



PART I. Financial Information

Item 1. Financial Statements

VSE Corporation and Subsidiaries  
Consolidated Financial Statements

<TABLE>  
Consolidated Balance Sheets

-----  
(in thousands except share and per share amounts)

<CAPTION>

	September 30, December 31,	
	2003	2002
	---	---
	(Unaudited)	
<S>	<C>	<C>
Assets		
Current assets:		
Cash and cash equivalents . . . . .	\$ 8,062	\$ 4,210
Accounts receivable, principally		
U.S. Government, net . . . . .	20,055	17,524
Deferred tax assets . . . . .	1,288	1,313
Other current assets . . . . .	1,537	1,241
	-----	-----
Total current assets . . . . .	30,942	24,288
Property and equipment, net . . . . .	3,142	3,483
Deferred tax assets . . . . .	290	449
Intangible assets, net . . . . .	1,054	1,054
Other assets . . . . .	2,451	2,403
	-----	-----
Total assets . . . . .	\$ 37,879	\$ 31,677
	=====	=====
Liabilities and Stockholders' Investment		
Current liabilities:		
Accounts payable . . . . .	\$ 13,482	\$ 8,785
Accrued expenses . . . . .	4,965	4,654

Dividends payable . . . . .	0	87
	-----	-----
Total current liabilities . . . . .	18,447	13,526
Deferred compensation . . . . .	1,141	1,108
	-----	-----
Total liabilities . . . . .	19,588	14,634
	-----	-----
Commitments and contingencies		
Stockholders' investment:		
Common stock, par value \$.05 per share, authorized 5,000,000 shares; issued 2,188,635 in 2003 and 2,185,760 shares in 2002 . . . . .	109	109
Paid-in surplus . . . . .	3,590	3,558
Retained earnings . . . . .	14,592	13,376
Total stockholders' investment . . . . .	18,291	17,043
	-----	-----
Total liabilities and stockholders' investment .	\$ 37,879	\$ 31,677
	=====	=====

</TABLE>

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

-3-

VSE Corporation and Subsidiaries  
Consolidated Financial Statements (Unaudited)

<TABLE>

Consolidated Statements of Income For the three and nine months ended September 30,

(in thousands except per share amounts)

<CAPTION>

	Three Months		Nine Months	
	2003	2002	2003	2002
	----	----	----	----
<S>	<C>	<C>	<C>	<C>
Revenues, principally from contracts . . . . .	\$ 36,391	\$ 37,836	\$ 92,221	\$ 103,269
Costs and expenses of contracts . . . . .	35,482	37,352	89,855	102,003
	-----	-----	-----	-----
Gross profit . . . . .	909	484	2,366	1,266
Selling, general and administrative expenses . . .	68	59	158	122
Interest (income) expense, net .	(18)	(3)	(49)	43
	-----	-----	-----	-----
Income before income taxes . . .	859	428	2,257	1,101
Provision for income taxes . . .	336	171	866	451
	-----	-----	-----	-----
Net income . . . . .	\$ 523	\$ 257	\$ 1,391	\$ 650
	=====	=====	=====	=====

Basic earnings per share:

Net income . . . . .	\$ 0.24	\$ 0.12	\$ 0.64	\$ 0.30
	=====	=====	=====	=====

Basic weighted average shares

outstanding	2,188,635	2,181,540	2,188,108	2,169,140
	=====	=====	=====	=====

Diluted earnings per share:

Net income . . . . .	\$ 0.23	\$ 0.12	\$ 0.62	\$ 0.30
	=====	=====	=====	=====

Diluted weighted average shares

outstanding	2,235,779	2,204,803	2,227,026	2,192,599
	=====	=====	=====	=====

</TABLE>

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

-4-

VSE Corporation and Subsidiaries  
Consolidated Financial Statements (Unaudited)

<TABLE>  
Consolidated Statements of Stockholders' Investment

(in thousands except per share data)

