and equipment	26	(114)
Deferred compensation plan expense	25	35
Net payments of deferred compensation	(73)	(89)
Change in Deferred taxes	(76)	133
Change in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	912	591
Other current assets and noncurrent assets	(537)	(2,308)
Increase (decrease) in:		
Accounts payable	(2,230)	(1,713)
Accrued expenses	40	(239)
	-----	-----
Net cash (used in) operating activities	(569)	(1,882)
	-----	-----
Cash flows from investing activities:		
Purchase of property and equipment, (net of dispositions)	(800)	(45)
Proceeds from note receivable from business transferred	-	50
	-----	-----
Net cash (used in) provided by investing activities	(800)	5
	-----	-----
Cash flows from financing activities:		
Net proceeds from bank loan	1,338	2,695
Cash dividends paid	(170)	(161)
Issuance of common stock	139	-
	-----	-----
Net cash provided by financing activities	1,307	2,534
	-----	-----
Net (decrease) increase in cash and cash equivalents	(62)	657
Cash and cash equivalents at beginning of period	647	62
	-----	-----
Cash and cash equivalents at end of period	\$ 585	\$ 719
	=====	=====

</TABLE>

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

VSE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six month periods ended June 30, 2001 are not necessarily indicative of the results that may be expected for the year ending December 31, 2001. For further information refer to the consolidated financial statements and footnotes thereto included in the VSE Corporation Annual Report on Form 10-K for the year ended December 31, 2000.

Use of Estimates in the Preparation of Financial Statements

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

Actual results could differ from those estimates.

Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS No. 141"). SFAS No. 141 requires all business combinations initiated after June 30, 2001, to be accounted for using the purchase method. The company does not anticipate that adoption of SFAS No. 141 will have a material impact, either positive or negative, on future results of operations or financial condition.

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"). SFAS No. 142 modifies the accounting rules governing goodwill and intangible assets. Under SFAS 142, goodwill will no longer be subject to amortization over its estimated useful life and intangible assets with indefinite lives will no longer be amortized over an arbitrary number of years. The effective date for VSE's implementation of SFAS No. 142 is January 1, 2002. The company does not anticipate that adoption of SFAS No. 142 will have a material impact, either positive or negative, on future results of operations or financial condition.

VSE CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Debt

VSE has a revolving loan agreement with a bank on which the company can borrow up to \$15 million, subject to a borrowing formula based on billed receivables. Under terms of the agreement, the company pays a fixed amount annual commitment fee and interest on any borrowings at a prime-based rate or an optional LIBOR-based rate. The expiration date of the revolving loan is May 31, 2003. The loan agreement contains collateral requirements by which company assets secure amounts outstanding, restrictive covenants that include minimum tangible net worth and profitability requirements, a limit on annual dividends, and other affirmative and negative covenants. This loan agreement replaced the previous loan agreement that had a maximum commitment of \$30 million dollars. The company determined that the new loan agreement was adequate to cover current and future liquidity requirements.

Litigation

In June 2001 a personal injury lawsuit was filed against VSE, Astoria Metals Corporation ("AMC"), Ship Dismantlement and Recycling Joint Venture, Earth Tech, Inc., and Tyco International Ltd. in the Superior Court of the State of California for the County of Alameda (Case No. 835601-7). While the plaintiffs' complaint does not specify the amount of alleged damages suffered, the plaintiffs have provided the defendants with a notice of damages aggregating approximately \$20 million. VSE believes that it has meritorious defenses to the plaintiffs' claims and intends to contest the lawsuit vigorously. While there is no assurance, VSE believes that the resolution of the lawsuit will not have a material adverse effect on VSE's consolidated financial position or results of operations.

The company and its subsidiaries have, in the normal course of business, certain other claims against them and against other parties. In the opinion of management, the resolution of these claims will not have a material adverse effect on the company's results of operations or financial position.

