

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 March 31, 2004      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      22303-1499  
Alexandria, Virginia      (Zip Code)  
(Address of Principal Executive Offices)

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 is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  
Yes  No

Number of shares of Common Stock outstanding as of April 27, 2004: 2,218,886.

VSE Corporation and Subsidiaries

Forward Looking Statements

This filing contains statements which, to the extent they are not recitations of historical fact, constitute "forward looking statements" under federal securities laws. All such statements are intended to be subject to the safe harbor protection provided by applicable securities laws. For discussions identifying some important factors that could cause actual VSE Corporation ("VSE" or the "Company") results to differ materially from those anticipated in the forward looking statements contained in this filing, see VSE's "Narrative Description of Business", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Notes to Consolidated Financial Statements" contained in VSE's Annual Report and Form 10-K for the fiscal year ended December 31, 2003 (Form 10-K) filed with the Securities and Exchange

Commission. Readers are cautioned not to place undue reliance on these forward looking statements, which reflect management's analysis only as of the date hereof. The Company undertakes no obligation to publicly revise these forward looking statements to reflect events or circumstances that arise after the date hereof. Readers should carefully review the risk factors described in other documents the Company files from time to time with the Securities and Exchange Commission, including this and other Quarterly Reports on Form 10-Q to be filed by the Company subsequent to its Annual Report on Form 10-K and any Current Reports on Form 8-K filed by the Company.

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PART I. Financial Information

Item 1. Financial Statements

VSE Corporation and Subsidiaries  
 Consolidated Financial Statements  
 <TABLE>

Consolidated Balance Sheets

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 (in thousands except share and per share amounts)

<CAPTION>

	March 31, 2004	December 31, 2003
	---	---
	(Unaudited)	
	<C>	<C>
<b>&lt;S&gt;</b>		
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents . . . . .	\$ 10,233	\$ 9,843
Accounts receivable, principally		
U.S. Government, net . . . . .	24,232	21,835
Deferred tax assets . . . . .	943	819
Other current assets . . . . .	1,396	1,379
	-----	-----
<b>Total current assets . . . . .</b>	<b>36,804</b>	<b>33,876</b>
Property and equipment, net . . . . .	3,566	3,038
Deferred tax assets . . . . .	254	297
Intangible assets, net . . . . .	1,054	1,054
Other assets . . . . .	2,602	2,511
	-----	-----
<b>Total assets . . . . .</b>	<b>\$ 44,280</b>	<b>\$ 40,776</b>
	=====	=====
<b>Liabilities and Stockholders' Investment</b>		
<b>Current liabilities:</b>		
Accounts payable . . . . .	\$ 17,704	\$ 14,634
Accrued expenses . . . . .	5,479	5,760
Dividends payable . . . . .	89	88
	-----	-----
<b>Total current liabilities . . . . .</b>	<b>23,272</b>	<b>20,482</b>
Deferred compensation . . . . .	1,276	1,236

Total liabilities	24,548	21,718
Commitments and contingencies		
Stockholders' investment:		
Common stock, par value \$.05 per share, authorized 5,000,000 shares; issued 2,218,886 in 2004 and 2,214,136 shares in 2003	111	110
Paid-in surplus	3,980	3,928
Deferred stock-based compensation	(15)	(17)
Retained earnings	15,656	15,037
Total stockholders' investment	19,732	19,058
Total liabilities and stockholders' investment	\$ 44,280	\$ 40,776

</TABLE>

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

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VSE Corporation and Subsidiaries  
Consolidated Financial Statements

<TABLE>

Consolidated Statements of Income (Unaudited)

(in thousands except share and per share amounts)

<CAPTION>

	For the three months ended March 31,	
	2004	2003
	<C>	<C>
Revenues, principally from contracts	\$ 42,610	\$ 26,462
Costs and expenses of contracts	41,463	25,765
Gross profit	1,147	697
Selling, general and administrative expenses	12	42
Interest income, net	(19)	(16)
Income before income taxes	1,154	671
Provision for income taxes	446	239
Net income	\$ 708	\$ 432

Basic earnings per share:

Net income	\$ 0.32	\$ 0.20
Basic weighted average shares outstanding	2,216,216	2,187,038

Diluted earnings per share:

Net income	\$ 0.31	\$ 0.19
Diluted weighted average shares outstanding	2,286,613	2,224,845

</TABLE>

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

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VSE Corporation and Subsidiaries  
Consolidated Financial Statements

<TABLE>

Consolidated Statements of Stockholders' Investment (Unaudited)

(in thousands except per share data)

<CAPTION>

	Deferred			Total		Stockholders' Investment
	Common Shares	Paid-In Surplus	Stock-based Compensation	Retained Earnings	Retained Earnings	
	<C>	<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 year	-	-	-	-	2,011	2,011
Exercised stock options	25	1	270	-	-	271
Tax benefit of options exercised	-	-	14	-	-	14
Deferred stock-based compensation	-	-	42	(42)	-	-
Amortization of deferred stock-based compensation	-	-	-	25	-	25
Issuance of stock	3	-	44	-	-	44
Dividends declared (\$ .16)	-	-	-	-	(350)	(350)
Balance at						
December 31, 2003	2,214	110	3,928	(17)	15,037	19,058
Net income for the period	-	-	-	-	708	708
Exercised stock options	5	1	36	-	-	37
Tax benefit of options exercised	-	-	14	-	-	14
Deferred stock-based compensation	-	-	2	(2)	-	-
Amortization of deferred stock-based compensation	-	-	-	4	-	4
Dividends declared (\$ .04)	-	-	-	-	(89)	(89)
Balance at						
March 31, 2004	2,219	\$ 111	\$ 3,980	\$ (15)	\$ 15,656	\$ 19,732

</TABLE>

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

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VSE Corporation and Subsidiaries

Consolidated Financial Statements (Unaudited)

<TABLE>

Consolidated Statements of Cash Flows

(in thousands)

<CAPTION>

	For the three months ended March 31,	
	2004	2003
	----	----
	<C>	<C>
Cash flows from operating activities:		
Net income	\$ 708	\$ 432
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	262	278
Loss on sale of property and equipment	-	4
Deferred taxes	(81)	(68)
Tax benefit of options exercised	14	2
Amortization of deferred stock-based compensation	4	-
Change in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(2,397)	(885)
Other current assets and noncurrent assets	(108)	(406)
Increase (decrease) in:		
Accounts payable and deferred compensation	3,110	(961)
Accrued expenses	(281)	(391)
	-----	-----
Net cash provided by (used in) operating activities	1,231	(1,995)
	-----	-----
Cash flows from investing activities:		
Purchase of property and equipment	(790)	(138)
	-----	-----
Net cash used in investing activities	(790)	(138)
	-----	-----
Cash flows from financing activities:		
Dividends paid	(88)	(87)
Proceeds from issuance of common stock	37	30
	-----	-----
Net cash used in financing activities	(51)	(57)
	-----	-----
Net increase (decrease) in cash and cash equivalents	390	(2,190)
Cash and cash equivalents at beginning of period	9,843	4,210
	-----	-----
Cash and cash equivalents at end of period	\$10,233	\$ 2,020
	=====	=====

</TABLE>

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

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 months ended March 31, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004. 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, 2003. The Company operates within one reportable segment.

#### Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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. Significant estimates affecting the financial statements include the allowance for doubtful accounts and accruals for loss contracts, contract disallowance and self insured health claims.

#### Debt

VSE has a revolving loan agreement with a bank under which the Company can borrow up to \$15 million, subject to certain conditions, including a borrowing formula based on billed receivables. Under the loan agreement, the Company pays a fixed 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, 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 March 31, 2004 or December 31, 2003. There was no interest expense incurred on this loan in 2004 and 2003.

