

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended December 31, 2008 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:

Title of each class -----	Name of each exchange on which registered -----
Common Stock, par value \$.05 per share	The NASDAQ Global Select Market

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) 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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer
Smaller reporting company

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

The aggregate market value of outstanding voting stock held by nonaffiliates of the Registrant as of June 30, 2008, was approximately \$100.7 million based on the last reported sales price of the Registrant's common stock on the Nasdaq National Market as of that date.

Number of shares of Common Stock outstanding as of March 3, 2009: 5,104,842.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for the Annual Meeting of Stockholders expected to be held on May 5, 2009, are incorporated by reference

into Part III of this report.

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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," the "Company," "us," "our," or "we") results to differ materially from those anticipated in the forward looking statements contained in this filing, see VSE's "Narrative Description of Business" (Items 1, 1A, 2 and 3), and "Management's Discussion and Analysis." 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 the Quarterly Reports on Form 10-Q to be filed by the Company subsequent to this Annual Report on Form 10-K and any Current Reports on Form 8-K filed by the Company.

Part I

ITEM 1. Business

(a) General Background

VSE Corporation was incorporated in Delaware in 1959 and serves as a centralized management and consolidating entity for our business operations. Our business operations are managed under groups that consist of one or more unincorporated divisions or wholly owned VSE subsidiaries that perform our work. Our Federal Group consists of our Communications and Engineering Division ("CED"), Engineering and Logistics Division ("ELD"), Field Support Services Division ("FSS"), Management Sciences Division ("MSD"), and Systems Engineering Division ("SED"). Our International Group consists of our BAV Division ("BAV"), Coast Guard Division ("VCG"), and Fleet Maintenance Division ("FMD"). Our IT, Energy and Management Consulting Group consists of our wholly owned subsidiaries Energetics Incorporated ("Energetics") and G&B Solutions, Inc. ("G&B"). Our Infrastructure Group consists of our wholly owned subsidiary Integrated Concepts and Research Corporation ("ICRC"). The term "VSE" or "Company" means VSE and its subsidiaries and divisions unless the context indicates operations of the parent company only.

Our business operations consist primarily of diversified program management, logistics, engineering, IT, construction program and consulting services performed on a contract basis. Almost all of our contracts are with agencies of the United States Government (the "government") and other government prime contractors. Our customers also include non-government organizations and commercial entities.

We seek to provide our customers with competitive, cost-effective solutions to specific problems. These problems generally require a detailed technical knowledge of materials, processes, functional characteristics, information systems, technology and products and an in-depth understanding of the basic requirements for effective systems and equipment.

(b) Financial Information

Our operations are conducted within four reportable segments aligned with our management groups: 1) Federal, which generated approximately 64% of our revenues in 2008; 2) International, which generated approximately 21% of our revenues in 2008; 3) IT, Energy and Management Consulting, which generated approximately 5% of our revenues in 2008; and 4) Infrastructure, which generated approximately 10% of our revenues in 2008. Additional financial information for our reportable segments appears in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and in "Item 8. Financial Statements and Supplementary Data" of this Form 10-K.

(c) Description of Business

Services and Products

Our services include a broad array of capabilities and resources that support military, federal civil, and other government systems, equipment and processes. We are focused on creating, sustaining and improving the systems, equipment and processes of government through core offerings in program management, logistics, engineering, IT, construction program, and consulting services.

Typical projects include sustaining engineering support for military vehicles and combat trailers; military equipment refurbishment and modification; military vehicle ballistic protection systems; ship maintenance, repair, overhaul planning and follow-on technical support; logistics management support; machinery condition analysis; specification preparation for ship alterations and repairs; ship force crew training; life cycle support for ships; ship communication systems; energy conservation and advanced technology demonstration projects; technical data package preparation; multimedia, computer local area network ("LAN"), and telecommunications

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systems; cross-platform technical data; product data; technical manual development and support; information technology management consulting, services, and solutions; and large-scale port engineering development and construction management.

See Item 7 "Management's Discussion and Analysis of Financial Information and Results of Operation" for more information regarding VSE's business.

Contracts

Depending on solicitation requirements and other factors, we offer our professional and technical services and products through various competitive contract arrangements and business units which are responsive to customer requirements and which may also provide an opportunity for diversification. Such arrangements may include prime contracts, subcontracts, cooperative arrangements, joint ventures, General Services Administration ("GSA") schedules, dedicated cost centers (divisions) and subsidiaries. Some of the contracts permit the contracting agency to issue delivery orders or task orders in an expeditious manner to satisfy relatively short-term requirements for engineering and technical services.

Almost all of our revenues are derived from contract services performed for Department of Defense ("DoD") agencies or for Federal Civil agencies. The U.S. Army, Army Reserve and U.S. Navy are our largest customers. Other

significant customers include the Department of Treasury, the Department of Transportation, the Department of Energy and the Department of Interior. To a lesser degree, our customers also include various other government agencies, non-government organizations, and commercial entities.

Revenues by Customer
(dollars in thousands)

Customer	2008		2007		2006	
	Revenues	%	Revenues	%	Revenues	%
U.S. Army/Army Reserve	\$ 625,237	9.9	\$344,296	52.7	\$174,473	48.0
U.S. Navy	195,792	18.8	189,534	29.0	164,788	45.3
U.S. Air Force	10,720	1.0	4,628	0.7	4,579	1.2
Total - DoD	831,749	79.7	538,458	82.4	343,840	94.5
Department of Transportation	89,873	8.6	30,977	4.7	-	0.0
Department of U.S. Treasury	57,021	5.5	55,020	8.4	2,392	0.7
Department of Interior	19,156	1.8	1,053	0.2	-	0.0
Department of Energy	12,812	1.2	10,537	1.6	9,420	2.5
Other government	29,748	2.9	11,427	1.8	5,683	1.6
Total - Federal Civil Agencies	208,610	20.0	109,014	16.7	17,495	4.8
Commercial	3,376	0.3	5,692	0.9	2,399	0.7
Total	\$1,043,735	100.0	\$653,164	100.0	\$363,734	100.0

The government's procurement practices sometimes include the bundling of various work efforts under large comprehensive management contracts ("omnibus"). As a result, the growth opportunities available to us can occur

in large, unpredictable increments. We have pursued these larger efforts by assembling teams of subcontractors to offer the range of technical competencies required by these omnibus contracts. Typically the use of subcontractors and large material purchases on government contracts does not allow for profit margins that are as high as on work performed by our own personnel. As a result, the use of such teaming arrangements may lower our overall profit margins in some years. Although the government's practice of using omnibus multiple award contracts is expected to continue, we also have opportunities to compete for other contracts requiring our specific areas of expertise. We are positioned to pursue these opportunities while continuing to use subcontractor teams to compete for the omnibus contracts.

Our contracts with the government are typically cost plus fee, time and materials, or fixed-price contracts. Revenues result from work performed on these contracts by our own employees and from pass-through of costs for work performed by our subcontractors and for materials. Revenues on cost-type contracts are recorded as contract allowable costs are incurred and fees are earned.

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 or losses 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, typically ratably over the service period. Revenues on fixed-price service contracts are recorded as work is performed, typically ratably over the service period. Revenues on fixed-price contracts

that require delivery of specific items may be 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.

Backlog

Funded backlog for government contracts represents a measure of our potential future revenues. Funded backlog is defined as the total value of contracts that has been appropriated and funded by the procuring agencies, less the amount of revenues that have already been recognized on such contracts. Our funded backlog as of December 31, 2008, is approximately \$567 million. Funded backlog as of December 31, 2007 and 2006 was approximately \$408 million and \$299 million, respectively. The increases in funded backlog during these years are due to increases in funding on our existing programs and the funding received on new programs. Changes in funded backlog on contracts are sometimes unpredictable due to uncertainties associated with changing government program priorities and the ultimate availability of funds.

In addition to the funded backlog levels, we have contract ceiling amounts available for use on multiple award, indefinite delivery, indefinite quantity contracts with the U.S. Army, U.S. Air force, and U.S. Navy. While these contracts increase the opportunities available to us to pursue future work, the amount of future work is not determinable until delivery orders are placed on the contracts. Additionally, these delivery orders must be funded by the procuring agencies before we can perform work and begin earning revenues from them.

Marketing

Our marketing activities are led by our Corporate Vice President of Marketing and performed by our professional staff of engineers, analysts, program managers, contract administrators and other personnel. These activities are centrally coordinated through our Corporate Marketing Department. Information concerning new programs and requirements becomes available in the course of contract performance, through formal and informal

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briefings, from participation in professional organizations, and from literature published by the government, trade associations, professional organizations and commercial entities.

Personnel

Services are provided by our staff of professional and technical personnel having high levels of education, experience, training and skills. As of December 31, 2008, we had 1,920 employees, an increase from 1,223 over the prior year. Principal categories include (a) engineers and technicians in mechanical, electronic, chemical, industrial, energy and environmental services, (b) information technology professionals in computer systems, applications and products, configuration, change and data management disciplines, (c) technical editors and writers, (d) multimedia and computer design engineers, (e) graphic designers and technicians, (f) logisticians, and (g) construction and environmental specialists. The expertise required by our customers also frequently includes knowledge of government administrative procedures. Many of our employees have had experience as government employees or have served in the U.S. Armed Forces.

Competition

The professional and technical services industry in which we are engaged is very competitive. There are numerous other organizations, including large, diversified firms with greater financial resources and larger technical staffs that are capable of providing the same services offered by us. These companies may be publicly owned or privately held or may be divisions of much larger organizations, including large manufacturing corporations.

Government agencies have emphasized awarding contracts on a competitive basis as opposed to a sole source or other non-competitive basis. Most of the significant contracts that we currently perform were either initially awarded on a competitive basis or have been renewed at least once on a competitive basis. Government agencies also order work through contracts awarded by GSA. GSA provides a schedule of services at fixed prices which may be ordered

outside of the solicitation process. We have seven GSA schedule contracts for different classes of services. There is no assurance regarding the level of work we may obtain under these contracts. Government budgets, and in particular the budgets of certain government agencies, can also affect competition in our business. A reallocation of government spending priorities or a general decline in government budgets can result in lower levels of potential business, thereby intensifying competition.

It is not possible to predict the extent and range of competition that we will encounter as a result of changing economic or competitive conditions, customer requirements or technological developments. We believe the principal competitive factors for our business are technical and financial qualifications, past performance and low price.

Government acquisition policies and procedures often emphasize factors that can present challenges to our efforts to win new business, and may make it difficult for us to qualify as a potential bidder. For example, past performance may be used to exclude entrance into new government markets, and multiple-award schedules may result in unequal contract awards between successful contractors.

Available Information

Copies of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports are filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended. They are available free of charge through our website www.vsecorp.com as soon as reasonably practicable after the reports are electronically filed with the Securities and Exchange Commission ("SEC").

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ITEM 1A. Risk Factors

Our future results may differ materially from past results and from those projected in the forward-looking statements contained in this Form 10-K due to various uncertainties and risks, including but not limited to those set forth below, one-time events and other important factors disclosed previously and from time to time in other filings with the SEC.

Our work on large program efforts presents a risk to revenue and profit growth and sustainability.

The eventual expiration of such programs, or the loss of or disruption of revenues on a single contract, presents the potential for a sudden drop in revenues and profits. The loss of these revenues could further erode profits on our remaining programs that would have to absorb a larger portion of the fixed corporate costs previously allocated to the expiring programs or discontinued contract work.

One recent contract action may present us with this risk. The U. S. Army informed us in January 2009 that they would not consider our proposal for a new contract to succeed our current R2 Program contract. We protested this decision and in February 2009, we were informed that our protest was dismissed based on the protest being premature. The notice of dismissal states the U.S. Army was entitled to delay debriefing bidders until after the award of the successor contract is granted. The U.S. Army was also encouraged to provide us a comprehensive post-award debriefing in accordance with applicable regulations. We are evaluating our options regarding this matter, including the filing of a protest after the award of the successor contract.

Federal procurement directives could result in a loss of work on current programs to set-asides and omnibus contracts.

Our business with the government is subject to the risk that one or more of our potential contracts or contract extensions may be awarded by the contracting agency to a small or disadvantaged or minority-owned business pursuant to set-aside programs administered by the Small Business Administration, or may be bundled into omnibus contracts for very large businesses. These risks can potentially have an adverse effect on our revenue growth and profit margins.

Funding uncertainties for federal programs could adversely affect our ability to continue work on our government contracts.

Government contract business is subject to funding delays, terminations, reductions, extensions, and moratoriums caused by political and administrative disagreements within the government. To date, the effect of such negotiations and disagreements has not been material, but no assurances can be given about such risks with respect to future years.

Global economic conditions and political factors could adversely affect revenues on current programs.

Revenues from our CED Army Equipment Support, CED Assured Mobility Systems Program, BAV Ship Transfer and other programs for which work is performed in foreign countries are subject to political risks posed by the ongoing conflicts in the Middle East and potential terrorist activity. A significant amount of our revenues in recent years has resulted from the U.S. military involvement in Iraq and Afghanistan, and an end to such U.S. military involvement in the future could cause a decrease in our revenues. Similarly, a change in the political landscape in Egypt or other client countries could cause a decrease in our revenues. International tensions can also affect our 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 those times. Adverse results arising from these global economic and political risks could have a material adverse impact on our results of operations.

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We are exposed to contractual and financial liabilities if our subcontractors do not perform satisfactorily.

A large percentage of our contract work is performed by subcontractors, which raises certain government compliance, performance and financial risks. While subcontractor terms generally specify the terms and performance for which the subcontractor is liable to us, if any unsatisfactory performance or compliance failure occurs on the part of subcontractors, we must still bear the cost to remedy these deficiencies on our prime contracts.

Investments in facilities could cause losses if certain work efforts are disrupted or discontinued.

We have made investments in facilities and lease commitments to support specific business programs, work requirements, or service offerings. A slowing or disruption of these business programs, work requirements, or service offerings that results in operating at less than intended levels could cause us to suffer financial losses.

Environmental and pollution risks could potentially impact our financial results.

We are exposed to certain environmental and pollution risks due to the nature of some of the contract work we perform. Costs associated with pollution clean up efforts could potentially have an adverse impact on financial results.

As a Government contractor, we are subject to a number of procurement rules and regulations that could expose us to potential liabilities or loss of work.

We must comply with and are affected by laws and regulations relating to the award, administration and performance of Government contracts. Additionally, we are responsible for subcontractor compliance with these laws and regulations. Government contract laws and regulations affect how we do business with our customers and, in some instances, impose added costs to us. A violation of specific laws and regulations could result in the imposition of fines and penalties or the termination of contracts or debarment from bidding on contracts.

In some instances, these laws and regulations impose terms or rights that are more favorable to the government than those typically available to commercial parties in negotiated transactions. For example, the U.S. Government may terminate any government contract or subcontract at their convenience, as well as for default based on performance. Upon termination for

convenience of a fixed-price type contract, we would normally be entitled to receive the purchase price for delivered items, reimbursement for allowable costs for work-in-process and an allowance for profit on the contract or adjustment for loss if completion of performance would have resulted in a loss. Upon termination for convenience of a cost-type contract, we would normally be entitled to reimbursement of allowable costs plus a portion of the fee. Such allowable costs would include the cost to terminate agreements with suppliers and subcontractors. The amount of the fee recovered, if any, is related to the portion of the work accomplished prior to termination and is determined by negotiation.

A termination for default could expose us to liability and have a material adverse effect on our ability to compete for future contracts and orders. In addition, the Government could terminate a prime contract under which we are a subcontractor, irrespective of the quality of services provided by us as a subcontractor.

Our business could be adversely affected by a negative audit by the Government.

Government agencies, including the Defense Contract Audit Agency and the Department of Labor, routinely audit and investigate government contractors. These agencies review a contractor's performance under its contracts, cost

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structure and compliance with applicable laws, regulations and standards. The Government also may review the adequacy of, and a contractor's compliance with, its internal control systems and policies, including the contractor's purchasing, property, estimating, compensation and management information systems. Any costs found to be improperly allocated to a specific contract will not be reimbursed, while such costs already reimbursed must be refunded. If an audit uncovers improper or illegal activities, we may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines and suspension or prohibition from doing business with the Government. In addition, we could suffer serious harm to our reputation if allegations of impropriety were made.

Our earnings and margins may vary based on the mix of contracts and programs.

Our business includes both cost-type and fixed-price contracts. Cost-type contracts generally have lower profit margins than fixed-price contracts. Typically the use of subcontractors and large material purchases on government contracts does not allow for profit margins that are as high as compared to work performed by our own personnel. The use of subcontractors and large material purchases may lower our overall profit margins in some years.

We use estimates in accounting for our programs. Changes in estimates could affect future financial results.

We use 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 contract disallowance and self insured health claims, and estimated cost to complete on certain fixed-price contracts.

New accounting standards could result in changes to our methods of quantifying and recording accounting transactions, and could affect financial results and financial position.

Changes to Generally Accepted Accounting Principles in the United States ("GAAP") arise from new and revised standards, interpretations and other guidance issued by the Financial Accounting Standards Board, the SEC, and others. The effects of such changes may include prescribing an accounting method where none had been previously specified, prescribing a single acceptable method of accounting from among several acceptable methods that currently exist, or revoking the acceptability of a current method and replacing it with an entirely different method, among others. These changes could result in unanticipated effects on results of operations, financial position and other financial measures.

The nature of our operations and significant increases in revenues in recent years present certain challenges related to work force management.

Our financial performance is heavily dependent on the abilities of our administrative and operating staffs with respect to technical skills, operating performance, pricing, cost management, and administrative and compliance efforts. A wider diversity of contract types, nature of work, work locations, and increased legal and regulatory complexities means that our staff and skill sets are spread much thinner than in years prior to our rapid growth. Failure to attract or retain an adequately skilled workforce, lack of knowledge or training in critical functions, or inadequate staffing levels can lead to lost work, reduced profit margins, and losses from cost overruns or performance deficiencies.

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ITEM 1B. Unresolved Staff Comments

None

ITEM 2. Properties

Our principal executive and administrative offices are located in a five-story building in Alexandria, Virginia, leased by us through April 30, 2013. This building contains approximately 127,000 square feet of engineering, shop, and administrative space. We also provide services and products from approximately 36 leased facilities located near customer sites to facilitate communications and enhance project performance. These facilities are generally occupied under short-term leases and currently include a total of approximately 1.5 million square feet of office and warehouse space. Our employees often provide services at customer facilities, limiting our requirement for additional space. We also provide services from several locations outside of the United States, generally at foreign shipyards or U.S. military installations.

We own and operate two facilities in Ladysmith, Virginia. One of these properties consists of approximately 45 acres of land and multiple storage and vehicle maintenance buildings totaling approximately 57,000 square feet of space. The other property consists of 30 acres of land and buildings totaling approximately 13,500 square feet of space. We use these properties primarily to provide storage, maintenance and refurbishment services for military equipment and to supplement our Alexandria, Virginia, office and shop facilities.

ITEM 3. Legal Proceedings

We have, in the normal course of business, certain claims, including legal proceedings, against us and against other parties. In our opinion, the resolution of these claims will not have a material adverse effect on our results of operations or financial position. However, the results of any legal proceedings cannot be predicted with certainty.

ITEM 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of our stockholders, through the solicitation of proxies or otherwise, during the three-month period ended December 31, 2008.

EXECUTIVE OFFICERS OF THE REGISTRANT

The following table sets forth information concerning VSE's executive officers as of February 20, 2009. Each person named has served as an executive officer of VSE, or has served in a similar executive capacity in VSE, for more than the past five years, except for Messrs. Gauthier, Hollstein, Kiernan, Lexo, Reed, Williams, and Ms. Williams (no family relationship). The executive officers are appointed annually to serve until the first meeting of VSE's Board of Directors (the "Board") following the next annual meeting of stockholders and until their successors are elected and have qualified, or until death, resignation or removal, whichever is sooner.

Name	Age	Position with Registrant
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Thomas G. Dacus	63	Executive Vice President and President, Federal Group
Donald M. Ervine	72	Executive Chairman of the Board of Directors
Maurice A. Gauthier	61	Director, Chief Executive Officer, President and Chief Operating Officer
Michael E. Hamerly	63	Executive Vice President and President, International Group
Randy W. Hollstein	52	Vice President - Marketing
Thomas M. Kiernan	41	Vice President, General Counsel and Assistant Secretary
James M. Knowlton	66	Executive Vice President, International Group
James W. Lexo, Jr.	60	Executive Vice President, Strategic Planning and Business Initiatives and Chief Executive Officer and Vice Chairman of the Board of Directors, ICRC
Thomas R. Loftus	53	Executive Vice President and Chief Financial Officer
James E. Reed	60	President, IT, Energy and Management Consulting Group
Craig S. Weber	64	Executive Vice President and Secretary
Carl E. Williams	56	President, Infrastructure Group
Crystal R. Williams	45	Vice President - Contracts

Mr. Gauthier joined VSE in April 2008 as Chief Executive Officer, President and Chief Operating Officer. He was elected as a VSE director by the Board on February 23, 2009. Mr. Gauthier completed a distinguished military career of over 28 years of service, retiring in 1997 as a Navy Captain and board certified Department of Defense Major Program Manager. Mr. Gauthier worked for VSE from October 1997 through February 1999 as Vice President and Chief Technology Officer, and as Director of Strategic Planning and Business Development, before joining the Nichols Research Corporation Navy Group as its President. With the acquisition of Nichols Research Corporation by Computer Sciences Corporation ("CSC") in 1999, Mr. Gauthier served as Vice President of

CSC's Advanced Marine Center. His most recent assignment with CSC was as Vice President and General Manager of CSC's Navy and Marine Corps Business Unit where he was responsible for the overall leadership and financial performance of a 2,500-person organization providing systems engineering, technical, information technology and telecommunications support to U.S. Navy and Marine Corps customers. Mr. Gauthier earned a Bachelor of Science degree at the U.S.

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Naval Academy in 1969. He received a Master of Science degree in Systems Engineering in 1976 from the U.S. Naval Postgraduate School, Monterey, CA. He is a graduate of the Defense Acquisition University's Defense Systems Management College (1988) and of the Advanced Executive Program (1993) and the International Marketing Program (1994) offered by the Kellogg Graduate School of Management at Northwestern University.

Mr. Hollstein joined VSE in August 2008 as Corporate Vice President of Marketing. Mr. Hollstein has over 30 years of experience as a naval officer and defense industry professional. Mr. Hollstein served in the U.S. Navy as a surface warfare officer before leaving to join industry. He has worked in several leading companies at increasing levels of responsibility in program management, government relations and business development. Before joining VSE, Mr. Hollstein was Senior Director of Business Development for Maersk Line, Limited where he was responsible for all business development activities related to maritime and maritime security opportunities. In prior assignments at other companies, he has been responsible for business development with Navy, Marine Corps, Coast Guard and Army clients and for developing new business with other government agencies including DHS, MDA, NOAA and DFAS. His marketing experience encompasses both products and services. Mr. Hollstein is a 1978 graduate of Babson College in Wellesley, Massachusetts, where he earned a Bachelor of Science degree in Business Management.

Mr. Kiernan joined VSE in November 2008 as Vice President, General Counsel, and Assistant Secretary. Prior to joining VSE, Mr. Kiernan served as Vice President, General Counsel and Secretary for Intelsat General Corporation (2003-2008), a subsidiary of Intelsat, Ltd. serving Government and commercial customers. At Intelsat General Corporation, Mr. Kiernan was responsible for managing legal and regulatory compliance and directing the administration support group, including human resources, security and contracts. Prior to joining Intelsat General Corporation, Mr. Kiernan served as a member of the Intelsat, Ltd., Office of General Counsel (2000-2003) where he was responsible for legal support for satellite and launch programs, as well as for real estate, procurement and intellectual property issues. Prior to joining Intelsat, Mr. Kiernan served as corporate counsel for SRA Life Sciences (1994-2000), a technology consulting services company supporting the U.S. Departments of Defense and Energy, the EPA, and Federal health agencies. Mr. Kiernan is a graduate of Virginia Tech University (B.A., Political Science, 1990) and George Mason University School of Law (J.D., 1994). He is a member of the Virginia State Bar.

Mr. Lexo joined VSE in 2007 as Executive Vice President of Strategic Planning and Business Initiatives, as well as Chief Executive Officer and Vice Chairman of the Board of Directors of VSE's wholly owned subsidiary ICRC. Mr. Lexo has served as Chief Executive Officer of ICRC since 1996.

Mr. Reed joined VSE in 2005 as Chief Operating Officer of VSE's wholly owned subsidiary Energetics, and since April, 2005, he has served as Energetics' President. Mr. Reed was a founder of Energetics in 1979 and served as an officer of Energetics from 1979 to 2001. He provided senior-level consulting services to government and private clients as a sole proprietor during the period 2001 through 2004. Mr. Reed is a Registered Professional Engineer in Maryland. He was appointed President of VSE's IT, Energy and Management Consulting Group in 2008.

Mr. Carl Williams joined VSE in 2007 as President and Chief Operating Officer of ICRC. Mr. Williams completed 23 years of service in the U.S. Navy, retiring as Commander. He joined ICRC as its Executive Vice President of Operations in 2000 and has served as Chief Operating Officer of ICRC since 2003. Mr. Williams was appointed President of VSE's Infrastructure Group in 2008.