VSE CORPORATION AND SUBSIDIARIES Management Discussion and Analysis

The term "VSE" or "company" means VSE and its subsidiaries and divisions unless the context indicates operations of the parent company only. VSE's business operations consist of the operations of the parent company, operations of the company's wholly owned subsidiaries and operations of the company's divisions. Wholly owned subsidiaries include Energetics Incorporated ("Energetics"), Human Resource Systems, Inc. ("HRSI"), Ship Remediation and

Recycling, Inc. ("SRR") and VSE Services International, Inc. ("VSI"). Operations of unincorporated divisions include BAV Division ("BAV"), Ordnance Division ("Ordnance"), Value Systems Services Division ("VSS"), Fleet Maintenance Division ("Fleet Maintenance"), Telecommunications Technologies Division ("TTD") beginning in September 2000, GSA Services Division ("GSA Services"), and Land Systems Division ("Land Systems") beginning in February 2001.

<TABLE>

The following table sets forth certain items including consolidated revenues, pretax income and net income, and the changes in these items for the three and six month periods ended June 30, 2001 and 2000 (in thousands):

<CAPTION>

	2001 Compared to					
	Three Months Ended June 30,		Six Months Ended June 30		2000	
	2001	2000	2001	2000	Three Months	Six Months
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Revenues	\$24,633	\$31,435	\$55,075	\$62,511	\$(6,802)	\$(7,436)
Pretax income	\$ 545	\$ 659	\$ 975	\$ 1,680	\$(114)	\$(705)
Provision for income taxes	211	257	385	660	(46)	(275)
Net income	\$ 334	\$ 402	\$ 590	\$ 1,020	\$(68)	\$(430)

</TABLE>

The discussion and analysis that follow are intended to assist in understanding and evaluating the results of operations, financial condition, and certain other matters of the company. The company is engaged principally in providing engineering, logistics, management and technical services to the U.S. Government (the "government") and other government prime contractors. All significant intercompany transactions have been eliminated in consolidation. Certain prior year balances have been reclassified for comparative purposes.

Results of Operations

Revenues declined by approximately 21% and 12%, respectively, for the three month and six month periods ended June 30, 2001, as compared to the same periods of 2000. The decrease in revenues was primarily due to a decrease in the level of services ordered under the BAV contract (see "BAV Contract" below), the expiration of contracts performed by VSS for the U.S. Navy and by VSE for the U.S. Postal Service (see "VSS Contract" and "USPS Contract" below), and a reduction in revenue associated with the company's sale of its HRSI Health Care Division contracts in July of 2000. The reduction in revenue from these contracts was partially offset by increases in revenues in some

VSE CORPORATION AND SUBSIDIARIES Management Discussion and Analysis

of the company's other divisions and subsidiaries, most notably by increased revenues in TTD, SRR, and Energetics.

Pretax income decreased by approximately 17% and 42%, respectively, for the three month and six month periods ended June 30, 2001, as compared to the same periods of 2000. The decrease for the six month period was primarily due to losses experienced by TTD during the first quarter of 2001, to the loss of profits associated with the expiration of the VSS and USPS contracts, and to a reduction in fee income associated with the decrease in the level of services ordered under the BAV contract. The decrease for the three month period was primarily due to the loss of profits associated with the expiration of USPS contract, to a reduction in fee income associated with the decrease in the

level of services ordered under the BAV contract, and to losses caused by increased costs incurred by SRR. The decreases in pretax income for the three month and six month periods ended June 30, 2001 were partially offset by increased profitability of Energetics in these periods and a non-recurring VSE sublease transaction that resulted in an addition to pre-tax income of \$250,000 during the second quarter of 2001.

Several of the company's operating divisions were formed in recent years to bid on and perform contract work that had been traditionally performed by VSE (parent company). The formation of these divisions has enabled the company to use an operating structure that is better suited to perform certain types of contract work. The company anticipates that it will continue using its operating divisions to bid and perform new contract work to better serve the needs of customers. As the use of operating divisions for new contracts increases, the company expects that the revenue of VSE (the parent company) will be reduced in the future as parent company contracts are replaced by operating division contracts. Management believes that the use of operating divisions to perform future work and the associated improvements in servicing customers will better position the consolidated entity for future revenue growth.

