

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 September 30, 2005 Commission File Number: 0-3676

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

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

2550 Huntington Avenue
Alexandria, Virginia 22303-1499 www.vsecorp.com
(Address of Principal Executive Offices) (Zip Code) (Webpage)

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 [x]

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 [x] No []

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [] No [x]

Number of shares of Common Stock outstanding as of October 28, 2005: 2,349,500.

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 on Form 10-K for the fiscal year ended December 31, 2004 filed with the Securities and Exchange Commission (the "SEC"), together with the Annual Report on Form 10-K/A filed with the SEC on June 15, 2005 (collectively, "Form 10-K"). 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 SEC, 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

(in thousands except share and per share amounts)

<CAPTION>

	September 30, December 31,	
	2005	2004
	----	----
	(Unaudited)	
<S>	<C>	<C>
Assets		
Current assets:		
Cash and cash equivalents	\$ 9,758	\$ 130
Accounts receivable, principally		
U.S. Government, net	46,353	40,274
Contract inventories	3,531	8,504
Deferred tax assets	1,162	1,077
Other current assets	2,442	1,595
	-----	-----
Total current assets	63,246	51,580
Property and equipment, net	4,918	4,435
Deferred tax assets	608	312
Goodwill	1,054	1,054
Other assets	3,199	2,971
	-----	-----
Total assets	\$ 73,025	\$ 60,352
	=====	=====
Liabilities and Stockholders' Investment		
Current liabilities:		
Bank notes payable	\$ -	\$ 1,578
Accounts payable	33,491	26,853
Accrued expenses	9,290	7,452
Dividends payable	-	114
	-----	-----
Total current liabilities	42,781	35,997
Deferred compensation	1,564	1,312

Total liabilities	44,345	37,309
Commitments and contingencies		
Stockholders' investment:		
Common stock, par value \$.05 per share, authorized 5,000,000 shares; issued 2,349,500 in 2005 and 2,276,688 shares in 2004	117	114
Paid-in surplus	6,109	4,879
Deferred stock-based compensation	(1)	(4)
Retained earnings	22,455	18,054
Total stockholders' investment	28,680	23,043
Total liabilities and stockholders' investment	\$ 73,025	\$ 60,352

</TABLE>

The accompanying notes are an integral part of these balance sheets.

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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 September 30,		For the nine months ended September 30,	
	2005	2004	2005	2004
<S>	<C>	<C>	<C>	<C>
Revenues, principally from contracts	\$ 76,600	\$ 62,223	\$ 215,201	\$ 158,869
Costs and expenses of contracts	73,883	60,620	207,354	154,505
Gross profit	2,717	1,603	7,847	4,364
Selling, general and administrative expenses	173	192	340	450
Interest income, net	(43)	(31)	(84)	(76)
Income before income taxes	2,587	1,442	7,591	3,990
Provision for income taxes	1,000	557	2,935	1,542
Income from continuing operations	1,587	885	4,656	2,448
Discontinued operations:				
Loss from operations, before income taxes	-	-	-	(2)
Benefit for income taxes	-	-	-	(1)
Loss from discontinued operations	-	-	-	(1)
Net income	\$ 1,587	\$ 885	\$ 4,656	\$ 2,447

Basic earnings per share:

Income from continuing operations	\$ 0.68	\$ 0.40	\$ 2.01	\$ 1.10
Loss from discontinued operations	0.00	0.00	0.00	0.00
Net income	\$ 0.68	\$ 0.40	\$ 2.01	\$ 1.10

Basic weighted average shares outstanding	2,348,228	2,225,307	2,313,058	2,221,043
Diluted earnings per share:				
Income from continuing operations	\$ 0.66	\$ 0.38	\$ 1.95	\$ 1.06
Loss from discontinued operations	0.00	0.00	0.00	0.00
Net income	\$ 0.66	\$ 0.38	\$ 1.95	\$ 1.06
Diluted weighted average shares outstanding	2,417,056	2,301,040	2,382,986	2,297,866
Dividends declared per share	\$ 0.00	\$ 0.05	\$ 0.11	\$ 0.14

</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>

	Common Stock Shares	Deferred Paid-In Surplus	Total Stock-Based Compensation	Retained Earnings	Stockholders' Investment
Balance at December 31, 2004	2,277	\$ 114	\$ 4,879	\$ (4)	\$ 18,054
Net income for the period	-	-	-	4,656	4,656
Exercised stock options	73	3	549	-	552
Tax benefit of options exercised	-	684	-	684	-
Deferred stock-based compensation	-	(3)	3	-	-
Dividends declared (\$.11)	-	-	-	(255)	(255)
Balance at September 30, 2005	2,350	\$ 117	\$ 6,109	\$ (1)	\$ 22,455