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

#### Accounting for Stock-based Compensation

The Company accounts for stock-based employee compensation using the intrinsic value method prescribed in APB Opinion No. 25 and related interpretations. If compensation costs for the Company's stock options had 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 (in thousands, except per share amounts):

	Three Months Ended March 31,		
	2004	2003	
	----	----	
Net income, as reported		\$ 708	\$ 432
Add: Total stock-based employee compensation expense as reported under intrinsic value method (APB No. 25) for all awards, net of related tax effects	3		--

Deduct: Total stock-based compensation expense determined under fair value based method (SFAS No. 123) for all awards, net of related tax effects	(19)	(24)
	-----	-----
Pro forma net income	\$ 692	\$ 408
	=====	=====
Earnings per share:		
Basic - as reported	\$0.32	\$0.20
Diluted - as reported	\$0.31	\$0.19
Basic - pro forma	\$0.31	\$0.19
Diluted - pro forma	\$0.30	\$0.18

#### Earnings Per Share

Basic earnings per share have been computed by dividing net income by the weighted average number of shares of common stock outstanding during each period. Shares issued during the period and shares reacquired 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. Potentially dilutive common shares include incremental common shares issuable upon exercise of stock options.

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

	Three Months Ended March 31,	
	2004	2003
	----	----
Basic weighted average common shares outstanding		2,216,216 2,187,038
Diluted effect of options	70,397	37,807
	-----	-----
Diluted weighted average common shares outstanding	2,286,613	2,224,845
	=====	=====

#### Litigation

The Company and its subsidiaries have, in the normal course of business, claims against them. In the opinion of management, the resolution of any such 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

### Executive Overview

#### VSE 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. Energetics Incorporated ("Energetics") is currently VSE's only active subsidiary. VSE's Human Resource Systems, Inc. ("HRSI") subsidiary was active in 2003, but not in 2004. The sole HRSI contract expired on May 31, 2003, and this work was continued on a new contract in a VSE division. Active divisions include BAV Division ("BAV"), Coast Guard Division ("VCG"), Communications and Engineering Division ("CED") beginning in February 2003, Fleet Maintenance Division ("FMD"), Management Sciences Division ("MSD"), Systems Engineering Division ("SED," formerly Land Systems Division), and Value Systems Services Division ("VSS"). In February 2003, VSE began phasing out the operations of its Telecommunications Technologies Division ("TTD") and expects all TTD contractual obligations will be satisfied and operations will cease in 2004. Some of TTD's technical capabilities have been transferred to other VSE divisions.

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 best positions the consolidated entity for future revenue growth.

#### VSE 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. FMD supports 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, and air combat logistics. VSS provides the Navy with outsourcing decision assistance. SED 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, 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.

#### 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. TTD continued work on uncompleted contracts during 2003 to satisfy its contractual obligations and will finish work in 2004 before ceasing operations. Some of TTD's technical capabilities were transferred to other VSE divisions. 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 losses is expected to improve future VSE profits.

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). If all options are exercised, this contract has a potential total ceiling of \$2.9 billion over an eight-year period. The contract is a multiple award, indefinite delivery, indefinite quantity contract, and VSE revenues from it are expected to be considerably less than the contract ceiling amount. While actual revenue estimates for VSE from this contract cannot be predicted, it is expected that this contract will contribute to future VSE revenue growth.

#### Management Outlook

VSE believes that its short term outlook, based on expected revenue growth under existing contracts, is more positive than in recent years. The Taiwan ship transfer work on the BAV contract (see "BAV Contract" below) is expected to contribute significantly to near term revenue growth. Revenues are also growing in several of VSE's other divisions. VSE's company wide funded backlog at March 31, 2004, was approximately \$147 million, as compared to approximately \$83 million at December 31, 2003. Profit margins in most of VSE's divisions have increased in recent quarters and are expected to improve further as the Company's revenue base grows. The Company has a positive cash flow and cash of approximately \$10.2 million as of March 31, 2004. This positive short-term trend is tempered by two areas of concern to management. The CED Rapid Response support contract incurred pretax losses of approximately \$963 thousand in 2003, its first year of operation, and an additional \$325 thousand during the first three months of 2004 as additional task orders were funded. While management has addressed this issue by adopting a less aggressive pricing strategy, this contract may continue to incur losses in 2004. VSE has accrued liabilities of approximately \$275 thousand for probable future losses associated with this contract's operations as of March 31, 2004. The second concern involves the utilization of the Company's primary office facility. VSE does not always occupy all of the space in its primary leased office facility and has from time to time subleased parts of this facility to other tenants. During 2003, some of the Company's larger subtenants did not renew their subleases with VSE, and the facility remains underutilized as of March 31, 2004. The Company has had

some partial success in finding new tenants to sublease space and believes that the majority of the available space will be subleased by the end of 2004, but the potential exists for continued underutilization of the facility that could negatively impact earnings in 2004.

The longer term outlook for VSE centers on the uncertainty associated with the renewal of the BAV contract. The U.S. Navy intends to solicit bids for a new contract in 2004 and BAV will aggressively pursue the award of the new contract. BAV is confident in its ability to win this award and continue work on the ship transfer program; however, the size of this effort will entice other companies

to offer strong competition. Accordingly, there can be no assurance that BAV will win the new contract. If BAV fails to win the new contract, VSE will suffer a significant loss of future revenue and profits. To mitigate this risk, VSE is exploring potential acquisition opportunities. The Company intends to continue these efforts in 2004.

#### Government Procurement Policies and Practices

VSE's business is subject to the risks arising from 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.

The revenues of the Company depend on its ability 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") 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, increasing 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 able to offer the range of technical competencies needed to do the work. While the use of subcontractors on a large scale basis allows the Company to compete for this work, profit margins on subcontract work are lower than on work performed by Company personnel, thereby reducing the Company's overall profit margins. The use of subcontractors on government contracts also raises certain performance and financial risks to VSE in that government prime contractors are usually obligated to ensure compliance with U.S. Government regulations relative to the performance by subcontractors.

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

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exercise all of the option periods on a contract, and funding delays caused by government political or administrative actions.

Beginning in 2004, Section 843 of the Defense Authorization Act will limit the length of contracts awarded by the Defense Department to five years total. The Company is unable to predict what impact this will have on future contract awards and revenues.

#### 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. This cost-plus contract is a ten-year contract awarded in 1995 and has a total ceiling value of over one billion dollars over the life of the contract. Revenues generated by this contract accounted for approximately 50% and 51% of consolidated revenues during the three month periods ended March 31, 2004 and 2003, respectively, and funded backlog was approximately \$104 million as of March 31, 2004, as compared to approximately \$48 million as of December 31, 2003. 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 certain. Due to such timing, and to fluctuations in the level of revenues, profits as a percentage of revenues will fluctuate from period to period. As of March 31,

2004, award fee has been recognized for work performed through the award fee period ended December 31, 2003.

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. The U.S. Navy has approved the transfer of four U.S. Navy ships to Taiwan, with work related to this transfer to be performed under the BAV contract. This transfer is expected to result in an increase in the revenues of BAV during the time this work is performed beginning in 2004. BAV has received a contract delivery order related to this work in early 2004 of approximately \$100 million, of which \$49 million is funded as of March 31, 2004.

The original BAV contract ending date was in 2005. The Navy recently modified the original contract for the purpose of ensuring continuity of work with respect to the transfer of ships to Taiwan. The modification provided contractual coverage for this specific work effort into 2007. The U.S. Navy has announced that it intends to issue a new contract for the overall ship transfer program through a competitive bidding process that will begin in 2004. BAV does not expect that the Navy will award the new contract until after 2004. There can be no assurance that BAV will win the award for the follow-on contract. If BAV fails to win this new contract award, it could have a material adverse impact on the Company's future results of operations and financial condition.

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#### 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 adversely affect sales. 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 adversely 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 three months ended March 31, 2004 and 2003, revenues associated with BAV contract sales to Egypt accounted for approximately 26% and 37% of the Company's revenues, respectively. Revenues in 2004 are expected to include large amounts of BAV contract sales to both Egypt and Taiwan. In addition to the effect on BAV contract work, international tensions can also affect work by FMD on U.S. Navy ships when they are deployed outside of U.S. Navy facilities and are unavailable for maintenance work during this time period. Adverse results arising from these global economic and political risks could potentially have a material adverse impact on the Company's results of operations.