BAV Contract. VSE's BAV Division has a contract with the U.S. Navy to provide engineering, technical and logistical support services associated with the sale, lease, or transfer of Navy ships to foreign governments. Contract terms specify award fee payments to BAV that are determined by performance and level of contract activity. The contract accounted for approximately 36% and 38% of consolidated revenues from operations during the six month periods ended June 30, 2001 and 2000, respectively. The level of revenues and associated profits resulting from fee income generated by this contract varies depending on a number of factors including the timing of ship transfers and associated support services ordered by foreign governments and economic conditions of potential customers worldwide. Fee income received during the three and six month periods ended June 30, 2001, which was based on reduced revenue levels experienced during the fourth quarter of 2000 and first quarter of 2001, was lower than fee income received during comparable periods during 2000. This contributed to the decline in pretax income during 2001 as compared to 2000. The company has experienced significant quarterly and annual revenue fluctuations and anticipates that future quarterly and annual revenues will be subject to significant variations primarily due to changes in the level of activity on this contract.

VSE CORPORATION AND SUBSIDIARIES

Management Discussion and Analysis

VSS Contract. VSE's VSS Division had a U.S. Navy contract to provide data management and documentation, logistics support services and configuration management services to the Naval Air Systems Command. VSS began work on this contract in 1994 and the last option year was scheduled to end in 1999. The government extended the contract through April 28, 2000. VSS was not awarded the successor contract and work on this contract effort terminated as of April 28, 2000. The contract accounted for a majority of the work in the VSS Division during the period from 1995 through 1999, but represented less than 10% of the company's revenues during this time. The loss of revenues associated with the expiration of this contract contributed to the decline in revenues and pretax income during the first six months of 2001 as compared to 2000.

USPS Contract. VSE had a contract to provide engineering support services to the U.S. Postal Service. VSE was not awarded the successor contract, and work on this contract effort terminated as of January 31, 2001. Revenues on this contract represented approximately 8% of the company's revenues during 2000. The loss of revenues from this contract expiration contributed to the decline in revenues and pretax profit during the first six months of 2001 as compared to 2000.

Discontinued Operations. On May 21, 1999, the company sold its CMstat subsidiary for an \$800 thousand promissory note. The sale was a divestiture for legal and tax purposes, but was primarily dependent on the buyer's ability to repay the promissory note. Accordingly, the sale was not originally provided discontinued operations treatment under Staff Accounting Bulletin No. 30 "Accounting for Divestiture of a Subsidiary or Other Business

Operation"("SAB No. 30") since it did not transfer the risks of ownership. In December 2000, the company determined that the promissory note acquired from the sale of its CMstat subsidiary was not collectible and the remaining balance was written off. Accordingly, the company's consolidated financial statements were restated to reflect the disposition of its CMstat subsidiary as discontinued operations.

Financial Condition

VSE's financial condition did not change materially during the six month period ended June 30, 2001. The company's largest asset is its accounts receivable and its largest liabilities are its accounts payable and accrued expenses. A decrease in accounts receivable of approximately \$900 thousand at June 30, 2001, as compared to December 31, 2000, and a corresponding decrease of approximately \$900 thousand in accounts payable and long-term bank debt combined, resulted primarily from the decrease in revenues. Other assets and liabilities remained substantially unchanged. The increase in total stockholders' investment during this period resulted from earnings and dividend activity and from the sale of a portion of the company's Treasury Stock to a director. The remaining Treasury Stock was retired.

VSE CORPORATION AND SUBSIDIARIES Management Discussion and Analysis

Liquidity and Capital Resources

Cash and cash equivalents decreased by approximately \$62 thousand during the six month period ended June 30, 2001. Cash provided by financing activities was approximately \$1.3 million. Cash used in investing activities was approximately \$800 thousand and cash used in operating activities was approximately \$600 thousand. Significant financing activities included an increase of approximately \$1.3 million in bank loan borrowings. Investing activities consisted of purchases of property and equipment, net of dispositions.

Cash and cash equivalents increased by approximately \$700 thousand during the six month period ended June 30, 2000. Cash from financing activities provided approximately \$2.5 million and cash used in operating activities was approximately \$1.9 million. Significant financing activities included increased borrowing on the company's bank loan of approximately \$2.7 million. Significant investing activities included purchases of property and equipment, net of dispositions, of approximately \$45 thousand.