Ms. Crystal Williams joined VSE in December 2008 as Corporate Vice President - Contracts. Prior to joining VSE, Ms. Williams was Contracts

Director for the North American Public Sector at CSC. She began her CSC career in 1994. Prior to joining CSC, Ms. Williams provided contract administration services at ICF Kaiser International and at Dynamic Concepts Inc. Ms. Williams

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is a graduate of George Mason University (B.S., Public Administration, 1986) and has earned continuing education credits in contracts and marketing at the American Graduate University and at George Mason University, Continuing Education.

Mr. Knowlton resigned as President, International Group, effective January 5, 2009. He continues to support VSE business development efforts and is planning to retire in mid-2009, completing more than 25 years of service to the Company.

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PART II

ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

(a) Market Information

VSE common stock, par value \$.05 per share, is traded on the Nasdaq Global Select Market, trading symbol, "VSEC," Newspaper listing, "VSE."

The following table sets forth the range of high and low sales price (based on information reported by the Nasdaq Global Select Market) and cash dividend per share information for our common stock for each quarter and annually during the last two years.

Quarter Ended	High	Low	Dividends
---------------	------	-----	-----------

2007:			
March 31	\$46.81	\$33.31	\$.035
June 30	68.00	33.67	.040
September 30	56.77	33.48	.040
December 31	63.00	45.54	.040
For the Year	\$68.00	\$33.31	\$.155

2008:			
March 31	\$49.69	\$22.72	\$.040
June 30	35.46	27.50	.045
September 30	43.00	24.86	.045
December 31	40.32	23.00	.045
For the Year	\$49.69	\$22.72	\$.175

(b) Holders

As of February 6, 2009, VSE common stock, par value \$.05 per share, was held by approximately 322 stockholders of record. The number of stockholders of record is not representative of the number of beneficial holders because many of the shares are held by depositories, brokers or nominees.

(c) Dividends

In 2007 cash dividends were declared quarterly at the annual rate of \$.14 per share through March 31, 2007, and at the annual rate of \$.16 per share commencing June 11, 2007.

In 2008 cash dividends were declared quarterly at the annual rate of \$.16 per share through March 31, 2008, and at the annual rate of \$.18 per share commencing June 3, 2008.

Pursuant to our bank loan agreement (see Note 7 of "Notes to Consolidated Financial Statements"), the payment of cash dividends is subject to annual rate restrictions. We have paid cash dividends each year since 1973.

(d) Equity Compensation Plan Information

Compensation Plans

We have three compensation plans approved by our stockholders under which our equity securities are authorized for issuance to employees and directors: (i) The VSE Corporation 2004 Stock Option Plan, (ii) the VSE Corporation 2004 Non-employee Directors Stock Plan and (iii) the VSE Corporation 2006 Restricted Stock Plan.

In December 2005, the Board directed VSE to discontinue, until and unless the Board determined otherwise, awarding options, both discretionary and nondiscretionary, to purchase VSE's common stock, under VSE's 2004 Stock Option Plan (the "2004 Plan"). The options outstanding under the 2004 Plan and predecessor 1998 Stock Option Plan were not affected by this Board action.

The following table provides information about our equity compensation plans as of December 31, 2008:

Number of Shares
Remaining

Plan Category	Number of Shares to be Issued upon Exercise of Outstanding Options (a)	Available for	
		Weighted Average Exercise Price of Outstanding Options (b)	Future Issuance Under Equity Compensation Plans (excluding shares reflected in column (a))(1)(2) (c)
Equity compensation plans approved by stockholders	41,500	\$12.59	803,314
Equity compensation plan not approved by stockholders	-	-	5,831
Total	41,500	\$12.59	809,145

(1) At December 31, 2008, 575,000, and 228,314 shares of VSE common stock were available under the 2004 Stock Option Plan, the 2004 Non-employee Directors Stock Plan and the 2006 Restricted Stock Plan, respectively.

(2) Includes 5,831 shares of VSE common stock, with subsequent vesting and issuance dates, awarded to Maurice A. Gauthier on April 28, 2008, as an inducement material to Mr. Gauthier entering into an employment agreement with VSE to become VSE's Chief Executive Officer and President. Such issuance of common stock was approved by a majority of VSE's independent directors. Subject to the term of Mr. Gauthier's Employment Agreement not having terminated, the Employment Agreement provides for vesting and issuance dates for the 5,831 shares as follows: 25% of the shares will be vested and issued to Mr. Gauthier on April 28 of 2009 and 2010, and 50% of the shares will be vested and issued to Mr. Gauthier on April 28, 2011.

Performance Graph

Set forth below is a line graph comparing the cumulative total return of VSE common stock with (a) a performance index for the broad market (NASDAQ Global Select Market) in which VSE common stock is traded and (b) a published industry index. VSE common stock is traded on the NASDAQ Global Select Market, and our industry group is engineering and technical services (formerly SIC Code 8711). Accordingly, the performance graph compares the cumulative total return for VSE common stock with (a) an index for the NASDAQ Global Select Market (U.S. companies) ("NASDAQ Index") and (b) a published industry index for SIC Code 8711 ("Industry Index").

[insert graph]

* Total return assumes reinvestment of dividends and assumes \$100 invested on December 31, 2003, in VSE common stock, the NASDAQ Composite, and the Peer Group.

Performance Graph Table

	2003	2004	2005	2006	2007	2008
VSE	100	192	323	262	759	613
NASDAQ Composite	100	110	113	127	138	80
Peer Group	100	114	167	208	429	207

<TABLE>

ITEM 6. Selected Financial Data

(In thousands, except per share data)

<CAPTION>

	Years ended December 31,				
	2008	2007	2006	2005	2004
	----	----	----	----	----
<S>	<C>	<C>	<C>	<C>	<C>
Revenues	\$1,043,735	\$653,164	\$363,734	\$280,139	\$216,011
Net income	\$ 19,040	\$ 14,102	\$ 7,789	\$ 6,169	\$ 3,444
Basic earnings per share	\$ 3.75	\$ 2.85	\$ 1.64	\$ 1.33	\$.77
Diluted earnings per share	\$ 3.74	\$ 2.82	\$ 1.61	\$ 1.29	\$.75
Working capital	\$ 24,179	\$ 24,756	\$ 25,646	\$ 22,028	\$ 15,748
Total assets	\$ 275,966	\$171,771	\$ 98,535	\$ 73,833	\$ 60,352
Stockholders' equity	\$ 76,123	\$ 56,376	\$ 38,236	\$ 30,151	\$ 23,043
Cash dividends per common share	\$ 0.175	\$ 0.155	\$ 0.14	\$ 0.12	\$ 0.10

</TABLE>

This consolidated summary of selected financial data should be read in conjunction with Management's Discussion and Analysis of the Financial Condition and Results of Operations included in Item 7 of this Form 10-K and with the Consolidated Financial Statements and related Notes included in Item 8 in this Form 10-K. The historical results set forth in this Item 6 are not necessarily indicative of the results of operations to be expected in the future.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Executive Overview

Organization

Our business operations consist primarily of diversified program management, logistics, engineering, IT, construction program and consulting services performed on a contract basis. Substantially all of our contracts are with government agencies and other government prime contractors.

Our business operations are managed under groups that consist of one or more divisions or wholly owned VSE subsidiaries that perform our work. Our Federal Group consists of our Communications and Engineering Division ("CED"), Engineering and Logistics Division ("ELD"), Field Support Services Division ("FSS"), Management Sciences Division ("MSD"), and Systems Engineering Division ("SED"). Our International Group consists of our BAV Division ("BAV"), Coast Guard Division ("VCG"), and Fleet Maintenance Division ("FMD"). Our IT, Energy and Management Consulting Group consists of our wholly owned subsidiaries Energetics Incorporated ("Energetics") and G&B Solutions, Inc. ("G&B"). Our Infrastructure Group consists of our wholly owned subsidiary Integrated Concepts and Research Corporation ("ICRC").

Customers and Services

We provide program management, logistics, engineering, IT, construction program, and consulting services to the government, other government prime contractors, and commercial entities. Our largest customer is the U.S. Department of Defense ("DoD"), including agencies of the U.S. Navy, Army and Air Force. We also provide services to various Federal Civil customers.

Revenues by Customer (dollars in thousands)

Customer	2008		2007		2006	
	Revenues	%	Revenues	%	Revenues	%
U.S. Army/Army Reserve	\$ 625,237	9.9	\$344,296	52.7	\$174,473	48.0
U.S. Navy	195,792	18.8	189,534	29.0	164,788	45.3
U.S. Air Force	10,720	1.0	4,628	0.7	4,579	1.2
Total - DoD	831,749	79.7	538,458	82.4	343,840	94.5
Department of Transportation	89,873	8.6	30,977	4.7	-	0.0
Department of U.S. Treasury	57,021	5.5	55,020	8.4	2,392	0.7
Department of Interior	19,156	1.8	1,053	0.2	-	0.0
Department of Energy	12,812	1.2	10,537	1.6	9,420	2.5
Other government	29,748	2.9	11,427	1.8	5,683	1.6
Total - Federal Civil Agencies	208,610	20.0	109,014	16.7	17,495	4.8
Commercial	3,376	0.3	5,692	0.9	2,399	0.7
Total	\$1,043,735	100.0	\$653,164	100.0	\$363,734	100.0

Segments

Our operations are conducted within four reportable segments aligned with our management groups: 1) Federal; 2) International; 3) IT, Energy and Management Consulting; and 4) Infrastructure.

Federal Group - Our Federal Group provides engineering, technical, management and integrated logistics support services to U.S. military branches and other government agencies. The divisions in this group include CED, ELD, FSS, MSD and SED.

CED - CED is dedicated to supporting the Army's Communications and Electronics Command ("CECOM") in the management and execution of the Rapid Response ("R2") Program, which supports clients across DoD and the government. CED manages execution of tasks involving research and development, technology insertion, systems integration and engineering, hardware/software fabrication and installation, testing and evaluation, studies and analysis, technical data management, logistics support, training and acquisition support. A large portion of our current work on this program is related to the U.S. military involvement in Iraq and Afghanistan. The contract supporting the R2 Program is scheduled to expire in January 2011.

CED Army Equipment Support Program - Our CED division has a program on its Rapid Response support contract to provide maintenance and logistics services in support of U.S. Army equipment in Iraq and Afghanistan. Our revenues on this program were approximately \$320 million for the year ended December 31, 2008 and approximately \$219 million for the year ended December 31, 2007. Most of the services on this program are provided by our subcontractor. Profit margins on subcontract work such as this are lower as compared to other programs where work is performed by our own personnel. We provide certain program management services and we are accountable for contract performance and compliance as the prime contractor. Program work on current task orders is scheduled to expire in February 2009.

CED Assured Mobility Systems Program - Our CED division has a program on its Rapid Response support contract to provide technical support services in support of U.S. Army PM Assured Mobility Systems and U.S. Army Tank-automotive and Armaments Command ("TACOM"). Our revenues on this program were approximately \$93 million for the year ended December 31, 2008 and approximately \$28 million for the year ended December 31, 2007. In January 2009, we were awarded a \$389 million follow-on task order on this program for work that will run through January 2011.

RCV Modernization Program - We were awarded a task order on our Rapid Response support contract for a program to provide maintenance work on U.S. Army Route Clearance Vehicles in Kuwait (the "RCV Modernization Program") in September 2008. We expect the initial phase of this program to run for two years under contractual coverage of approximately \$194 million.

ELD - ELD provides full life cycle engineering, logistics, maintenance and refurbishment services to extend and enhance the life of existing equipment. ELD principally supports the U.S. Army, Army Reserve and Army National Guard with core competencies in combat and combat service support system conversions, technical research, sustainment and re-engineering, system integration and configuration management.

FSS - We formed FSS in June 2007 to provide worldwide field maintenance and logistics support services for a wide variety of military vehicles and equipment, including performance of organizational, intermediate and specialized depot-level maintenance. FSS principally supports the U.S. Army and Marine Corps by providing specialized Field Service Representatives and Field Support Teams in areas of combat operations and austere environments.

MSD - MSD provides services for product and process improvement, supporting a variety of Government and commercial clients. MSD provides training, consulting, and implementation support in the areas of: Enterprise Excellence, Lean Six Sigma, process and product optimization, project

management, leadership quality engineering, Integrated Product and Process Development, and reliability engineering. MSD's services range from individual improvement projects to global organizational change programs.

SED - SED provides comprehensive systems and software engineering, logistics, and prototyping services to DoD. Our services offered through SED principally support U.S. Army, Air Force, and Marine Corps combat and combat support systems. SED's core competencies include: systems technical support, configuration management and life cycle support for wheeled and tracked vehicles and ground support equipment; obsolescence management, service life extension, and technology insertion programs; and technical documentation and data packages.

International Group - Our International Group provides engineering, industrial, logistics and foreign military sales services to the U.S. military and other government agencies. The divisions in this Group include BAV, FMD and VCG.

BAV - Through BAV, we provide assistance to the U.S. Navy in executing its Foreign Military Sales ("FMS") Program for surface ships sold, leased or granted to foreign countries by providing program management, engineering, technical support, logistics services for ship reactivations and transfers and follow-on support. Our expertise includes: ship reactivation/transfer, overhaul and maintenance, follow-on technical support, FMS integrated logistics support, engineering and industrial services, training and spare and repair parts support. 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. Changes in the level of activity associated with the Navy's ship transfer program have caused quarterly and annual revenue fluctuations.

FMD - FMD provides global field engineering, logistics, maintenance and information technology services to the U.S. Navy and Air Force, including fleet-wide ship and aircraft support programs. FMD's expertise includes ship repair and modernization, ship systems installations, ordnance engineering and logistics, facility operations, war reserve materials management, aircraft sustainment and maintenance automation and IT systems integration. FMD also provides management, maintenance, storage and disposal support for the U.S. Department of Treasury's seized and forfeited general property program.

Contract Field Teams Program - In July 2008, our FMD division was awarded one of several prime contracts to support the United States Air Force Contract Field Teams ("CFT") Program. The CFT Program awards have a maximum ceiling of approximately \$10.12 billion. Under the program, we are providing rapid deployment and long-term support services for a variety of Air Force requirements to maintain, repair and modernize equipment and systems. While our revenues under the contract cannot be predicted; however, the award provides us with the opportunity to compete for and expand our work performed for the Air Force.

VCG - VCG provides the U.S. Coast Guard with FMS support and life cycle support for vessels transferred to foreign governments. VCG's core competencies include pre-transfer joint vessel inspections, reactivations, crew training, transit assistance, heavy-lift contracting, logistics support, technical support and overseas husbandry.

IT, Energy and Management Consulting Group - Our IT, Energy and Management Consulting Group provides technical and consulting services primarily to various civilian government agencies. This group includes Energetics and, as of April 2008, G&B.

Energetics - Energetics provides technical and management support in areas of nuclear energy, technology research, development, demonstration, and consulting services in the field of energy and environmental management. Energetics' expertise lies in state-of-the-art and advanced technology

assessment, technical and economic feasibility analysis, technology transfer, R&D program planning, engineering studies, market assessment, strategic resource management, regulatory analysis, environmental compliance and risk management. Customers include the U.S. Department of Energy, including the Office of Nuclear Energy, Science and Technology; the U.S. Department of Homeland Security; and other government agencies and commercial clients.

G&B - G&B is an established information technology provider to many government agencies, including the Departments of Homeland Security, Interior, Labor, Agriculture, Housing and Urban Development, the Social Security Administration, the Pension Benefit Guaranty Corporation, and the National Institutes of Health. G&B's core expertise lies in enterprise architecture development, information assurance/business continuity, program and portfolio management, network IT services and systems design and integration. We acquired G&B in April 2008 for an initial cash purchase price of approximately \$19.5 million plus potential additional payments in future years if specified financial targets are achieved. See Note 5 of "Notes to Consolidated Financial Statements" for further discussion of this acquisition.

Infrastructure Group - We formed our Infrastructure Group in the second quarter of 2007, upon acquiring ICRC. We acquired ICRC in June 2007 for an initial cash purchase price of approximately \$11.8 million plus potential additional payments in future years if specified financial targets are achieved. See Note 5 of "Notes to Consolidated Financial Statements" for further discussion of this acquisition. ICRC is engaged principally in providing engineering and transportation infrastructure services.

Port of Anchorage Contract - A significant amount of ICRC's revenues and income comes from services performed for the Port of Anchorage in Alaska (the "POA Project"). This intermodal expansion program to provide infrastructure services to the port will significantly expand the size of the port's facilities and allow for larger ships, more dock space, improved cargo flow, improved traffic flow next to the port, more environmentally friendly port operations and other modernization enhancements. Some of the infrastructure services on this project typically cannot be performed during the winter months. The seasonal nature of this work will cause fluctuations in our revenues on this project, with higher revenue levels in summer months and lower revenue levels in winter months. In July 2008, ICRC was awarded a new unrestricted contract to continue work on this program. The contract has an estimated ceiling amount of \$704 million, a three-year base period of performance, and four one-year option periods.

<TABLE>

Concentration of Revenues
(in thousands)

<CAPTION>

Source of Revenue	2008		2007		2006	
	Revenues	%	Revenues	%	Revenues	%
<S>	<C>	<C>	<C>	<C>	<C>	<C>
CED Army Equipment Support	\$ 319,933	30.7	\$218,615	33.5	\$106,209	29.2
CED Assured Mobility Systems	92,669	8.9	27,547	4.2	-	-

CED Other	174,442	16.7	47,482	7.3	22,449	6.2
Total CED	587,044	56.3	293,644	45.0	128,658	35.4
POA Project	89,720	8.6	30,674	4.7	-	-
BAV Egypt	49,926	4.8	51,295	7.9	51,446	14.1
BAV Taiwan	12,842	1.2	6,348	1.0	45,729	12.6
BAV Greece	999	0.1	11,312	1.7	5	-
BAV India	55	0.0	38,337	5.9	971	0.3
BAV Other	17,909	1.7	6,432	1.0	8,673	2.4
Total BAV	81,731	7.8	113,724	17.5	106,824	29.4
Treasury Seized Asset Program	55,580	5.3	53,690	8.2	1,345	0.4
Other	229,660	22.0	161,432	24.6	126,907	34.8
Total Revenues	\$1,043,735	100.0	\$653,164	100.0	\$363,734	100.0

</TABLE>

Management Outlook

The growth in our revenues and profits during 2008 and 2007 presents us with both challenges and opportunities. Our work in the DoD market increased significantly in 2008 and several efforts within that market remain strong. Our ELD division has expanded its workforce, facilities, capacity to provide services, contractual coverage and funding since its inception, resulting in increases in revenues from these services in 2008 and 2007. Our investment in facilities and personnel to support this work leaves us well positioned to serve DoD's growing need for our equipment refurbishment and sustainment services. We expect further increases in this division's work going forward. Based on congressional approval of certain ship transfers, we expect our BAV division to show increases in ship transfer revenues in 2009 and potentially future years. Our CED Assured Mobility Systems Program is expected to continue to contribute significant revenues through its scheduled expiration in January 2011.

In addition to the growth in some of our current DoD programs, we expect recent new awards to contribute to our revenues and profits going forward. The award of the RCV Maintenance Program gives us a major new source of work over the next two years and a key presence in Kuwait that presents us with the potential for additional work there after. The award of the CFT Program contract gives us the opportunity to increase our services performed for the Air Force.

We also have three other multiyear, multiple award, indefinite delivery, indefinite quantity ("omnibus") contracts that have large nominal ceiling amounts with no funding committed at the time of award. These are the SeaPort Enhanced contract with the U.S. Navy, the Field and Installation Readiness Support Team ("FIRST") Contract with the U.S. Army, and the U.S. Army PEO CS & CSS Omnibus III contract. We are one of several awardees on each contract. While our future revenues from these contracts cannot be predicted with certainty, these contracts provide us with the opportunity to compete for work that could contribute to revenues.

The expansion of current work in our ELD and BAV divisions and the new work arising from the RCV Maintenance and CFT Programs help us to replace certain work efforts that have supported our growth in recent years and have expired or are due to expire. In November 2008, we successfully completed a four-year, \$96 million program to provide a protection system, the Tanker Ballistic Protection System ("TBPS"), for vehicles deployed by the U.S. Army in Iraq. The CED Army Equipment Support Program will expire in February 2009, as scheduled.

Additionally, the U.S. Army informed us in January 2009 that they would not consider our proposal for a new contract to succeed our current R2 Program contract. We protested this decision. In February 2009, we were informed that our protest was dismissed by the Department of the Army, Office of Command

Counsel, based on the protest being premature. The notice of dismissal states the U.S. Army was entitled to delay debriefing us and the other excluded bidders until after the award of the successor contract is granted. The Command Counsel decision also encouraged the U.S. Army to provide us a comprehensive post-award debriefing in accordance with applicable regulations. We are evaluating our options regarding this matter, including the filing of a protest after the award of the successor contract.

Our challenge over the next two years, should we be unsuccessful in our efforts in challenging our exclusion from this award, will be to replace the R2 Program revenues with other new revenues or to move the work performed through the R2 contract to one of our other contracts. Our other omnibus contracts can be used to accommodate work performed by our employees and subcontractors. A large majority of our revenues on our R2 contract is "pass-through" work performed by subcontractors. Pass-through work included the work on the CED Army Equipment Support Program and the CED Assured Mobility Systems Program. Pass-through revenues generally have lower profit margins than work performed by our own personnel. We expect to continue our work on existing task orders on our current R2 contract through the scheduled contract expiration in January 2011.

We are augmenting our core base of DoD work by emphasizing growth in our non-DoD services. These efforts have included: 1) a renewed emphasis on marketing our Energetics services that has shown favorable results in 2008, 2) work on the Treasury Seized Property Management program, and 3) the acquisitions of ICRC in 2007 and G&B in 2008. We expect these efforts that are directed toward the growth of our work in the Federal Civil marketplace to contribute to overall future revenues growth and financial performance.

We also know there are other risks and uncertainties related to our business. We recognize that 2009 is a government transition year and government spending priorities may change in ways that we cannot predict at this time.

To summarize our outlook, we believe our business prospects are both bright and challenging. The momentum in revenues growth over the last two years and our current backlog is expected to sustain us in 2009. We are confident that the above-mentioned expansion of work in certain service offerings and the newly awarded work in the DoD market; our growing level of work in the Federal Civil marketplace; our increased emphasis on bolstering our marketing efforts in both our DoD and Federal Civil markets; and our continued commitment to grow through acquisitions positions us well to meet the challenge of replacing expiring work beyond 2009 and other risks and uncertainties related to our business.

Bookings and Funded Backlog

Revenues in government contracting businesses are dependent upon contract funding ("Bookings") and funded contract backlog is an indicator of potential future revenues. A summary of our bookings and revenues for the years ended December 31, 2008, 2007 and 2006, and funded contract backlog as of December 31, 2008, 2007 and 2006 is as follows.

	(in millions)		
	2008	2007	2006
	----	----	----
Bookings	\$1,189	\$736	\$388
Revenues	\$1,044	\$653	\$364
Funded Backlog	\$567	\$408	\$299

We have decided that employees should have an opportunity to diversify their 401(k) accounts in the VSE Employee ESOP/401(k) Plan (the "Plan") beginning with our 2008 Plan year. In January 2008, employees were notified that they may elect to transfer any portion of their 401(k) accounts that is invested in VSE common stock into another investment alternative under the Plan. This right extends to all of VSE common stock held under the 401(k) portion of the Plan. In addition, we have decided to terminate and liquidate the ESOP portion of the VSE Corporation Employee ESOP/401(k) Plan, and as elected by the employees, either distribute VSE common stock held in the ESOP accounts to the employees or rollover such VSE common stock into an Individual Retirement Account or employee plan selected by the employee. ESOP VSE common stock was distributed to employees in the third quarter of 2008.

Recent Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141(R), "Business Combinations; a replacement of FASB Statement No. 141," which became effective January 1, 2009. The new standard will replace existing guidance and significantly change accounting and reporting relative to business combinations in consolidated financial statements, including requirements to recognize acquisition-related transaction and post acquisition restructuring costs in results of operations as incurred. SFAS No. 141(R) will be effective for businesses acquired after the effective date.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," which became effective January 1, 2008 for all financial assets and liabilities. SFAS No. 157 defines fair value, establishes a market-based framework or hierarchy for measuring fair value and expands disclosures about fair value measurements. The new standard generally is applicable whenever another accounting pronouncement requires or permits assets and liabilities to be measured at fair value. On February 12, 2008, the FASB issued FASB Staff Position No. 157-2, "Effective Date of FASB Statement No. 157," to delay the effective date of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (that is, at least annually). For items within its scope, the FSP defers the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The adoption of SFAS No. 157 did not have a material impact on our results of operations, financial position or cash flows.

Critical Accounting Policies

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States, which require us to make estimates and assumptions. We believe the following critical accounting policies affect the more significant accounts, particularly those that involve

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judgments, estimates and assumptions used in the preparation of our consolidated financial statements.

Revenue Recognition

Substantially all of our services are performed for our customers on a contract basis. The three primary types of contracts used are time and materials, cost-type, and fixed-price. Revenues result from work performed on these contracts by our employees and our subcontractors and from costs for materials and other work related costs allowed under our contracts.

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 direct costs and indirect cost burdens associated with materials and subcontract work used in performance on the contract. Generally, 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 cost-type contracts are recorded as contract allowable costs are incurred and fees earned. Our BAV contract and our POA Project contract

are cost plus award fee contracts. Both of these contracts have terms that specify award fee payments that are determined by performance and level of contract activity. Award fees are made during the year a contract modification authorizing the award fee payment is issued subsequent to the period in which the work is performed. We do not recognize award fee income until the fees are certain, generally upon contract notification confirming the award fee. Due to such timing, and to fluctuations in the level of revenues, profits as a percentage of revenues on these contracts will fluctuate from period to period.