<CAPTION>

	Common Stock		Total		Stockholders'
	Shares	Amount	Paid-In Surplus	Retained Earnings	Investment
<S>	<C>	<C>	<C>	<C>	<C>
Balance at					
December 31, 2001 . . . .	2,150	\$ 107	\$ 3,294	\$ 13,074	\$ 16,475
Net income					
for the year . . . . .	--	--	652	652	
Exercised stock options . .	33	2	213	--	215
Tax benefit of					
options exercised . . . . .	--	--	22	--	22
Issuance of stock . . . . .	3	--	29	--	29
Dividends declared					
(\$ .16) . . . . .	--	--	(350)	(350)	
Balance at					
December 31, 2002 . . . .	2,186	109	3,558	13,376	17,043
Net income					
for the period . . . . .	--	--	1,391	1,391	
Exercised stock options . .	3	--	30	--	30
Tax benefit of					
options exercised . . . . .	--	--	2	--	2
Dividends declared					
(\$ .08) . . . . .	--	--	(175)	(175)	
Balance at					
September 30, 2003 . . . .	2,189	\$ 109	\$ 3,590	\$ 14,592	\$ 18,291

</TABLE>

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

-5-

VSE Corporation and Subsidiaries  
Consolidated Financial Statements (Unaudited)

<TABLE>

Consolidated Statements of Cash Flows For the nine months ended September 30,

(in thousands)

<CAPTION>

	2003	2002
	----	----
<S>	<C>	<C>
Cash flows from operating activities:		
Net income	\$ 1,391	\$ 650
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	866	998
Loss on sale of property and equipment	5	8
Deferred taxes	184	(6)
Tax benefit of options exercised	2	21
Change in operating assets and liabilities:		
Increase in:		
Accounts receivable	(2,531)	(54)
Other current assets and noncurrent assets	(389)	(34)
Increase in:		
Accounts payable and deferred compensation	4,775	2,575
Accrued expenses	311	446
	-----	-----
Net cash provided by operating activities	4,614	4,604
	-----	-----
Cash flows from investing activities:		
Purchase of property and equipment	(530)	(347)
	-----	-----
Net cash used in investing activities	(530)	(347)
	-----	-----
Cash flows from financing activities:		
Net payments of long-term bank loan	-	(351)
Dividends paid	(262)	(261)
Proceeds from issuance of common stock	30	201
	-----	-----
Net cash used in financing activities	(232)	(411)
	-----	-----
Net increase in cash and cash equivalents	3,852	3,846
Cash and cash equivalents at beginning of period	4,210	209
	-----	-----
Cash and cash equivalents at end of period	\$ 8,062	\$ 4,055
	=====	=====

</TABLE>

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

-6-

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

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States 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 accounting principles generally accepted in the United States 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 nine months ended September 30, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003. 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, 2002. The company operates within one reportable segment.

#### 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.

#### Debt

VSE has a revolving loan agreement with a bank under which the company can borrow up to \$15 million, subject to a borrowing formula based on billed receivables. Under 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 current expiration date of the revolving loan is May 31, 2005. 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. There were no amounts borrowed under this loan agreement as of September 30, 2003 or December 31, 2002.

-7-

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

#### Earnings Per Share

Basic earnings per share has been computed by dividing net income available to common stockholders by the weighted average number of shares of common stock outstanding during each period. Shares issued during the period are weighted for the portion of the period that they were outstanding. Diluted earnings per share have been computed in a manner consistent with that of basic earnings per share while giving effect to all potentially dilutive common shares that were outstanding during each period.

#### Stock-Based Compensation

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation--Transition and Disclosure--an amendment of SFAS No. 123." This statement amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The company has chosen to continue to account for stock-based compensation using the intrinsic value method prescribed in APB Opinion No. 25 and related interpretations.

Accordingly, compensation expense for stock options is measured as the excess, if any, of the fair market value of the company's stock at the date of the grant over the exercise price of the related option. The company adopted the annual disclosure provisions of SFAS No. 148 in its financial reports for the year ended December 31, 2002 and the interim disclosure provisions for its financial reports beginning the quarter ended March 31, 2003.