</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 nine months
ended September 30,
2005 2004
---- ----

	<S>	<C>	<C>
Cash flows from operating activities:			
Net income	\$ 4,656	\$ 2,447	
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	1,010	977	
Loss on sale of property and equipment	2	-	
Deferred taxes	(381)	(265)	
Tax benefit of options exercised	684	261	
Amortization of deferred stock-based compensation ..	-	12	
Change in operating assets and liabilities:			
(Increase) decrease in:			
Accounts receivable, net.	(6,079)	(26,743)	
Contract inventories	4,973	-	
Other current assets and noncurrent assets	(1,075)	(536)	
Increase (decrease) in:			
Accounts payable and deferred compensation	6,890	21,554	
Accrued expenses	1,838	879	
	-----	-----	
Net cash provided by (used in) operating activities	12,518	(1,414)	
	-----	-----	
Cash flows from investing activities:			
Purchase of property and equipment	(1,495)	(2,265)	
	-----	-----	
Net cash used in investing activities	(1,495)	(2,265)	
	-----	-----	
Cash flows from financing activities:			
Net repayment of bank loans	(1,578)	-	
Dividends paid	(369)	(289)	
Proceeds from the exercise of options of common stock .	552	299	
	-----	-----	
Net cash (used in) provided by financing activities	(1,395)	10	
	-----	-----	
Net increase (decrease) in cash and cash equivalents ...	9,628	(3,669)	
Cash and cash equivalents at beginning of period	130	9,843	
	-----	-----	
Cash and cash equivalents at end of period	\$ 9,758	\$ 6,174	
	=====	=====	

</TABLE>

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

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

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2005 are not necessarily indicative of the results that may be expected for the year ending December 31, 2005. 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, 2004. 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, accruals for loss contracts, contract disallowance reserves, self insured health claims and estimated cost to complete on firm fixed-price contracts.

Contract Inventories

The components of contract inventories as of September 30, 2005 and December 31, 2004 were as follows (in thousands):

	2005	2004
	----	----
Raw material	\$ -	\$4,783
Work in process	9,245	3,721
	-----	-----
	\$ 9,245	\$8,504
Less: Progress payments and customer advances received. .	(5,714)	-
	-----	-----
Total contract inventories	\$ 3,531	\$8,504
	=====	=====

Contract inventories consist of materials purchased, advances to suppliers, and other expenditures for use in a contract to modify and apply a protective system, the Tanker Ballistic Protection System ("TBPS"), to military vehicles for the U.S. Army.

Although these costs are classified as contract inventories for accounting purposes, they are similar in nature to materials and direct supplies purchased for use in performance on the Company's other contracts in that they are solely and directly attributable to the contract and will be billed to the customer within a relatively short time. These materials and direct supplies will not be restocked to maintain any permanent inventory levels.

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

Raw material inventories consist of advances to suppliers for materials on this contract but on which work has not yet begun. Work in process contract inventories consist of amounts for materials, supplies and other expenditures for which work has been performed but for which the end unit has not yet been completed and accepted. Work in process contract inventory includes applicable indirect cost burdens, including general and administrative costs, of approximately \$972 thousand and \$442 thousand as of September 30, 2005 and December 31, 2004, respectively.

Debt

VSE has a loan agreement with a bank under which credit is made available to the Company in the form of revolving loan amounts or letters of credit. The amount of credit available to the Company is \$15 million, subject to certain conditions, including a borrowing formula based on billed receivables. The Company pays a fixed annual commitment fee of \$20 thousand and interest on any revolving loan borrowings at a prime-based rate or an optional LIBOR-based rate. The expiration date of the loan agreement is May 31, 2007. 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. As of September 30, 2005, there were no revolving loan amounts outstanding and one letter of credit for approximately \$192 thousand. Amounts outstanding under this loan agreement as of December 31, 2004 were approximately \$1.6 million in revolving loan borrowings and no letters of credit. Interest expense incurred for revolving loan amounts borrowed for the nine months ending September 30, 2005 and 2004 was approximately \$1 thousand and

\$0, respectively.

Subsequent Dividend Declaration

A quarterly dividend of \$.06 per share was declared on October 3, 2005, to be paid in November 2005. The Company has paid dividends each year since 1973, with quarterly dividend payment dates that generally occur in February, May, August, and November. Dividends paid are usually, but not always, declared during the quarter preceding the payment date. The dividend declared on October 3, 2005 will be the fourth quarterly dividend paid in 2005.