Our contract with the Department of Treasury to support the Treasury Seized Property Management Program, is a cost plus incentive fee contract that contains certain conditions under which the incentive fee is earned. The amount of incentive fee earned depends on our costs incurred on the contract compared to certain target cost levels specified in the contract. Per the contract, an assessment of actual costs compared to target costs is made once annually. The target cost levels in this contract may be subject to negotiation and change if the customer's scope of work required varies from the scope of work originally contained in the contract. We recognize incentive fee when the amount is fixed or determinable and the collectability is reasonably assured. Due to the conditions under which the incentive fee for this contract is awarded, and to the potential for changes in the cost targets as work requirements vary, the full amount of incentive fee for the work we perform in any one period may not be fixed or determinable and the collectability may not be reasonably assured until a subsequent period. We are currently in discussions with our customer regarding potential target cost adjustments for the years 2007 and 2008. A favorable resolution from these discussions could potentially result in additional incentive fee income for us in a future period for work performed in 2007 and 2008.

Revenue recognition methods on fixed-price contracts will vary depending on the nature of the work and the contract terms. On certain fixed-price contracts revenues are recorded as costs are incurred, using the percentage-of-completion method of accounting, typically ratably over the service period, since these contracts require design, engineering, and development performed to the customer's specifications. Revenues on fixed-price service contracts are recorded as work is performed, typically ratably over the service period. Revenues on fixed-price contracts that require delivery of specific items may be 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 revenues earned.

Revenues by contract type for the three years ended December 31, 2008 were as follows (in thousands):

Contract Type	2008		2007		2006	
	Revenues	%	Revenues	%	Revenues	%
Time and materials	\$ 759,693	72.8	\$ 388,564	59.5	\$ 172,766	47.5
Cost-type	247,857	23.7	220,782	33.8	147,733	40.6
Fixed-price	36,185	3.5	43,818	6.7	43,235	11.9
	<u>\$ 1,043,735</u>	<u>100.0</u>	<u>\$ 653,164</u>	<u>100.0</u>	<u>\$ 363,734</u>	<u>100.0</u>

The increases in time and materials revenues in 2008 and 2007 shown in the table above is primarily attributable to revenues from the CED Army Equipment Support Program and the CED Assured Mobility Systems Program as well as other CED task orders. Substantially all of the revenues on these programs result from the pass through of subcontractor support services that have a low profit margin for us.

We will occasionally perform work at risk, which is work performed prior to the government formalizing funding for such work. Revenues related to work performed at risk is not recognized until it can be reliably estimated and its realization is probable. We recognize this "risk funding" as revenues when the associated costs are incurred or the work is performed. We are at risk of loss

for any risk funding not received. We provide for anticipated losses on contracts by a charge to income during the period in which losses are first identified. Revenues recognized in 2008 include approximately \$1.03 million for which we had not received formalized funding as of December 31, 2008. We received funding modifications for approximately \$380 thousand of this amount as of March 2009, leaving approximately \$650 thousand of 2008 revenues classified as risk funding. We believe that we are entitled to reimbursement and will receive funding for the remaining risk funding revenue.

Long-Lived Assets

In assessing the recoverability of long-lived assets, we 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, we may be required to record impairment charges for these assets not previously recorded.

Goodwill and Intangible Assets

Goodwill and intangible assets with indefinite lives are subject to a review for impairment at least annually. We perform our annual impairment test as of September 30. The annual impairment assessment requires us to estimate the fair value of our reporting units. This estimation process involves the use of subjective assumptions. As of December 31, 2008, we had approximately \$1.1 million of goodwill associated with our acquisition of Energetics in 1995, approximately \$5.7 million of goodwill and intangible assets with indefinite lives associated with our acquisition of ICRC in 2007, and approximately \$11.5 million of goodwill and intangible assets with indefinite lives associated with our acquisition of G&B in 2008. We have not recognized any reduction to the goodwill or intangibles in accordance with generally accepted accounting principles.

Recoverability of Deferred Tax Assets

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

Results of Operations

Company or Business Unit	Revenues from Operations (dollars in thousands)					
	Years ended December 31, 2008		2007		2006	
	Revenues	%	Revenues	%	Revenues	%

Federal Group						
CED	\$ 587,044	56.2	\$293,644	45.0	\$128,658	35.4
SED	26,520	2.5	36,854	5.6	42,016	11.5
ELD	43,954	4.2	26,158	4.0	16,771	4.6
FSS	7,999	0.8	1,335	0.2	-	-
MSD	1,890	0.2	2,700	0.4	3,511	1.0

Group Total	667,407	63.9	360,691	55.2	190,956	52.5
International Group						
BAV	81,731	7.8	113,724	17.4	106,824	29.4
FMD	137,655	13.2	112,805	17.3	50,480	13.9
VCG	635	0.1	1,472	0.2	1,148	0.3

Group Total	220,021	21.1	228,001	34.9	158,452	43.6
IT, Energy and Management Consulting Group						

Energetics	19,161	1.8	14,522	2.2	14,269	3.9
G&B	30,664	3.0	-	-	-	-
Other	102	-	-	-	-	-
	-----		-----		-----	
Group Total	49,927	4.8	14,522	2.2	14,269	3.9
Infrastructure Group						
ICRC	106,380	10.2	49,918	7.7	-	-
Other	-	0.0	32	0.0	57	0.0
	-----		-----		-----	
	\$1,043,735	100.0	\$653,164	100.0	\$363,734	100.0
	=====		=====		=====	

Our revenues increased by approximately 60% and 80% for the years ended December 31, 2008 and 2007, as compared to the respective prior years. The primary reason for the increases in revenues for 2008 and 2007 was additional work associated with our CED R2 Program, including increased work on the CED Army Equipment Support Program and the CED Assured Mobility Systems Program. Additional significant reasons for the increase in our revenues in 2008 are:

1) ICRC is included in our financial results for the full year in 2008 compared to a shorter period in 2007 as a result of the June 2007 acquisition; 2) the inclusion of revenues of G&B from the April 14, 2008 date of acquisition through year end; and 3) increases in FMD, ELD, FSS and Energetics services.

Additional significant reasons for the increase in our revenues in 2007 are: 1) revenues from the start of FMD's Treasury Seized Property Management Program and increases in other FMD services; 2) revenues from newly acquired ICRC; 3) revenues associated with BAV's ship transfer to India; and 4) an increase in ELD equipment refurbishment services.

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Consolidated Statements of Income
(dollars in thousands)
Years ended December 31,

Description	2008	%	2007	%	2006	%
	-----		-----		-----	
Revenues	\$1,043,735	100.0	\$653,164	100.0	\$363,734	100.0
Contract costs	1,011,408	96.9	629,951	96.5	350,978	96.5
Gross profit	32,327	3.1	23,213	3.5	12,756	3.5
Selling, general and administrative expenses	1,193	0.1	905	0.1	694	0.2
Interest income, net	(115)	0.0	(699)	(0.1)	(427)	(0.1)
	-----		-----		-----	
Income before income taxes	31,249	3.0	23,007	3.5	12,489	3.4
Provision for income taxes	12,209	1.2	8,905	1.4	4,700	1.3
	-----		-----		-----	
Net income	\$ 19,040	1.8	\$ 14,102	2.1	\$ 7,789	2.1
	=====		=====		=====	

Our gross profits as a percentage of revenues have remained relatively stable during the three year period from 2006 through 2008.

Our gross profit dollars increased in 2008 as compared to 2007. The increases are primarily due to: 1) profits from the growth of revenues on the CED Army Equipment Support program and other CED task orders; 2) the inclusion of ICRC and FSS in our operating results for the full year in 2008 as compared to only a partial year in 2007 and G&B beginning in April 2008; and 3) revenues increases from Energetics services.

Our gross profit dollars increased in 2007 as compared to 2006. The increase was primarily due to: 1) the inclusion of ICRC in our operating results; 2) the increase in revenues on the CED Army Equipment Support program and on other CED R2 Program task orders; 3) revenues and margin increases on ELD's equipment refurbishment services; 4) increased profitability of SED services performed; 5) increased BAV fee income; and 6) profits associated with an increase in FMD revenues.

Selling, general and administrative expenses consist primarily of costs

and expenses that are not chargeable or reimbursable on our operating unit contracts. As a percentage of revenues, these expenses varied little in 2008 and 2007 as compared to the respective prior years. The increase in these expenses in 2008 and 2007 is due in part to the inclusion of ICRC's and G&B's selling, general and administrative expenses in our results.

We did not have significant borrowing requirements or interest expense in 2008, 2007 or 2006. Our net interest income decreased in 2008 as compared to 2007 due to cash requirements associated with our acquisition of G&B and the growth of other parts of our business. Our net interest income increased in 2007 as compared to 2006 as profits from operations and resulting cash surpluses were invested.

Provision for Income Taxes

Our effective tax rates were 39.1% for 2008, 38.7% for 2007, and 37.6% for 2006. The taxable income for 2007 reached a level that resulted in income taxed at a 35% federal tax rate as compared to the prior years tax rate of 34%, resulting in an increased effective rate for 2008 and 2007 as compared to 2006.

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Federal Group Results

The following table shows consolidated operating results for our Federal Group (in thousands).

	2008	%	2007	%	2006	%
	----	-	----	-	----	-
Revenues	\$667,407	100.0	\$360,691	100.0	\$190,956	100.0
Contract costs	649,149	97.3	348,795	96.7	185,077	96.9
Gross profit	18,258	2.7	11,896	3.3	\$5,879	3.1
Selling, general and administrative expenses	43	0.0	73	0.0	24	0.0
Interest (income) expense	(379)	(0.1)	(252)	0.0	423	0.2
Income before income taxes	\$ 18,594	2.8	\$ 12,075	3.3	\$ 5,432	2.9

Revenues for our Federal Group increased by approximately 85% and 89% for the years ended December 31, 2008 and 2007, as compared to the respective prior years. A substantial portion of the increases in revenues for 2008 and 2007 was attributable to revenues associated with work on R2 Program task orders, including work on the CED Army Equipment Support Program and the CED U.S. Army PM Assured Mobility Systems Program and work performed by FSS in 2008. Increased revenues from ELD's equipment refurbishment services also contributed to the revenues increases in this segment in 2008 and 2007.

Gross profits for our Federal Group increased by approximately 53% and 102% for the years ended December 31, 2008 and 2007, as compared to the respective prior years. Profits on the increased revenues from the work on the CED Army Equipment Support Program, the CED U.S. Army PM Assured Mobility Systems Program, and other R2 Program task orders were the primary reason for the increased gross profit dollars in this segment. Substantially all of the work on these task orders is performed by subcontractors. Accordingly, gross profit as a percentage of revenues on this work is lower than on other work performed. Increased profitability of SED services performed on the TBPS Program contributed to the increase in gross profits of this segment in 2008 and 2007 and profits from the inclusion of FSS services in our operating results contributed to the increase in gross profits of this segment in 2008. These increases in profits were partially offset by a decline in ELD profits resulting from losses on work performed during the establishment of a new location in 2008. These losses are expected to be eliminated as the work performed at this new location becomes more fully developed.

Selling, general and administrative expenses consist primarily of costs and expenses that are not chargeable or reimbursable on our Federal Group's

contracts. As a percentage of revenues, these expenses varied little in 2008 and 2007 as compared to the respective prior years and have not been significant in relation to revenues levels.

The Federal Group realized interest income from cash invested in 2008 and 2007. During these years, we benefited from efficient cash flow cycles on certain CED task order work. This group incurred net interest expense in 2006 to finance the investment in SED's TBPS Program and the start up of ELD.

International Group Results

The following table shows consolidated operating results for our International Group (in thousands).

	2008	%	2007	%	2006	%
	----	-	----	-	----	-
Revenues	\$220,021	100.0	\$228,001	100.0	\$158,452	100.0
Contract costs	214,146	97.3	220,623	96.8	153,130	96.6
Gross profit	5,875	2.7	7,378	3.2	5,322	3.4
Selling, general and administrative expenses	46	0.0	67	0.0	93	0.1
Interest expense (income)	110	0.1	(124)	(0.1)	(258)	(0.2)
Income before income taxes	\$ 5,719	2.6	\$ 7,435	3.3	\$ 5,487	3.5

Revenues for our International Group decreased by approximately 3% for the year ended December 31, 2008 and increased by approximately 44% for the year ended December 31, 2007, as compared to the respective prior years. Our BAV division had approximately \$36.8 million of 2007 revenues from a ship transfer to India that was completed in 2007, and there was no similar ship transfer in 2008. This resulted in lower BAV revenues and was the primary reason for the decrease in revenues for our International Group in 2008. The increase in 2007 revenues was primarily due to revenues provided by the start of FMD's Treasury Seized Property Management Program and to revenues associated with BAV's ship transfer to India.

Gross Profits for our International Group decreased by approximately 20% for the year ended December 31, 2008 and increased by approximately 39% for the year ended December 31, 2007, as compared to the respective prior years. The decrease in 2008 resulted primarily from the reduction in fees earned by BAV due to the lower BAV revenues. The increase in 2007 was primarily due to increased BAV fee income and profits from higher revenues in FMD.

Selling, general and administrative expenses consist primarily of costs and expenses that are not chargeable or reimbursable on the International Group's contracts. As a percentage of revenues, these expenses varied little in 2008 and 2007 as compared to the respective prior years and have not been significant in relation to revenues.

Our International Group had net interest expense in 2008 and net interest income decreased for this segment in 2007 as compared to the prior year due to an investment in the start up of FMD's Treasury Seized Asset Program and a slower collections cycle on this job.

IT, Energy and Management Consulting Group Results

The following table shows consolidated operating results for our IT,

Energy and Management Consulting Group (in thousands).

	2008	%	2007	%	2006	%
Revenues	\$49,927	100.0	\$14,522	100.0	\$14,269	100.0
Contract costs	44,999	90.1	13,139	90.5	12,665	88.8
Gross profit	4,928	9.9	1,383	9.5	1,604	11.2
Selling, general and administrative expenses	375	0.8	41	0.3	27	0.2
Interest income, net	(198)	(0.4)	(272)	(1.9)	(218)	(1.5)
Income before income taxes	\$ 4,751	9.5	\$ 1,614	11.1	\$ 1,795	12.5

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Upon our acquisition of G&B in April 2008, G&B became part of this segment. The inclusion of G&B revenues and profits in this segment has resulted in significant increases to the segment's revenues and profits in 2008. Comparisons of 2008 results to prior years are not meaningful.

Revenues for our IT, Energy and Management Consulting Group increased by approximately 244% and 2% for the years ended December 31, 2008 and 2007, as compared to the respective prior years. The increases in revenues for both years was a result of our increased emphasis on marketing efforts and to new work performed for the U.S. Department of Homeland Security and U.S. Department of Energy and the inclusion of G&B revenues in 2008.

Gross profits for our IT, Energy and Management Consulting Group increased by approximately 256% for the year ended December 31, 2008 and decreased by approximately 14% for the year ended December 31, 2007, as compared to the respective prior years. The increase in 2008 was primarily due to the increased revenues. The decrease in 2007 was primarily due to job costs incurred on certain contract task orders in excess of authorized ceilings.

Selling, general and administrative expenses consist primarily of costs and expenses that are not chargeable or reimbursable on our contracts. The increase in these costs for this segment in 2008 is due to the inclusion of G&B's results in this segment. Except for the inclusion of G&B's selling, general and administrative expenses, these expenses varied little as a percentage of revenues in 2008 and 2007 as compared to the respective prior years and have not been significant in relation to revenue levels.

Interest income for our IT, Energy and Management Consulting Group decreased slightly in 2008 and increased slightly in 2007 as compared to the respective prior years due to typical fluctuations in earnings and the billing and collections cycle.

Infrastructure Group

The following table shows consolidated operating results for the Infrastructure and Information Technology Group (in thousands).

	2008	%	2007	%
Revenues	\$106,380	100.0	\$49,918	100.0
Contract costs	102,131	96.0	46,844	93.8
Gross profit	4,249	4.0	3,074	6.2
Selling, general and administrative expenses	154	0.1	310	0.6
Interest income, net	(72)	0.0	(44)	0.0
Income before income taxes	\$ 4,167	3.9	\$ 2,808	5.6

This segment was formed upon our acquisition of ICRC in June 2007. The table shows our results for the period of June through December of 2007 and for a full year of 2008. Comparisons of 2008 results to 2007 results are not meaningful, beyond the additional six months of operations included in 2008.

Our financial condition did not change materially during 2008. Our acquisition of G&B resulted in changes to some of our assets and liabilities, including increases in tangible assets and liabilities, bank borrowings, goodwill, and intangible assets. Other changes to asset and liability accounts were due primarily to our earnings, the increase in our level of business activity, contract delivery schedules, subcontractor and vendor payments

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required to perform our work, and the timing of associated billings to and collections from our customers.

Liquidity and Capital Resources

Cash Flows

Cash and cash equivalents increased by approximately \$529 thousand during 2008.

Cash provided by our operating activities in 2008 increased by approximately \$14.7 million in 2008 as compared to 2007. Approximately \$4.9 million of this increase was due to the increase in net income and approximately \$4.4 million was due to an increase in deferred taxes, depreciation and amortization and other non-cash operating activities. The remaining amount of the increase in cash provided by operating activities was due to changes in the levels of working capital components such as receivables, contract inventories, accounts payable, and accrued expenses that are associated with our contract requirements and billing and collections cycle.

Cash used in our investing activities in 2008 increased by approximately \$8.3 million as compared to 2007. This was due to the higher cost of acquiring G&B in 2008 compared to the cost acquiring of ICRC in 2007, additional payments associated with the cost of acquiring ICRC made in 2008, and to an increased level of investment in property and equipment.

Cash provided by our financing activities in 2008 increased by a net amount of approximately \$2.8 million as compared to 2007. This resulted from an increase of approximately \$6.6 million in net bank borrowings and a decrease of approximately \$3.6 in cash provided by activity associated with our stock incentive plans.

Our cash and cash equivalents decreased by approximately \$8.6 million during 2007.

Cash provided by our operating activities in 2007 increased by approximately \$6.6 million in 2007 as compared to 2006. Approximately \$6.3 million of this increase was due to the increase in net income and approximately \$1.6 million was due to an increase in depreciation and amortization and other non-cash operating activities. The difference between these increases and the net increase in cash provided by operating activities was due to changes in the levels of working capital components such as receivables, contract inventories, accounts payable, and accrued expenses that are associated with our contract requirements and billing and collections cycle.

Cash used in our investing activities in 2007 increased by approximately \$14.9 million as compared to 2006. This was due to costs associated with the acquisition of ICRC and to an increased level of investment in property and equipment.

Cash provided by our financing activities in 2007 increased by approximately \$3.6 million as compared to 2006. This was primarily due to cash provided by activity associated with our stock incentive plans.

We paid quarterly cash dividends totaling \$.17 per share during 2008. Pursuant to our bank loan agreement, our payment of cash dividends is subject to annual rate restrictions. We have paid cash dividends each year since 1973.

Liquidity

Our internal sources of liquidity come mostly from operating activities, specifically from changes in the level of revenues and associated receivables and accounts payable, and from profitability. Significant increases or decreases in revenue and receivables and accounts payable can cause

significant increases or decreases in internal liquidity. Our receivables and accounts payable levels can be affected by changes in the level of the work we perform and by the timing of large material purchases and subcontractor efforts related to our contracts.

From time to time, we may also invest in the acquisition of another company. Our acquisitions of ICRC in 2007 and G&B in 2008 required a significant use of our cash. While there are no firm plans for any specific additional acquisitions at this time, we continue to seek opportunities for growth through acquisition.

We may also invest in expansion, improvement, and maintenance of our operational and administrative facilities. We recently invested in the construction of an additional 40,000 square feet of warehouse and shop space at our Ladysmith, Virginia facility. Construction of this additional space was completed in the second quarter of 2008 at a final cost of approximately \$6.2 million. We may make additional investments in operational or administrative facilities in future years.

Our external liquidity consists of a loan agreement with a bank that provides us with revolving loans and letters of credit. The amount of credit available to us as of December 31, 2008 was \$35 million (an increase from \$25 million pursuant to an amendment dated May 21, 2008) and the maturity date of the loan agreement is May 10, 2010, unless extended. From time to time we may request changes in the amount, maturity date, or other terms and the bank may amend the loan to accommodate our request. The amount of credit available to us under the loan agreement is subject to certain conditions, including a borrowing formula based on our billed receivables. Under the terms of the loan agreement, we may borrow against the revolving loan at any time and can repay the borrowings at any time without premium or penalty. There are collateral requirements that secure our assets, restrictive covenants, a limit on annual dividends, and other affirmative and negative covenants. We pay a commitment fee, interest on any revolving loan borrowings at a prime-based rate or an optional LIBOR-based rate, and fees on any letters of credit that are issued. For additional information, see Note 7 of "Notes to Consolidated Financial Statements."

Our bank continues to maintain good financial strength ratings from the ratings services and we believe that we are well positioned to obtain financing from other banks if the need should arise. Accordingly, we do not believe that the current turbulence in the financial markets will have a material adverse negative impact on our ability to finance our business, financial condition, or results of operations. We currently do not use public debt security financing.

Contractual Obligations

The following table shows our consolidated contractual obligations as of December 31, 2008 (in thousands):

	Payments Due by Period				
	Less than Total	1-3 1 year	4-5 years	After 5 years	years
Contractual Obligations					
Operating leases, net of non-cancelable sublease income	\$39,417	\$8,898	\$14,912	\$10,063	\$5,544
Purchase obligations	1,065	1,065	-	-	-
Total	\$40,482	\$9,963	\$14,912	\$10,063	\$5,544

Operating lease commitments are primarily for our principal executive and administrative offices and leased facilities for office, shop, and

warehouse space located near customer sites or to serve customer needs. We

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also have some equipment and software leases that are included in these amounts.

Purchase obligations consist primarily of contractual commitments associated with construction, improvements and maintenance on our facilities. The table excludes contractual commitments for materials or subcontractor work purchased to perform U.S. Government contracts. Such commitments for materials and subcontractors are reimbursable when used on the contracts, and generally are also reimbursable if a contract is "terminated for convenience" by the Government pursuant to federal contracting regulations.

Inflation and Pricing

Most of our contracts provide for estimates of future labor costs to be escalated for any option periods, while the non-labor costs in our contracts are normally considered reimbursable at cost. Our property and equipment consists principally of computer systems equipment, furniture and fixtures, shop equipment, and land and improvements. We do not expect the overall impact of inflation on replacement costs of our property and equipment to be material to our future results of operations or financial condition.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risks

Interest Rates

Our bank loan provides available borrowing to us at variable interest rates. We used a significant amount of cash to pay for our acquisitions of ICRC in 2007 and G&B in 2008, causing us to have to borrow on our bank loan beginning in April 2008. The amount borrowed is not significant with respect to our cash flows and we believe that we will be able to pay down these bank loan borrowings in a relatively short time frame. Because of this, we do not believe that any adverse movement in interest rates would have a material impact on future earnings or cash flows. If we were to significantly increase our borrowings, future interest rate changes could potentially have a material impact on our financial position and results of operations.