#### Concentration of Revenues (in thousands)

Source of Revenue	For the three months ended March 31,			
	2004		2003	
	Revenues	%	Revenues	%
BAV Egypt	\$ 11,242	26%	\$ 9,841	37%
BAV Taiwan	8,038	19%	1,601	6%
BAV Other	1,974	5%	2,083	8%
Total BAV	21,254	50%	13,525	51%
VSE Other	21,356	50%	12,937	49%
Total Revenues	\$ 42,610	100%	\$ 26,462	100%

#### Critical Accounting Policies

VSE's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States, which require VSE to make estimates and assumptions. The Company believes the following critical

accounting polices affect our more significant judgments, estimates and assumptions used in the preparation of its consolidated financial statements.

#### Revenue Recognition

Substantially all of the Company's services are performed for its customers on a contract basis. The three primary types of contracts used are cost-type contracts, time and materials contracts, and fixed-price contracts (70%, 18% and 12%, respectively, of the Company's revenues in 2003). 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.

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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. The BAV contract terms specify award fee payments 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 certain. 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.

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 fixed-price service 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 will occasionally perform work at risk, which is work that is performed prior to the government formalizing funding for such work. 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 or the work is performed. As of March 31, 2004, VSE has recognized approximately \$498 thousand in risk funding. VSE believes that it will receive funding for all of this risk funding revenue. VSE is at risk of loss for any risk funding not received. 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, VSE must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. If these estimates or their related assumptions change in the future, VSE may be required to record impairment charges for these assets not previously recorded.

#### Goodwill

Goodwill and intangible assets with indefinite lives are instead subject to a review for impairment at least annually. As of March 31, 2004, the Company had approximately \$1.1 million of unamortized goodwill associated with its acquisition of Energetics in 1995. 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.

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#### Contingencies

From time to time VSE is subject to proceedings, lawsuits and other claims related to environmental, labor and other matters. VSE is 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 VSE net deferred tax assets is based on assumptions regarding VSE's ability to generate sufficient future taxable income to utilize these deferred tax assets. If the estimates and related assumptions regarding VSE's future taxable income change in the future, VSE may be required to record valuation allowances against its deferred tax assets, resulting in additional income tax expense.

#### Results of Operations

The following table sets forth certain items, including consolidated revenues, pretax income and net income, and the changes in these items for the three month periods ended March 31, 2004 and 2003 (in thousands):

	2004 Compared to		
	2004	2003	2003
	----	----	----
Revenues . . . . .	\$42,610	\$26,462	\$16,148
	=====	=====	=====
Income before income taxes . . . . .	\$ 1,154	\$ 671	\$ 483
Provision for income taxes . . . . .	446	239	207
	-----	-----	-----
Net income . . . . .	\$ 708	\$ 432	\$ 276
	=====	=====	=====

Revenues increased by approximately 61% for the three month period ended March 31, 2004, as compared to the same period of 2003. The primary reasons for the increase in revenues were 1) an increase in work performed under the BAV contract, including increased revenues associated with the Taiwan ship transfer; 2) the CED Rapid Response contract received work orders that generated revenues in 2004, as compared to the prior year when the contract was awarded in February of 2003 and did not generate revenues in that year's first three months; and 3) increased levels of work performed by FMD due primarily to the Navy's elevated readiness requirements. Work requirements and revenues also increased significantly in other VSE divisions, including SED, VCG, and MSD. Revenues of Energetics and VSS were relatively unchanged. The loss of revenues associated with the phase out of TTD was not significant in relation to total company revenues.

Pretax income increased by approximately 72% for the three months ended March 31, 2004, as compared to the same period of 2003. The increase in pre-tax income was primarily due to 1) the increase in revenues and the profits

associated with these additional revenues; 2) higher profit margins in SED, FMD, MSD, and Energetics attributable in part to the revenue growth and the Company's ability to spread corporate fixed costs over a larger revenue base; and 3) the elimination of any significant losses in TTD in 2004 as compared to TTD pre-tax losses of approximately \$161 thousand in the same period of 2003. The increase in pre-tax income in this period was partially offset by losses incurred on the CED Rapid Response support contract.

#### Financial Condition

VSE's financial condition did not change materially during the three months ended March 31, 2004. The Company's largest assets are its cash and cash equivalents and its accounts receivable. The largest liabilities are its accounts payable and accrued expenses. Accounts receivable increased

approximately \$2.4 million, and accounts payable increased approximately \$3.1 million during the first three months of 2004 due to an increase in the level of work in March 2004 and the associated billings to customers and subcontractor payments required to perform this work. Cash and cash equivalents increased approximately \$390 thousand in the first three months of 2004 as a result of a combination of 1) net income; 2) the timing of customer billings and subcontractor activity and associated payments and expenditures associated with facilities expansion, improvement, and repairs. The increase in total stockholders' investment in this period resulted primarily from earnings and dividend activity and from the exercise of stock options.

## Liquidity and Capital Resources

### Cash Flows

Cash and cash equivalents increased by approximately \$390 thousand during the three months ended March 31, 2004. The increase in cash and cash equivalents during this period resulted from cash provided by operating activities of approximately \$1.2 million, cash used in investing activities of approximately \$790 thousand, and cash used in financing activities of approximately \$51 thousand. Investing activities consisted of expansion and improvement of facilities of approximately \$499 thousand and purchases of property and equipment, net of dispositions, of approximately \$291 thousand. Financing activities consisted of dividend payments and proceeds received from the issuance of common stock.

Cash and cash equivalents decreased by approximately \$2.2 million during the three months ended March 31, 2003. The decrease in cash and cash equivalents during this period resulted from cash used in operating activities of approximately \$2 million, cash used in investing activities of approximately \$138 thousand, and cash used in financing activities of approximately \$57 thousand. Investing activities consisted of purchases of property and equipment, net of dispositions. Financing activities consisted of dividend payments and proceeds received from the issuance of common stock.

The difference between cash provided by operating activities of approximately \$1.2 million in 2004 as compared to cash used in operating activities approximately \$2 million in 2003 is primarily due to changes in the levels of accounts receivable and accounts payable resulting from increases in revenue

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and associated subcontractor activity and receivables collections, and from an increase in net income.

Quarterly cash dividends at the rate of \$.04 per share were paid during the three months ended March 31, 2004. 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.

### 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 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 payments received on accounts receivable represent the principal source of cash for the Company. Accounts receivable levels can 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 the 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. Payments made on accounts payable, along with payments made to satisfy employee payroll and payroll associated expenses, make up the principal cash requirements of the Company. 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. Other cash requirements include the acquisition of capital assets for office and computer support, facilities improvements, and the payment of cash dividends. The Company invested approximately \$499 thousand related to expansion and improvement of facilities at two locations during the three months ended March 31, 2004, and plans additional spending of approximately \$250 thousand in 2004. These expenditures are for the expansion of its facility in Ladysmith, Virginia in support of the expected growth in its System Engineering Division and improvements at its primary office facility in Alexandria, Virginia.

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 March 31, 2004. The Company has determined that the \$15 million commitment is adequate to cover current and future liquidity requirements. The Company has not borrowed against this loan in 2004 or 2003.

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

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#### 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.

#### 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 any movement 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 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.

## 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 Securities Exchange Act of 1934 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, claims against them. In the opinion of management, the resolution of any such 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.

#### Exhibit No.

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10.1 Employment Agreement dated as of March 10, 2004, by and between VSE Corporation and Thomas G. Dacus

10.2 VSE Corporation Deferred Supplemental Compensation Plan effective January 1, 1994, and as amended through March 9, 2004

31.1 Section 302 CEO Certification

31.2 Section 302 CFO and PAO Certification

32.1 Section 906 CEO Certification

32.2 Section 906 CFO and PAO Certification

#### (b) Reports on Form 8-K.

The Registrant filed a Current Report on Form 8-K on February 26, 2004, in which the Registrant furnished its financial results for the fiscal year 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.