Accounting for Stock-based Compensation

The Company has adopted the disclosure-only provisions of SFAS 123, "Accounting for Stock-Based Compensation," as amended by SFAS 148, "Accounting for Stock-Based Compensation-Transition and Disclosure." Accordingly, the Company accounts for stock-based compensation under Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations, using the intrinsic value method. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS 123 to all stock-based employee compensation (in thousands, except per share amounts):

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

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	2005	2004	2005	2004
Net income, as reported	\$1,587	\$ 885	\$4,656	\$2,447
Add: Total stock-based employee compensation expense as reported under intrinsic value method (APB No. 25) for all awards, net of related tax effects	- 2	-	7	
Deduct: Total stock-based compensation expense determined under fair value based method (SFAS No. 123) for all awards, net of related tax effects	(61)	(19)	(173)	(57)
Pro forma net income	\$1,526	\$ 868	\$4,483	\$2,397
Earnings per share:				
Basic - as reported	\$ 0.68	\$ 0.40	\$ 2.01	\$ 1.10
Diluted - as reported	\$ 0.66	\$ 0.38	\$ 1.95	\$ 1.06
Basic - pro forma	\$ 0.65	\$ 0.39	\$ 1.94	\$ 1.08
Diluted - pro forma	\$ 0.63	\$ 0.38	\$ 1.88	\$ 1.04

In December 2004, the Financial Accounting Standards Board issued SFAS 123(R), "Share-Based Payment," which is a revision to SFAS 123. SFAS 123(R) supersedes APB Opinion No. 25 and amends SFAS 95, "Statement of Cash Flows." Generally, the approach in SFAS 123(R) is similar to the approach described in SFAS 123. However, SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. The Company can adopt SFAS 123(R) in one of two ways - the modified prospective method or the modified retrospective method. The Company will adopt SFAS 123(R) on January 1, 2006 and is currently evaluating the alternative methods.

The impact of adoption of SFAS 123(R) cannot be predicted at this time because it will depend on levels of share-based payments granted in the future.

However, had we adopted SFAS 123(R) in prior periods, the impact of that standard would have approximated the impact of SFAS 123 as described in the disclosure of pro forma net income and earnings per share above. SFAS 123(R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement may reduce net operating cash flows and increase net financing cash flows in periods after adoption. The Company cannot estimate what those amounts will be in the future because they depend on, among other things, when employees exercise stock options.

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

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

common shares that were outstanding during each period. Potentially dilutive common shares include incremental common shares issuable upon exercise of stock options.

	Three Months		Nine Months	
	Ended September 30, 2005	2004	2005	2004
Basic weighted average				
common shares outstanding	2,348,228	2,225,307	2,313,058	2,221,043
Dilutive effect of options	68,828	75,733	69,928	76,823
Diluted weighted average				
common shares outstanding	2,417,056	2,301,040	2,382,986	2,297,866

Litigation

The Company is a party to or has property subject to litigation during the normal course of business. In the opinion of management, the resolution of any such litigation will not have a material adverse effect on the Company's results of operations or financial position. However, the results of any legal proceedings cannot be predicted with certainty.

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Executive Overview

VSE Organization

VSE's business operations consist primarily of services performed by the Company's wholly owned subsidiaries and unincorporated divisions. The Company uses multiple operating entities to bid on and perform contract work. The use of an operating structure with multiple entities gives the Company certain competitive advantages and the flexibility to pursue a diverse business base. The term "VSE" or "Company" refers to VSE and its subsidiaries and divisions unless the context indicates operations of the parent company only.

Energetics Incorporated ("Energetics") is currently VSE's only active subsidiary. Active divisions as of September 30, 2005 include BAV Division ("BAV"), Coast Guard Division ("VCG"), Communications and Engineering Division ("CED"), Fleet Maintenance Division ("FMD"), Management Sciences Division ("MSD"), and, Systems Engineering Division ("SED").

TTD Discontinued Operations

In February 2003, VSE decided to terminate operations of its Telecommunications Technologies Division ("TTD") due to declining revenues and significant losses sustained by this division. TTD continued work on uncompleted contracts during 2003 and 2004 to satisfy its contractual obligations and upon finishing work in July 2004, TTD was classified as a discontinued operation. Some of TTD's technical capabilities were transferred to other VSE divisions.

VSE Customers and 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 Company's services is the U.S. Department of Defense ("Defense"), including agencies of the U.S. Navy, Army, and Air Force. Other customers include the Department of Homeland Security, the U.S. Postal Service, the Department of Energy, and the Department of Treasury.