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	Consolidated Statements of Stockholders' Equity
	for the years ended December 31, 2008, 2007, and 2006 . . 40
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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of VSE Corporation

We have audited the accompanying consolidated balance sheets of VSE Corporation and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting

principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of VSE Corporation and subsidiaries at December 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), VSE Corporation's internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 2, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

McLean, VA
March 2, 2009

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<TABLE>

VSE Corporation and Subsidiaries
Consolidated Balance Sheets

(in thousands, except share and per share amounts)

<CAPTION>

	As of December 31,	
	2008	2007
	----	----
<S>	<C>	<C>
Assets		
Current assets:		
Cash and cash equivalents	\$ 638	\$ 109
Receivables, principally		
U.S. Government, net	206,717	132,389
Deferred tax assets	2,297	1,246
Other current assets	10,945	2,755
	-----	-----
Total current assets	220,597	136,499
Property and equipment, net	21,484	14,920
Deferred tax assets	-	1,888
Intangible assets	11,176	8,034
Goodwill	17,439	5,228
Other assets	5,270	5,202
	-----	-----
Total assets	\$275,966	\$171,771
	=====	=====
Liabilities and Stockholders' Equity		
Current liabilities:		
Bank notes payable	\$ 6,676	\$ 81
Accounts payable	158,015	88,565
Accrued expenses	31,498	22,895
Dividends payable	229	202
	-----	-----
Total current liabilities	196,418	111,743
Deferred compensation	2,059	3,257
Deferred income taxes	404	-
Other liabilities	962	395
	-----	-----
Total liabilities	199,843	115,395
	-----	-----
Commitments and contingencies		
Stockholders' equity:		
Common stock, par value \$0.05 per share, authorized 15,000,000 shares; issued and outstanding 5,098,542		

and 5,052,512, respectively	255	253
Additional paid-in capital	13,557	11,963
Retained earnings	62,311	44,160
	-----	-----
Total stockholders' equity	76,123	56,376
	-----	-----
Total liabilities and stockholders' equity	\$275,966	\$171,771
	=====	=====

</TABLE>

The accompanying notes are an integral part of these balance sheets

<TABLE>

VSE Corporation and Subsidiaries
Consolidated Statements of Income

(in thousands, except share and per share amounts)

<CAPTION>

	For the years ended December 31,		
	2008	2007	2006
	----	----	----
<S>	<S>	<S>	<S>
Revenues	\$1,043,735	\$ 653,164	\$ 363,734
Contract costs	1,011,408	629,951	350,978
	-----	-----	-----
Gross profit	32,327	23,213	12,756
Selling, general and administrative expenses	1,193	905	694
Interest income, net	(115)	(699)	(427)
	-----	-----	-----
Income before income taxes	31,249	23,007	12,489
Provision for income taxes	12,209	8,905	4,700
	-----	-----	-----
Net income	\$ 19,040	\$ 14,102	\$ 7,789
	=====	=====	=====
Basic earnings per share:	\$ 3.75	\$ 2.85	\$ 1.64
	=====	=====	=====
Basic weighted average shares outstanding	5,072,131	4,953,289	4,737,450
	=====	=====	=====
Diluted earnings per share:	\$ 3.74	\$ 2.82	\$ 1.61
	=====	=====	=====
Diluted weighted average shares outstanding	5,096,186	5,003,675	4,848,884
	=====	=====	=====

</TABLE>

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

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<TABLE>

VSE Corporation and Subsidiaries
Consolidated Statements of Stockholders' Equity

(in thousands except per share data)

<CAPTION>

	Common Shares	Additional Stock Amount	Deferred Paid-In Capital	Deferred Stock-based Compensation	Total Retained Earnings	Stockholders' Equity
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at December 31, 2005	4,720	\$ 236	\$ 6,230	\$ (1)	\$ 23,686	\$30,151
Net income for the year . .	-	-	-	-	7,789	7,789
Stock-based compensation . .	4	-	308	-	-	308
Exercised stock options . .	62	4	253	-	-	257
Excess tax benefits from share-based payment arrangements	-	-	312	-	-	312
Deferred stock-based compensation	-	-	-	1	-	1
Issuance of stock	2	-	60	-	-	60
Dividends declared (\$0.14).	-	-	-	-	(642)	(642)
Balance at December 31, 2006	4,788	240	7,163	-	30,833	38,236
Net income for the year . .	-	-	-	-	14,102	14,102
Stock-based compensation . .	5	-	551	-	-	551
Exercised stock options . .	260	13	2,004	-	-	2,017
Excess tax benefits from share-based payment arrangements	-	-	2,245	-	-	2,245
Dividends declared (\$0.155)	-	-	-	-	(775)	(775)
Balance at December 31, 2007	5,053	253	11,963	-	44,160	56,376
Net income for the year . .	-	-	-	-	19,040	19,040
Stock-based compensation (1)	14	1	955	-	-	956
Exercised stock options . .	32	1	324	-	-	325
Excess tax benefits from share-based payment						

arrangements.	-	-	315	-	-	315
Dividends declared (\$0.175)	-	-	-	-	(889)	(889)

Balance at						
December 31, 2008	5,099	\$ 255	\$13,557	\$ -	\$ 62,311	\$76,123

(1) The stock-based compensation amount of \$956 thousand for 2008 is based on the compensation expense included in Contract costs of \$1,062 thousand, reduced by the tax withholding associated with the 2007 awards issued in March, 2008.

</TABLE>

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

<TABLE>

VSE Corporation and Subsidiaries
Consolidated Statements of Cash Flows

(in thousands)

<CAPTION>

For the years ended December 31,
2008 2007 2006

<S>

<C> <C> <C>

Cash flows from operating activities:

Net income	\$19,040	\$14,102	\$ 7,789
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	5,437	3,463	1,882
Loss on sale of property and equipment	10	-	9
Deferred taxes	1,241	(805)	(614)
Stock-based compensation	956	551	308
Changes in operating assets and liabilities, net of impact of acquisitions:			
Receivables, net	(66,928)	(59,141)	(22,804)
Contract inventories	-	4,459	(186)
Other current assets and noncurrent assets	(8,361)	(1,254)	(1,310)
Accounts payable and deferred compensation.	65,513	41,812	15,144
Accrued expenses	5,596	4,826	1,308
Other liabilities	421	235	105
Net cash provided by operating activities	22,925	8,248	1,631

Cash flows from investing activities:

Purchases of property and equipment	(10,016)	(8,731)	(5,618)
Acquisitions, net of cash acquired	(18,753)	(11,755)	-
Net cash used in investing activities	(28,769)	(20,486)	(5,618)

Cash flows from financing activities:			
Borrowings on loan arrangement	245,864	9,589	-
Repayments on loan arrangement	(239,269)	(9,508)	-
Dividends paid	(862)	(741)	(615)
Excess tax benefits from share-based payment arrangements	315	2,245	312
Proceeds from the exercise of options of common stock	325	2,017	258
Proceeds from issuance of common stock	-	-	60

Net cash provided by financing activities	6,373	3,602	15

Net increase (decrease) in cash and cash equivalents	529	(8,636)	(3,972)
Cash and cash equivalents at beginning of year	109	8,745	12,717

Cash and cash equivalents at end of year	\$ 638	\$ 109	\$ 8,745
	=====		

Supplemental cash flow disclosures (in thousands):

	2008	2007	2006
	----	----	----
Cash paid during the year for:			
Interest	\$ 214	\$ 6	\$ -
Income taxes	\$10,919	\$ 7,139	\$ 4,472

</TABLE>

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

VSE Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2008

(1) Nature of Business and Significant Accounting Policies

Nature of Business

The term "VSE," the "Company," "us," "we," or "our" means VSE and its subsidiaries and divisions unless the context indicates operations on the parent company only.

Our business operations consist primarily of diversified engineering, logistics, management, and technical services performed on a contract basis. Substantially all of our contracts are with agencies of the United States Government (the "Government") and other federal government prime contractors. Our customers also include non-government organizations and commercial entities.

Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements consist of the operations of our parent company, our unincorporated divisions and wholly owned subsidiaries. Our unincorporated divisions include BAV Division ("BAV"), Communications and

Engineering Division ("CED"), Coast Guard Division ("VCG") Engineering and Logistics Division ("ELD"), Field Support Services Division ("FSS"), Fleet Maintenance Division ("FMD"), Management Sciences Division ("MSD"), and Systems Engineering Division ("SED"). Energetics Incorporated ("Energetics"), Integrated Concepts and Research Corporation ("ICRC"), acquired in June 2007, and G&B Solutions, Inc. ("G&B"), acquired in April 2008, are our active subsidiaries. All intercompany transactions have been eliminated in consolidation.

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 us 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 accruals for contract disallowance reserves, self insured health claims, and estimated cost-to-complete on certain fixed-price contracts.

Reclassifications

Certain amounts from the prior year have been reclassified to conform to the current year presentation. Such reclassifications were not material.

Stock-based Compensation

Effective January 1, 2006, we adopted Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment," ("SFAS No. 123R") using the modified prospective method. Under this method, compensation costs for all awards granted after the date of adoption and the unvested portion of previously granted awards outstanding at the date of adoption are measured at estimated fair value. The compensation expense is amortized on a straight-line basis over the requisite service period of the grant and included in operating expenses over the vesting period during which an employee provides service in exchange for the award. See Note 9 for further discussion of our stock-based benefit plans and related activity.

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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.

	Years Ended December 31,		
	2008	2007	2006
	----	----	----
Basic weighted average common shares outstanding . .	5,072,131	4,953,289	4,737,450
Effect of dilutive options . .	24,055	50,386	111,434
	-----	-----	-----
Diluted weighted average common shares outstanding . .	5,096,186	5,003,675	4,848,884
	=====	=====	=====

Cash and Cash Equivalents

We consider all highly liquid investments with an original maturity of three months or less to be cash equivalents. Due to the short maturity of these instruments, the carrying values on our consolidated balance sheets approximate fair value.

Property and Equipment

Property and equipment is stated at cost. Depreciation of computer systems equipment is provided principally by the double-declining method over periods of three to five years. Depreciation of furniture and fixtures is provided principally by the straight-line method over approximately nine years. Depreciation of other equipment is provided principally by the double-declining method over periods of three to ten years. Depreciation of buildings and land improvements is provided principally by the straight-line method over periods of approximately twenty to thirty years. Amortization of leasehold improvements is provided by the straight-line method over the lesser of their useful life or the remaining term of the lease.

Concentration of Credit Risk/Fair Value of Financial Instruments

Financial instruments that potentially subject us to concentration of credit risk consist primarily of cash, cash equivalents and trade receivables. Contracts with the Government either as a prime or subcontractor, accounted for approximately 99% of revenues for each of the years ending December 31, 2008, 2007, and 2006. We believe that concentrations of credit risk with respect to trade receivables are limited as they are primarily government receivables. We believe that the fair market value of all financial instruments, including assets of the deferred compensation plan and debt, approximate book value.

Revenues

Substantially all of our revenues result from contract services performed for the Government or for contractors engaged in work for the Government under a variety of contracts. Revenues are considered earned when persuasive evidence of an arrangement exists, services have been rendered, the price is fixed or determinable and collectibility is reasonably assured.

Revenues on cost-type contracts are recorded as contract allowable costs are incurred and fees earned. Award fee payments on certain cost plus award fee contracts are determined by performance and level of contract activity. We

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do not recognize award fee income until the fees are fixed or determinable, generally upon contract notification confirming the award fee.

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 direct costs and indirect cost burdens associated with materials and subcontract work 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 vary depending on the nature of the work and the contract terms. On certain fixed-price contracts revenues are recorded as costs are incurred, using the percentage-of-completion method of accounting, since these contracts require design, engineering, and development performed to the customer's specifications. Revenues on fixed-price service contracts are recorded as work is performed. Revenues on fixed-price contracts that require delivery of specific items may be 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.

For design and development contracts, we provide for anticipated losses on contracts, based on total revenue compared to total contract costs, by a charge to income during the period in which losses are first identified. Contract costs include direct and indirect costs, including general and administrative costs, which are considered costs and expenses of contracts.

Revenue related to work performed on contracts at risk, which is work performed at the customer's request prior to the government formalizing funding, is not recognized as income until it can be reliably estimated and its realization is probable.

A substantial portion of contract and administrative costs is subject to audit by the Defense Contract Audit Agency. Our indirect cost rates have been

audited and approved for 2005 and prior years and partially audited for 2006 with no material adjustments to our results of operations or financial position. While we maintain reserves to cover the risk of potential future audit adjustments based primarily on the results of prior audits, there can be no assurances that the audits of the indirect cost rates for 2008, 2007 and 2006 will not result in material adjustments to our results of operations or financial position.

Receivables and Allowance for Doubtful Accounts

Receivables are recorded at face value less an allowance for doubtful accounts. We review our receivables regularly to determine if there are any potential uncollectible accounts. The majority of our receivables are from agencies of the Government, where there is minimal credit risk. We record allowances for bad debt as a reduction to receivables and an increase to bad debt expense. We assess the adequacy of these reserves by considering general factors, such as the length of the time individual receivables are past due and historical collection experience. There are no reserves for doubtful accounts as of December 31, 2008.

Deferred Compensation Plans

We have a deferred compensation plan, the VSE Corporation Deferred Supplemental Compensation Plan, to provide incentive and reward for our management team based on overall corporate performance. Deferred compensation plan expense for the years ended December 31, 2008, 2007, and 2006 was approximately \$1.4 million, \$1.1 million, and \$769 thousand, respectively.

Included in other assets are assets of the deferred compensation plans which include debt and equity securities recorded at fair value. The fair value of the deferred compensation plan assets was approximately \$3.3 million and \$3.2 million as of December 31, 2008, and 2007, respectively. Because plan

participants are at risk for market value changes in these assets, the liability to plan participants fluctuates with the asset values.

Impairment of Long-Lived Assets

Long-lived assets include property and equipment to be held and used. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount should be addressed pursuant to Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." The criteria for determining impairment for such long-lived assets to be held and used are determined by comparing the carrying value of these long-lived assets to our best estimate of future undiscounted cash flows expected to result from the use of the assets. No impairment charges were recorded in the years ended December 31, 2008, 2007, and 2006.

Income Taxes

Income taxes are accounted for under the asset and liability method in accordance with FASB Statement No. 109, "Accounting for Income Taxes." Under the asset and liability method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. This method also requires the recognition of future tax benefits such as net operating loss carryforwards, to the extent that realization of such benefits is more likely than not. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The carrying value of net deferred tax assets is based on assumptions regarding our ability to generate sufficient future taxable income to utilize these deferred tax assets. As of December 31, 2008 and 2007, we had valuation allowances of approximately \$75 thousand and \$0, respectively, against certain deferred tax assets, which consisted solely of realized capital losses on investments in our deferred supplemental compensation plan. The valuation

allowance is based on limited unrealized capital gains within the portfolio and the uncertainty of future gains due to the current stock market.

We adopted the provisions of FIN 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109," ("FIN 48"), on January 1, 2007. FIN 48 clarifies and sets forth consistent rules for accounting for uncertain income tax positions in accordance with FAS 109. As a result of applying the provisions of FIN 48, there was no cumulative effect on retained earnings upon adoption. In addition, there were no adjustments recorded during 2008 and 2007 after the initial adoption of FIN 48.

Goodwill and Intangibles

We apply SFAS No. 141, "Business Combinations" ("SFAS No. 141") when accounting for acquisitions and No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142") when evaluating non-amortizable intangible assets for impairment. Under these rules, goodwill and other non-amortizable intangible assets is not amortized but is subject to annual impairment tests in accordance with SFAS No. 142. Annually, we perform a fair value analysis of goodwill and other non-amortizable intangible assets using valuation techniques prescribed in SFAS No. 142. Based on the analysis performed as of September 30, 2008, we determined that there had been no impairment of goodwill and other non-amortizable intangibles.

Intangible assets consist of the value of contract related intangible assets and trade names acquired in the ICRC and G&B acquisitions (see Notes 5 and 7). The contract related intangible assets are amortized on a straight line basis over their estimated useful lives of approximately 5 to 8 years

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with a weighted average life of approximately 6.2 years as of December 31, 2008.

Recently Issued Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141(R), "Business Combinations; a replacement of FASB Statement No. 141," which became effective January 1, 2009. The new standard will replace existing guidance and significantly change accounting and reporting relative to business combinations in consolidated financial statements, including requirements to recognize acquisition-related transaction and post acquisition restructuring costs in results of operations as incurred. SFAS No. 141(R) will be effective for businesses acquired after the effective date.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115," which also became effective January 1, 2008. We elected not to adopt the fair value option included in SFAS No. 159.

On January 1, 2008, we adopted SFAS No. 157, Fair Value Measurements," which defines fair value, establishes a market-based hierarchy for measuring fair value and expands disclosures about fair value measurements. SFAS 157 is applicable whenever another accounting pronouncement requires or permits assets and liabilities to be measured at fair value, but does not require any new fair value measurements. The SFAS No. 157 requirements for certain non-financial assets and liabilities have been deferred until the first quarter of 2009 in accordance with Financial Accounting Standards Board Staff Position ("FSP") 157-2. The adoption of SFAS No. 157 did not have a material impact on our results of operations, financial position or cash flows. See Note 15 for disclosures regarding SFAS No. 157.

(2) Receivables

The components of receivables as of December 31, 2008 and 2007, were as follows (in thousands):

	2008	2007
Billed	\$ 70,044	\$ 45,045
Unbilled:		
Government retainage	76	179

Subcontract retainage	3,372	4,000
Other (principally December work billed in January)	133,225	83,176
Less-allowance for doubtful accounts	-	(11)
	-----	-----
Total receivables, net	\$206,717	\$132,389
	=====	=====

Unbilled subcontract retainage includes amounts withheld from payments to subcontractors.

The "Unbilled: Other" includes certain costs for work performed at risk but which we believe will be funded by the government. Amounts not currently funded included in "Unbilled: Other" were approximately \$1.0 million and \$357 thousand as of December 31, 2008, and 2007, respectively.

Allowance for doubtful accounts is determined based on our best estimate of potentially uncollectible receivables. We write off receivables when such amounts are determined to be uncollectible.

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<TABLE>

The following table summarizes activity in the allowance for doubtful accounts (in thousands):

<CAPTION>

Allowance for Doubtful Accounts	Balance at Beginning	Additions Charged to Costs and of Period	Balance at End of Period	Deductions(1)	Expenses
	<C>	<C>	<C>	<C>	<C>
Year ended December 31, 2008	\$11	\$11	\$-	\$-	
Year ended December 31, 2007	\$14	\$3	\$-	\$11	
Year ended December 31, 2006	\$56	\$42	\$-	\$14	

(1) Write-offs and settlements

</TABLE>

(3) Other Current Assets and Other Assets

Other current assets primarily consisted of vendor advances, prepaid rents and deposits, equipment and software licenses and maintenance agreements. The increase of approximately \$8 million at December 31, 2008 as compared to December 31, 2007 is primarily attributable to a vendor advance required of approximately \$5.1 million for the startup efforts on our newly awarded RCV Modernization Program in Kuwait.

Other assets consisted of the following as of December 31, 2008 and 2007 (in thousands):

	2008	2007
	----	----
Cash surrender value of life insurance policies . .	\$ 1,594	\$ 1,566
Deferred compensation plan assets	3,311	3,212
Other	365	424
	-----	-----
Total other assets	\$ 5,270	\$ 5,202
	=====	=====

(4) Property and Equipment

Property and equipment consisted of the following as of December 31, 2008 and 2007 (in thousands):

2008	2007
------	------

Computer systems equipment	\$ 9,553	\$ 8,077
Furniture, fixtures, equipment and other	10,459	5,845
Leasehold improvements	4,699	3,541
Buildings and building improvements.	6,564	7,170
Land and land improvements	3,085	1,805
	-----	-----
	34,360	26,438
Less accumulated depreciation and amortization . . .	(12,876)	(11,518)
	-----	-----
Total property and equipment, net	\$21,484	\$14,920
	=====	=====

Depreciation and amortization expense for property and equipment was approximately \$3.6 million for 2008, \$2.6 million for 2007 and \$1.8 million for 2006.

(5) Acquisitions

G&B Solutions, Inc.

On April 14, 2008, we acquired all of the capital stock of G&B based in Reston, Virginia. G&B is a diversified information technology and management consulting provider to Government agencies, including the Departments of Homeland Security, Interior, Labor, Agriculture, Housing and Urban Development, the Pension Benefit Guaranty Corporation, and the National Institutes of Health. G&B's core expertise lies in enterprise architecture development, information assurance/business continuity, program and portfolio

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management, network IT services and systems design and integration. G&B provides us an opportunity to expand our professional services across a wider range of Government customers.

Cash paid at closing was approximately \$19.5 million, which includes approximately \$650 thousand of prepaid retention bonuses that are being expensed in the post-acquisition period as the affected employees provide services, less approximately \$600 thousand for certain closing adjustments. We also incurred approximately \$200 thousand of direct acquisition costs consisting of legal, accounting and other fees. Under the terms of the acquisition, we will be required to make additional payments of up to \$4.2 million over a three-year post closing period if G&B achieves certain financial performance targets. The first earn-out payment period is from April 14, 2008 to March 31, 2009. The subsequent earn-out payment periods will be from April 1, 2009 to March 31, 2010 and April 1, 2011 to March 31, 2011. If earned and paid, such additional purchase price consideration will be recorded as additional goodwill. The results of G&B's operations are included in the accompanying consolidated financial statements beginning as of April 14, 2008.

Of the initial purchase price, approximately \$3.8 million was recorded as customer related intangible assets to be amortized over approximately five years. In addition, \$930 thousand was allocated to G&B's trade name, which has an indefinite life, and approximately \$9.8 million was allocated to goodwill.

In July 2008, we filed an election under the Internal Revenue Code Section 338(h)(10) to treat the G&B acquisition as a sale of assets for tax purposes. We made a payment to the seller for the seller's incremental tax liability as a result of the election. Tax advantages to us that arise from filing the Section 338(h)(10) election are expected to exceed the additional payment made to the seller of approximately \$368 thousand. We also paid approximately \$196 thousand of state income tax liabilities to various states related to the Section 338(h)(10) election due to G&B's former Subchapter S status. The additional payments were made during the third quarter of 2008 and were recorded as additional goodwill.

We followed the guidance of SFAS No. 141 "Business Combinations" and recognized the fair value of assets acquired and liabilities assumed as follows (in thousands):

Description	Fair Value
-----	-----
Current assets	\$ 8,835
Property and equipment	173
Intangibles - customer related	3,820
Intangibles - trade name	930
Goodwill	10,587

Total assets acquired	24,345
Liabilities assumed	(5,182)

Total purchase price	\$19,163
	=====

The total purchase price includes additional purchase price consideration related to the forfeited retention bonus of approximately \$146 thousand that became payable to the seller and the Section 338(h)(10) election and related state tax liabilities of approximately \$564 thousand, as described above.

Integrated Concepts and Research Corporation

On June 4, 2007, we acquired all of the capital stock of ICRC of Alexandria, Virginia. ICRC's core expertise lies in information technology, advance vehicle technology, aerospace, engineering and transportation infrastructure.

We believe that the addition of ICRC will provide us with an opportunity to expand and diversify its business across a number of project areas, including smart vehicles, alternative fuels, large-scale port engineering development and security, and information technology services.

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The purchase price for the acquisition of ICRC included an initial cash payment of approximately \$11.8 million and potential additional cash payments of up to approximately \$5.8 million, contingent on meeting certain financial targets during the first six years after the June 2007 acquisition. Additionally, we have filed an election under the Internal Revenue Code Section 338(h)(10) to treat the ICRC acquisition as a sale of assets for tax purposes. An additional \$1.6 million payment was made by us to the seller for the seller's incremental tax liability as a result of the election. Tax advantages to us that arise from filing the Section 338(h)(10) election are expected to exceed the additional \$1.6 million payment made to the seller. The additional payment was made in April 2008 and recorded as goodwill.

Of the initial \$11.8 million purchase price, approximately \$7.1 million was recorded as contract related intangible assets to be amortized on a straight line basis over six to eight years; approximately \$1.5 million was recorded as an intangible asset related to ICRC's trade name, which has an indefinite life; and approximately \$2 million was recorded as initial goodwill. Additional goodwill and accrued expenses of approximately \$557 thousand were recorded as of December 31, 2007 for the earn-out payment that was made to the seller as a result of the achievement of the specified earnings target in 2007. Additional goodwill and accrued expenses of approximately \$1.6 million were recorded as of December 31, 2008 for the earn-out payment that will be made to the seller as a result of achievement of the specified earnings target in 2008.

We followed the guidance of SFAS No. 141 to record the acquisition of ICRC. We recognized the fair value of assets acquired and liabilities assumed as follows (in thousands):

Description	Fair Value
-----	-----
Current assets	\$ 6,544
Property and equipment	429
Other assets	27
Intangibles - contract	7,134
Intangibles - trade name	1,500
Goodwill	5,798

Total assets acquired	21,432

Liabilities assumed	(5,880)

Total purchase price	\$15,552
	=====

The total purchase price includes additional purchase price consideration related to the 2007 earn-out of approximately \$557 thousand, the 2008 earn-out of approximately \$1.6 million and the Section 338(h)(10) election of approximately \$1.6 million, as described above.

(6) Goodwill and Intangible Assets

Changes in goodwill for the years ended December 31, 2008 and 2007 are as follows (in thousands):

	IT, Energy and Management Consulting Infrastructure Total		
	-----	-----	-----
Balance as of December 31, 2006	\$ 1,054	\$ -	\$ 1,054
Goodwill acquired during the year	-	4,174	4,174
	-----	-----	-----
Balance as of December 31, 2007	1,054	4,174	5,228
Goodwill acquired during the year	10,587	-	10,587
Contingent consideration earned	-	1,624	1,624
	-----	-----	-----
Balance as of December 31, 2008	\$11,641	\$5,798	\$17,439
	=====	=====	=====

Intangible assets consist of the value of contract-related intangible assets and trade names acquired in the ICRC and G&B acquisitions (see Note 5). Intangible assets not subject to amortization consist of trade names of approximately \$2.4 million and approximately \$1.5 million as of December 31,

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2008 and 2007, respectively. We amortized approximately \$1.6 million and \$600 thousand of intangible assets in 2008 and 2007, respectively.

Amortizable intangible assets were comprised of the following (in thousands):

	Gross Carrying Value	Net Accumulated Amortization	Net Carrying Value
	-----	-----	-----
Contract-related intangible assets as of December 31, 2008	\$10,954	\$2,208	\$8,746
	=====	=====	=====
Contract-related intangible assets as of December 31, 2007	\$ 7,134	\$ 600	\$6,534
	=====	=====	=====

Future expected amortization expense of the contract related intangible asset is as follows (in thousands):

	Amortization Expense

2009	\$1,840
2010	1,840
2011	1,840
2012	1,840
2013	708
Thereafter	678

Total	\$8,746
	=====

(7) Bank Notes Payable

We have a loan agreement with a bank under which credit is made available to us in the form of revolving loans or letters of credit. The

amount of credit available to us under the loan is subject to certain conditions, including a borrowing formula based on our billed receivables. From time to time we may request changes in the amount, maturity date, or other terms and the bank may amend the loan to accommodate our request. The amount of credit available to us as of December 31, 2008 was \$35 million and the maturity date of the loan agreement is May 10, 2010. The loan agreement has collateral requirements that secure our assets, restrictive covenants, a limit on annual dividends, and other affirmative and negative covenants. As of December 31, 2008 we have not been notified by the bank, nor are we aware, of any defaults under the loan agreement.