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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: April 28, 2004

/s/ D. M. Ervine

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D. M. Ervine  
Chairman, President,  
Chief Executive Officer and  
Chief Operating Officer



EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT is made and entered into as of March 10, 2004, by and between VSE Corporation, a Delaware corporation ("Employer"), and Thomas G. Dacus ("Employee");

WHEREAS, Employee currently is employed by Employer as Director of the Federal Group,

WHEREAS, Employee has rendered many years of good and valuable service to the Employer and has contributed greatly to Employer's growth and success;

WHEREAS, Employer wishes to induce Employee to relocate to the Washington, DC area and remain in Employer's employ to prevent the significant loss which Employer would incur if Employee were to leave and to enter the employment of a competitor;

WHEREAS, in the current business climate of takeovers and acquisitions, Employee may be concerned about the continuation of his employment and his status and responsibilities if a Change in Control (as defined below) occurs, and Employer is concerned that Employee may be approached by others with employment opportunities;

WHEREAS, Employer desires to ensure that, if a Change in Control appears possible, Employee will be in a secure position from which to objectively engage in any potential deliberations or negotiations respecting such Change in Control without fear of any direct or implied threat to employment, status and responsibilities; and

WHEREAS, Employee desires to have the foregoing assurances;

NOW, THEREFORE, in consideration of the mutual promises contained herein, and for other good and valuable consideration, the adequacy of which is hereby acknowledged, Employer and Employee, each intending to be legally bound, agree as follows:

1. Term. The term of Employee's employment hereunder shall commence on the date hereof and shall continue until December 31, 2006-, except as otherwise provided in Section 7. If the term of Employee's employment hereunder shall have continued until December 31, 2006, thereafter, such term of Employee's employment hereunder shall be deemed to be renewed automatically, on the same terms and conditions contained herein, for successive periods of one year each, unless and until Employee or the Employer, at least 90 days prior to the expiration of the original term or any such extended term, shall give written notice to the Employer of intent not to renew the term of Employee's employment hereunder. All references herein to the "Term" refer to the original term of Employee's employment hereunder and all extensions thereof.

2. Duties

(a) Offices

During the Term, Employee shall serve as Employer's Director of the Federal Group. Employer agrees that Employee will be assigned only duties of the type, nature and dignity normally assigned to the Group Directors of a corporation of the size, stature and nature of Employer. During the Term, Employee shall have, at a minimum, the same perquisites of office as he had on the date hereof, and he shall report to the president and chief executive officer.

(b) Full-Time Basis

During the Term, Employee shall devote, on a full-time basis, his services, skills and abilities to his employment hereunder, excepting periods of vacation, illness or Disability (as defined below), and excepting any pursuits which do not materially interfere with duties hereunder or

present a conflict of interest with the interests of Employer or of any subsidiary thereof ("Subsidiary").

### 3. Compensation

#### (a) Salary

During the Term, as compensation for services rendered by Employee hereunder, Employer shall pay to Employee a base salary at the rate of not less than his current annual rate, payable in installments in accordance with Employer's policy governing salary payments to senior officers generally ("Base Salary"). Effective January 1 of every year during the Term, Employee's compensation, including Base Salary, will be subject to review.

#### (b) Performance Bonus

Except as otherwise provided in Section 7, in addition to the Base Salary, Employee shall be eligible for an annual performance bonus as determined by the Board or its Compensation Committee ("Performance Bonus"). Any Performance Bonus payable pursuant to this Section 3(b) shall be paid within 60 days after the end of the fiscal year to which such Performance Bonus relates.

#### (c) Other Compensation Plans or Arrangements

During the Term, Employee shall also be eligible to participate in all other currently existing or subsequently implemented compensation or benefit plans or arrangements available generally to other officers or senior officers of Employer, including Employer's "Deferred Supplemental Compensation Plan," ESOP/401(k), and any stock grant, stock option, stock purchase or similar stock plans or arrangements.

#### (d) Tax Withholdings

Employer shall withhold from Employee's compensation hereunder and pay over to the appropriate governmental agencies all payroll taxes, including income, social security, and unemployment compensation taxes, required by the federal, state and local governments with jurisdiction over Employer.

4. **Benefits.** During the Term, Employee shall be entitled to such comparable fringe benefits and perquisites as may be provided to any or all of Employer's senior officers pursuant to policies established from time to time by the Board. These fringe benefits and perquisites shall include holidays, group health insurance, short-term and long-term disability insurance, and life insurance, vehicle allowances, and supplemental executive health care benefits. Also, during the Term, Employee shall be entitled to 30 days paid leave per annum and to accrue unused leave from year to year and to be reimbursed for the costs of physical examinations up to \$1,000 per annum.

5. **Expenses and Other Perquisites.** Employer shall reimburse Employee for all reasonable and proper business expenses incurred by him during the Term in the performance of his duties hereunder, in accordance with Employer's customary practices for senior officers, and provided such business expenses are reasonably documented. Also, during the Term, Employer shall continue to provide Employee with an office and suitable office fixtures, telephone services, and secretarial assistance of a nature appropriate to Employee's position and status.

6. **Exclusive Services, Confidential Information, Business Opportunities and Non-Solicitation**

#### (a) Exclusive Services

(i) During the Term, Employee shall at all times devote his full-time attention, energies, efforts and skills to

Employer's business and shall not, directly or indirectly, engage in any other business activity, whether or not for profit, gain or other pecuniary advantages, without the Board's written consent provided that such prior consent shall not be required with respect to (1) business interests that neither compete with Employer or any Subsidiaries nor interfere with Employee's duties and obligations hereunder, and (2) Employee's charitable, eleemosynary, philanthropic or professional association activities.

(ii) During the Term, Employee shall not, without the Board's prior written consent, directly or indirectly, either as an officer, director, employee, agent, advisor, consultant, principal, stockholder, partner, owner or in any other capacity, on Employee's own behalf or otherwise, in any way engage in, represent, be connected with or have a financial interest in, any business which is, or to his knowledge, is about to become, engaged in the business of providing engineering, management, energy or environmental services to the United States Government or any department, agency, or instrumentality thereof or any state or local governmental agency or to any person, corporation or other entity (collectively a "Person") with which Employer or any Subsidiary is currently or has previously done business or any subsequent line of business developed by Employee or any Subsidiary during the term. Notwithstanding the foregoing, Employee shall be permitted to own passive investments in publicly held companies provided that such investments do not exceed five percent of any such company's outstanding equity.

(b) Confidential Information

During the Term and for the first 24 consecutive months after the termination of the Term, Employee shall not disclose or use, directly or indirectly, any Confidential Information (as defined below). For the purposes of this Agreement, "Confidential Information" shall mean all information disclosed to Employee, or known by him as a consequence of or through his employment with Employer or any Subsidiary, where such information is not generally known in the trade or industry or was regarded or treated as confidential by Employer or any Subsidiary, and where such information refers or relates in any manner whatsoever to the business activities, processes, services or products of Employer or its Subsidiaries. Confidential Information shall include business and development plans (whether contemplated, initiated or completed), information with respect to the development of technical and management services, business contacts, methods of operation, results of analysis, business forecasts, financial data, costs, revenues, and similar information. Upon termination of Term, Employee shall immediately return to Employer all of property of Employer or any Subsidiary and Confidential Information which is in tangible form, and all copies thereof.

(c) Business Opportunities

(i) During the Term, Employee shall promptly disclose to Employer each business opportunity of a type which, based upon its prospects and relationship to the existing businesses of Employer or any Subsidiary, Employer or any Subsidiary might reasonably consider pursuing. Upon termination of the Term, regardless of the circumstances thereof, Employer shall have the exclusive right to participate in or undertake any such opportunity on its own behalf without any involvement of Employee.

(ii) During the Term, Employee shall refrain from engaging in any activity, practice or act which conflicts with, or

has the potential to conflict with, the interests of Employer or its Subsidiaries, and he shall avoid any acts or omissions which are disloyal to, or competitive with Employer or its Subsidiaries.

(d) Non-Solicitation of Employees

During the Term and for the first 24 consecutive months after termination of the Term, Employee shall not, except in the course of duties hereunder, directly or indirectly, induce or attempt to induce or otherwise counsel, advise, ask or encourage any person to leave the employ of Employer or any Subsidiary, or solicit or offer employment to any person who was employed by Employer or any Subsidiary at any time during the twelve-month period preceding the solicitation or offer.