The difference between cash used in operating activities of approximately \$600 thousand in 2001 as compared to approximately \$1.9 million in 2000 is primarily due to changes in the levels of other current assets associated with a significant deposit made by the BAV Division in June 2000.

The company's internal sources of liquidity result primarily from operating activities, specifically from changes in the level of revenues and associated accounts receivable from period to period and from profitability. Significant increases or decreases in revenue and accounts receivable can cause significant increases or decreases in internal liquidity. Accounts receivable arise primarily from billings made by the company to the government or other government prime contractors for services rendered and generally do not present collection problems. Accounts receivable levels can also be affected by contract retainages, start-up and termination costs associated with new or completed contracts, and differences between the provisional billing rates authorized by the government compared to the costs actually incurred by the company. A decrease in accounts payable during the six month period ended June 30, 2001 due to the timing of certain large dollar vendor payments by the BAV division in late 2000 and early 2001 contributed to a decrease in internally generated cash flows. Internal liquidity is also affected by the acquisition of capital assets for office and computer support and by the payment of cash dividends.

VSE's external sources of liquidity consist of a revolving bank loan agreement that provides loan financing based on the company's accounts receivable. (See "Debt" note in "Notes to Consolidated Financial Statements".) The bank financing complements the internal sources of liquidity by providing

increasing levels of borrowing capacity as accounts receivable levels increase. The bank loan agreement provided loan financing up to a maximum commitment of \$15 million as of the quarter ended June 30, 2001. This loan agreement replaced a previous loan agreement that had a maximum commitment of \$30 million in the prior year. The company determined that the new loan amount was adequate to cover current and future liquidity requirements.

VSE CORPORATION AND SUBSIDIARIES

Management Discussion and Analysis

Performance of work under the BAV contract has the potential to cause substantial requirements for cash; however, management believes that the cash flows from future operations and the bank loan commitment are adequate to meet current operating cash requirements.

Quarterly cash dividends at the rate of \$.04 per share were declared during the six month period ended June 30, 2001. Pursuant to its bank loan agreement, the payment of cash dividends by VSE is subject to a maximum annual rate. VSE has paid cash dividends each year since 1973.

Inflation and Pricing

Most of the contracts performed by VSE provide for estimates of future labor costs to be escalated for any option periods provided by the contracts, while the non-labor costs included in such contracts are normally reimbursable at cost. VSE property and equipment consists principally of computer systems equipment and furniture and fixtures. The overall impact of inflation on replacement costs of such property and equipment is expected to be insignificant.

Forward-Looking Disclosures

New Business

VSE has begun several new business initiatives in recent years. The company expects these new business initiatives to contribute to future revenue growth.

In August 2000, VSE formed TTD to continue a strategy to support customers with effective multimedia and information technology solutions. In December 2000, VSE invested \$960 thousand in the acquisition of certain contract and marketing rights to enhance TTD's growth opportunities. TTD markets the company's growing capability to provide customers with the latest products, services, and support in network, multimedia, and audio-visual technology. TTD specializes in maintaining and staffing products and services to create state of the art, network and multimedia technology systems. This includes "turnkey" design, installation, management and support for a wide variety of voice, data, multimedia and related projects.

Goodwill and Other Intangible Assets

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"). SFAS No. 142 modifies the accounting rules governing goodwill and intangible assets. Under SFAS 142, goodwill will no longer be subject to amortization over its estimated useful life and intangible assets with indefinite lives will no longer be amortized over an arbitrary number of years. The effective date for VSE's implementation of SFAS No. 142 is January 1, 2002. The company does not anticipate that adoption of SFAS No. 142 will have a material impact, either positive or negative, on future results of operations or financial condition.

VSE CORPORATION AND SUBSIDIARIES

Management Discussion and Analysis

Disclosures About Market Risk

Government Procurement Policies and Practices

VSE's business is subject to the risks arising from domestic economic conditions and political factors that may impact the budgets and program funding of customers served through VSE's contracts. The largest customer for the services rendered by the company is the U.S. Department of Defense ("Defense"), including agencies of the U.S. Army, Navy, and Air Force. VSE's revenues have historically been subject to annual fluctuations resulting from changes in the level of Defense spending. Future budgetary and funding decisions by government lawmakers or Defense restructuring efforts could affect the types and level of services provided by VSE to its government customers and could potentially have a material adverse impact on the company's results of operations or financial condition.