Under the terms of the loan agreement, we may borrow against the revolving loan at any time and can repay the borrowings at any time without premium or penalty. We pay a commitment fee, interest on any revolving loan borrowings at a prime-based rate or an optional LIBOR-based rate, and fees on any letters of credit that are issued. As of December 31, 2008 and December 31, 2007, revolving loan amounts outstanding were approximately \$6.7 million and \$81 thousand, respectively. Interest expense incurred on revolving loan borrowings was approximately \$216 thousand for 2008 and approximately \$6 thousand for 2007. There was one letter of credit for approximately \$1.35 million as of December 31, 2008. We had no letters of credit outstanding as of December 31, 2007.

(8) Accrued Expenses

Accrued expenses consisted primarily of accrued compensation and benefits of approximately \$21 million and \$15 million as of December 31, 2008 and 2007, respectively. The accrued compensation and benefits amounts include bonus, salaries and related payroll taxes, vacation and deferred compensation.

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(9) Stock-Based Compensation Plans

(a) Restricted Stock Plan

On January 2, 2006, our stockholders approved the VSE Corporation 2006 Restricted Stock Plan (the "2006 Plan") for its directors, officers and other employees. Under the provisions of the 2006 Plan, we are authorized to issue 250,000 shares of our common stock. The Compensation Committee is responsible for the administration of the 2006 Plan. The Compensation Committee shall determine each recipient of an award under the 2006 Plan, the number of restricted shares of common stock subject to such award and the period of continued employment required for the vesting of such award. These terms will be included in award agreements between us and the recipients of the award. As of December 31, 2008, 228,314 restricted shares were available for grant under this plan.

On April 22, 2008, we awarded 5,831 shares of restricted VSE common stock to an executive. The fair value of this award was \$34.30 per share at the time of the award. Vesting in the stock will occur as follows: 25% of the shares on April 28, 2009, 25% of the shares on April 29, 2010 and 50% of the shares on April 29, 2011. Compensation expense related to this award was approximately \$44 thousand for the year ended December 31, 2008.

On April 22, 2008, we awarded 4,374 shares of restricted VSE common stock to our Executive Chairman under the 2006 Restricted Stock Plan on the occasion of his resignation as our CEO, President and Chief Operating Officer. The fair value of this award was \$34.30 per share. The shares issued vested immediately and cannot be sold, transferred, pledged or assigned before the second anniversary of the grant date. Compensation expense related to this award was approximately \$150 thousand for the year ended December 31, 2008.

On January 2, 2008, we awarded 3,500 shares of restricted VSE common stock to our non-employee Directors under the 2006 Restricted Stock Plan. The weighted-average grant-date fair value of these restricted stock grants was \$47.92 per share. The shares issued vested immediately and cannot be sold, transferred, pledged or assigned before the second anniversary of the grant date. Compensation expense related to these grants was approximately \$168 thousand for the year ended December 31, 2008.

On January 2, 2007 and August 15, 2007 we awarded 4,800 shares and 300

shares, respectively, of restricted VSE common stock to our non-employee Directors under the 2006 Restricted Stock Plan. The weighted-average grant-date fair value of these restricted stock grants was \$16.84 per share and \$36.91 per share, respectively. The shares issued vested immediately and cannot be sold, transferred, pledged or assigned before the second anniversary of the grant date. Compensation expense related to these grants was approximately \$92 thousand for the year ended December 31, 2007.

On January 3, 2008 (the "2008 Awards") and January 2, 2007 (the "2007 Awards"), we notified certain employees that they are eligible to receive awards under the 2006 Restricted Stock Plan based on financial performance for the calendar years 2008 and 2007, respectively. Vesting of each award will occur one-third on the date of award and one-third on each of the next two anniversaries of such date of award. The date of award determination is expected to be in March 2009 for the 2008 Awards and the date of award determination for the 2007 Awards was March 3, 2008. On each vesting date, 100% of the vested award will be paid in VSE common stock. The number of shares issued will be based on the fair market value of our common stock on the vesting date. The earned amount will be expensed ratably over the vesting period of approximately three years.

We have recognized approximately \$700 thousand and approximately \$278 thousand in expense related to the awards described above for the years ended December 31, 2008 and 2007, respectively. At December 31, 2008, there was approximately \$1.2 million of unrecognized compensation costs related to these restricted stock awards which we expect to recognize over the next 26 months.

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(b) Stock Option Plans

On December 30, 2005, our Board of Directors (the "Board") directed us to discontinue, until and unless the Board determined otherwise, awarding options, both discretionary and nondiscretionary under our 1998 Stock Option Plan (the "1998 Plan") and our 2004 Stock Option Plan approved by our stockholders on May 3, 2005 (the "2004 Plan"). All options outstanding as of December 30, 2005 were not affected by this Board action.

As of December 31, 2008, options issued under the 2004 Plan for up to 41,500 shares of VSE common stock remain outstanding. Each option granted under the 2004 Plan was issued at the fair market value of the VSE common stock on the date of grant. Each option vests 25% upon issuance and 25% on each anniversary date thereafter, becoming 100% vested as of the third anniversary date of the award. The 2004 Plan will terminate on the earliest of May 1, 2014, or the date on which all options issued under the 2004 Plan have been exercised, expire, or have been terminated.

As of December 31, 2008, no options issued remain outstanding under the 1998 Plan. The 1998 Plan terminated on May 6, 2008.

Information with respect to the number of shares under stock options is as follows:

	Shares	Weighted Average Exercise Price	
	-----	-----	
Outstanding at January 1, 2008	73,500	\$11.53	
Granted	-	-	
Exercised	(32,000)	10.17	
Forfeited	-	-	
Terminations	-	-	
	-----	-----	
Outstanding at December 31, 2008	41,500	\$12.59	
	=====	=====	
Exercisable at end of year	41,500	\$12.59	
	=====	=====	

The total intrinsic value of options exercised during 2008, 2007 and 2006 was approximately \$819 thousand, \$5.8 million and \$827 thousand, respectively. The aggregate intrinsic value of options outstanding and exercisable as of December 31, 2008 was approximately \$1.1 million. The total

fair value of shares vested during the years ended December 31, 2008, 2007 and 2006 was approximately \$0, \$1.7 million and \$1.1 million, respectively. At December 31, 2008, there was no unrecognized compensation cost related to nonvested stock options.

The exercise price for the 41,500 options outstanding at December 31, 2008 is \$12.59 with a contractual life of one year.

(c) Stock-Based Compensation Expense

Stock-based compensation, which includes compensation recognized on stock option grants and restricted stock awards was included in the following line items on the accompanying statements of income for the years ended December 31, 2008, 2007 and 2006 (in thousands):

	2008	2007	2006
	----	----	----
Contract costs	\$1,062	\$370	\$ 56
Selling, general and administrative expenses	-	181	252
	-----	-----	-----
Total pre-tax stock-based compensation included in income before income taxes	1,062	551	308
Income tax benefit recognized for stock-based compensation	(408)	(212)	(116)
	-----	-----	-----
Total stock-based compensation expense, net of tax	\$ 654	\$339	\$192
	=====	=====	=====

(10) Income Taxes

We are subject to U.S. federal income tax as well as income tax in multiple state and local jurisdictions. We have substantially concluded all U.S. federal income tax matters as well as material state and local tax matters for years through 2004.

In the accompanying Consolidated Statements of Income, we classify interest expense related to unrecognized tax benefits as "Interest income, net" and any penalties in "Selling, general and administrative expenses." No interest or penalty expense related to unrecognized tax benefits was recognized for the year ended December 31, 2008. As of December 31, 2008 or 2007, no interest or penalties related to unrecognized tax benefits were accrued.

We file consolidated federal income tax returns with all of our subsidiaries. The components of the provision for income taxes for the years ended December 31, 2008, 2007, and 2006 are as follows (in thousands):

	2008	2007	2006
	----	----	----
Current			
Federal	\$ 9,061	\$8,326	\$4,521
State	1,907	1,384	793
	-----	-----	-----
	10,968	9,710	5,314
Deferred			
Federal	1,284	(702)	(546)
State	(43)	(103)	(68)
	-----	-----	-----
	1,241	(805)	(614)
	-----	-----	-----
Provision for income taxes	\$12,209	\$8,905	\$4,700
	=====	=====	=====

The differences between the amount of tax computed at the federal statutory rate of 35% for 2008 and 2007 and 34% for 2006, and the provision for income taxes for 2008, 2007, and 2006 are as follows (in thousands):

2008	2007	2006
----	----	----

Tax at statutory federal income			
tax rate	\$10,937	\$8,053	\$4,246
Increases (decreases) in tax resulting from:			
State taxes, net of federal tax benefit	1,211	833	479
Permanent differences, net	61	19	15
Other, net	-	-	(40)
	-----	-----	-----
Provision for income taxes	\$12,209	\$8,905	\$4,700
	=====	=====	=====

Our deferred tax assets (liabilities) as of December 31, 2008 and 2007, which represent the tax effects of temporary differences between tax and financial accounting bases of assets and liabilities and are measured using presently enacted tax rates, are as follows (in thousands):

	2008	2007	
	----	----	
Current deferred tax assets	\$2,891	\$1,494	
Current deferred tax liabilities	(519)	(248)	
Valuation allowance	(75)	-	
	-----	-----	
Net current deferred tax assets	2,297	1,246	
	-----	-----	
Noncurrent deferred tax assets	2,123	2,704	
Noncurrent deferred tax liabilities	(2,527)	(816)	
	-----	-----	
Net noncurrent deferred tax (liabilities) assets	(404)	1,888	
	-----	-----	
Net deferred tax assets	\$1,893	\$3,134	
	=====	=====	

As of December 31, 2008 and 2007, we had valuation allowances of approximately \$75 thousand and \$0, respectively, against certain deferred tax assets, which consisted solely of realized capital losses on investments in our deferred supplemental compensation plan. The valuation allowance is based on limited unrealized capital gains within the portfolio and the uncertainty of the future gains due to the current stock market.

We will continue to evaluate our valuation allowance position on a regular basis. To the extent that we determine that all or a portion of our valuation allowance is no longer necessary, we will recognize an income tax benefit in the period such determination is made for the reversal of the valuation allowance. It is expected that any such reduction of our valuation allowance would have an immaterial impact on our results from operations.

The tax effect of temporary differences representing deferred tax assets and liabilities as of December 31, 2008 and 2007, are as follows (in thousands):

	2008	2007	
	----	----	
Gross deferred tax assets			
Deferred compensation and accrued paid leave	\$3,242	\$2,658	
Depreciation	551	870	
Accrued expenses	569	360	
Restricted stock expense	393	-	
Reserve for contract and other disallowances	204	199	
Stock option expense	52	73	
Retainage	3	34	
Allowance for doubtful accounts	-	4	
	-----	-----	
Total gross deferred tax assets	5,014	4,198	
Less valuation allowance	(75)	-	
	-----	-----	
Net gross deferred tax assets	4,939	4,198	
	-----	-----	
Gross deferred tax liabilities			
Depreciation	(2,272)	(610)	
Deferred revenues	(417)	(210)	

Intangible assets	(243)	(206)
Restricted stock expense	(113)	-
Retainage	-	(27)
Accrued expenses	(1)	(11)
	-----	-----
Total gross deferred tax liabilities	(3,046)	(1,064)
	-----	-----
Net deferred tax assets	\$1,893	\$3,134
	=====	=====

We adopted the provisions of FIN 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109," ("FIN 48"), on January 1, 2007. FIN 48 clarifies and sets forth consistent rules for accounting for uncertain income tax positions in accordance with FAS 109. As a result of applying the provisions of FIN 48, there was no cumulative effect on retained earnings upon adoption. In addition, there were no adjustments recorded during 2008 and 2007 after the initial adoption of FIN 48.

(11) Commitments and Contingencies

(a) Leases and Other Commitments

We have various non-cancelable operating leases for facilities, equipment, and software with terms between two and ten years. The terms of the facilities leases typically provide for certain minimum payments as well as increases in lease payments based upon the operating cost of the facility and the consumer price index. Rent expense is recognized on a straight-line basis for rent agreements having escalating rent terms. Payments on leases for 2008, 2007, and 2006 were as follows (in thousands):

	Payments on Leases	Sublease Income	Net Expense
	-----	-----	-----
2008	\$10,378	\$ 709	\$9,669
2007	7,180	981	\$6,199
2006	4,128	930	3,198

Future minimum annual non-cancelable commitments as of December 31, 2008 are as follows (in thousands):

	Lease Commitments	Sublease Income	Net Commitments
	-----	-----	-----
2009	\$ 9,347	\$ 449	\$ 8,898
2010	8,359	459	7,900
2011	7,489	477	7,012
2012	6,342	497	5,845
2013	4,387	169	4,218
Thereafter	5,544	-	5,544
	-----	-----	-----
Total	\$41,468	\$2,051	\$39,417
	=====	=====	=====

(b) Contingencies

We have, in the normal course of business, certain claims against us and against other parties. In our opinion, the resolution of these claims will not have a material adverse effect on our results of operations or financial position. However, the results of any legal proceedings cannot be predicted with certainty.

(12) Business Segments and Customer Information

Segment Information

Management of our business operations is conducted under four reportable operating segments: the Federal Group, the International Group, the IT, Energy and Management Consulting Group (formerly the Energy and Environmental Group, renamed in April 2008), and the Infrastructure Group (formerly the

Infrastructure and Information Technology Group, renamed in April, 2008). These segments operate under separate management teams and discrete financial information is produced for each segment. The various divisions within the Federal Group and the International Group and the two subsidiaries within the IT, Energy and Management Consulting Group are operating segments as defined by SFAS No. 131 "Disclosures about Segments of an Enterprise and Related Information," ("SFAS No. 131"), and meet the aggregation of operating segments criteria of SFAS No. 131. We evaluate segment performance based on consolidated revenues and profits or losses from operations before income taxes.

Federal Group - The Federal Group provides engineering, technical, management, integrated logistics support and information technology services to all U.S. military branches and other Government agencies. The Federal Group includes five divisions: CED, ELD, FSS, MSD and SED.

International Group - Our International Group provides engineering, industrial, logistics and foreign military sales services to the U.S. military and other Government agencies. It consists of three divisions: BAV, VCG and FMD.

IT, Energy and Management Consulting Group - The IT, Energy and Management Consulting Group provides technical and consulting services primarily to various civilian Government agencies. This group includes Energetics and, upon acquisition in April 2008, also includes G&B. See footnote 5 for information regarding the acquisition of G&B.

Infrastructure Group - Our Infrastructure Group was created in connection with the June 4, 2007 acquisition of our wholly owned subsidiary, ICRC. ICRC is engaged principally in providing diversified technical and management services to the Government, including transportation infrastructure services, advanced vehicle technology, aerospace services and engineering and information technology. See footnote 5 for information regarding the acquisition of ICRC.

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Our segment information is as follows (in thousands):

	2008	2007	2006	
	----	----	----	
Revenues:				
Federal Group	\$ 667,407	\$360,690	\$190,956	
International Group	220,021	228,002	158,452	
IT, Energy and Management Consulting Group	49,927	14,522	14,269	
Infrastructure Group	106,380	49,918	-	
Corporate	-	32	57	
	-----	-----	-----	
Total revenues	\$1,043,735	\$653,164	\$363,734	
	=====	=====	=====	
Income before income taxes:				
Federal Group	\$ 18,594	\$ 12,075	\$ 5,432	
International Group	5,719	7,435	5,487	
IT, Energy and Management Consulting Group	4,649	1,614	1,795	
Infrastructure Group	4,167	2,808	-	
Corporate/unallocated expenses		(1,880)	(925)	(225)
	-----	-----	-----	
Income before income taxes	\$ 31,249	\$ 23,007	\$ 12,489	
	=====	=====	=====	
Interest (income) expense:				
Federal Group	\$ (379)	\$ (252)	\$ 423	
International Group	110	(124)	(258)	
IT, Energy and Management Consulting Group	(198)	(272)	(218)	
Infrastructure Group	(72)	(44)	-	
Corporate	424	(7)	(374)	
	-----	-----	-----	
Total interest (income) expense	\$ (115)	\$ (699)	\$ (427)	
	=====	=====	=====	

Depreciation and amortization expense:

Federal Group	\$ 2,242	\$ 1,514	\$ 1,044
International Group	967	890	655
IT, Energy and Management Consulting Group	877	184	183
Infrastructure Group	1,351	875	-
	-----	-----	-----
Total depreciation and amortization	\$ 5,437	\$ 3,463	\$ 1,882
	=====	=====	=====

Capital expenditures:			
Federal Group	\$ 5,941	\$ 6,401	\$ 2,258
International Group	1,248	332	519
IT, Energy and Management Consulting Group	419	75	99
Infrastructure Group	247	34	-
Corporate	2,161	1,889	2,742
	-----	-----	-----
Total capital expenditures	\$ 10,016	\$ 8,731	\$ 5,618
	=====	=====	=====

Total assets:			
Federal Group	\$145,786	\$ 74,204	\$ 40,670
International Group	47,331	49,438	33,541
IT, Energy and Management Consulting Group	17,258	3,860	4,174
Infrastructure Group	17,933	14,885	-
Corporate	47,658	29,384	20,150
	-----	-----	-----
Total assets	\$275,966	\$171,771	\$ 98,535
	=====	=====	=====

Revenues are net of inter-segment eliminations. Corporate/unallocated expenses are primarily selling, general and administrative expenses not allocated to segments. Corporate assets are primarily cash and fixed assets.

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Customer Information

We are engaged principally in providing engineering, design, logistics, management and technical services to the Government, other Government prime contractors, and commercial entities. The largest customer for our services is the U.S. Department of Defense ("DoD"), including agencies of the U.S. Navy, Army, and Air Force. Our revenue by customer is as follows (in thousands):

Customer	2008		2007		2006	
	Revenues	%	Revenues	%	Revenues	%
	-----	-	-----	-	-----	-
U.S. Army/Army Reserve	\$ 625,237	9.9	\$344,296	52.7	\$174,473	48.0
U.S. Navy	195,792	18.8	189,534	29.0	164,788	45.3
U.S. Air Force	10,720	1.0	4,628	0.7	4,579	1.2
	-----	-----	-----	-----	-----	-----
Total - DoD	831,749	79.7	538,458	82.4	343,840	94.5
Department of Transportation	89,873	8.6	30,977	4.7	-	0.0
Department of U.S. Treasury	57,021	5.5	55,020	8.4	2,392	0.7
Department of Interior	19,156	1.8	1,053	0.2	-	0.0
Department of Energy	12,812	1.2	10,537	1.6	9,420	2.5
Other government	29,748	2.9	11,427	1.8	5,683	1.6
	-----	-----	-----	-----	-----	-----
Total - Federal Civil Agencies	208,610	20.0	109,014	16.7	17,495	4.8
Commercial	3,376	0.3	5,692	0.9	2,399	0.7
	-----	-----	-----	-----	-----	-----
Total	\$1,043,735	100.0	\$653,164	100.0	\$363,734	100.0
	=====	=====	=====	=====	=====	=====

We do not measure revenue or profit by product or service lines, either for internal management or external financial reporting purposes, because it would be impractical to do so. Products offered and services performed are

determined by contract requirements and the types of products and services provided for one contract bear no relation to similar products and services provided on another contract. Products and services provided vary when new contracts begin or current contracts expire. In many cases, more than one product or service is provided under a contract or contract task order. Accordingly, cost and revenue tracking is designed to best serve contract requirements and segregating costs and revenues by product or service lines in situations for which it is not required would be difficult and costly to both us and our customers.

(13) Capital Stock

Common Stock

Our common stock has a par value of \$.05 per share. Proceeds from the issue of the common stock that is greater than \$.05 per share is credited to additional paid in capital. Holders of common stock are entitled to one vote per common share held on all matters voted on by our stockholders. Stockholders of record are entitled to the amount of dividend declared per common share held.

(14) ESOP/401(k) Plan and Profit Sharing Plan

We have an ESOP/401(k), the VSE Corporation ESOP/401(k) Plan (the "Plan"), that allows employees meeting certain age and service requirements to contribute a portion of their salary to certain investment trusts. Under the terms of the plan, employer 401(k) contributions are made on behalf of the eligible employee participants based on the employees' 401(k) payroll deferrals. Effective January 1, 2007, the plan was amended to incorporate the Safe Harbor method of meeting nondiscrimination requirements of the Internal Revenue Code. Beginning with the 2007 plan year, the employer contribution is equal to 100% of the employee deferral on the first 3% of the employee pay deferred and 50% of the employee deferral on the next 2% of the employee pay deferred. Our expense associated with this plan for 2008, 2007, and 2006 was approximately \$1.9 million, \$1.4 million, and \$584 thousand, respectively. The increase in our expense in 2008 and 2007 as compared to 2006 was due to: (1) an increase in the number of employees receiving an employer contribution as a result of new employees hired and the eligibility of Energetics' employees to receive employer contributions; and (2) the change in the rate of employer contributions associated with the use of the Safe Harbor method of meeting nondiscrimination requirements in 2008 and 2007.

Prior to April 1, 1999, we made contributions under this plan into an ESOP trust which purchased VSE common stock on behalf of employees who met certain age and service requirements and were employed at the end of the plan year. Subsequent to April 1, 1999, the ESOP contributions were discontinued and replaced by employer 401(k) contributions. The ESOP/401(k) plan held 95,499 shares and 446,978 shares of VSE common stock as of December 31, 2008 and 2007, respectively. Such shares receive dividend payments and are included in the weighted average shares for earnings per share calculations.

In 2008, we decided that employees should have an opportunity to diversify their VSE common stock in their 401(k) accounts held in the VSE Corporation Employee ESOP/401(k) Plan beginning with our 2008 Plan year. In January 2008, employees were notified that they may elect to transfer any portion of their 401(k) accounts that is invested in VSE common stock from that investment into another investment alternative under the Plan. This right extends to all of VSE common stock held under the 401(k) portion of the Plan. In addition, we have decided to terminate and liquidate the ESOP portion of the VSE Corporation Employee ESOP/401(k) Plan and, as elected by the employees, either distribute VSE common stock held in the ESOP accounts to the employees or rollover such VSE common stock into an Individual Retirement Account or employee plan selected by the employee. ESOP shares were distributed to employees in the third quarter of 2008.

Energetics maintains a profit sharing plan for its employees. All employees who have completed two years of service are members of the profit sharing plan. At its discretion, Energetics may make contributions to the plan. The plan expense for 2008, 2007, and 2006 was \$240 thousand, \$227

thousand, and \$412 thousand, respectively.

ICRC sponsors a 401(k) profit sharing plan covering all ICRC regular status employees. To be eligible to participate in the plan, an employee must have completed one month of service with ICRC. The discretionary employer contributions are immediately vested. The amount charged to operations for employer contributions for 2008 and the post acquisition period of 2007 was approximately \$286 thousand and \$378 thousand, respectively.

G&B maintains a defined contribution retirement plan (the "Plan"), established under the provisions of Internal Revenue Code Section 401(k), covering substantially all employees. Participants may make voluntary contributions up to the maximum amount allowable by law. G&B matches a percentage of the amount contributed by each participant to comply with safe harbor methods. At its discretion, G&B may make an additional profit sharing contribution for participants who have completed one year of service. The amount charged to operations for employer contributions during the post acquisition period of April, 2008 through December 31, 2008 was approximately \$334 thousand.

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(15) Fair Value Measurements

On January 1, 2008, we adopted SFAS No. 157, Fair Value Measurements," which defines fair value, establishes a market-based hierarchy for measuring fair value and expands disclosures about fair value measurements. SFAS 157 is applicable whenever another accounting pronouncement requires or permits assets and liabilities to be measured at fair value, but does not require any new fair value measurements.

The fair-value hierarchy established in SFAS 157 prioritizes the inputs used in valuation techniques into three levels as follows:

Level 1 - Observable inputs - quoted prices in active markets for identical assets and liabilities;

Level 2 - Observable inputs other than the quoted prices in active markets for identical assets and liabilities - includes quoted prices for similar instruments, quoted prices for identical or similar instruments in inactive markets, and amounts derived from valuation models where all significant inputs are observable in active markets; and

Level 3 - Unobservable inputs - includes amounts derived from valuation models where one or more significant inputs are unobservable and require us to develop relevant assumptions.

Included in other long-term assets as of December 31, 2008 is approximately \$3.3 million of investments we hold in a trust related to a non-qualified benefit plan. We determined the fair value of these assets and corresponding liability using the Level 1 methodology. We have an offsetting deferred compensation liability for this plan. As such, we do not have income statement volatility as a result of fluctuations in the value of the plan's investments.