(e) Covenant Not To Compete

(i) During the period of his employment and for a one (1) year period commencing with the effective date of the termination of Employee's employment with the Company for any reason and under any circumstances, Employee shall not, without the prior written consent of the Company, alone or with others, whether as an owner, stockholder, partner, lender, investor, employee, consultant, contractor, subcontractor or in any other capacity, directly or indirectly: (a) engage, within a fifty (50) mile radius of any office of the Company, in any business activity that is competitive with the business of the Company or otherwise in conflict with or contrary to the interests of the Company, including without limitation, the business of performing engineering and management services for the United States Government, and services within the telecommunications technologies industries, all as such businesses and services are more particularly described in the then most recent "VSE Corporation Annual Report", (b) solicit any person or entity who then is or was at any time during Employee's employment, a customer of the Company (including without limitation any person or entity who was at any time during Employee's employment solicited to be a customer of the Company where Employee was directly or indirectly involved in such solicitation) to cease doing business as to curtail business with the Company, or (c) solicit any person who then is or was in the preceding six (6) months an employee or independent contractor of the Company to end his or her relationship with the Company or to work for any other person or entity as an employee or independent contractor.

(ii) For purposes of this Agreement, Employee shall be deemed to engage in competition with Employer if he shall directly or indirectly, either individually or as a stockholder, director, officer, partner, consultant, owner, employee, agent, or in any other capacity, consult with or otherwise assist any person or entity engaged in providing technical and management services to any person or entity which Employer or any Subsidiary, during the Term, has developed or is working to develop. Notwithstanding anything herein to the contrary, if Employer is in material breach of this Agreement, the provisions of this Section 6 shall not apply.

(f) Employee Acknowledgment

Employee hereby agrees and acknowledges that the restrictions imposed upon by the provisions of this Section 6 are fair and reasonable considering the nature of Employer's business, and are reasonably required for Employer's protection.

(g) Invalidity

If a court of competent jurisdiction or an arbitrator shall declare any provision or restriction contained in this Section 6 as unenforceable or void, the provisions of this Section 6 shall remain in full force and effect to the extent not so declared to be unenforceable or void, and the court may modify the invalid provision to make it enforceable to the maximum extent permitted by law.

(h) Specific Performance

Employee agrees that if Employee breaches any of the provisions of this Section 6, the remedies available at law to Employer would be inadequate and in lieu thereof, or in addition thereto, Employer shall be entitled to appropriate equitable remedies, including specific performance and injunctive relief. Employee agrees not to enter into any agreement, either written or oral, which may conflict with this Agreement, and Employee authorizes Employer to make known the terms of Sections 6 and 7 hereof to any Person, including future employers of Employee.

7. Termination

(a) By Employer

(i) Termination for Cause

Employer may for Cause (as defined below) terminate the Term at any time by written notice to Employee. For purposes of this Agreement, the term "Cause" shall mean any one or more of the following: (1) conduct by Employee which is materially illegal or fraudulent or contrary to Company policy; (2) the breach or violation by Employee of any of the material provisions of this Agreement, provided that Employee must first be given notice by the President or the Board of the alleged breach or violation and 30 days to cure said alleged breach or violation; (3) Employee's use of illegal drugs or abuse of alcohol or authorized drugs which impairs Employee's ability to perform duties hereunder, provided that Employee must be given notice by the President/CEO of such impairment and 60 days to cure the impairment; (4) Employee's knowing and willful neglect of duties or negligence in the performance of duties which materially affects Employer's or any Subsidiary's business, provided that Employee must first be given notice by the President/CEO or the Board of such alleged neglect or negligence and 30 days to cure said alleged neglect or negligence. If a termination occurs pursuant to clause (1) above, the date on which the Term is terminated (the "Termination Date") shall be the date Employee receives notice of termination and, if a termination occurs pursuant to clauses (2), (3) or (4) above, the Termination Date shall be the date on which the specified cure period expires. In any event, as of the Termination Date (in the absence of satisfying the alleged breach or violation within the applicable cure period), Employee shall be relieved of all duties hereunder and Employee shall not be entitled to the accrual or provision of any compensation or benefit, after the Termination Date but Employee shall be entitled to the provision of all compensation and other benefits that shall have accrued as of the Termination Date, including Base Salary, Performance Bonuses, paid leave benefits, Deferred Compensation Units, Deferred Supplemental Compensation to the extent permitted by the plans, and reimbursement of incurred business expenses.

(ii) Termination Without Cause

Employer may, in its sole discretion, without Cause, terminate the Term at any time by providing Employee with (a) 60 days' prior notice thereof and (b) on or prior to the Termination Date, a lump sum severance compensation payment equal to one (1) times the total amount of Employee's Annual Base Salary payable hereunder, based upon the amount in effect as of the effective Termination Date. In such event, Employee shall not be entitled to the accrual or provision of any other compensation or benefit after the Termination Date other than (a) the medical and hospitalization benefits for the first 18 months after the Termination Date or longer if permitted under Employer's policies and procedures; (b) the provision of all compensation and other benefits that shall have accrued as of the Termination Date, including Base Salary, Performance Bonus, paid leave benefits, Deferred Compensation Units, Deferred Supplemental Compensation and reimbursements of incurred expenses; and (c) all stock options or similar rights to acquire capital stock granted by Employer to Employee shall automatically become vested and exercisable in whole or in part. It is understood and agreed that the expiration or non-renewal of the Term by Employer shall not be considered a termination without Cause for the purposes of this Agreement.

(b) Death or Disability

The Term shall be terminated immediately and automatically upon Employee's death or "Disability." The term "Disability" shall mean Employee's inability to perform all of the essential functions of his position hereunder for a period of 26 consecutive weeks or for an aggregate of 150 work days during any 12-month period by reason of illness, accident or any other physical or mental incapacity, as may be permitted by applicable law. Employee's capability to continue performance of Employee's duties hereunder shall be determined by a panel composed of two independent medical doctors appointed by the Board and one appointed by the Employee or designated representative. If the panel is unable to reach a decision, the matter will be referred to arbitration in accordance with Section 8. In the event of Employee's death or Disability for any period of six consecutive months, Employee (or designated beneficiary) will be paid his Base Salary then in effect for one full year following the date of death or disability.

(c) By Employee

(i) Employee may, in his sole discretion, without cause, terminate the Term at any time upon 60 days' written notice to Employer. If Employee exercises such termination right, Employer may, at its option, at any time after receiving such notice from Employee, relieve Employee of all duties and terminate the Term at any time prior to the expiration of said notice period, it being understood that such termination would not be considered a termination without Cause pursuant to Section 7(a)(ii) above. If the Term is terminated by Employee or Employer pursuant to this Section 7(c)(i), Employee shall not be entitled to any further Base Salary or the accrual or provision of any compensation or benefits after the Termination Date, except standard medical and hospitalization benefits in accordance with Employer's policy.

(ii) If, during the Term, a Change of Control (as defined below) occurs, Employee may, in his sole discretion, terminate the Term upon 30 days' notice to Employer. If Employee exercises such termination right, Employer may, at its option, at any time after receiving such notice



from Employee, relieve Employee of all duties hereunder and terminate the Term at any time prior to the expiration of said notice period, and such termination shall not be considered a termination without Cause pursuant to Section 7(a)(ii) above. However, if this Agreement is terminated by Employee or Employer pursuant to this Section 7(c)(ii), Employee shall be entitled to (a) payment on or prior to the Termination Date of a lump sum severance compensation payment equal to one (1) times the total amount of Employee's Annual Base Salary payable hereunder, based on the amount in effect as of the Termination Date; (b) continue the medical and hospitalization benefits in accordance with Employer's policy and to payment of all compensation and other benefits that shall have accrued as of the Termination Date, as described in Section 7(a)(ii)(1); and (c) to the automatic vesting and exercisability in whole or in part of all stock options or similar rights to acquire capital stock granted by Employer to Employee; provided that Employee shall not be entitled, after the Termination Date to the accrual or provision of any other compensation payable hereunder, including the Performance Bonus.