-8-

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

<TABLE>

Had compensation costs for the company's stock options been determined based on SFAS No. 123, "Accounting for Stock-Based Compensation," the company's net income and earnings per share would have been as follows for the three and nine months ended September 30, 2003 and 2002, respectively (in thousands, except per share amounts):

<CAPTION>

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
<S>	<C>	<C>	<C>	<C>
Net income, as reported	\$ 523	\$ 257	\$1,391	\$ 650
Deduct: Total stock-based compensation expense determined under fair value based method (SFAS No. 123) for all awards, net of related tax effects	(21)	(22)	(62)	(54)
Pro forma net income	\$ 502	\$ 235	\$1,329	\$ 596
Earnings per share:				
Basic as reported	\$ 0.24	\$ 0.12	\$ 0.64	\$ 0.30
Diluted as reported	\$ 0.23	\$ 0.12	\$ 0.62	\$ 0.30
Basic pro forma	\$ 0.23	\$ 0.11	\$ 0.61	\$ 0.27
Diluted pro forma	\$ 0.22	\$ 0.11	\$ 0.60	\$ 0.27

</TABLE>

Litigation

The company and its subsidiaries have, in the normal course of business, certain 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.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### Company Organization and Overview

#### Company Organization

The term "VSE" or "company" refers to VSE and its subsidiaries and divisions unless the context indicates operations of the parent company only. VSE's business operations consist primarily of services performed by the company's wholly owned subsidiaries and unincorporated divisions. Active subsidiaries in 2003 include Energetics, Incorporated ("Energetics") and Human Resource Systems, Inc. ("HRSI"). Active divisions include BAV Division ("BAV"), Coast Guard Division ("VCG") beginning in February 2002, Communications and Engineering Division ("CED") beginning in February 2003, Fleet Maintenance Division ("Fleet Maintenance"), Management Sciences Division ("MSD"), Systems Engineering Division ("Systems Engineering", formerly Land Systems Division), Telecommunications Technologies Division ("TTD"), and Value Systems Services Division ("VSS"). In February 2003, VSE began phasing out the operations of TTD and transferred some of its technical capabilities to other VSE divisions. The sole HRSI contract expired on May 31, 2003 and this work was continued on a new contract in another VSE division.

The company uses multiple operating divisions to bid on and perform contract work. The use of these divisions enables the company to use an operating structure that is flexible and well 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 serve the needs of customers. Management believes that this strategy will position the consolidated entity for future revenue growth.

#### Overview of Services

The company is engaged principally in providing engineering, design, logistics, management and technical services to the U.S. Government (the "government"), other government prime contractors, and commercial entities. 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. BAV is a major provider of logistics, training, and technical assistance in support of the Navy's ship transfer program. VCG provides similar services to the U.S. Coast Guard. Fleet Maintenance and VSS also support the Navy by providing a variety of services including ship installation efforts, combat systems inspections, ship repair and overhaul availability planning, harpoon weapons management, ordnance alteration, air combat logistics, and outsourcing decision assistance. Systems Engineering provides the Army with engineering and technical support for ground weapons, logistics and training services, material procurement support, and prototype development support for combat vehicles. MSD provides the Army and other government agencies and commercial organizations with quality training services for product, process, and management optimization. CED provides

management oversight and coordinates support efforts for a variety of Department of Defense agency work orders.

The company has also provided support services to the U.S. Postal Service for over twenty years and is continuing to support this customer through its VSS Division. Energetics is focused on providing the Department of Energy and other government and industry customers with expert consulting services in environmental management and energy supply, resource management, and conservation. TTD has offered products, services, and support in network, multimedia, and audio-visual technology. This includes design, installation, management and support for voice, data, multimedia and related projects. VSE has transferred many of the technical capabilities of TTD to Systems Engineering

and other divisions, which continue to perform some of this type of work.

## Critical Accounting Policies

VSE's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States, which require us to make estimates and assumptions. We believe the following critical accounting policies affect our more significant judgments, estimates and assumptions used in the preparation of our consolidated financial statements.

### Revenue Recognition

Substantially all of the company's services are performed for its customers on a contract basis and revenue is recorded as services are performed. The three primary types of contracts used are cost-type contracts, time and materials contracts, and fixed-price contracts. Revenues result from work performed on these contracts by the company's employees and from pass-through of costs for material and work performed by subcontractors. Revenues on cost-type contracts are recorded as contract allowable costs are incurred and fees earned. Profits on cost-type contracts are equal to the fees that are earned. Revenues for time and materials contracts are recorded on the basis of contract allowable labor hours worked times the contract defined billing rates, plus the cost of materials used in performance on the contract. Profits on time and material contracts result from the difference between the cost of services performed and the contract defined billing rates for these services. Revenues on certain fixed-price services contracts are recorded as services are provided. Revenues on other fixed-price contracts are recorded as costs are incurred, using the percentage-of-completion method of accounting. Profits on fixed-price contracts result from the difference between the incurred costs and the revenue earned.