(16) Selected Quarterly Data (Unaudited)

The following table shows selected quarterly data for 2008 and 2007, in thousands, except earnings per share:

	2008 Quarters				
	1st	2nd	3rd	4th	
Revenues	\$188,723	\$251,688	\$306,811	\$296,513	
Gross profit	\$ 5,907	\$ 8,049	\$ 9,021	\$ 9,350	
Net income	\$ 3,598	\$ 4,769	\$ 5,309	\$ 5,364	
Basic earnings per share	\$.71	\$.94	\$ 1.05	\$ 1.05	

Weighted average shares outstanding	5,059	5,066	5,076	5,088
Diluted earnings per share	\$.71	\$.94	\$ 1.04	\$ 1.05
Weighted average shares outstanding	5,087	5,095	5,100	5,104

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2007 Quarters

	1st	2nd	3rd	4th
Revenues	\$120,689	\$159,644	\$174,692	\$198,139
Gross profit	\$ 4,441	\$ 5,679	\$ 5,663	\$ 7,430
Net income	\$ 2,729	\$ 3,547	\$ 3,359	\$ 4,467
Basic earnings per share	\$.57	\$.72	\$.67	\$.89
Weighted average shares outstanding	4,807	4,932	5,024	5,046
Diluted earnings per share	\$.56	\$.71	\$.66	\$.88
Weighted average shares outstanding	4,890	4,977	5,063	5,082

The fourth quarter 2007 operating results in the table presented above are misstated as a result of an error related to the accounting for a cost-plus incentive fee contract that understated quarterly revenues by \$1.2 million, quarterly net income by \$703 thousand and quarterly earnings per share by \$0.14 per share. The effects of this error on all other periods are immaterial. For the year ended December 31, 2007, this error resulted in an understatement of revenues by \$635 thousand, net income by \$386 thousand and earnings per share by \$0.08 per share.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management has evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act)). Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of such date, our disclosure controls and procedures were effective to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an assessment of the effectiveness of

our internal control over financial reporting as of December 31, 2008 based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment under the framework in Internal Control - Integrated Framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2008. Ernst & Young LLP, our independent registered public accounting firm, has issued an opinion on our internal control over financial reporting. This opinion appears in the Report of Independent Registered Public Accounting Firm under Item 9(a) of this Annual Report on Form 10-K.

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Change in Internal Controls

During the fourth quarter of fiscal year 2008, there were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended) that have materially affected these controls, or are reasonably likely to materially affect these controls subsequent to the evaluation of these controls.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of VSE Corporation

We have audited VSE Corporation's internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). VSE Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, VSE Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of VSE Corporation and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2008 and our report dated March 2, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

McLean, VA

ITEM 9B. Other Information

None.

PART III

Except as otherwise indicated below, the information required by Items 10, 11, 12, 13 and 14 of Part III of Form 10-K has been omitted in reliance of General Instruction G(3) to Form 10-K and is incorporated herein by reference to our definitive proxy statement to be filed with the SEC not later than 120 days after December 31, 2008 in respect to the Annual Meeting of VSE's stockholders (the "Proxy Statement") scheduled to be held on May 5, 2009.

ITEM 10. Directors, Executive Officers and Corporate Governance

See Item 4 under the caption "Executive Officers of the Registrant," and the remaining information required by this Item is incorporated by reference to the Proxy Statement.

ITEM 11. Executive Compensation

The information required by this Item is incorporated by reference to the Proxy Statement.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Except for the "Equity Compensation Plan Information" disclosed in Item 5(d) above, the information required by this Item is incorporated by reference to the Proxy Statement.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item is incorporated by reference to the Proxy Statement.

ITEM 14. Principal Accountant Fees and Services

The information required by this Item is incorporated by reference to the Proxy Statement.

PART IV

ITEM 15. Exhibits, Financial Statement Schedules

1. Financial Statements

The consolidated financial statements are listed under Item 8 of this report.

2. Supplemental Financial Statement Schedules

Schedules not included herein have been omitted because of the absence of conditions under which they are required or because the required information, where material, is shown in the consolidated financial statements, notes to the consolidated financial statements, or supplementary financial information.

3. Exhibits

See "Exhibit Index" hereinafter contained and incorporated by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: February 27, 2009 By: /s/ M. A. Gauthier

M. A. Gauthier
Director, Chief Executive Officer,
President and Chief Operating
Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Name	Title	Date
----- /s/ M. A. Gauthier		
----- M. A. Gauthier	Director, Chief Executive Officer, President and Chief Operating Officer	February 27, 2009
----- /s/ T. R. Loftus		
----- Thomas R. Loftus	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	February 27, 2009

/s/ D. M. Irvine Executive Chairman February 27, 2009

D. M. Irvine

/s/ C. M. Kendall Director February 27, 2009

Clifford M. Kendall

/s/ C. S. Koonce Director February 27, 2009

Calvin S. Koonce

/s/ J. F. Lafond Director February 27, 2009

James F. Lafond

/s/ D. M. Osnos Director February 27, 2009

David M. Osnos

/s/ J. D. Ross Director February 27, 2009

Jimmy D. Ross

/s/ B. K. Wachtel Director February 27, 2009

Bonnie K. Wachtel

/s/ R. E. Eberhart Director February 27, 2009

Ralph E. Eberhart

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EXHIBIT INDEX

Reference No. per Item 601 of Regulation S-K -----	Description of Exhibit -----	Exhibit No. in this Form 10-K -----
2.1	Plan of acquisition, reorganization, arrangement, liquidation or succession Share Purchase Agreement, dated as of June 4, 2007, by and among VSE Corporation, Koniag, Inc., Koniag Development Corporation, Nancy Ellen Lexo Living Trust, James W. Lexo, Jr., and Integrated Concepts and Research Corporation (Exhibit 2.1 to Form 8-K dated June 4, 2007) *	
2.2	Share Purchase Agreement, dated as of April 14, 2008, by and among VSE Corporation, Linda Kay Berdine Revocable Trust, Linda K. Berdine and G&B Solutions, Inc. (Exhibit 2.1 to Form 8-K dated April 14, 2008) *	
3.1	Certificate of incorporation and by-laws Restated Certificate of Incorporation of VSE Corporation dated as of February 6, 1996 (Exhibit 3.2 to Form 10-K405 dated March 25, 1996) *	*
3.2	By-Laws of VSE Corporation as amended through December 17, 2008 (Exhibit 3.1 to Form 8-K dated December 17, 2008) *	*
4.1	Instruments defining the rights of security holders, including indentures Specimen Stock Certificate as of May 19, 1983 (Exhibit 4 to Registration Statement No. 2-83255 dated April 22, 1983 on Form S-2) * +	* +
10.1	Material contracts Employment Agreement entered into as of December 10, 1997, by and between VSE Corporation and Craig S. Weber (Exhibit VIII to Form 10-K dated March 7, 2001) * +	* +
10.3	Employment Agreement entered into as of June 3, 1999, by and between VSE Corporation and	

- James M. Knowlton (Exhibit V to Form 10-K dated March 15, 2000) * +
- 10.4 Employment Agreement dated as of March 10, 2004, by and between VSE Corporation and Thomas G. Dacus (Exhibit 10.1 to Form 10-Q dated April 28, 2004) * +
- 10.5 Employment Agreement dated as of July 1, 2004, by and between VSE Corporation and Thomas R. Loftus (Exhibit 10.1 to Form 10-Q dated July 30, 2004) * +
- 10.6 Business Loan and security Agreement dated August 14, 2007 among VSE Corporation, Energetics Incorporated, VSE Services International, Inc., Integrated Concepts and Research Corporation and Citizens Bank of Pennsylvania Exhibit 10.1
- 10.7 First Amendment to Business Loan and Security Agreement dated as of May 21, 2008 among VSE Corporation, Energetic Incorporation, VSE Services International, Inc., Integrated Concepts and Research Corporation, G&B Solutions, Inc. and Citizens Bank of Pennsylvania Exhibit 10.2
- 10.8 Employment Agreement dated as of April 22, 2008, by and between VSE Corporation and Maurice G. Gauthier (Exhibit 10.1 to Form 8-K dated April 22, 2008) * +
- 10.9 Transition Agreement dated as of April 22, 2008, by and between VSE Corporation and Donald M. Ervine (Exhibit 10.2 to Form 8-K dated April 22, 2008) * +

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EXHIBIT INDEX

Reference No. per Item 601 of Regulation S-K	Description of Exhibit	Exhibit No. in this Form 10-K
-----	-----	-----
10.10	Severance and Mutual Protection Agreement dated as of November 7, 2008 by and between VSE Corporation and Thomas M. Kiernan	Exhibit 10.3
10.11	Statement of Amendment Number One to the Transition agreement, dated December 30, 2008 between VSE Corporation and Donald M. Ervine (Exhibit 10.1 to Form 8-K dated January 6, 2009)	* +
10.12	Statement of Amendment Number Two to the Transition Agreement, dated December 31, 2008, between VSE Corporation and Donald M. Ervine (Exhibit 10.2 to Form 8-K dated January 6, 2009)	* +
10.13	VSE Corporation Deferred Supplemental Compensation Plan effective January 1, 1994 as amended by the Board through March 9, 2004 (Exhibit 10.2 to Form 10-Q dated April 28, 2004)	* +
10.14	VSE Corporation 2004 Stock Option Plan (Appendix B to Registrant's definitive proxy statement for the Annual Meeting of Stockholders held on May 3, 2004)	* +
10.15	VSE Corporation 2004 Non-employee Directors Stock Plan (Appendix C to Registrant's definitive proxy statement for the Annual Meeting of Stockholders held on May 3, 2004)	* +
13.1	Annual report to security holders, Form 10-Q or selected quarterly data	Exhibit 13
21.1	Subsidiaries of the Registrant	Exhibit 21
23.1	Consent of Ernst & Young LLP, independent registered public accounting firm	Exhibit 23.1
31.1	Section 302 CEO Certification	Exhibit 31.1
31.2	Section 302 CFO and PAO Certification	Exhibit 31.2
32.1	Section 906 CEO Certification	Exhibit 32.1
32.2	Section 906 CFO and PAO Certification	Exhibit 32.2
99.1	Audit Committee Charter (as adopted by the Board Of Directors of VSE Corporation on March 9, 2004 (Appendix A to Registrant's definitive proxy statement for the Annual Meeting of Stockholders held on May 3, 2004)	*

*Document has been filed as indicated and is incorporated by reference herein.
+Indicates management contract or compensatory plan or arrangement.

BUSINESS LOAN AND SECURITY AGREEMENT

THIS BUSINESS LOAN AND SECURITY AGREEMENT (this "Agreement") is made this 14th day of August, 2007, by and among VSE CORPORATION, a corporation organized under the laws of the State of Delaware ("VSE"), ENERGETICS INCORPORATED, a corporation organized under the laws of the State of Maryland ("Energetics"), VSE SERVICES INTERNATIONAL, INC., a corporation organized under the laws of the State of Delaware ("VSI"), and INTEGRATED CONCEPTS AND RESEARCH CORPORATION, a corporation organized under the laws of the District of Columbia ("ICRC"), jointly and severally (each of VSE, Energetics, VSI, and ICRC, a "Borrower"; and collectively, the "Borrowers"), CITIZENS BANK OF PENNSYLVANIA, a bank chartered in the State of Pennsylvania, its successors and assigns (the "Lender").

RECITALS

A. The Borrowers have applied to the Lender for credit facilities consisting of (i) a revolving credit facility in the maximum principal amount of Twenty Five Million Dollars (\$25,000,000), and (ii) a letter of credit facility in the maximum principal amount of Five Million Dollars (\$5,000,000), as part of that revolving credit facility.

B. The Lenders is willing to make those credit facilities available jointly and severally to the Borrowers upon the terms and subject to the conditions set forth in this Agreement.

AGREEMENTS

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereby agree as follows:

ARTICLE I

DEFINITIONS

Section 1.1 Certain Defined Terms.

As used in this Agreement, the terms defined in the Preamble and Recitals hereto shall have the respective meanings specified therein, and the following terms shall have the following meanings:

"Account" individually and "Accounts" collectively mean all presently existing or hereafter acquired or created accounts, accounts receivable, health care insurance receivables, contract rights, notes, drafts, instruments, acceptances, chattel paper, leases and writings evidencing a monetary obligation or a security interest in, or a lease of, goods, all rights to receive the payment of a monetary obligation or other consideration under present or future contracts (including, without limitation, all rights (whether or not earned by performance) to receive payments under presently existing or hereafter acquired or created letters of credit), or by virtue of property that has been sold, leased, licensed, assigned or otherwise disposed of, services rendered or to be rendered, loans and advances made or other considerations given, by or set forth in or arising out of any present or future chattel paper, note, draft, lease, acceptance, writing, bond, insurance policy, instrument, document or general intangible, and all extensions and renewals of any thereof, all rights under or arising out of present or future contracts, agreements or general interest in goods which gave rise to any or all of the foregoing, including all commercial tort claims, other claims or causes of action now existing or hereafter arising in connection with or under any agreement or document or by operation of law or otherwise, all collateral security of any kind (including, without limitation, real property mortgages and deeds of trust), Supporting Obligations, letter of credit rights and letters of credit given by any Person with respect to any of the foregoing, all books and records in whatever media (paper, electronic or otherwise) recorded or stored, with respect to any or all of the foregoing and all equipment and general intangibles necessary or beneficial to retain, access and/or process the information contained in those books and records, and all Proceeds (cash and non-cash) of the foregoing.

"Account Debtor" means any Person who is obligated on a Receivable and "Account Debtors" mean all Persons who are obligated on the Receivables.

"ACH Settlement Risk Reserve" means any and all reserves which the Lender from time to time establishes, in its sole discretion, with respect to ACH Transactions.

"ACH Transactions" means any cash management or related services by the Lender for the account of any of the Borrowers pursuant to agreement or overdrafts.

"Additional Borrower" means each Person that has executed and delivered an Additional Borrower Joinder Supplement that has been accepted and approved by the Lender.

"Additional Borrower Joinder Supplement" means an Additional Borrower Joinder Supplement in substantially the form attached hereto as EXHIBIT A, with the blanks appropriately completed and executed and delivered by the Additional Borrower and accepted by VSE on behalf of the Borrowers.

"Affiliate" means, with respect to any designated Person, any other Person, (a) directly or indirectly controlling, directly or indirectly controlled by, or under direct or indirect common control with the Person designated, (b) directly or indirectly owning or holding five percent (5%) or more of any equity interest in such designated Person, or (c) five percent (5%) or more of whose stock or other equity interest is directly or indirectly owned or held by such designated Person. For purposes of this definition, the term "control" (including with correlative meanings, the terms "controlling", "controlled by" and "under common control with") means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through ownership of voting securities or other equity interests or by contract or otherwise.

"Agreement" means this Business Loan and Security Agreement, as amended, restated, supplemented or otherwise modified in writing in accordance with the provisions of Section 8.2 (Amendments; Waivers).

"Assets" means at any date all assets that, in accordance with GAAP consistently applied, should be classified as assets on a consolidated balance sheet of the Borrowers and their respective Subsidiaries.

"Bankruptcy Code" means Title 11 of the United States Code, as amended from time to time, and any successor Laws.

"Borrower" means each Person defined as a "Borrower" in the preamble of this Agreement and each Additional Borrower; "Borrowers" means the collective reference to all Persons defined as "Borrowers" in the preamble to this Agreement and all Additional Borrowers.

"Borrowing Base" has the meaning described in Section 2.1.3 (Borrowing Base).

"Borrowing Base Deficiency" has the meaning described in Section 2.1.3 (Borrowing Base).

"Borrowing Base Report" has the meaning described in Section 2.1.4 (Borrowing Base Report).

"Business Day" means any day other than a Saturday, Sunday or other day on which commercial banks in the State are authorized or required to close.

"Capital Adequacy Regulation" means any guideline, request or directive of any central bank or other Governmental Authority, or any other law, rule or regulation, whether or not having the force of law, in each case, regarding capital adequacy of any bank or of any corporation controlling a bank.

"Capital Expenditure" means an expenditure (whether payable in cash or other property or accrued as a liability) for Fixed or Capital Assets, including, without limitation, the entering into of a Capital Lease.

"Capital Lease" means with respect to any Person any lease of real or personal property, for which the related Lease Obligations have been or should be, in accordance with GAAP consistently applied, capitalized on the balance

sheet of that Person.

"Cash Equivalents" means (a) securities with maturities of one year or less from the date of acquisition issued or fully guaranteed or insured by the United States Government or any agency thereof, (b) certificates of deposit with maturities of one (1) year or less from the date of acquisition of, or money market accounts maintained with, the Lender, any Affiliate of the Lender, or any other domestic commercial bank having capital and surplus in excess of One Hundred Million Dollars (\$100,000,000.00) or such other domestic financial institutions or domestic brokerage houses to the extent disclosed to, and approved by, the Lender and (c) commercial paper of a domestic issuer rated at least either A-1 by Standard & Poor's Corporation (or its successor) or P-1 by Moody's Investors Service, Inc. (or its successor) with maturities of six (6) months or less from the date of acquisition.

"Chattel Paper" means a record or records (including, without limitation, electronic chattel paper) that evidence both a monetary obligation and a security interest in specific goods, a security interest in specific goods and software used in the goods, or a lease of specific goods; all Supporting Obligations with respect thereto; any returned, rejected or repossessed goods and software covered by any such record or records and all proceeds (in any form including, without limitation, accounts, contract rights, documents, chattel paper, instruments and general intangibles) of such returned, rejected or repossessed goods; and all Proceeds of the foregoing.

"Closing Date" means the Business Day, on which the Lender shall be satisfied that the conditions precedent set forth in Section 5.1 (Conditions to Initial Advance) have been fulfilled or otherwise waived by the Lender.

"Collateral" means all property of each and every Borrower subject from time to time to the Liens of this Agreement, any of the Security Documents and/or any of the other Financing Documents, together with any and all Proceeds and products thereof.

"Collateral Account" has the meaning described in Section 2.1.8 (The Collateral Account).

"Collateral Disclosure List" has the meaning described in Section 3.3 (Collateral Disclosure List).

"Collection" means each check, draft, cash, money, instrument, item, and other remittance in payment or on account of payment of the Accounts or otherwise with respect to any Collateral, including, without limitation, cash proceeds of any returned, rejected or repossessed goods, the sale or lease of which gave rise to an Account, and other proceeds of Collateral; and "Collections" means the collective reference to all of the foregoing.

"Committed Amount" means with respect to the Lender, its Revolving Loan Committed Amount and "Committed Amounts" means collectively the Revolving Loan Committed Amount of the Lender.

"Compliance Certificate" means a periodic Compliance Certificate described in Section 6.1.1 (Financial Statements).

"Commonly Controlled Entity" means an entity, whether or not incorporated, which is under common control with any Borrower within the meaning of Section 414(b) or (c) of the Internal Revenue Code.

"Copyrights" means and includes, in each case whether now existing or hereafter arising, all of each Borrower's rights, title and interest in and to (a) all copyrights, rights and interests in copyrights, works protectable by copyright, copyright registrations, copyright applications, and all renewals of any of the foregoing, (b) all income, royalties, damages and payments now or hereafter due and/or payable under any of the foregoing, including, without limitation, damages or payments for past, current or future infringements of any of the foregoing, (c) the right to sue for past, present and future infringements of any of the foregoing, and (d) all rights corresponding to any of the foregoing throughout the world.

"Credit Facility" means the Revolving Credit Facility or the Letter of Credit Facility, as the case may be and "Credit Facilities" means collectively the Revolving Credit Facility and the Letter of Credit Facility and any and all other credit facilities now or hereafter extended under or secured by this

Agreement.

"Current Letter of Credit Obligations" has the meaning set forth in Section 2.2.5 of this Agreement.

"Default" means an event which, with the giving of notice or lapse of time, or both, could or would constitute an Event of Default under the provisions of this Agreement.

"Documents" means all documents of title or receipts, whether now existing or hereafter acquired or created, and all Proceeds of the foregoing.

"Eligible Receivable" and "Eligible Receivables" mean, at any time of determination thereof, the unpaid portion of each account (net of any returns, discounts, claims, credits, charges, accrued rebates or other allowances, offsets, deductions, counterclaims, disputes or other defenses and reduced by the aggregate amount of all reserves, limits and deductions provided for in this definition and elsewhere in this Agreement) receivable in United States Dollars by a Borrower, provided each account conforms and continues to conform to the following criteria to the satisfaction of the Lender:

(a) the account arose in the ordinary course of a Borrower's business from a bona fide outright sale of Inventory by such Borrower or from services performed by such Borrower;

(b) the account is a valid, legally enforceable obligation of the Account Debtor and requires no further act on the part of any Person under any circumstances to make the account payable by the Account Debtor;

(c) the account is based upon an enforceable order or contract, written or oral, for Inventory shipped or for services performed, and the same were shipped or performed in accordance with such order or contract;

(d) if the account arises from the sale of Inventory, the sale of which gave rise to the account has been shipped or delivered to the Account Debtor on an absolute sale basis and not on a bill and hold sale basis, a consignment sale basis, a guaranteed sale basis, a sale or return basis, or on the basis of any other similar understanding;

(e) if the account arises from the performance of services, such services have been fully rendered and do not relate to any warranty claim or obligation;

(f) the account is evidenced by an invoice or other documentation in form acceptable to the Lender, dated no later than the date allowed under any contract governing such account and containing only terms normally offered by the respective Borrower;

(g) the amount shown on the books of a Borrower and on any invoice, certificate, schedule or statement delivered to the Lender is owing to such Borrower and no partial payment has been received unless reflected with that delivery;

(h) the account is not outstanding more than ninety (90) days from the date of the invoice therefore;

(i) the account is not owing by any Account Debtor for which the Lender has deemed fifty percent (50%) or more of such Account Debtor's other accounts (or any portion thereof) due to a Borrower, individually, or all of the Borrowers collectively, to be non-Eligible Receivables;

(j) the Account Debtor has not returned, rejected or refused to retain, or otherwise notified a Borrower of any dispute concerning, or claimed nonconformity of, any of the Inventory or services from the sale or furnishing of which the account arose;

(k) the account is not subject to any present or contingent (and no facts exist which are the basis for any future) offset, claim, deduction or counterclaim, dispute or defense in law or equity on the part of such Account Debtor, or any claim for credits, allowances, or adjustments by the Account Debtor because of returned, inferior, or damaged Inventory or unsatisfactory services, or for any other reason including, without limitation, those arising on account of a breach of any express or implied representation or warranty;

(l) the Account Debtor is not a Subsidiary or Affiliate of any Borrower or an employee, officer, director or shareholder of any Borrower or any Subsidiary or Affiliate of any Borrower, other than any joint venture of the Borrower or any Subsidiary;

(m) the Account Debtor is not incorporated or primarily conducting business or otherwise located in any jurisdiction outside of the United States of America, unless the Account Debtor's obligations with respect to such account are secured by a letter of credit, guaranty or banker's acceptance having terms and from such issuers and confirmation banks as are acceptable to the Lender in its sole and absolute discretion (which letter of credit, guaranty or banker's acceptance is subject to the perfected Lien of the Lender);

(n) as to which none of the following events has occurred with respect to the Account Debtor on such Account: death or judicial declaration of incompetency of an Account Debtor who is an individual; the filing by or against the Account Debtor of a request or petition for liquidation, reorganization, arrangement, adjustment of debts, adjudication as a bankrupt, winding-up, or other relief under the bankruptcy, insolvency, or similar laws of the United States, any state or territory thereof, or any foreign jurisdiction, now or hereafter in effect; the making of any general assignment by the Account Debtor for the benefit of creditors; the appointment of a receiver or trustee for the Account Debtor or for any of the assets of the Account Debtor, including, without limitation, the appointment of or taking possession by a "custodian," as defined in the Federal Bankruptcy Code; the institution by or against the Account Debtor of any other type of insolvency proceeding (under the bankruptcy laws of the United States or otherwise) or of any formal or informal proceeding for the dissolution or liquidation of, settlement of claims against, or winding up of affairs of, the Account Debtor; the sale, assignment, or transfer of all or any material part of the assets of the Account Debtor; the nonpayment generally by the Account Debtor of its debts as they become due; or the cessation of the business of the Account Debtor as a going concern;

(o) no Borrower is indebted in any manner to the Account Debtor (as creditor, lessor, supplier or otherwise, other than trade debt incurred in the ordinary course of business), with the exception of customary credits, adjustments and/or discounts given to an Account Debtor by a Borrower in the ordinary course of its business;

(p) the account does not arise from services under or related to any warranty obligation of a Borrower or out of service charges, finance charges or other fees for the time value of money;

(q) the account is not evidenced by chattel paper or an instrument of any kind and is not secured by any letter of credit;

(r) the title of the respective Borrower to the account is absolute and is not subject to any prior assignment, claim, Lien, or security interest, except Permitted Liens;

(s) no bond or other undertaking by a guarantor or surety has been or is required to be obtained,

supporting the account and any of the Account Debtor's obligations in respect of the account;

(t) each Borrower has the full and unqualified right and power to assign and grant a security interest in, and Lien on, the account to the Lender as security and collateral for the payment of the Obligations;

(u) the account does not arise out of a contract with, or order from, an Account Debtor that, by its terms, forbids or makes void or unenforceable the assignment or grant of a security interest by the Borrowers to the Lender, of the account arising from such contract or order;

(v) the account is subject to a Lien in favor of the Lender, which Lien is perfected as to the account by the filing of financing statements and which Lien upon such filing constitutes a first priority security interest and Lien;

(w) the Inventory giving rise to the account was not, at the time of the sale thereof, subject to any Lien, except those in favor of the Lender;

(x) no part of the account represents a retainage;

(y) the Lender in the good faith exercise of its sole and absolute discretion has not deemed the account ineligible because of uncertainty as to the creditworthiness of the Account Debtor or because the Lender otherwise considers the collateral value of such account to the Lender to be impaired or its or their ability to realize such value to be insecure; and

(z) if the Account Debtor is located in a state requiring the filing of a Notice of Business Activities Report or similar report in order to permit any Borrower to seek judicial enforcement in such state of payment of such Account, that Borrower has qualified to do business in such state or has filed a Notice of Business Activities Report or equivalent report for the then current year.

In the event of any dispute, under the foregoing criteria, as to whether an account is, or has ceased to be, an Eligible Receivable, the decision of the Lender in the good faith exercise of its sole and absolute discretion shall control.