(d) Change of Control

For purposes of this Section 7, a "Change of Control" shall be deemed to have occurred upon the happening of any of the following events:

- (i) any "person," including a "group," as such terms as defined in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended, and the rules promulgated thereunder (collectively the "Exchange Act"), other than a trustee or other fiduciary holding voting securities of Employer ("Voting Securities") under any Employer-sponsored benefit plan, becomes the beneficial owner, as defined under the Exchange Act, directly or indirectly, whether by purchase or acquisition or agreement to act in concert or otherwise, of 30% or more of the outstanding Voting Securities;
- (ii) a cash tender or exchange offer is completed for such amount of Voting Securities which, together with the Voting Securities then beneficially owned, directly or indirectly, by the offeror (and affiliates thereof) constitutes 40% or more of the outstanding Voting Securities;
- (iii) except in the case of a merger or consolidation in which (a) Employer is the surviving corporation and (b) the holders of Voting Securities immediately prior to such merger or consolidation beneficially own, directly or indirectly, more than 50% of the outstanding Voting Securities immediately after such merger or consolidation (there being excluded from the number of Voting Securities held by such holders, but not from the outstanding Voting Securities, any Voting Securities received by affiliates of the other constituent corporation(s) in the merger or consolidation in exchange for stock of such other corporation), Employer's shareholders approve an agreement to merge, consolidate, liquidate, or sell all or substantially all of Employer's assets; or
- (iv) two or more directors are elected to the Board without having previously been nominated and approved by the members of the Board incumbent on the day immediately preceding such election. For purposes of this Section 7, "affiliate" of a person or another entity shall mean a person or other entity that directly or indirectly controls, is controlled by, or is under common control with the person or other entity specified.

(e) No Duty to Mitigate

If Employee is entitled to the compensation and other benefits provided under Sections 7(a)(ii) or (c)(ii), Employee shall have no obligation to seek employment to mitigate damages hereunder.

8. **Arbitration.** Whenever a dispute arises between the parties concerning this Agreement or any of the obligations hereunder, or Employee's employment generally, Employer and Employee shall use their best efforts to resolve the dispute by mutual agreement. If any dispute cannot be resolved by Employer and Employee, it shall be submitted to arbitration to the exclusion of all other avenues of relief and adjudicated pursuant to the American Arbitration Association's Rules for Employment Dispute Resolution then in effect. The decision of the arbitrator must be in writing and shall be final and binding on the parties, and judgment may be entered on the arbitrator's award in any court having jurisdiction thereof. The arbitrator's authority in granting relief to Employee shall be limited to an award of compensation, benefits and unreimbursed expenses as described in Sections 3, 4, and 5 above, and to the release of Employee from the provisions of Section 6 and the arbitrator shall have no authority to award other types of damages or relief to Employee, including consequential or punitive damages. The arbitrator shall also have no authority to award consequential or punitive damages to Employer for violations of this Agreement by Employee. The expenses of the arbitration shall be borne by the losing party to the arbitration and the prevailing party shall be entitled to recover from the losing party all of its own costs and attorneys' fees with respect to the arbitration. Nothing in this Section 8 shall be construed to derogate Employer's rights to seek legal and equitable relief in a court of competent jurisdiction as contemplated by Section 6(h).
9. **Non-Waiver.** It is understood and agreed that one party's failure at any time to require the performance by the other party of any of the terms, provisions, covenants or conditions hereof shall in no way affect the first party's right thereafter to enforce the same, nor shall the waiver by either party of the breach of any term, provision, covenant or condition hereof be taken or held to be a waiver of any succeeding breach.
10. **Severability.** If any provision of this Agreement conflicts with the law under which this Agreement is to be construed, or if any such provision is held invalid or unenforceable by a court of competent jurisdiction or any arbitrator, such provision shall be deleted from this Agreement and the Agreement shall be construed to give full effect to the remaining provision thereof.
11. **Survivability.** Unless otherwise provided herein, upon termination of the Term, the provisions of Sections 6(b), (d) and (e) shall nevertheless remain in full force and effect.
12. **Governing Law.** This Agreement shall be interpreted, construed and governed according to the laws of the Commonwealth of Virginia, without regard to the conflict of law provisions thereof.
13. **Construction.** The paragraph headings and captions contained in this Agreement are for convenience only and shall not be construed to define, limit or affect the scope or meaning of the provisions hereof. All references herein to Sections shall be deemed to refer to Sections of this Agreement.
14. **Entire Agreement.** This Agreement contains and represents the entire agreement of Employer and Employee and supersedes all prior agreements, representations or understandings, oral or written, express or implied with respect to the subject matter hereof. This Agreement may not be modified or amended in any way unless in writing signed by each of Employer and Employee. No representation, promise or inducement has been made by either Employer or Employee that is not embodied in this Agreement, and neither Employer nor Employee shall be bound by or liable for any alleged representation,

promise or inducement not specifically set forth herein.

15. Assignability. Neither this Agreement nor any rights or obligations of Employer or Employee hereunder may be assigned by Employer or Employee without the other party's prior written consent. Subject to the foregoing, this Agreement shall be binding upon and inure to the benefit of Employer and Employee and their heirs, successors and assigns.
16. Notices. All notices required or permitted hereunder shall be in writing and shall be deemed properly given if delivered personally or sent by certified or registered mail, postage prepaid, return receipt requested, or sent by telegram, telex, telecopy or similar form of telecommunication, and shall be deemed to have been given when received. Any such notice or communication shall be addressed: (a) if to Employer, to Chief Executive Officer, c/o VSE Corporation, 2550 Huntington Avenue, Alexandria, Virginia 22303-1499 or (b) if to Employee, to the last known home address on file with Employer, or to such other address as Employer or Employee shall have furnished to the other in writing.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement, to be effective as of the day and year first above written.

VSE CORPORATION  
a Delaware corporation

Date: March 10, 2004

By: /s/ D. M. Ervine

\_\_\_\_\_  
D. M. Ervine  
Chairman and Chief Executive  
Officer

Date: March 10, 2004

By: /s/ T. G. Dacus

\_\_\_\_\_  
T. G. Dacus

VSE CORPORATION  
DEFERRED SUPPLEMENTAL  
COMPENSATION PLAN

This Plan was adopted by the  
VSE Corporation Board of Directors  
effective as of January 1, 1994,  
and is presented as amended by the Board  
through March 9, 2004

VSE CORPORATION DEFERRED SUPPLEMENTAL COMPENSATION PLAN  
Effective January 1, 1994, and as amended through March 9, 2004

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PART ONE  
EMPLOYER CONTRIBUTIONS

1. Purpose. The purpose of the VSE Corporation Deferred Supplemental Compensation Plan (the Plan) and related Trust Agreement (the Trust) is to enable VSE Corporation (the Company) to provide incentive and reward for its management team based on individual and overall corporate performance. This Plan supplements the Company's Executive Service Performance Bonus Plan.

2. Participation.

(a) Participation in the Plan is comprised of corporate officers, a select group of management who make significant contributions to the progress of the Company. New participants may be entitled to prorated contribution during the initial year of participation. A participant must be employed by the Company as of December 31 of the year to be eligible for a contribution for the year. The Company may elect to extend participation to corporate directors and/or officers and directors of the Company's wholly owned subsidiaries with approval of the Company's Board of Directors (the Board).

(b) Each participant is required to file with the Corporate Secretary a beneficiary designation form. Participants may change beneficiary designations at any time by filing a replacement form with the Corporate Secretary. In the absence of a valid beneficiary designation form, Plan benefits are paid to the estate of the deceased participant.

3. Funding. With the approval of the Board, the Company may enter into a Trust to receive and invest contributions and any Trust earnings on behalf of participants. Any Company contribution to the Plan shall be irrevocable and shall be used to pay benefits under the Plan, subject to the claims of the general creditors of the Company.