The company has a contract in its BAV Division for which contract terms specify award fee payments to BAV that are determined by performance and level of contract activity. Award fees are made three times during the year and a contract modification authorizing the award fee payment is issued subsequent to the period in which the work is performed. The company does not recognize award fee income until the contract modification authorizing the award fee is issued. Due to such timing, and to fluctuations in the level of revenues, profits as a percentage of revenues on this contract will fluctuate from period to period. Award fee income for this contract has typically been recognized in the first, second and fourth quarters of each year.

-11-

The company will occasionally perform work at risk, which is work that is performed prior to formalizing terms for such work. Potential revenue related to work performed at risk is not recognized until it can be reliably estimated and its realization is probable. VSE recognizes this "risk funding" as revenue when the associated costs are incurred and the work is performed. As of September 30, 2003, VSE has recognized approximately \$445 thousand in risk funding. The company provides for anticipated losses on contracts by a charge to income during the period in which losses are first identified.

### Long-Lived Assets

In assessing the recoverability of long-lived assets, including goodwill and other intangibles, we make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. If the estimates and related assumptions change in the future, we may be required to record impairment charges to write-down the carrying value of these assets.

### Contingencies

From time to time we are subject to proceedings, lawsuits, and other claims related to environmental, labor, and other matters. We are required to assess the likelihood of any adverse judgments or outcomes to these contingencies as well as potential ranges of probable losses and establish reserves accordingly. The amount of reserves required may change in future periods due to new developments in each matter or changes in approach to a matter such as a change in settlement strategy.

### Income Taxes

The carrying value of our net deferred tax assets is based on assumptions regarding our ability to generate sufficient future taxable income to utilize these deferred tax assets. If the estimates and related assumptions regarding our future taxable income change in the future, we may be required to record valuation allowances against our deferred tax assets, resulting in additional income tax expense.

-12-

Results of Operations

<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 nine month periods ended September 30, 2003 and 2002 (in thousands):

<CAPTION>

	2003 Compared to 2002					
	Three Months		Nine Months		-----	
	Ended September 30, 2003	2002	Ended September 30, 2003	2002	Three Months	Nine Months
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Revenues . . . . .	\$36,391	\$37,836	\$ 92,221	\$103,269	\$(1,445)	\$(11,048)
Income before income taxes . . . . .	\$ 859	\$ 428	\$ 2,257	\$ 1,101	\$ 431	\$ 1,156
Provision for income taxes . . . . .	336	171	866	451	165	415
Net income . . . . .	\$ 523	\$ 257	\$ 1,391	\$ 650	\$ 266	\$ 741

</TABLE>

Revenues declined by approximately 4% and 11% for the three- and nine- month periods ended September 30, 2003, as compared to the same periods of 2002. The primary reasons for the decrease in revenues for the three-month period were a reduction in BAV revenue due to work ordered by certain client countries in 2002 that was not repeated in 2003 and reduced revenue associated with the decision to phase out the operations of TTD. Revenues also declined for HRSI and VSS. The declines in revenues of the previously mentioned divisions were partially offset by the revenues generated by the start up of CED and an increase in the revenues of Energetics, Systems Engineering, MSD, and VCG compared to the prior year three-month period. While the increased revenues in these divisions were not significant in proportion to total company revenues, the increases in Systems Engineering, MSD, and VCG were significant in proportion to the prior year revenues of these divisions.

The primary reasons for the decrease in revenues for the nine-month period were 1) a reduction in BAV revenue due to work ordered by certain client countries in 2002 that was not repeated in 2003, 2) a reduction in Fleet Maintenance revenue due to a decrease in the amount of subcontract work in 2003 as compared to 2002, and 3) reduced revenue associated with the decision to phase out the operations of TTD. Revenues also declined for Energetics, HRSI, and VSS. The declines in revenues of the previously mentioned divisions were partially offset by the revenues generated by the start up of CED and an increase in the revenues of Systems Engineering, MSD, and VCG compared to the prior year nine-month period. While the increased revenues in Systems Engineering, MSD, and VCG were not significant in proportion to total company revenues, the increases were significant in proportion to the prior year revenues of each of these divisions.