"Enforcement Costs" means all expenses, charges, costs and fees whatsoever (including, without limitation, reasonable outside and allocated in-house counsel attorney's fees and expenses) of any nature whatsoever paid or incurred by or on behalf of the Lender in connection with (a) any or all of the Obligations, this Agreement and/or any of the other Financing Documents, (b) the creation, perfection, collection, maintenance, preservation, defense, protection, realization upon, disposition, sale or enforcement of all or any part of the Collateral, this Agreement or any of the other Financing Documents, including, without limitation, those costs and expenses more specifically enumerated in Section 3.6 (Costs) and/or Section 8.7 (Enforcement Costs), and further including, without limitation, amounts paid to lessors, processors, bailees, warehousemen, sureties, judgment creditors and others in possession of or with a Lien against or claimed against the Collateral, and (c) the monitoring, administration, processing and/or servicing of any or all of the Obligations, the Financing Documents, and/or the Collateral.

"Equipment" means all equipment, machinery, computers, chattels, tools, parts, machine tools, furniture, furnishings, fixtures and supplies of every nature, presently existing or hereafter acquired or created and wherever located, whether or not the same shall be deemed to be affixed to real property, and all of such types of property leased by any Borrower and all of the Borrowers' rights and interests with respect thereto under such leases (including, without limitation, options to purchase), together with all accessions, additions, fittings, accessories, special tools, and improvements thereto and substitutions therefor and all parts and equipment which may be attached to or which are necessary or beneficial for the operation, use and/or disposition of such personal property, all licenses, warranties, franchises

and General Intangibles related thereto or necessary or beneficial for the operation, use and/or disposition of the same, together with all Accounts, Chattel Paper, Instruments and other consideration received by any Borrower on account of the sale, lease or other disposition of all or any part of the foregoing, and together with all rights under or arising out of present or future Documents and contracts relating to the foregoing and all Proceeds of the foregoing.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time.

"Euro-Dollar Business Day" means any day on which commercial banks are open for domestic and international business (including dealing in U.S. Dollar Deposits) in London, England and the Commonwealth of Pennsylvania.

"Event of Default" has the meaning described in ARTICLE VII (Default and Rights and Remedies).

"Facilities" means the collective reference to the loan, letter of credit, interest rate protection, foreign exchange risk, cash management, and other credit facilities now or hereafter provided to any one or more of the Borrowers by the Lender under this Agreement or otherwise by the Lender.

"Federal Funds Rate" means for any day of determination, the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System arranged by federal funds brokers, as published for such day (or, if such day is not a Business Day) by the Federal Reserve Bank for the next preceding Business Day) by the Federal Reserve Bank of Richmond or, if such rate is not so published for any day that is a Business Day, the average of quotations for such day on such transactions received by the Lender from three (3) federal funds brokers of recognized standing selected by the Lender.

"Fees" means the collective reference to each fee payable to the Lender, under the terms of this Agreement or under the terms of any of the other Financing Documents, including, without limitation, the Revolving Credit Fees, Letter of Credit Fees and the Field Examination Fees.

"Field Examination Fee" and "Field Examination Fees" have the meanings described in Section 2.4.7 (Field Examination Fees).

"Financing Documents" means at any time collectively this Agreement, the Notes, the Security Documents, the Letter of Credit Documents, and any other instrument, agreement or document previously, simultaneously or hereafter executed and delivered by any Borrower, and/or any other Person, singly or jointly with another Person or Persons, evidencing, securing, guarantying or in connection with this Agreement, any Note, any of the Security Documents, any of the Facilities, and/or any of the Obligations.

"Fixed or Capital Assets" of a Person at any date means all assets which would, in accordance with GAAP consistently applied, be classified on the balance sheet of such Person as property, plant or equipment at such date.

"GAAP" means generally accepted accounting principles in the United States of America in effect from time to time.

"General Intangibles" means all general intangibles of every nature, whether presently existing or hereafter acquired or created, and without implying any limitation of the foregoing, further means all books and records, commercial tort claims, other claims (including without limitation all claims for income tax and other refunds), payment intangibles, Supporting Obligations, choses in action, claims, causes of action in tort or equity, contract rights, judgments, customer lists, software, Patents, Trademarks, licensing agreements, rights in intellectual property, goodwill (including goodwill of Borrower's business symbolized by and associated with any and all Trademarks, trademark licenses, Copyrights and/or service marks), royalty payments, licenses, letter-of-credit rights, letters of credit, contractual rights, the right to receive refunds of unearned insurance premiums, rights as lessee under any lease of real or personal property, literary rights, Copyrights, service names, service marks, logos, trade secrets, amounts received as an award in or settlement of a suit in damages, deposit accounts, interests in joint ventures, general or limited partnerships, or limited liability companies or partnerships, rights in applications for any of the

foregoing, books and records in whatever media (paper, electronic or otherwise) recorded or stored, with respect to any or all of the foregoing, all Supporting Obligations with respect to any of the foregoing, and all Equipment and General Intangibles necessary or beneficial to retain, access and/or process the information contained in those books and records, and all Proceeds of the foregoing.

"Government Contracts" means any contract with the United States or with any state or political subdivision thereof or any department, agency or instrumentality of the United States, or any state or political subdivision thereof.

"Governmental Authority" means any nation or government, any state or other political subdivision thereof and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government and any department, agency or instrumentality thereof.

"Hazardous Materials" means (a) any "hazardous waste" as defined by the Resource Conservation and Recovery Act of 1976, as amended from time to time, and regulations promulgated thereunder; (b) any "hazardous substance" as defined by the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended from time to time, and regulations promulgated thereunder; (c) any substance the presence of which on any property now or hereafter owned, acquired or operated by any of the Borrowers is prohibited by any Law similar to those set forth in this definition; and (d) any other substance which by Law requires special handling in its collection, storage, treatment or disposal.

"Hazardous Materials Contamination" means the contamination (whether presently existing or occurring after the date of this Agreement) by Hazardous Materials of any property owned, operated or controlled by any of the Borrowers or for which any of the Borrowers has responsibility, including, without limitation, improvements, facilities, soil, ground water, air or other elements on, or of, any property now or hereafter owned, acquired or operated by any of the Borrowers, and any other contamination by Hazardous Materials for which any of the Borrowers is, or is claimed to be, responsible.

"Indebtedness" of a Person means at any date the total liabilities of such Person at such time determined in accordance with GAAP consistently applied.

"Indebtedness for Borrowed Money" of a Person means at any time the sum at such time of (a) Indebtedness of such Person for borrowed money or for the deferred purchase price of property or services, (b) any obligations of such Person in respect of letters of credit, banker's or other acceptances or similar obligations issued or created for the account of such Person, (c) Lease Obligations of such Person with respect to Capital Leases, (d) all liabilities secured by any Lien on any property owned by such Person, to the extent attached to such Person's interest in such property, even though such Person has not assumed or become personally liable for the payment thereof, (e) obligations of third parties which are being guaranteed or indemnified against by such Person or which are secured by the property of such Person; (f) any obligation of such Person under an employee stock ownership plan or other similar employee benefit plan; (g) any obligation of such Person or a Commonly Controlled Entity to a Multi-employer Plan; and (h) any obligations, liabilities or indebtedness, contingent or otherwise, under or in connection with, any Swap Transaction; but excluding trade and other accounts payable in the ordinary course of business in accordance with customary trade terms and which are not overdue (as determined in accordance with customary trade practices) or which are being disputed in good faith by such Person and for which adequate reserves are being provided on the books of such Person in accordance with GAAP.

"Indemnified Parties" has the meaning set forth in Section 8.16 (Indemnification).

"Instrument" means a negotiable instrument or any other writing which evidences a right to payment of a monetary obligation and is not itself a security agreement or lease and is of a type that in the ordinary course of business is transferred by delivery with any necessary endorsement or assignment, and all Supporting Obligations with respect to any of the foregoing and all Proceeds with respect to any of the foregoing.

"Interest Payment Date" means (i) with respect to Revolving Loans which accrue interest based on the Prime Rate the last day of each calendar quarter commencing on September 30, 2007 and continuing thereafter until the Obligations have been irrevocably paid in full (ii) with respect to Revolving Loans which accrue interest based on the LIBOR rate the earlier of the last day of each Interest Period or the last day of each calendar quarter commencing on September 30, 2007 and continuing thereafter until the Obligations have been irrevocably paid in full.

"Interest Period" means the period during which interest at a LIBOR-based Rate, determined as provided in this Agreement, shall be applicable to the Rate Request Amount in question, provided, however, that each such period shall be either one (1), two (2), three (3) or six (6) months which shall be measured from the date specified by the Borrowers in each Rate Request for the commencement of the computation of interest at a LIBOR-based Rate to the numerically corresponding day in the calendar month in which such period terminates (or, if there is numerical Euro-Dollar Business Day of a calendar month, then the last Euro-Dollar Business Day of the calendar month in which such period terminates, or if the numerically corresponding day is not a Euro-Dollar Business Day, then the next succeeding Euro-Dollar Business Day enters a new calendar month, in which case such period shall end on the next preceding Euro-Dollar Business Day) and in no event shall any such period extend beyond the Revolving Credit Termination Date.

"Internal Revenue Code" means the Internal Revenue Code of 1986, as amended from time to time, and the Income Tax Regulations issued and proposed to be issued thereunder.

"Inventory" means all goods of Borrower and all right, title and interest of Borrower in and to all of its now owned and hereafter acquired goods and other personal property furnished under any contract of service or intended for sale or lease, including, without limitation, all raw materials, work-in-process, finished goods and materials and supplies of any kind, nature or description which are used or consumed in Borrower's business or are or might be used in connection with the manufacture, packing, shipping, advertising, selling or finishing of such goods and other personal property and all licenses, warranties, franchises, General Intangibles, personal property and all documents of title or documents relating to the same, together with all Accounts, Chattel Paper, Instruments and other consideration received by Borrower on account of the sale, lease or other disposition of all or any part of the foregoing, and together with all rights under or arising out of present or future Documents and contracts relating to the foregoing and all Proceeds of the foregoing.

"Investment Property" means a security, whether certificated or uncertificated, security entitlement, securities account, commodity contract or commodity account and all Proceeds of, and Supporting Obligations with respect to, the foregoing.

"Item of Payment" means each check, draft, cash, money, instrument, item, and other remittance in payment or on account of payment of the Receivables or otherwise with respect to any Collateral, including, without limitation, cash proceeds of any returned, rejected or repossessed goods, the sale or lease of which gave rise to a Receivable, and other proceeds of Collateral; and "Items of Payment" means the collective reference to all of the foregoing.

"Laws" means all ordinances, statutes, rules, regulations, orders, injunctions, writs, or decrees of any Governmental Authority.

"Lease Obligations" of a Person means for any period the rental commitments of such Person for such period under leases for real and/or personal property (net of rent from subleases thereof, but including taxes, insurance, maintenance and similar expenses which such Person, as the lessee, is obligated to pay under the terms of said leases, except to the extent that such taxes, insurance, maintenance and similar expenses are payable by sublessees), including rental commitments under Capital Leases.

"Letter of Credit" and "Letters of Credit" shall have the meanings described in Section 2.2.1 (Letters of Credit).

"Letter of Credit Agreement" means the collective reference to each letter of credit application and agreement substantially in the form of the

Lender's then standard form of application for letter of credit or such other form as may be approved by the Lender, executed and delivered by any one or more of the Borrowers in connection with the issuance of a Letter of Credit, as the same may from time to time be amended, restated, supplemented or modified; and "Letter of Credit Agreements" means all of the foregoing in effect at any time and from time to time.

"Letter of Credit Documents" means any and all drafts under or purporting to be under a Letter of Credit, any Letter of Credit Agreement, and any other instrument, document or agreement executed and/or delivered by any one or more of the Borrowers or any other Person under, pursuant to or in connection with a Letter of Credit or any Letter of Credit Agreement.

"Letter of Credit Facility" means the facility established pursuant to Section 2.2 (Letter of Credit Facility).

"Letter of Credit Fee" and "Letter of Credit Fees" have the meanings described in Section 2.2.2 (Letter of Credit Fees).

"Letter of Credit Obligations" means the collective reference to all Obligations of any one or more of the Borrowers with respect to the Letters of Credit and the Letter of Credit Agreements.

"Letter-of-credit right" means a right to payment or performance under a letter of credit, whether or not the beneficiary has demanded or is at the time entitled to demand payment or performance.

"Leverage Ratio" means the ratio of Total Liabilities on a specified date to Tangible Net Worth on such date.

"Liabilities" means at any date all liabilities that in accordance with GAAP consistently applied should be classified as liabilities on a consolidated balance sheet of the Borrowers and their respective Subsidiaries.

"LIBOR Amount" means each portion of the Principal Amount bearing interest at a LIBOR-based Rate pursuant to a Rate Request.

"LIBOR-based Rate" means an interest rate fixed for one, two, three or six month periods at a rate equal to the corresponding LIBOR rate (i.e. the one, two, three or six month LIBOR rate) plus the LIBOR Rate Margin in effect on the date of the corresponding Rate Request.

"LIBOR rate" means the London interbank offered rate of major banks for deposits in United States Dollars for a designated period (e.g. on, two, three or six months) as set forth at Telerate Page 3750 at approximately 11:00 a.m. London time on the third Euro-Dollar Business Day preceding the date when the LIBOR-based Rate will become effective; provided, however, that if such information is not available on Telerate, the "LIBOR rate" shall be determined from information supplied to the Lender by a nationally recognized reporting service for similar information acceptable to the Lender.

"LIBOR Rate Margin" means the amount determined to be in effect from time to time using the chart set forth below. The initial LIBOR Rate Margin will be determined at the Closing Date using the Leverage Ratio calculated by reference to the consolidated balance sheet of VSE most recently received by the Lender. Commencing on the date following the Closing Date when the Lender receives the consolidated balance sheet of VSE in accordance with this Agreement and on each such date thereafter, the LIBOR Rate Margin will be reset based on the Leverage Ratio calculated by reference to such consolidated balance sheet.

LIBOR Rate Margin	Leverage Ratio
2.00%	Equal to or greater than 3.0 to 1.0
1.75%	Equal to or greater than 1.5 to 1.0 but less than 3.0 to 1.0
1.25%	Less than 1.5 to 1.0

In the event VSE fails to provide such balance sheet when due, the LIBOR Rate Margin shall be 2.00% until such time as such balance sheets are submitted as required by this Agreement.

"Lien" means any mortgage, deed of trust, deed to secure debt, grant,

pledge, security interest, assignment, encumbrance, judgment, lien, financing statement, hypothecation, provision in any instrument or other document for confession of judgment, cognovit or other similar right or other remedy, claim, charge, control over or interest of any kind in real or personal property securing any indebtedness, duties, obligations, and liabilities owed to, or a claimed to be owed to, a Person, all whether perfected or unperfected, avoidable or unavoidable, based on the common law, statute or contract or otherwise, including, without limitation, any conditional sale or other title retention agreement, any lease in the nature thereof, and the filing of or agreement to give any financing statement under the Uniform Commercial Code of any jurisdiction, excluding the precautionary filing of any financing statement by any lessor in a true lease transaction, by any bailor in a true bailment transaction or by any consignor in a true consignment transaction under the Uniform Commercial Code of any jurisdiction or the agreement to give any financing statement by any lessee in a true lease transaction, by any bailee in a true bailment transaction or by any consignee in a true consignment transaction.

"Loan" means each of the Revolving Loan and "Loans" means the collective reference to the Revolving Loans.

"Loan Notice" has the meaning described in Section 2.1.2 (Procedure for Making Advances).

"Lockbox" has the meaning described in Section 2.1.8 (The Collateral Account).

"Maximum Rate" has the meaning described in Section 2.4.5 (Maximum Interest Rate).

"Multi-employer Plan" means a Plan that is a Multi-employer plan as defined in Section 4001(a)(3) of ERISA.

"Note" means the Revolving Credit Note and "Notes" means collectively the Revolving Credit Note and any other promissory note which may from time to time evidence all or any portion of the Obligations.

"Obligations" means all present and future, whether now existing or contemplated or hereafter arising, of any one or more of the Borrowers to the Lender under, arising pursuant to, in connection with and/or on account of the provisions of this Agreement, each Note, each Security Document, and/or any of the other Financing Documents, the Loans, and/or any of the Facilities including, without limitation, the principal of, and interest on, each Note, late charges, the Fees, Enforcement Costs, and prepayment fees (if any), letter of credit reimbursement obligations, letter of credit fees or fees charged with respect to any guaranty of any letter of credit; also means all other present and future indebtedness, duties, obligations, and liabilities, whether now existing or contemplated or hereafter arising, of any one or more of the Borrowers to the Lender or its Affiliates of any nature whatsoever, including, without limitation, any indebtedness, duties, obligations, and liabilities, under or in connection with, any Swap Transaction, regardless of whether such indebtedness, duties, obligations, and liabilities be direct, indirect, primary, secondary, joint, several, joint and several, fixed or contingent; and also means any and all renewals, extensions, substitutions, amendments, restatements and rearrangements of any such indebtedness, duties, obligations, and liabilities.

"Outstanding Letter of Credit Obligations" has the meaning described in Section 2.2.3 (Terms of Letters of Credit).

"Patents" means and includes, in each case whether now existing or hereafter arising, all of each Borrower's rights, title and interest in and to (a) any and all patents and patent applications, (b) any and all inventions and improvements described and claimed in such patents and patent applications, (c) reissues, divisions, continuations, renewals, extensions and continuations-in-part of any patents and patent applications, (d) income, royalties, damages, claims and payments now or hereafter due and/or payable under and with respect to any patents or patent applications, including, without limitation, damages and payments for past and future infringements, (e) rights to sue for past, present and future infringements of patents, and (f) all rights corresponding to any of the foregoing throughout the world.

"PBGC" means the Pension Benefit Guaranty Corporation.

"Permitted Acquisitions" means a shall mean a transaction or series of transactions whereby the Borrowers acquire all or substantially all of the assets of a business, or purchase an equity interest in a business (the "Target"), provided, that (i) such interest shall not be less than eighty-five percent (85%) of the total equity of such business, (ii) the acquisition or purchase price consideration paid by the Borrowers during any twelve (12) month consecutive period shall not be greater than Ten Million Dollars (\$10,000,000) in the aggregate; (iii) the acquired entity shall be in a similar line of business as that of the Borrowers; (iv) the acquired entity shall be a going concern, not involved in any material litigation that is not fully covered by reserves and/or insurance and shall have positive net earnings for the previous twelve (12) months; (v) both before and after giving effect to such transaction, no Event of Default shall be continuing or shall occur as a result of such transaction; (vi) the Borrowers will be in compliance with all financial covenants after giving pro forma effect to such transaction; (vii) after giving effect to such transaction there must be at least Five Million Dollars (\$5,000,000) of availability under the Revolving Loan; (viii) the Lender shall have received satisfactory evidence that satisfactory arrangements shall have been made for the termination of all Liens encumbering any asset of any of the acquired entities; (ix) no Indebtedness shall be assumed by Borrowers in connection with such transaction; (x) the Lender shall have received and approved complete copies of the Purchase Agreement Documents; and (xi) within 15 days of closing any transaction contemplated hereby, the acquired entity shall be joined to this Agreement as an Additional Borrower by executing and delivering to the Lender an Additional Borrower Joinder Supplement

"Permitted Liens" means: (a) Liens for Taxes which are not delinquent or which the Lender has determined in the exercise of its sole and absolute discretion (i) are being diligently contested in good faith and by appropriate proceedings, and such contest operates to suspend collection of the contested Taxes and enforcement of a Lien, (ii) the respective Borrower has the financial ability to pay, with all penalties and interest, at all times without materially and adversely affecting such Borrower, and (iii) are not, and will not be with appropriate filing, the giving of notice and/or the passage of time, entitled to priority over any Lien of the Lender; (b) deposits or pledges to secure obligations under workers' compensation, social security or similar laws, or under unemployment insurance in the ordinary course of business; (c) Liens securing the Obligations; (d) judgment Liens to the extent the entry of such judgment does not constitute a Default or an Event of Default under the terms of this Agreement or result in the sale or levy of, or execution on, any of the Collateral; (e) Liens to secure the purchase price of Equipment or Inventory in an aggregate amount not to exceed Two Hundred Fifty Thousand Dollars (\$250,000); and (f) such other Liens, if any, as are set forth on Schedule 4.1.18 attached hereto and made a part hereof.

"Permitted Uses" means short term working capital of any Borrower's business and to support the issuance of Letters of Credit, and any Permitted Acquisition.

"Person" means and includes an individual, a corporation, a partnership, a joint venture, a limited liability company or partnership, a trust, an unincorporated association, a Governmental Authority, or any other organization or entity.

"Plan" means any pension plan that is covered by Title IV of ERISA and in respect of which any Borrower or a Commonly Controlled Entity is an "employer" as defined in Section 3 of ERISA.

"Post-closing Balance Sheet" has the meaning described in Section 4.1.28 (Post-closing Financial Statements).

"Post-closing Financial Projections" has the meaning described in Section 4.1.28 (Post-closing Financial Statements).

"Post-Default Rate" means the Prime Rate in effect from time to time, plus two percent (2.0%) per annum.

"Prepayment" means a Revolving Loan Mandatory Prepayment or a Revolving Loan Optional Prepayment, as the case may be, and "Prepayments" mean collectively all Revolving Loan Mandatory Prepayments and all Revolving Loan

Optional Prepayments.

"Principal Amount" means the aggregate outstanding principal balance of the Notes.

"Prime-based Rate" means a floating rate of interest equal to the Prime Rate plus the Prime Rate Margin.

"Prime Rate" means the rate of interest established from time to time by the Lender and announced by the Lender as its prime rate. The Prime Rate is not necessarily the lowest or most favorable rate of interest charged by the Lender on extensions of credit to debtors.

"Prime Rate Margin" means the amount determined to be effect from time to time using the charge set forth below. The initial Prime Rate Margin will be determined at the Closing Date using the Leverage Ratio calculated by reference to the consolidated balance sheet of VSE most recently received by the Lender. Commencing on the date following the Closing Date when the Lender receives the consolidated balance sheet of VSE in accordance with this Agreement and on each such date thereafter, the Prime Rate Margin will be reset based on the Leverage Ratio calculated by reference to such consolidated balance sheet.

Prime Rate Margin	Leverage Ratio
-----	-----
.25%	Equal to or greater than 3.0 to 1.0
0%	Less than 3.0 to 1.0

In the event VSE fails to provide such balance sheets when due, the Prime Rate Margin shall be .25% until such time as such balance sheets are submitted as required by this Agreement.

"Proceeds" has the meaning described in the Uniform Commercial Code as in effect from time to time.

"Purchase Agreement Documents" means collectively any agreement hereafter executed in connection with any Permitted Acquisition and any and all other agreements, documents or instruments (together with any and all amendments, modifications, and supplements thereto, restatements thereof, and substitutes therefor) previously, now or hereafter executed and delivered by Borrower or any other Person in connection with any Permitted Acquisition.

"Rate Request" means VSE's written notice, as agent for the Borrowers to be received by the Lender by 11:00 a.m. Eastern time on the third Euro-Dollar Business Day preceding the date specified in the Rate Request for the commencement of the Interest Period, of (a) its intention to have (i) all or any portion of the Principal Amount which is not then the subject of an Interest Period (other than an Interest Period which is terminating on such Euro-Dollar Business Day), and/or (ii) all or any portion of any Loan which is to be made on such date bear interest at a specified LIBOR-based Rate and (b) the Interest Period desired by the Borrowers in respect to the amount specified.

"Rate Request Amount" means the amount, to be specified by the Borrowers, through their agent VSE, in each Rate Request, which the Borrowers desire bear interest at the specified LIBOR-based Rate.

"Receivable" means one of each Borrower's now owned and hereafter owned, acquired or created Accounts, Chattel Paper, General Intangibles and Instruments; and "Receivables" means all of each Borrower's now or hereafter owned, acquired or created Accounts, Chattel Paper, General Intangibles and Instruments, and all cash and non-cash proceeds and products thereof.

"Reportable Event" means any of the events set forth in Section 4043(c) of ERISA or the regulations thereunder.

"Responsible Officer" means for each Borrower, its chief executive officer or president or, with respect to financial matters, its chief financial officer, or treasurer.

"Revolving Credit Commitment" means the agreement of the Lender relating to the making the Revolving Loan and advances thereunder subject to and in accordance with the provisions of this Agreement; and "Revolving Credit

Commitments" means the collective reference to all the Revolving Credit Commitments of the Lender.

"Revolving Credit Commitment Period" means the period of time from the Closing Date to the Business Day preceding the Revolving Credit Termination Date.

"Revolving Credit Committed Amount" has the meaning described in Section 2.1.1 (Revolving Credit Facility).

"Revolving Credit Expiration Date" means August __, 2009.

"Revolving Credit Facility" means the facility established by the Lender pursuant to Section 2.1 (Revolving Credit Facility).

"Revolving Credit Note" has the meaning described in Section 2.1.5 (Revolving Credit Notes).

"Revolving Credit Termination Date" means the earlier of (a) the Revolving Credit Expiration Date, or (b) the date on which the Revolving Credit Commitments are terminated pursuant to Section 7.2 (Remedies) or otherwise.

"Revolving Credit Fee" and "Revolving Credit Fees" have the meanings described in Section 2.1.10 (Revolving Credit Fee).

"Revolving Credit Unused Line Fee" and "Revolving Credit Unused Line Fees" have the meanings described in Section 2.1.10 (Revolving Credit Unused Line Fee).