Navy - The majority of VSE's work is performed for the U.S. Navy. BAV is a major provider of logistics, training, and technical assistance in support of the Navy's ship transfer program. 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. VCG provides services to the U.S. Coast Guard that are similar to the work performed by BAV for the Navy.

Army/Army Reserve - VSE also performs a significant amount of its work for the U.S. Army and U. S. Army Reserve. SED provides these customers equipment refurbishment services, military vehicle protection systems, 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, as well as 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 government work orders on a large Army contract.

Other - Energetics provides the Department of Energy and other government and industry customers with expert consulting services that typically include program planning and analysis, R&D management services, technology assessment and performance metrics, communications and outreach, and conference planning. VSE provides base support and other services to the U.S. Air Force

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through contract work performed by FMD and SED. The Company has also provided support services to the U.S. Postal Service and U.S. Department of Treasury.

BAV Ship Transfer Program

VSE's BAV Division provides the U.S. Navy with engineering, technical and logistical support services associated with the sale, lease, or transfer of Navy

ships to foreign governments. The original contract associated with this program was a ten-year cost-plus award fee contract awarded in 1995 with a total ceiling value of more than \$1 billion. BAV was awarded a second contract in April 2005 to continue work on this program. The new contract is a five-year cost-plus award fee contract with a total ceiling value of approximately \$544 million. The level of revenues and associated profits resulting from fee income generated by this program 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 variation due to changes in the level of activity associated with the Navy's ship transfer program.

During its life, this program has been the Company's single largest revenue producer. Revenues generated by this program have typically accounted for approximately 40% to 50% of consolidated VSE revenues, and revenues generated by this program accounted for approximately 43% and 54% of consolidated revenues during the nine month periods ended September 30, 2005 and 2004, respectively. The transfer of four U.S. Navy ships to Taiwan currently conducted under this program is a major contributor to the Company's revenues in 2005 and 2004. The Navy began issuing orders on the new contract in the second quarter of 2005 and ceased issuing orders for new work on the original contract at that time. BAV will continue work associated with the transfer of four ships to Taiwan under delivery orders previously issued on the original contract.

Contract terms under both the original and new contracts specify base fee payments and award fee payments to BAV. Base fee payments are determined by level of contract activity and base fee income is recognized each month. Award fee payments are determined by performance and level of contract activity. 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. Award fees are made three times during the year. Accordingly, the Company typically has three quarterly reporting periods per year that include the recognition of BAV award fee income and one quarterly reporting period that does not include BAV award fee income. Due to such timing, and to fluctuations in the level of revenues, profits as a percentage of revenues will fluctuate from period to period. The three month periods ended September 30, 2005 and 2004 do not include BAV award fee income. Each of the three month periods ended June 30, 2005 and 2004 and March 31, 2005 and 2004 includes BAV award fee income. Total fee income as a percentage of revenue on the original contract has been relatively low compared to other VSE contracts.

TBPS Program

In November 2004, VSE's SED Division was awarded a fixed-price letter contract by the U.S. Army to begin work on a program to provide a protection system for Army vehicles, the Tanker Ballistic Protection System ("TBPS"). Under this program, SED applies a Fuel Tank Self-Sealing System and necessary Add-on Armor Panels for Army Fuel Dispensing Tankers as protection from damage resulting from hostile fire. Testing and preparatory work on this program was conducted in November and December 2004 and the TBPS was applied to the first tanker in January 2005. SED received a definitized firm fixed price per unit contract to formalize contract coverage and funding in March 2005. In April 2005, the Company received a second fixed-price letter contract under this program that increased the amount of work by adding two more types of tankers to be included in the program. In September 2005, this second letter contract was definitized and VSE was awarded a second fixed price per unit contract.

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Subsequent to award, VSE has received modifications to the first contract to adjust the number of tankers based on Army tanker availability and needs and VSE anticipates that there may be future modifications to both contracts as the Army's needs change. The current funded contract ceiling for the TBPS program contracts is approximately \$84 million as of September 30, 2005. Contractual coverage for work on the TBPS program runs through 2007 and the Company expects to most likely complete work in early 2007.

The TBPS Program has contributed significantly to revenue growth in 2005. The work performed on this program also significantly increases the amount of fixed price contract work performed by the Company. In general, fixed price contract

work carries a higher level of risk and has higher profit margins than work on other contract types. Accordingly, the TBPS program is expected to present VSE's business with the potential for both increased profit margins and increased risks and challenges.

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 responsible for performing to the requirements of the contract and ensuring compliance with U.S. Government regulations relative to the performance by subcontractors.