4. Contribution. Subject to the terms and conditions of this Plan and related Trust, each year the Board in its discretion may elect to make an annual contribution of up to 12 percent of consolidated net income for the year. The Board in its discretion may adjust the annual contribution level for changes in accounting principles, capitalization, or similar changes or events.

5. Allocation of Contributions. Each officer's allocation from the annual contribution shall bear the same percentage to the annual contribution as that

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VSE CORPORATION DEFERRED SUPPLEMENTAL COMPENSATION PLAN  
Effective January 1, 1994, and as amended through March 9, 2004

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officer's annual salary bears to total annual officer salaries. If additional participants are added to the Plan in accordance with Section 2(a) herein, the Board shall determine the supplemental contribution applicable to such participants. Earnings or losses on the Trust Fund shall be credited to participants' respective accounts on a pro rata basis.

6. Vesting. Vesting of a participant's account under this Part One, including

any Trust earnings, occurs as follows:

Years of Service	Percent Vested
0 to 5	0%
6	20%
7	40%
8	60%
9	80%
10	100%

For purposes of vesting, all years of service with the Company and its subsidiaries are included. Participants attaining age 65 are 100% vested upon completion of five years of service.

Should a participant cease to be employed by the Company for any reason before vesting, the nonvested portion of the participant's account is forfeited and canceled. The Company is under no obligation to pay nonvested benefits.

Vested amounts are subject to the claims of general creditors of the Company and the terms of the Agreement to Refrain from Competition as described in Section 8 herein.

#### 7. Distribution.

(a) Plan benefits are payable following termination of employment, retirement, disability as defined by Social Security guidelines or the Company's long-term disability policy, or death. Participants terminating employment due

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VSE CORPORATION DEFERRED SUPPLEMENTAL COMPENSATION PLAN  
Effective January 1, 1994, and as amended through March 9, 2004

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to embezzlement or serious violation of Company policy in the sole determination of the Board shall forfeit all rights under Part One of this Plan and the Company is under no obligation to make benefit payments to the participant.

(b) Vested Plan benefits under this Part One will be paid in the form of a lump sum two years after execution and satisfaction of the Agreement to Refrain from Competition described in this Plan unless a different method of distribution which provides for a longer period of deferral is elected in writing by the participant prior to execution of the Agreement to Refrain from Competition. During the initial two-year waiting period following execution of the Agreement to Refrain from Competition, the participant is not entitled to contributions or allocations of subsequent Trust earnings and losses. During any deferral period elected by the participant in excess of such two-year waiting period, the participant will not be entitled to any further contributions or Trust earnings and losses but the Company may elect to credit interest (in the Company's sole discretion) on the undistributed account balance beginning on and after the January 1 immediately following the expiration of such two-year waiting period. The election filed by the participant may specify that the payment of the participant's entitlement will be made in the form of (i) a lump sum at any time after the expiration of the initial two-year waiting period but in no event more than ten (10) years following such expiration or (ii) installment payments at a rate no more frequently than annually over a time period not to exceed ten (10) years following expiration of the initial two-year waiting period. Such election may provide for an acceleration in the event of death or disability. Any such election made by a participant shall be irrevocable. The final distribution amount shall be equal to the participant's account balance as of the end of the calendar year in which the participant terminated employment or the end of the calendar year immediately preceding the date the participant terminated employment, whichever is lesser, subject to adjustments to reflect interest credited in the event a further election is filed. In the event of the participant's death, disability, or termination of employment at age 65 or older, vested Plan benefits may be payable to the participant (or designated beneficiary of a deceased participant) prior to the expiration of a two-year waiting period but subject to the terms of any prior election filed by the participant.

(c) Benefits are fully vested and immediately payable in the event of a change of control of the Company.

(d) Effective for distributions determined as of January 1, 2001, or later, final distribution amounts shall be equal to the participant's account balance as of the end of the calendar month in which the participant terminated employment or the end of the calendar month immediately preceding the date the participant terminated employment, whichever is less, subject to adjustments to reflect interest credited in the event a further election is filed.

(e) Effective for distributions determined as of January 1, 2001, or later, within 30 days of termination of employment, the Company will provide each vested participant, in person or by written notice delivered by receipted method to the participant's last known address as shown in Company's records, with a letter indicating the vested benefits payable to the participant and providing the participant with a copy of the required Agreement to Refrain from

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VSE CORPORATION DEFERRED SUPPLEMENTAL COMPENSATION PLAN  
Effective January 1, 1994, and as amended through March 9, 2004

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Competition. If, within 90 days of providing notice, the participant declines to sign and return the Agreement to Refrain from Competition to the Company, or if the written communication to the participant is not returned to the Company or is returned to the Company without forwarding address, then the Company will treat such participant non-response as a declination to apply for benefits or to comply with the requirement to execute and satisfy the required Agreement to Refrain from Competition. Accordingly, such vested benefits will be forfeited and canceled and neither the Plan nor the Company shall have any further obligation to the participant with respect to the payment of benefits under the Plan.

8. Agreement to Refrain from Competition.

(a) In consideration of being granted benefits under Part One of this Plan and as a condition precedent to receiving benefits under it, each participant is required to execute an Agreement to Refrain from Competition with the Company and its subsidiaries not to engage in any business or practice or become employed in any position in competition with the Company or its subsidiaries which is otherwise in conflict with or contrary to the interests of the Company within a radius of 50 miles of any Company office for a period of two years (please see detailed note below). Participants terminating employment with the Company prior to age 65 for reasons other than death or disability are not entitled to payment of Plan benefits prior to satisfaction of the two-year Agreement to Refrain from Competition.

\* The required "Agreement to Refrain from Competition" (Form ADMIN-89) between the Employee and the Company reads in part as follows: "During the period of the Employee's employment and for a two (2)-year period commencing with the effective date of the termination of Employee's employment with the Company for any reason and under any circumstances, Employee shall not, without the prior written consent of the Company, alone or with others, whether as an owner, stockholder, partner, lender, investor, employee, consultant, contractor, subcontractor or in any other capacity, directly or indirectly: (a) engage, with in a fifty (50)-mile radius of any office of the Company, in any business activity that is competitive with the business of the Company or otherwise in conflict with or contrary to the interests of the Company, including without limitation the business of performing engineering and management services for the United States Government, and services within the telecommunications technologies industries, all as such businesses and services are more particularly described in the then most recent "VSE Corporation Annual Report"; (b) solicit any person or entity who then is or was at any time during Employee's employment a customer of the Company (including without limitation any person or entity who was at any time during Employee's employment solicited to be a customer of the Company where Employee was directly or indirectly involved in such solicitation) to cease doing business or to curtail business with the Company; or (c) solicit any person who then is or was in the preceding six (6) months an employee or independent contractor of the Company to end his or her relationship with the Company or to work for any other person or entity as an employee or independent contractor."

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(b) In the event of any breach of the Agreement to Refrain from Competition by the participant (regardless of age), the Company may cancel the participant's benefits under Part One of this Plan and all rights of the participant under this Plan terminate.

(c) Nothing in this Plan shall in any way limit or restrict any other remedies available to the Company and subsidiaries for breach of the Agreement to Refrain from Competition.

9. Limitation of Rights. Nothing in this Plan shall be construed to:

(a) Limit the right of the Company to terminate participant's employment at any time, or serve as evidence of any agreement or understanding that the Company will employ the participant in any particular position or at any particular rate of compensation; or

(b) Give the participant any secured interest to any asset of the Company as collateral for the right to receive payment hereunder. All rights of the participants created under the Plan and related Trust are unsecured contractual rights against the Company.

10. Nonalienation of Benefits. No rights or benefits under this Plan are subject to transfer, sale, assignment pledge, or other encumbrance of any kind, nor are rights or benefits subject to the debts, contracts, liabilities or torts of the participant or beneficiary. If a participant or beneficiary becomes bankrupt or attempts to transfer, sell, assign, pledge or otherwise encumber any right or benefit under this Plan, that participant's rights or benefits in the sole discretion of the Company may be terminated.

11. Amendment or Termination. The Board may waive requirements, amend or terminate all or part of this Plan at any time. No amendment, termination, or waiver shall affect the right to any benefits already accrued to the credit of any participant or beneficiary at the time of amendment, termination, or waiver. Upon termination of the Plan, no additional benefits shall accrue to the credit of any participant or beneficiary.