Pretax income increased by approximately 101% and 105% for the three- and nine-

month periods ended September 30, 2003, as compared to the same periods of 2002. The increase in pre-tax income for the three month period was primarily due to revenue and profit increases in Systems Engineering, MSD and VCG,

-13-

increased profitability on Fleet Maintenance work, and a reduction in the losses associated with TTD work. These same factors, along with a reduction in losses on certain Fleet Maintenance work during the first two quarters of 2003, were the primary reasons for the increase in profits during the nine month period. The company-wide pretax income increases were partially offset by operational and start up losses associated with CED, including pre-tax losses of approximately \$167 thousand recognized in this third quarter due to accounting rules requiring the accrual of certain contract losses anticipated in the fourth quarter of 2003.

**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 other transfer of Navy ships to foreign governments. This contract is a ten-year contract awarded in 1995, and it has the potential to generate total revenues of over one billion dollars from 1995 through 2005. BAV has recognized revenues on this contract of approximately \$505 million through September 30, 2003, resulting in a backlog of potential future revenues of approximately \$555 million. The amount of this backlog that was funded at September 30, 2003 was approximately \$39 million. The contract accounted for approximately 48% and 54% of consolidated revenues from operations during the nine months ended September 30, 2003 and 2002, 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. 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. See "Global Economic Conditions and Political Factors" below for further discussion of potential impacts on future revenues associated with this contract. Contract terms specify award fee payments to BAV that are determined by performance and level of contract activity. Award fees are made three times during the year and a contract modification authorizing the award fee payment is issued subsequent to the period in which the work is performed. The company does not recognize award fee income until the contract modification authorizing the award fee is issued. As of September 30, 2003, award fee has been recognized for work performed through the award fee period ending April 30, 2003. Due to such timing, and to fluctuations in the level of revenues, profits as a percentage of revenues will fluctuate from period to period. Award fee income for this contract has typically been recognized in the first, second and fourth quarters of each year.

**Business Terminations and New Business Start-ups.** In February 2003, VSE decided to terminate operations of TTD due to declining revenues and significant losses sustained by this division. In 2002, TTD experienced a revenue decline of approximately 26% and a pretax loss of approximately \$2.1 million, including a loss associated with the impairment of intangible assets of \$576 thousand. TTD will complete all work orders and satisfy all contractual obligations prior to ceasing operations as a VSE division, which is expected to occur in early 2004. Some of TTD's technical capabilities have been transferred to other VSE divisions. Revenues from TTD represented approximately 1% and 5% of total company revenues during the nine months ended September 30, 2003 and 2002, respectively. The loss of future revenue associated with the termination of TTD operations is not expected to be significant compared to total future VSE revenue, while the elimination of TTD

-14-

losses is expected to improve overall company profitability in the current and future years as compared to 2002.

In January 2003, VSE formed its Communications and Engineering Division (CED) upon the award of a multi-year Rapid Response support contract by the U.S. Army Communications-Electronics Command (CECOM). This is a multiple award, indefinite delivery, indefinite quantity contract with a potential total ceiling of \$2.9 billion over an eight-year period if all options are exercised. While the contract is expected to contribute future revenue growth, actual revenues are likely to occur in large unpredictable increments, and total revenues from the

contract are unlikely to approach the ceiling amount. The contract requires VSE to seek out prospective work orders that can be performed for the customer. This requires VSE to incur some front end marketing costs and to incur ongoing administrative costs to manage the division. These costs have caused losses at the division level for CED, particularly upon the start up of the contract. Revenues generated to date and expected future revenues from this contract will absorb fixed corporate costs, which in turn is expected to result in revenue and profit increases for VSE on a company wide basis. Revenue from this contract accounted for approximately 17% and 7% of total revenues during the three-month and nine-month periods ended September 30, 2003, respectively.

In February 2002, VCG began work for the U.S. Coast Guard under a contract that has potential to generate total revenues of approximately \$25.4 million over five years. During the nine months ended September 30, 2003 and 2002, revenues from VCG accounted for approximately 4% and 1%, respectively, of total company revenues. While this contract is not expected to significantly increase total company revenues, the potential for higher profit margins on this fixed price work is expected to contribute to an increase in the company's overall profit margins.