Other government procurement practices that can affect the Company's revenues are 1) the length of contracts issued, which may vary depending on changes in contracting regulations and other factors; 2) the use of past performance criteria that may preclude entrance into new government markets; and 3) government socioeconomic programs that limit contract work to small, woman, or minority owned businesses. Additional risk factors that could potentially affect the Company's results of operations are the government's right to terminate contracts for convenience, the government's right to not exercise all of the option periods on a contract, and funding delays caused by government political or administrative actions.

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

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countries served under the BAV Ship Transfer Program could potentially affect sales. Failure by the government of a potential foreign customer to approve and fund acquisition of U.S. Navy ships serviced under this program could affect sales. In any one year, a significant amount of the Company's revenues may result from sales on the BAV Ship Transfer Program to a single foreign government. BAV sales to Egypt have historically comprised a large percentage of the Company's total sales in any one year. Work associated with the transfer of four ships to Taiwan under the BAV Ship Transfer Program during 2004 and 2005 also comprised a large percentage of total sales.

The current international situation posed by potential terrorist activity and the continuing conflict in the Middle East could potentially increase the political risks for revenues from both the BAV Ship Transfer and TBPS Programs. 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.

Selected VSE Revenues (in thousands)

Source of Revenue	For the Nine months ended September 30,			
	2005		2004	
	Revenues	%	Revenues	%
BAV Taiwan	\$ 47,978	22	\$ 43,774	28
BAV Egypt	40,432	19	37,406	23
BAV Other	4,390	2	5,306	3
Total BAV	\$ 92,800	43	\$ 86,486	54
TBPS Program	25,938	12	-	-
VSE Other	96,463	45	72,383	46
Total Revenues	\$215,201	100	\$158,869	100

Management Outlook

The growth trend established by VSE's record high revenues and profits in 2004 is continuing in 2005. The major contributors to 2005 results are expected to be: 1) performance on the TBPS Program; 2) a continuation of the Taiwan Ship Transfer work performed by BAV; and 3) additional work provided by Other Significant Contracts.

TBPS Program. A majority of the work on the initial contract on the TBPS Program is expected to be completed by early 2006. Additionally, the second contract under this program is expected to begin generating revenue in the fourth quarter of 2005. Work on this program is contributing to increases in Company revenues and profits in 2005 and has the potential for continued contributions to revenues and profits in 2006.

Taiwan Ship Transfer. BAV's Taiwan ship transfer effort, entering its second full year, is contributing significantly to VSE revenue levels in 2005 and is expected to continue to contribute significantly to revenues in 2006.

Other Significant Contracts. VSE has three multi-year, multiple award, indefinite delivery, indefinite quantity contracts that have large nominal ceiling amounts with no funding committed at the time of award. VSE is one of several awardees on each contract. While future VSE revenue from these contracts cannot be predicted with certainty, the award of these contracts provides the Company with the opportunity to compete for work that could contribute to future revenue growth, including new work in 2005. These three contracts are described below.

VSE's CED Division has a multi-year Rapid Response support contract issued by the U.S. Army Communications-Electronics Command (CECOM) that was awarded in January 2003. The contract enhances the Company's revenue producing capabilities by allowing it to provide services through any of VSE's operating entities or through third party subcontractors for various end user government customers. If all options are exercised, this contract has a potential total ceiling of approximately \$2.9 billion over an eight-year period. While it is not likely that the full ceiling amount will be realized, this contract has generated revenues for VSE of approximately \$29.3 million and \$18.7 million during the nine months ended September 30, 2005 and 2004, respectively. VSE continues to pursue new orders on this contract that present potential revenue opportunities for the future.

VSE's FMD Division has a contract with the U.S. Navy, SeaPort Enhanced, awarded in April 2004, which includes a five-year base period and two five-year option periods. This contract is a procurement vehicle for the Navy to use for ordering services from a wide range of contractors to support all phases of naval ship and shipboard weapons systems acquisition and life-cycle support. While this

award does not guarantee any revenues for VSE, the Company is one of several contractors eligible to bid for services during the life of the contract. FMD has generated only minor amounts of revenue from this contract.

FMD also has a contract, awarded in September 2004, with the U.S. Navy to provide engineering and technical services to support Naval Sea Systems Command maintenance, overhaul, repair, and alteration of systems aboard ships. This contract has a total contract ceiling amount of \$1.022 billion over a five-year period if all option periods are exercised. VSE is one of several awardees eligible to share in the potential total contract ceiling amount. Since the date of the contract award, FMD has been awarded delivery orders totaling approximately \$44 million in work on this contract. Although it is not likely that the full \$1.022 billion ceiling amount will be realized, this contract does present potential future revenue opportunities.