12. ERISA Exemption. This Plan is intended to be exempt from the provisions of ERISA and is an "unfunded" plan maintained "for the purpose of providing deferred compensation of a select group of management or highly compensated employees."

13. Authority. This Plan is governed by the laws of the Commonwealth of Virginia. This Plan may be subject to approval by the Administrative Contracting

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Officer pursuant to Federal Acquisition Regulations, Department of Labor, and/or other Government entities.

14. Effective Date. This Plan is effective January 1, 1994.

PART TWO  
SALARY REDUCTION CONTRIBUTIONS

15. Purpose. Section 1 is hereby incorporated by reference.

16. Participation.

(a) Participation in the Plan is comprised of corporate officers and directors, a select group of management who make significant contributions to the progress of the Company. The Company may elect to extend participation to corporate officers of the Company's wholly owned subsidiaries with approval of the Company's Board.

(b) Each participant is required to file with the Corporate Secretary a beneficiary designation form, as detailed in Section 2(b) of the Plan.

17. Funding. The Trust established pursuant to Section 3 shall be used to receive and invest salary reduction contributions as described in Section 18 and any Trust earnings on behalf of participants. Contributions to the Plan shall be irrevocable and shall be used to pay benefits under the Plan, subject to the claims of the general creditors of the Company.

18. Salary Reduction Contributions. Subject to the terms and conditions of this Plan and related Trust, an eligible participant may elect to enter into a salary reduction agreement whereby the participant accepts a voluntary reduction of amounts otherwise due and the Company agrees to contribute a like amount into the Trust as a salary reduction contribution). Amounts eligible for the salary reduction agreement may include compensation, Board of Director fees, and other taxable income payable by the Company to the participant. Participants may elect to modify prospectively their respective salary reduction agreements at any time with respect to taxable income not yet earned.

19. Allocation of Contributions. Each salary reduction contribution shall be credited to the participant's respective account and shall be accounted for separately from the Company contribution described in Section 4 of the Plan. Earnings and losses on the Trust Fund related to the salary reduction contributions shall be credited to participants' respective accounts on a pro rata basis.

20. Vesting. All salary reduction contributions, pursuant to this Part Two including any Trust earnings or losses on such contributions are 100% vested at all times.

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21. Distribution.

(a) Plan benefits related to salary reduction contributions are payable following termination of employment or directorship, retirement, disability as defined by Social Security guidelines or the Company's long-term disability policy, or death.

(b) Plan benefits related to salary reduction contributions are paid in a lump sum within ninety (90) days following the date of the participant's termination of employment unless an alternative method of benefit payment is elected in writing by the participant no less than 12 months prior to the date of such termination of employment. The elected alternative method of benefit payment may provide for the payment of a lump sum no more than ten (10) years from the date of such termination of employment or for the payment of installment amounts no more frequently than quarterly over a period of time not to exceed ten (10) years from the date of the participant's termination of employment. Each payment will be subject to applicable tax withholding based upon a tax election form completed by the participant which is generally a Form W-4 (Employee's Withholding Allowance Certificate). In the absence of a



completed tax election form, the Company shall make payment on the best information available. The final distribution amount is equal to the participant's account balance as reported in the most recent participant report plus, if applicable, any salary reduction contributions made by the participant since the last report.

(c) Benefits are immediately payable in the event of a change of control of the Company.

(d) The Company may provide for distribution of some or all of the accounts established in connection with the Plan if it is determined or appears that such distribution is or may be required to enable the Plan to continue to qualify for exemption from the requirements of Parts 2 - 4 of Title II of ERISA or as otherwise required by applicable law.

22. Agreement to Refrain from Competition Inapplicable. Plan benefits related to salary reduction contributions in this Part Two are not subject to execution and satisfaction of an Agreement to Refrain from Competition. It is expressly understood that the Agreement to Refrain from Competition described in Section 8 continues to apply to all other Plan benefits related to Company contributions pursuant to Part One of this Plan.

23. Limitation of Rights. Section 9 is hereby incorporated by reference.

24. Nonalienation of Benefits. Section 10 is hereby incorporated by reference.

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VSE CORPORATION DEFERRED SUPPLEMENTAL COMPENSATION PLAN  
Effective January 1, 1994, and as amended through March 9, 2004

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25. Amendment or Termination. Section 11 is hereby incorporated by reference.

26. ERISA Exemption. Section 12 is hereby incorporated by reference.

27. Authority. Section 13 is hereby incorporated by reference.

28. Effective Date. Part Two of this Plan related to salary reduction contributions is effective January 1, 1997.

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VSE CORPORATION  
DEFERRED SUPPLEMENTAL COMPENSATION PLAN  
SALARY REDUCTION AGREEMENT

The undersigned hereby agrees to a voluntary reduction of compensation or other taxable amounts otherwise due from VSE Corporation. It is understood that a like amount shall be contributed to a Trust Fund established to receive and invest contributions and any Trust earnings pursuant to the VSE Corporation Deferred Supplemental Compensation Plan (DSC Plan) and credited to my respective account balance.

I understand that all contributions are subject to the terms and conditions of the DSC Plan and related Trust Agreement. This Agreement shall continue in full force and effect until superseded by me in writing. Any previous Salary Reduction Agreements related to the DSC Plan are hereby superseded. I hereby authorize the Company to make the appropriate reductions.

Salary Reduction:

For flat amount of pay: \$ \_\_\_\_\_ per pay period

For percentage of pay: \_\_\_\_\_% per paycheck/Board dues

For other: Describe below:

\_\_\_\_\_

\_\_\_\_\_

Date: \_\_\_\_\_

\_\_\_\_\_  
Name (Printed)

\_\_\_\_\_  
Signature

Please return this Form to VSE's Director of Human Resources, c/o VSE Corporation, 2550 Huntington Avenue, Alexandria, Virginia 22303-1499.

VSE CORPORATION  
Deferred Supplementation Compensation Plan

Beneficiary Designation Form

This Beneficiary Designation Form is effective for all vested benefits in a participant's account under the VSE Corporation Deferred Supplemental Compensation Plan and the predecessor VSE Corporation Deferred Compensation (DCU) Plan. This Form supersedes and replaces all previous beneficiary designation forms provided by the participant with respect to benefits in these Plans.

Participant Name: \_\_\_\_\_

Primary Beneficiary

Name: \_\_\_\_\_

Address: \_\_\_\_\_

\_\_\_\_\_

Secondary Beneficiary

Name: \_\_\_\_\_

Address: \_\_\_\_\_

\_\_\_\_\_

Note: Death benefits are payable to the Primary Beneficiary. If the Primary Beneficiary has predeceased the participant, then benefits will be paid to the Secondary Beneficiary. If the participant prefers another method of distribution, please identify below:

\_\_\_\_\_

\_\_\_\_\_  
(Date) Participant Signature

Please return completed Beneficiary Designation Form to VSE's Director of Human Resources for retention. Participants may update their beneficiary designations at any time by submitting a new form.

Exhibit 31.1  
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, President, Chief Executive Officer and Chief Operating 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-15(e) and 15d-15(e)) for the Registrant and we have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
  - (c) disclosed in this quarterly report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
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 and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; 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.

Dated: April 28, 2004

/s/ D. M. Ervine

\_\_\_\_\_  
D. M. Ervine  
Chairman, President,  
Chief Executive Officer and  
Chief Operating Officer



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-15(e) and 15d-15(e)) for the Registrant and we have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
  - (c) disclosed in this quarterly report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
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 and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; 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.

Dated: April 28, 2004

/s/ T. R. Loftus

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



Exhibit 32.1

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, President, Chief Executive Officer and Chief Operating 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 March 31, 2004 (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: April 28, 2004

/s/ D. M. Ervine

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D. M. Ervine  
Chairman, President,  
Chief Executive Officer and  
Chief Operating Officer

Exhibit 32.2

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 March 31, 2004 (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: April 28, 2004

/s/ T. R. Loftus

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