#### 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. 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.

Company 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 some years have tended toward bundling work efforts under large comprehensive ("omnibus/multiple award") 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. Competing for these contracts requires the company to use teams of subcontractors to be

-15-

able to offer the range of technical competencies needed to do the work. Generally, fees earned and profit margins on revenues that are derived from non-labor items such as materials, travel costs, and subcontracted services used to satisfy contract requirements, if any, are significantly lower than fees and profits on labor generated revenues. While the use of subcontractor teams on a large scale basis allows the company to compete for larger contracts, profit margins on this work tends to be lower than on work performed by company personnel, thereby reducing the company's overall profit margins. Additionally, reliance on subcontractors can introduce risk of performance issues different from performance risk on the company's labor generated revenues.

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 results of operations 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.

Risk funding revenue accrued at September 30, 2003, is \$445 thousand. Risk funding revenue represents certain costs for work performed at risk which are not reimbursable under current contracts. VSE believes that it will receive formal contractual coverage through execution of contract documentation or amendments increasing funding for all of this risk funding revenue. If formal contractual coverage is not received, VSE is at risk of loss for any risk funding coverage not received.

## Global Economic Conditions and Political Factors

VSE's business is subject to the risks arising from global economic conditions and political factors associated with current and potential customers served through VSE's contracts with the U.S. Government. An economic slowdown in countries served under the BAV contract could affect sales. The current international situation posed by potential terrorist activity and the continuing conflict in the Middle East could increase the political risks associated with BAV contract revenues. 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 affect sales. In any one year, a significant amount of the company's revenues may result from sales on the BAV contract to a single foreign government. During the nine months ended September 30, 2003 and 2002, revenues associated with BAV contract sales to Egypt accounted for approximately 35% and 27% of the company's revenues, respectively. In addition to the effect on BAV contract work, international tensions can also affect work by Fleet Maintenance on U.S. Navy ships when deployed outside of U.S. Navy facilities and are unavailable for maintenance work during this time period. 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.

-16-

## Financial Condition

VSE's financial condition did not change materially during the nine months ended September 30, 2003. The company's largest assets are its cash and accounts receivable and its largest liabilities are its accounts payable and accrued expenses. Cash, accounts receivable, and accounts payable increased at September 30, 2003, as compared to December 31, 2002, due to normal fluctuations in the timing of receivables collections and vendor payments activity. Earnings also contributed to increases in cash balances. Other assets and liabilities remained substantially unchanged. The increase in total stockholders' investment during this period resulted primarily from earnings and from the exercise of stock options, offset by dividends declared.

## Liquidity and Capital Resources

### Cash Flows

Cash and cash equivalents increased by approximately \$3.9 million during the nine months ended September 30, 2003. The increase in cash and cash equivalents during this period resulted from cash provided by operating activities of approximately \$4.6 million, cash used in investing activities of approximately \$530 thousand, and cash used in financing activities of approximately \$232 thousand. Investing activities consisted of purchases of property and equipment. Financing activities consisted of dividend payments and proceeds received from the issuance of common stock.

Cash and cash equivalents increased by approximately \$3.8 million during the nine-month period ended September 30, 2002. The increase in cash and cash equivalents during this period resulted from cash provided by operating activities of approximately \$4.6 million, cash used in financing activities of approximately \$410 thousand, and cash used in investing activities of approximately \$347 thousand. Financing activities consisted of a decrease of approximately \$351 thousand in bank loan borrowings, dividends paid of approximately \$261 thousand, and proceeds from the issuance of common stock of approximately \$201 thousand. Investing activities consisted of purchases of property and equipment, net of dispositions.

Cash provided by operating activities of approximately \$4.6 million in both 2003 and 2002 resulted from earnings and changes in the levels of accounts receivable and accounts payable due to fluctuations in contract activity and receivables collections.

Quarterly cash dividends at the rate of \$.04 per share were paid in February, May and August of 2003. In October 2003, a dividend was declared of \$.04 per

share, payable in November 2003. The dividend paid in November 2002 was declared prior to September 30, 2002. Under its bank loan agreement, VSE's payment of cash dividends is subject to a maximum annual rate. VSE has paid cash dividends each year since 1973.