Funded Backlog

Revenue increases in government contracting businesses are typically preceded by increases in contract funding ("bookings") and a build-up of funded contract backlog. VSE's bookings and funded backlog during the first nine months of 2005 have remained at levels that give the Company a firm basis for continued revenue growth in 2005 and into 2006.

(in millions)

Bookings for the nine months ended September 30, 2005. . . .	\$259
Funded backlog as of September 30, 2005	\$212
Revenues for the nine months ended September 30, 2005. . . .	\$215

Longer Term Concerns and Risks

Certain work efforts that have supported VSE's growth in 2004 and 2005 are due to expire in the future. VSE has received significant contributions to its revenue growth in 2004 from the Taiwan Ship Transfer work and in 2005 from both the Taiwan Ship Transfer work and the TBPS program work. The Taiwan Ship Transfer work is expected to continue contributing significant levels of revenue through 2005 and 2006 and be substantially completed in late 2006. The TBPS program contractual coverage runs through 2007 and the Company expects to continue work on the program through 2006 at approximately the same levels experienced in 2005. At this time, the Company has no indication that there will be any further work ordered on the TBPS program beyond early 2007. The expected expiration of these two programs will present challenges for VSE to sustain the revenue growth that it has experienced during 2004 and 2005 and that it expects to experience in the remainder of 2005 and 2006 into years beyond 2006. VSE is tracking multiple bidding opportunities for new contract work and is also exploring potential acquisition opportunities to mitigate the future loss of revenues associated with the expiration of the TBPS Program and the Taiwan Ship Transfer work.

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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 policies 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. Revenues result from work performed on these contracts by the Company's employees and from pass-through of costs for material and work performed by subcontractors.

Revenues on cost-type contracts are recorded as contract allowable costs are incurred and fees earned. Profits on cost-type contracts are equal to the fees that are earned. 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 record award fee revenue until constructive notification of

the award terms is received from the customer. 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 multiplied by 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.

Revenue recognition methods on fixed-price contracts will vary depending on the nature of the work and the contract terms. On some fixed-price contracts revenues are recorded as costs are incurred, using the percentage-of-completion method of accounting. Revenues on fixed-price service contracts are recorded as services are provided. Revenues on fixed-price contracts that require delivery of specific items are recorded based on a price per unit as units are delivered. Profits on fixed-price contracts result from the difference between the incurred costs and the revenue earned.

Revenues by contract type for the nine months ended September 30, 2005 and 2004 were as follows (in thousands):

Contract Type	2005		2004	
	Revenues	%	Revenues	%
Cost-type	\$134,247	62	\$117,563	74
Time and materials.	45,998	22	19,064	12
Fixed-price	34,956	16	22,242	14
	<u>\$215,201</u>	<u>100</u>	<u>\$158,869</u>	<u>100</u>

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 September 30, 2005, VSE has recognized approximately \$170 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 subject to a review for impairment at least annually. The Company performs its annual impairment test on September 30. As of September 30, 2005, the Company had approximately \$1.1 million of goodwill associated with its acquisition of Energetics in 1995. The Company has not recognized any reduction to the goodwill due to the impairment rules. If at some time in the future it is determined that impairment has occurred, such impairment could potentially have an adverse impact on the Company's results of operations or financial condition.

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, VSE may be required to record valuation allowances against its deferred tax assets, resulting in additional income tax expense.

Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board issued SFAS 123(R), "Share-Based Payment," which is a revision to SFAS 123. SFAS 123(R) supersedes APB Opinion No. 25 and amends SFAS 95, "Statement of Cash Flows." Generally, the approach in SFAS 123(R) is similar to the approach described in SFAS 123. However, SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. The Company can adopt SFAS 123(R) in one of two ways - the modified prospective method or the modified retrospective method. The Company must adopt SFAS 123(R) on January 1, 2006 and is currently evaluating the alternative methods.

The impact of adoption of SFAS 123(R) cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had we adopted SFAS 123(R) in prior periods, the impact of that standard would have approximated the impact of SFAS 123 as described in the disclosure of pro forma net income and earnings per share above. SFAS 123(R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement may reduce net operating cash flows and increase net financing cash flows in periods after adoption. The Company cannot estimate what those amounts will be in the future because they depend on, among other things, when employees exercise stock options.