The company's revenues depend on the ability of the company to win new contracts and on the amount of work ordered by the government under the company's existing contracts. The company's ability to win new contracts is affected by government acquisition policies and procedures, including government procurement practices that in recent years have tended toward bundling work efforts under large comprehensive ("omnibus") management contracts. This emphasis on large contracts presents challenges to winning new contract work, including making it more difficult for the company to qualify as a bidder, increases in the level of competition due to the award of fewer contracts, and forcing the company into competition with larger organizations that have greater financial resources and larger technical staffs. Other government procurement practices that can affect the company's revenues are the use of past performance criteria that may preclude entrance into new government markets and government social programs that limit contract work to small, woman, or minority owned businesses. Additional risk factors that could potentially affect the company's revenues are the government's right to terminate contracts for convenience, the government's right to not exercise all of the option periods on a contract, and funding delays caused by government political or administrative actions.

Global Economic Conditions and Political Factors

VSE's business is subject to the risks arising from global economic conditions and political factors associated with potential foreign customers served through VSE's contracts with the U.S. Government. For example, an economic slowdown in countries served under the BAV contract could potentially affect BAV sales. Likewise, failure by the government of a potential foreign customer to approve and fund acquisition of U.S. Navy ships serviced under the BAV contract could also affect sales. Severe adverse results arising from these global economic and political risks could potentially have a material adverse impact on the company's results of operations.

VSE CORPORATION AND SUBSIDIARIES

PART II. Other Information

Item 1. Legal Proceedings.

In June 2001 Marcos and Silveira Garcia filed a lawsuit, as amended, against VSE, Astoria Metals Corporation ("AMC"), Ship Dismantlement and Recycling Joint Venture ("SDR"), Earth Tech, Inc., and Tyco International Ltd. in the Superior Court of the State of California for the County of Alameda (Case No. 835601-7). The lawsuit alleges that the plaintiffs are entitled to damages for personal injuries to Marcos Garcia arising out of an accident which occurred on June 10, 2000, at a dry-dock facility at the former Hunters Point Naval Shipyard in San Francisco, California. The dry-dock facility was operated by AMC, a subcontractor to SDR, which is a joint venture 50% owned by VSE's wholly owned subsidiary Ship Remediation and Recycling, Inc. and 50% owned by Earth Tech, Inc., a subsidiary of Tyco International Ltd. Mr. Garcia was an employee of a subcontractor to AMC. The plaintiffs allege, among other things, that the defendants failed to exercise due care and diligence in the operation of the dry-dock facility, resulting in personal injuries to Mr. Garcia. While the plaintiffs' amended complaint in the lawsuit does not specify the amount of alleged damages suffered by the plaintiffs, the plaintiffs have provided the defendants with a notice of damages claiming

damages aggregating approximately \$20 million. The operations of VSE and SDR in 2000 were subject to liability insurance policies, and SDR was named as an additional insured on liability policies obtained by AMC. VSE believes that it and SDR have meritorious defenses to the plaintiffs' claims and intends to contest the lawsuit vigorously. While there is no assurance, VSE believes that the resolution of the lawsuit will not have a material adverse effect on VSE's consolidated financial position or results of operations.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits.

None.

(b) Reports on Form 8-K.

None.

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has omitted all other items contained in "Part II. Other Information" because such other items are not applicable or are not required if the answer is negative or because the information required to be reported therein has been previously reported.

VSE CORPORATION AND SUBSIDIARIES

SIGNATURES

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

VSE CORPORATION

Date: July 31, 2001 /s/ C. S. WEBER

C. S. Weber, Executive Vice President
and Chief Financial Officer

Date: July 31, 2001 /s/ T. R. Loftus

T. R. Loftus, Senior Vice President
and Comptroller
(Principal Accounting Officer)

The financial information included in this report reflects all known adjustments normally determined or settled at year-end which are, in the opinion of management, necessary to a fair statement of the results for the interim periods. The accompanying notes to consolidated financial statements are an integral part of this report.