#### Sources of Liquidity

The company's internal sources of liquidity result primarily from operating activities, specifically from changes in the level of revenues and associated accounts receivable and accounts payable from period to period and from

-17-

profitability. Significant increases or decreases in revenue and accounts receivable and accounts payable 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, differences between the provisional billing rates authorized by the government compared to the costs actually incurred by the company, government delays in processing administrative paperwork for contract funding, and the timing of large materials purchases and subcontractor efforts used in performance on company's contracts. Accounts payable arise primarily from purchases of subcontractor services and materials used by the company in the performance of its contract work. Accounts payable levels can be affected by changes in the level of contract work performed by the company and by the timing of large materials purchases and subcontractor efforts used in performance on the company's contracts. Changes in accounts payable and accounts receivable contributed to an increase in internally generated cash flows during this period. Internal liquidity is also affected by the acquisition of capital assets for office and computer support, facilities improvements, and by the payment of cash dividends. Purchases of capital assets for office and computer support and facilities improvements during the nine months ended September 30, 2003 did not substantially affect internal liquidity.

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 "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 September 30, 2003. While performance of work under the BAV and CED contracts have the potential to cause substantial requirements for working capital, the company has determined that cash flows from future operations and the \$15 million bank commitment are adequate to cover current and future liquidity requirements.

#### 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 considered 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.

#### Goodwill

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 with indefinite lives. Under SFAS No. 142, goodwill is no longer subject to amortization over its estimated useful life and intangible assets with indefinite lives are no longer amortized over an

-18-

arbitrary number of years. Goodwill and intangible assets with indefinite lives are instead subject to a review for impairment at least annually. The effective date for VSE's implementation of SFAS No. 142 was January 1, 2002.

As of September 30, 2003, the company had approximately \$1.1 million of

unamortized goodwill associated with its acquisition of Energetics in 1995. The goodwill was being amortized prior to the adoption of SFAS No. 142. In 2002, the company stopped amortizing the goodwill. As of September 30, 2003, the company has not recognized any reduction to the goodwill due to the impairment rules associated with SFAS No. 142. If at some time in the future it is determined that impairment has occurred, such impairment could potentially have a material adverse impact on the company's results of operations or financial condition.

#### Disclosures About Market Risk

##### Interest Rates

VSE's bank loan financing provides available borrowing to the company at variable interest rates. The company has not borrowed significant amounts on the loan in recent years. Accordingly, the company does not believe that changes in interest rates would have a material impact on future earnings or cash flows. If VSE were to significantly increase borrowings on the current loan arrangement, future interest rate changes could potentially have such a material impact.

##### Foreign Currency

While a significant amount of the company's business results from the services provided by BAV related to the transfer of ships to foreign governments, the BAV contract payments are made to BAV by the U.S. Government in U.S. dollars. Additionally, most funding requirements to support work performed or services purchased in foreign countries are made in U.S. dollars, and the infrequent disbursements that are made in foreign currencies are reimbursable to BAV in post conversion dollars. Foreign currency transactions of other VSE divisions or subsidiaries are virtually non-existent. Accordingly, the company does not believe that it is exposed to any material foreign currency risk.

##### Stock-Based Compensation

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation--Transition and Disclosure--an amendment of SFAS No. 123." This statement amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The company has chosen to continue to account for stock-based compensation using the intrinsic value method prescribed in APB Opinion No. 25 and related interpretations.

-19-

Accordingly, compensation expense for stock options is measured as the excess, if any, of the fair market value of the company's stock at the date of the grant over the exercise price of the related option. The company adopted the annual disclosure provisions of SFAS No. 148 in its financial reports for the year ended December 31, 2002 and the interim disclosure provisions for its financial reports beginning the quarter ended March 31, 2003.

VSE CORPORATION AND SUBSIDIARIES

Item 3. Quantitative and Qualitative Disclosures About Market Risks

See "Disclosures About Market Risk" in Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Item 4. Controls and Procedures

Based on their most recent evaluation, which was completed within 90 days of the filing of this Form 10-Q, the company's Chief Executive Officer and Chief Financial Officer believe the company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) are effective to ensure that information required to be disclosed by the company's management, including its principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. There were no significant changes in the company's internal control over financial reporting or other factors that could significantly affect these controls subsequent to the date of their evaluation and there were no corrective actions with regard to significant deficiencies and material weaknesses.