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Results of Operations

The following table sets forth certain items, including consolidated revenues, pretax income and net income from continuing operations, and the changes in these items for the three and nine month periods ended September 30, 2005 and 2004 (in thousands):

	2005		2004		Increase Compared to	
	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005	Three Months Ended September 30, 2004	Nine Months Ended September 30, 2004	Three Months	Nine Months
Revenues	\$76,600	\$62,223	\$215,201	\$158,869	\$14,377	\$56,332
Income before income taxes	\$ 2,587	\$ 1,442	\$ 7,591	\$ 3,990	\$ 1,145	\$ 3,601
Provision for income taxes	1,000	557	2,935	1,542	443	1,393
Income from continuing operations	\$ 1,587	\$ 885	\$ 4,656	\$ 2,448	\$ 702	\$ 2,208

Revenues increased by approximately 23% and 35% for the three and nine month periods ended September 30, 2005, as compared to the same periods of 2004. The primary reasons for the increases in revenues were 1) work attributable to the TBPS program; 2) increased levels of work performed by FMD on its U. S. Navy contracts; 3) an increase in work performed on the CED Rapid Response contract; 4) an increase in work performed under the BAV Ship Transfer Program, including revenues associated with the Taiwan ship transfer; and 5) increased levels of

military equipment refurbishment services performed by SED for the U. S. Army Reserve.

Income before income taxes increased by approximately 79% and 90% for the three and nine month periods ended September 30, 2005, as compared to the same periods of 2004. The increases in income before income taxes resulted from the profits associated with additional revenues and an increase in gross margins. The increase in gross margins were primarily attributable to spreading corporate fixed costs over a larger revenue base and an increase in the percentage of work performed on time and materials and fixed-price contracts, which have more favorable profit margins than work performed on cost type contracts. The TBPS program increased both the Company's overall revenue and percentage of fixed price contract work, and made the most significant contribution to increased income. Profits associated with the increase in military equipment refurbishment services performed by SED, profits from the increased revenues of BAV and FMD, profits associated with an increase in MSD services, and a decrease in the losses incurred by CED in 2005 as compared to 2004 also contributed to the Company's increase in pretax income during these periods as compared to the same periods of 2004. Also, the Company's selling, general, and administrative expenses declined for the three and nine month periods ended September 30, 2005 as compared to the same periods of 2004 because the Company has subleased most of its office space in 2005 that had been vacant in 2004, thereby eliminating costs in 2005 as compared to the prior year.

The provision for income taxes for the periods ended September 30, 2005 and 2004 were computed at an effective tax rate of approximately 39%.

Financial Condition

VSE's financial condition did not change materially during the nine months ended September 30, 2005. The Company's largest assets are its accounts receivable and cash and cash equivalents. The largest liabilities are its accounts payable and accrued expenses. Accounts receivable increased approximately \$6.1 million, cash

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and cash equivalents increased approximately \$9.6 million, accounts payable increased approximately \$6.6 million, and accrued expenses increased approximately \$1.8 million during the first nine months of 2005 due primarily to the increase in the level of business activity and the associated billings to customers and subcontractor payments required to perform this work. Inventories declined approximately \$5.0 million during the first nine months of 2005 as materials and supplies were used to complete protection systems for vehicles on the TBPS Program. The change in total stockholders' investment in this period resulted from earnings and dividend activity and from the exercise of stock options.

Subsequent Dividend Declaration

A quarterly dividend of \$.06 per share was declared on October 3, 2005, to be paid in November 2005. The Company has paid dividends each year since 1973, with quarterly dividend payment dates that generally occur in February, May, August, and November. Dividends paid are usually, but not always, declared during the quarter preceding the payment date. The dividend declared on October 3, 2005 will be the fourth quarterly dividend paid in 2005.

Liquidity and Capital Resources

Cash Flows

Cash and cash equivalents increased by approximately \$9.6 million during the nine months ended September 30, 2005. The increase in cash and cash equivalents during this period resulted from cash provided by operating activities of approximately \$12.5 million, cash used in investing activities of approximately \$1.5 million, and cash used in financing activities of approximately \$1.4 million. Investing activities consisted of facilities related expenditures, including expenditures for facilities expansion and improvement, of approximately \$351 thousand and purchases of property and equipment, net of dispositions, of approximately \$1.1 million. Financing activities consisted of repayment of amounts previously borrowed on the Company's bank loan of

approximately \$1.6 million, dividend payments, and proceeds received from the issuance of common stock due to the exercise of stock options.