PART II. Other Information

Item 1. Legal Proceedings

The company and its subsidiaries have, in the normal course of business, certain 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.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits.

None.

(b) Reports on Form 8-K.

On September 18, 2003 the Registrant filed a Current Report on Form 8-K to report the text of notice to directors and executive officers dated September 15, 2003, regarding temporary suspension of trading in the Registrant's common stock during the Blackout Period from October 28, 2003, through November 21, 2003, related to conversion of recordkeeping trust and investment services of the Registrant's employee retirement benefit plan.

On July 31, 2003, the Registrant filed a Current Report on Form 8-K to announce the financial results of the second quarter 2003.

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.

-21-

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

/s/ D. M. Ervine

Date: October 28, 2003

\_\_\_\_\_  
D. M. Ervine  
Chairman and CEO,  
President and COO



CERTIFICATION PURSUANT TO  
RULE 13A-14 OF THE SECURITIES EXCHANGE ACT OF 1934,  
AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, D. M. Ervine, Chairman and CEO, President and COO of the company, certify that:

1. I have reviewed this quarterly report on Form 10-Q of VSE Corporation (the "registrant");

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

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

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

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

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

(c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's Board of Directors (or persons performing the equivalent function):

(a) all significant deficiencies in the design or operation of internal control over financial reporting which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal control over financial reporting; and

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

6. The registrant's other certifying officers and I have indicated in the quarterly report whether or not there were significant changes in internal control over financial reporting or in other factors that could significantly affect internal control over financial reporting subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: October 28, 2003

/s/ D. M. Ervine

---

D. M. Ervine  
Chairman and CEO,  
President and COO



EXHIBIT 99.2

CERTIFICATION PURSUANT TO  
RULE 13A-14 OF THE SECURITIES EXCHANGE ACT OF 1934,  
AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, T. R. Loftus, Senior Vice President and Chief Financial Officer of the company, certify that:

1. I have reviewed this quarterly report on Form 10-Q of VSE Corporation (the "registrant");
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - (c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's Board of Directors (or persons performing the equivalent function):
  - (a) all significant deficiencies in the design or operation of internal control over financial reporting which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal control over financial reporting; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting; and
6. The registrant's other certifying officers and I have indicated in the quarterly report whether or not there were significant changes in internal control over financial reporting or in other factors that could significantly affect internal control over financial reporting subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: October 28, 2003

/s/ T. R. Loftus

---

T. R. Loftus  
Senior Vice President and  
Chief Financial Officer

(Principal Accounting Officer)

Exhibit 99.3

CERTIFICATION PURSUANT TO  
SECTION 1350, CHAPTER 63 OF TITLE 18, UNITED STATES CODE,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as Chairman and CEO, President and COO of VSE Corporation (the "company"), does hereby certify that to the best of the undersigned's knowledge:

1) the company's Quarterly Report on Form 10-Q for the quarter ending September 30, 2003 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2) the information contained in the company's Report fairly presents, in all material respects, the financial condition and results of operations of the company.

Dated: October 28, 2003                      /s/ D. M. Ervine

---

D. M. Ervine  
Chairman and CEO,  
President and COO

A signed original of this written statement required by Section 906 has been provided to VSE Corporation and will be retained by VSE Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 99.4

CERTIFICATION PURSUANT TO  
SECTION 1350, CHAPTER 63 OF TITLE 18, UNITED STATES CODE,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as Senior Vice President and Chief Financial Officer of VSE Corporation (the "company"), does hereby certify that to the best of the undersigned's knowledge:

1) the company's Quarterly Report on Form 10-Q for the quarter ending September 30, 2003 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2) the information contained in the company's Report fairly presents, in all material respects, the financial condition and results of operations of the company.

Dated: October 28, 2003                      /s/ T. R. Loftus

---

T. R. Loftus  
Senior Vice President and  
Chief Financial Officer  
(Principal Accounting Officer)

A signed original of this written statement required by Section 906 has been provided to VSE Corporation and will be retained by VSE Corporation and furnished to the Securities and Exchange Commission or its staff upon request.