Cash and cash equivalents decreased by approximately \$3.7 million during the nine months ended September 30, 2004. The decrease in cash and cash equivalents during this period resulted from cash used in investing activities of approximately \$2.3 million, cash used in operating activities of approximately \$1.4 million, and cash provided by financing activities of approximately \$10 thousand. Investing activities consisted of expansion and improvement of facilities of approximately \$755 thousand and purchases of property and equipment, net of dispositions, of approximately \$1.5 million. Financing activities consisted of dividend payments and proceeds received from the issuance of common stock due to the exercise of stock options.

The difference between cash provided by operating activities of approximately \$12.5 million in 2005 as compared to cash used of approximately \$1.4 million in 2004 is primarily due to: 1) an increase in net income; and 2) changes in the levels of accounts receivable, inventories, and accounts payable resulting from increases in revenue and the timing of associated material purchases, subcontractor payments, and receivables collections.

Quarterly cash dividends were paid at the rate of \$.05 per share during the three month periods ended March 31 and June 30, 2005, and at the rate of \$.06 per share during the three month period ended September 30, 2005. 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

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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 significantly by the timing of large materials purchases and subcontractor efforts used in performance on the Company's contracts. Accounts receivable levels are also affected by contract retainages, differences between the provisional billing rates authorized by the government compared to the costs actually incurred by the Company, and government delays in processing administrative paperwork for contract funding.

Work on the TBPS program requires the Company to acquire inventories consisting of materials, supplies, and other expenditures for which end units have not yet been completed and accepted. Although these costs are classified as inventories for accounting purposes, they are similar in nature to materials and direct supplies purchased for use in performance on the Company's other contracts in that they are solely and directly attributable to the contract and will be billed to the customer within a relatively short time. All of the inventories are expected to be liquidated, billed, and collected as vehicle protection systems are completed and accepted by the government customer. These materials and direct supplies will not be restocked to maintain any permanent inventory levels.

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 significantly by the timing of large materials purchases and subcontractor efforts used in performance on the Company's contracts and by changes in the level of contract work performed by the Company.

Other cash requirements include income tax payments, acquisition of capital assets for office and computer support, facilities improvements, and payment of

cash dividends.

VSE's external sources of liquidity consist of a revolving bank loan agreement that provides loan financing based on the Company's accounts receivable (see "Notes to Consolidated Financial Statements"). The bank financing complements the internal sources of liquidity by providing increasing levels of borrowing capacity as accounts receivable levels increase. The bank loan agreement provided loan financing up to a maximum commitment of \$15 million as of September 30, 2005. The amount of this commitment is negotiable between the Company and the bank. The Company has determined that the current \$15 million commitment amount is adequate to cover known current and future liquidity requirements.

Performance of work under the BAV Ship Transfer Program, the TBPS program, and other contracts requiring large subcontract or material expenditures have 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.

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, furniture and fixtures, and land and improvements. The overall impact of inflation on replacement costs of such property and

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equipment is not expected to be material to VSE's future results of operations or financial condition.

Disclosures About Market Risk

Interest Rates

VSE's bank loan financing provides available borrowing to the Company at variable interest rates. The Company has not borrowed significant amounts on the loan in recent years. Accordingly, the Company does not believe that 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 agreement, future interest rate changes could potentially have 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.

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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

As of the end of the period covered by this report, based on management's evaluation, with the participation of VSE Corporation's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d - 15(e) under the Securities Exchange Act of 1934, as amended) our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective in ensuring that information required to be disclosed by us in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

There was no change in our internal control over financial reporting during our third quarter of fiscal 2005 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. Other Information

Item 1. Legal Proceedings

The Company is a party to or has property subject to litigation during the normal course of business. In the opinion of management, the resolution of any such litigation will not have a material adverse effect on the Company's results of operations or financial position. However, the results of any legal proceedings cannot be predicted with certainty.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The Registrant did not purchase any of its equity securities during the period covered by this report.

Under the Registrant's bank loan agreement dividends may be paid in an annual aggregate amount of \$.60 per share, provided there is no default under the loan agreement.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits.

Exhibit No.

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

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(b) Reports on Form 8-K.

The Registrant filed a Current Report on Form 8-K on August 1, 2005, to report the financial results of the second quarter 2005.

The Registrant filed a Current Report on Form 8-K on August 5, 2005 to report that the VSE Corporation Board of Directors approved an increase in non-employee director fees and the adoption of an attendance fee for each meeting of the Board of Directors or committee of the Board of Directors attended.

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: October 28, 2005 /s/ D. M. Ervine

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

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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: October 28, 2005

/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: October 28, 2005

/s/ T. R. Loftus

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 September 30, 2005 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

Dated: October 28, 2005

/s/ D. M. Ervine

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 September 30, 2005 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

Dated: October 28, 2005

/s/ T. R. Loftus

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