"Revolving Loan" has the meaning described in Section 2.1.1 (Revolving Credit Facility).

"Revolving Loan Account" has the meaning described in Section 2.1.9 (Revolving Loan Account).

"Revolving Loan Mandatory Prepayment" and "Revolving Loan Mandatory Prepayments" have the meanings described in Section 2.1.6 (Mandatory Prepayments of Revolving Loan).

"Revolving Loan Optional Prepayment" and "Revolving Loan Optional Prepayments" have the meanings described in Section 2.1.7 (Optional Prepayment of Revolving Loan).

"Security Documents" means collectively any assignment, pledge agreement, security agreement, mortgage, deed of trust, deed to secure debt, financing statement and any similar instrument, document or agreement under or pursuant to which a Lien is now or hereafter granted to, or for the benefit of, the Lender on any real or personal property of any Person to secure all or any portion of the Obligations, all as the same may from time to time be amended, restated, supplemented or otherwise modified, including, without limitation, this Agreement.

"Solvent" means when used with respect to any Person that at the time of determination:

(a) the assets of such Person, at a fair valuation, are in excess of the total amount of its debts (including, without limitation, contingent liabilities); and

(b) the present fair saleable value of its assets is greater than its probable liability on its existing debts as such debts become absolute and matured; and

(c) it is then able and expects to be able to pay its debts (including, without limitation, contingent debts and other commitments) as they mature; and

(d) it has capital sufficient to carry on its business as conducted and as proposed to be conducted.

For purposes of determining whether a Person is Solvent, the amount of any contingent liability shall be computed as the amount that, in light of all the facts and circumstances existing at such time, represents the amount that

can reasonably be expected to become an actual or matured liability.

"State" means the Commonwealth of Virginia.

"Subsidiary" means any corporation the majority of the voting shares of which at the time are owned directly by any Borrower and/or by one or more Subsidiaries of any Borrower.

"Supporting Obligation" means a letter-of-credit right, secondary obligation or obligation of a secondary obligor or that supports the payment or performance of an account, chattel paper, a document, a general intangible, an instrument or investment property.

"Swap Reserve" means any and all reserves which the Lender from time to time establishes, in its sole discretion, with respect to Swap Transactions.

"Swap Transactions" means any interest rate swap transaction, forward rate transaction, treasury lock transaction, interest rate cap, floor or collar transaction, any similar transaction, any option to enter into any of the foregoing, or any combination of any of the foregoing.

"Tangible Net Worth" means, at any date, all amounts which, in accordance with GAAP, would be included under stockholders' equity on the consolidated balance sheet of VSE and Subsidiaries on such date; provided that, in any event, such amounts are to be net of amounts carried on the books of the Borrowers for (a) any write-up in the book value of any assets resulting from a revaluation thereof subsequent to the Closing Date; (b) treasury stock; (c) unamortized debt discount expense; (d) any cost of investments in excess of net assets acquired at any time of acquisition; (e) except as permitted by Section 6.2.6 (Investments, Loans and Other Transactions), loans or advances to any Affiliate of the Borrowers or any Subsidiary; (f) patents, patent applications, copyrights, trademarks, trade names, good will, research and development costs, organizational expenses, capitalized software developments costs and other like intangibles; and (g) any investments in securities which are not actively traded on a national securities exchange.

"Target" has the meaning described in the definition of Permitted Acquisitions.

"Taxes" means all taxes and assessments whether general or special, ordinary or extraordinary, or foreseen or unforeseen, of every character (including all penalties or interest thereon), which at any time may be assessed, levied, confirmed or imposed by any Governmental Authority on any or all of the Borrowers or any of its or their properties or assets or any part thereof or in respect of any of its or their franchises, businesses, income or profits.

"Trademarks" means and includes in each case whether now existing or hereafter arising, all of each Borrower's rights, title and interest in and to (a) any and all trademarks (including service marks), trade names and trade styles, and applications for registration thereof and the goodwill of the business symbolized by any of the foregoing, (b) any and all licenses of trademarks, service marks, trade names and/or trade styles, whether as licensor or licensee, (c) any renewals of any and all trademarks, service marks, trade names, trade styles and/or licenses of any of the foregoing, (d) income, royalties, damages and payments now or hereafter due and/or payable with respect thereto, including, without limitation, damages, claims, and payments for past, present and future infringements thereof, (e) rights to sue for past, present and future infringements of any of the foregoing, including the right to settle suits involving claims and demands for royalties owing, and (f) all rights corresponding to any of the foregoing throughout the world.

"Unearned Contract Value" means the difference between (a) the then fully funded dollar value of the contract or subcontract, whether or not earned, and (b) the total amounts previously billed and properly billable for accepted end items or services.

"Uniform Commercial Code" means, unless otherwise provided in this Agreement, the Uniform Commercial Code as adopted by and in effect from time to time in the State or in any other jurisdiction, as applicable.

"Wholly Owned Subsidiary" means any domestic United States corporation

all the shares of stock of all classes of which (other than directors' qualifying shares) at the time are owned directly or indirectly by a Borrower and/or by one or more Wholly Owned Subsidiaries of a Borrower.

Section 1.2 Accounting Terms and Other Definitional Provisions.

Unless otherwise defined herein, as used in this Agreement and in any certificate, report or other document made or delivered pursuant hereto, accounting terms not otherwise defined herein, and accounting terms only partly defined herein, to the extent not defined, shall have the respective meanings given to them under GAAP, as consistently applied to the applicable Person. All terms used herein which are defined by the Uniform Commercial Code shall have the same meanings as assigned to them by the Uniform Commercial Code unless and to the extent varied by this Agreement. The words "hereof", "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement, and article, section, subsection, schedule and exhibit references are references to articles, sections or subsections of, or schedules or exhibits to, as the case may be, this Agreement unless otherwise specified. As used herein, the singular number shall include the plural, the plural the singular and the use of the masculine, feminine or neuter gender shall include all genders, as the context may require. Reference to any one or more of the Financing Documents shall mean the same as the foregoing may from time to time be amended, restated, substituted, extended, renewed, supplemented or otherwise modified. Reference in this Agreement and the other Financing Documents to the "Borrower", the "Borrowers", "each Borrower" or otherwise with respect to any one or more of the Borrowers shall mean each and every Borrower and any one or more of the Borrowers, jointly and severally, unless a specific Borrower is expressly identified.

ARTICLE II

THE CREDIT FACILITIES

Section 2.1 The Revolving Credit Facility.

2.1.1 Revolving Credit Facility.

Subject to and upon the provisions of this Agreement, the Lender establishes a revolving credit facility in favor of the Borrowers. The aggregate of all advances under the Revolving Credit Facility is sometimes referred to in this Agreement collectively as the "Revolving Loan". The Lender's "Revolving Credit Committed Amount" is \$25,000,000. During the Revolving Credit Commitment Period, any or all of the Borrowers may request advances under the Revolving Credit Facility in accordance with the provisions of this Agreement; provided that after giving effect to any Borrower's request the aggregate outstanding principal balance of the Revolving Loan and all Letter of Credit Obligations would not exceed the lesser of (i) the Revolving Credit Committed Amount or (ii) the Borrowing Base.

Unless sooner paid, the unpaid Revolving Loan, together with interest accrued and unpaid thereon and all other Obligations shall be due and payable in full on the Revolving Credit Expiration Date. Interest on the Revolving Loan shall be payable on each Interest Payment Date.

2.1.2 Procedure for Making Advances Under the

Revolving Loan; Lender Protection Loans.

The Borrowers may borrow under the Revolving Credit Facility on any Business Day. Advances under the Revolving Loan shall be deposited to a demand deposit account of a Borrower with the Lender or shall be otherwise applied as directed by the Borrowers, which direction the Lender may require to be in writing. Not later than 1:00 p.m. (Eastern Time) on the date of the requested borrowing, the Borrowers shall give the Lender oral or written notice (a "Loan Notice") of the amount and (if requested by the Lender) the purpose of the requested borrowing and if requested by the Lender, be accompanied by a Borrowing Base Report. Any oral Loan Notice shall be confirmed in writing by the Borrowers within three (3) Business Days after the making of the requested advance under the Revolving Loan. Each Loan Notice shall be irrevocable.

In addition, each of the Borrowers hereby irrevocably authorizes the Lender at any time and from time to time, without further request from or notice to the Borrowers, to make advances under the Revolving

Loan, and irrevocably authorizes the Lender to establish, without duplication, reserves against the Borrowing Base, which the Lender, in its sole and absolute discretion, deems necessary or appropriate to protect the interests of the Lender under this Agreement, including, without limitation, advances and reserves under the Revolving Loan made to cover debit balances in the Revolving Loan Account, principal of, and/or interest on, any Loan, the Obligations (including, without limitation, any Letter of Credit Obligations), and/or Enforcement Costs, prior to, on, or after the termination of other advances under this Agreement, regardless of whether the outstanding principal amount of the Revolving Loan that the Lender may advance or the Lender may reserve hereunder exceeds the Total Revolving Credit Committed Amount or the Borrowing Base.

2.1.3 Borrowing Base.

As used in this Agreement, the term "Borrowing Base" means at any time, an amount equal to the sum of (i) eighty percent (80%) of the amount of Eligible Receivables and (ii) ninety percent (90%) of Eligible Receivables derived from Government Contracts. Any Eligible Receivables acquired by any of the Borrowers in connection with any Permitted Acquisition shall not be included in the Borrowing Base without the prior consent of the Lender.

The Borrowing Base shall be computed based on the Borrowing Base Report most recently delivered to and accepted by the Lender in its sole and absolute discretion. In the event the Borrowers fail to furnish a Borrowing Base Report required by Section 2.1.4 (Borrowing Base Report), or in the event the Lender believes that a Borrowing Base Report is no longer accurate, the Lender may, in its sole and absolute discretion exercised from time to time and without limiting other rights and remedies under this Agreement, suspend the making of or limit advances under the Revolving Loan. The Borrowing Base shall be subject to reduction by amounts credited to the Collateral Account since the date of the most recent Borrowing Base Report and by the amount of any Receivable which was included in the Borrowing Base but which the Lender determines fails to meet the respective criteria applicable from time to time for Eligible Receivables.

If at any time the total of the aggregate principal amount of the Revolving Loan and Outstanding Letter of Credit Obligations exceeds the Borrowing Base, a borrowing base deficiency ("Borrowing Base Deficiency") shall exist. Each time a Borrowing Base Deficiency exists, the Borrowers at the sole and absolute discretion of the Lender exercised from time to time shall pay the Borrowing Base Deficiency ON DEMAND to the Lender.

Without implying any limitation on the Lender's discretion with respect to the Borrowing Base, the criteria for Eligible Receivables contained in the definition of Eligible Receivables are in part based upon the business operations of the Borrowers existing on or about the Closing Date and upon information and records furnished to the Lender by the Borrowers. If at any time or from time to time hereafter, the business operations of the Borrowers change or such information and records furnished to the Lender is incorrect or misleading, the Lender in its discretion, may at any time and from time to time during the duration of this Agreement change such criteria or add new criteria. The Lender may communicate such changed or additional criteria to the Borrowers from time to time either orally or in writing.

2.1.4 Borrowing Base Report.

The Borrowers will furnish to the Lender no less frequently than monthly before the 20th day of each month and at such other times as may be requested by the Lender a report of the Borrowing Base (each a "Borrowing Base Report"; collectively, the "Borrowing Base Reports") in the form required from time to time by the Lender, appropriately completed and duly signed. The Borrowing Base Report shall contain the net amount due on the Receivables, and the calculations of the Borrowing Base, all in such detail, and accompanied by such supporting and other information, as the Lender may from time to time request. Upon the Lender's request and upon the creation of any Receivables, or at such intervals as the Lender may require, the Borrowers will provide the Lender with (a) confirmatory assignment schedules; (b) copies of Account Debtor invoices; (c) evidence of shipment or delivery; and (d) such further schedules, documents and/or information regarding the Receivables as the Lender may reasonably require. The items to be provided under this subsection shall be in form satisfactory to the Lender, and certified as true and correct

by a Responsible Officer, and delivered to the Lender from time to time solely for the Lender's convenience in maintaining records of the Collateral. Any Borrower's failure to deliver any of such items to the Lender shall not affect, terminate, modify, or otherwise limit the Liens of the Lender in the Collateral.

2.1.5 Revolving Credit Note.

The joint and several obligation of the Borrowers to pay the Revolving Loan, with interest, shall be evidenced by a promissory note (as from time to time extended, amended, restated, supplemented or otherwise modified, the "Revolving Credit Note") substantially in the form of EXHIBIT "B" attached hereto and made a part hereof, with appropriate insertions. The Revolving Credit Note shall be dated as of the Closing Date, shall be payable to the order of the Lender at the times provided in the Revolving Credit Note, and shall be in the principal amount of the Revolving Credit Committed Amount. The Revolving Credit Note shall be dated as of the Closing Date, shall be payable to the order of the Lender and shall be in the principal amount of the Revolving Credit Committed Amount.

Each of the Borrowers acknowledges and agrees that, if the outstanding principal balance of the Revolving Loan outstanding from time to time exceeds the Revolving Credit Committed Amount, the excess shall bear interest at the rates provided from time to time for advances under the Revolving Loan evidenced by the Revolving Credit Note and shall be payable, with accrued interest, ON DEMAND.

2.1.6 Mandatory Prepayments of Revolving Loan.

The Borrowers shall make the mandatory prepayments (each a "Revolving Loan Mandatory Prepayment" and collectively, the "Revolving Loan Mandatory Prepayments") of the Revolving Loan at any time and from time to time in such amounts requested by the Lender pursuant to Section 2.1.3 (Borrowing Base) in order to cover any Borrowing Base Deficiency.

2.1.7 Optional Prepayments of Revolving Loan.

The Borrowers shall have the option at any time and from time to time to prepay (each a "Revolving Loan Optional Prepayment" and collectively the "Revolving Loan Optional Prepayments") the Revolving Loan, in whole or in part without premium or penalty.

2.1.8 The Collateral Account.

Upon request of the Lender after the occurrence of a Default, the Borrowers will deposit, or cause to be deposited, all Items of Payment to a bank account designated by the Lender and from which the Lender alone has power of access and withdrawal (the "Collateral Account"). Each deposit shall be made not later than the next Business Day after the date of receipt of the Items of Payment. The Items of Payment shall be deposited in precisely the form received, except for the endorsements of the Borrowers where necessary to permit the collection of any such Items of Payment, which endorsement the Borrowers hereby agree to make. In the event the Borrowers fail to do so, the Borrowers hereby authorize the Lender to make the endorsement in the name of any or all of the Borrowers. Prior to such a deposit, the Borrowers will not commingle any Items of Payment with any of the Borrowers' other funds or property, but will hold them separate and apart in trust and for the account of the Lender.

In addition, if so directed by the Lender, the Borrowers shall direct the mailing of all Items of Payment from their Account Debtors to one or more post-office boxes designated by the Lender, or to such other additional or replacement post-office boxes pursuant to the request of the Lender from time to time (collectively, the "Lockbox"). The Lender shall have unrestricted and exclusive access to the Lockbox.

The Borrowers hereby authorize the Lender after the occurrence of a Default to inspect all Items of Payment, endorse all Items of Payment in the name of any or all of the Borrowers, and deposit such Items of Payment in the Collateral Account. The Lender reserves the right, exercised in its sole and absolute discretion from time to time, to provide to the Collateral Account credit prior to final collection of an Item of Payment and to disallow credit for any Item of Payment which is unsatisfactory to the

Lender. In the event Items of Payment are returned to the Lender for any reason whatsoever, the Lender may, in the exercise of its discretion from time to time, forward such Items of Payment a second time. Any returned Items of Payment shall be charged back to the Collateral Account, the Revolving Loan Account, or other account, as appropriate.

The Lender will after the occurrence of a Default apply the whole or any part of the collected funds credited to the Collateral Account against the Revolving Loan (or with respect to Items of Payment which are not proceeds of Accounts or Inventory or after an Event of Default, against any of the Obligations) or credit such collected funds to a depository account of any or all of the Borrowers with the Lender, the order and method of such application to be in the sole discretion of the Lender.

2.1.9 Revolving Loan Account.

The Lender will establish and maintain a loan account on its books (the "Revolving Loan Account") to which the Lender will (a) debit (i) the principal amount of each advance under the Revolving Loan made by the Lender hereunder as of the date made, (ii) the amount of any interest accrued on the Revolving Loan as and when due, and (iii) any other amounts due and payable by the Borrowers to the Lender from time to time under the provisions of this Agreement in connection with the Revolving Loan, including, without limitation, Enforcement Costs, Fees, late charges, and service, collection and audit fees, as and when due and payable, and (b) credit all payments made by the Borrowers to the Lender on account of the Revolving Loan as of the date made. The Lender may debit the Revolving Loan Account for the amount of any Item of Payment that is returned to the Lender unpaid. All credit entries to the Revolving Loan Account are conditional and shall be readjusted as of the date made if final and indefeasible payment is not received by the Lender in cash or solvent credits. The Borrowers hereby promise to pay to the order of the Lender, ON DEMAND, an amount equal to the excess, if any, of all debit entries over all credit entries recorded in the Revolving Loan Account under the provisions of this Agreement. Any and all periodic or other statements or reconciliations, and the information contained in those statements or reconciliations, of the Revolving Loan Account shall be presumed conclusively to be correct, and shall constitute an account stated between the Lender and the Borrowers unless the Lender receives specific written objection thereto from any Borrower within thirty (30) Business Days after such statement or reconciliation shall have been sent by the Lender. Any and all periodic or other statements or reconciliations, and the information contained in those statements or reconciliations, of the Revolving Loan Account shall be final, binding and conclusive upon the Borrowers in all respects, absent manifest error, unless the Lender receives specific written objection thereto from the Borrowers within thirty (30) Business Days after such statement or reconciliation shall have been sent by the Lender.

2.1.10 Revolving Credit Unused Line Fee.

Borrowers shall pay to Lender a revolving credit facility fee (collectively, the "Revolving Credit Unused Line Fees" and individually, a "Revolving Credit Unused Line Fee") in an amount equal to ten (10) basis points annum of the average daily unused and undisbursed portion of the Revolving Credit Committed Amount in effect from time to time accruing during each calendar quarter. The accrued and unpaid portion of the Revolving Credit Unused Line Fee shall be paid by Borrowers to Lender on the last day of each quarter, commencing on the first such date following the date hereof, and on the Revolving Credit Termination Date.

2.1.11 Optional Reduction of Total Revolving Credit

Committed Amount.

The Borrowers shall have the right to reduce permanently (each a "Revolving Credit Optional Reduction" and collectively the "Revolving Credit Optional Reductions") the Total Revolving Credit Committed Amount in effect from time to time in the amount of any integral multiple of One Million Dollars (\$1,000,000), upon at least fifteen (15) Business Days prior written notice to the Lender specifying the date and amount of such Revolving Credit Optional Reduction; provided, that no Revolving Credit Optional Reduction shall be permitted if, (i) after giving effect thereto and to any Revolving Loan Optional Prepayment made on the effective date thereof, the then outstanding principal amount of the Revolving Loan and Outstanding Letter of

Credit Obligations exceeds the Total Revolving Credit Committed Amount as so reduced or (ii) after giving effect to such Revolving Credit Optional Reduction there is not at least Five Million Dollars (\$5,000,000) of availability under the Revolving Loan. Such notice shall be irrevocable as to the amount and date of such Revolving Credit Optional Reduction.

Section 2.2 The Letter of Credit Facility.

2.2.1 Letters of Credit.

Subject to and upon the provisions of this Agreement, and as a part of the Revolving Credit Commitments, each of the Borrowers, upon the prior approval of the Lender, may obtain standby letters of credit (as the same may from time to time be amended, supplemented or otherwise modified, each a "Letter of Credit" and collectively the "Letters of Credit") from the Lender from time to time from the Closing Date until the Business Day preceding the Revolving Credit Termination Date. The Borrowers will not be entitled to obtain a Letter of Credit unless (a) the Borrowers are then able to obtain a Revolving Loan from the Lender in an amount not less than the proposed face amount of the Letter of Credit requested by the Borrowers, and (b) the sum of the then Outstanding Letter of Credit Obligations (including the amount of the requested Letter of Credit), unless otherwise agreed to by the Lender, does not exceed Five Million Dollars (\$5,000,000).

2.2.2 Letter of Credit Fees.

With respect to each Letter of Credit, the Borrowers shall pay to the Lender, for its own account, an issuance fee of one hundred twenty-five (125) basis points per annum of the stated amount of each Letter of Credit all without regard for provisions contained in the Letters of Credit which may give rise to a reduction in the stated amount thereof unless such reduction has actually occurred (each a "Letter of Credit Fronting Fee" and collectively, the "Letter of Credit Fees"). The Letter of Credit Fees shall be paid upon the opening of each Letter of Credit and upon each anniversary thereof, if any. In addition, the Borrowers shall pay to the Lender all other reasonable and customary amendment, negotiation, processing, transfer or other fees to the extent and as and when required by the provisions of any Letter of Credit Agreement. All Letter of Credit Fees and all such other additional fees are included in and are a part of the "Fees" payable by the Borrowers under the provisions of this Agreement and are for the sole and exclusive benefit of the Lender.

2.2.3 Terms of Letters of Credit; Post-Expiration Date

Letters of Credit.

Each Letter of Credit shall (a) be opened pursuant to a Letter of Credit Agreement and (b) expire on a date not later than the Business Day preceding the Revolving Credit Expiration Date; provided, however, if any Letter of Credit does have an expiration date later than the Business Day preceding the Revolving Credit Termination Date (each a "Post-Expiration Date Letter of Credit" and collectively, the "Post-Expiration Date Letters of Credit"), effective as of the Business Day preceding the Revolving Credit Termination Date and without prior notice to or the consent of the Borrowers, the Lender may make advances under the Revolving Loan for the account of the Borrowers in the aggregate face amount of all such Letters of Credit. The Lender may in its sole and absolute discretion issue or refuse to issue any Letter of Credit which is automatically renewable or "evergreen". The Lender shall deposit the proceeds of such advances into one or more non-interest bearing accounts with and in the name of the Lender and over which the Lender alone shall have exclusive power of access and withdrawal (collectively, the "Letter of Credit Cash Collateral Account"). The Letter of Credit Cash Collateral Account is to be held by the Lender, as additional collateral and security for any Letter of Credit Obligations relating to the Post-Expiration Date Letters of Credit. The Borrowers hereby assign, pledge, grant and set over to the Lender, a first priority security interest in, and Lien on, all of the funds on deposit in the Letter of Credit Cash Collateral Account, together with any and all Proceeds and products thereof as additional collateral and security for the Letter of Credit Obligations relating to the Post-Expiration Date Letters of Credit. The Borrowers acknowledge and agree that the Lender shall be entitled to fund any draw or draft on any Post-Expiration Date Letter of Credit from the monies on deposit in the Letter of Credit Cash Collateral Account without notice to or consent of the Borrowers.

The Borrowers further acknowledge and agree that the Lender's election to fund any draw or draft on any Post-Expiration Date Letter of Credit from the Letter of Credit Cash Collateral shall in no way limit, impair, lessen, reduce, release or otherwise adversely affect the Borrowers' obligation to pay any Letter of Credit Obligations under or relating to the Post-Expiration Date Letters of Credit. At such time as all Post-Expiration Date Letters of Credit have expired and all Letter of Credit Obligations relating to the Post-Expiration Date Letters of Credit have been paid in full, the Lender agrees to apply the amount of any remaining funds on deposit in the Letter of Credit Cash Collateral Account to the then unpaid balance of the Obligations under the Revolving Credit Facility in such order and manner as the Lender shall determine in its sole and absolute discretion in accordance with the provisions of this Agreement.

Each Letter of Credit shall be issued for purposes acceptable to Lender. The aggregate face amount of all Letters of Credit at any one time outstanding and issued by the Lender pursuant to the provisions of this Agreement, including, without limitation, any and all Post-Expiration Date Letters of Credit, plus the amount of any unpaid Letter of Credit Fees and unpaid Letter of Credit Fees accrued or scheduled to accrue thereon, and less the aggregate amount of all drafts issued under or purporting to have been issued under such Letters of Credit that have been paid by the Lender and for which the Lender has been reimbursed by the Borrowers in full in accordance with Section 2.2.5 (Payments of Letters of Credit) and the Letter of Credit Agreements, and for which the Lender has no further obligation or commitment to restore all or any portion of the amounts drawn and reimbursed, is herein called the "Outstanding Letter of Credit Obligations".

2.2.4 Procedures for Letters of Credit.

The Borrowers shall give the Lender written notice at least five (5) Business Days prior to the date on which the Borrower desires the Lender to issue a Letter of Credit. Such notice shall be accompanied by a duly executed Letter of Credit Agreement specifying, among other things: (a) the name and address of the intended beneficiary of the Letter of Credit, (b) the requested face amount of the Letter of Credit, (c) whether the Letter of Credit is to be revocable or irrevocable, (d) the Business Day on which the Letter of Credit is to be opened and the date on which the Letter of Credit is to expire, (e) the terms of payment of any draft or drafts which may be drawn under the Letter of Credit, and (f) any other terms or provisions the Borrowers desire to be contained in the Letter of Credit. Such notice shall also be accompanied by such other information, certificates, confirmations, and other items as the Lender may require to assure that the Letter of Credit is to be issued in accordance with the provisions of this Agreement and a Letter of Credit Agreement. In the event of any conflict between the provisions of this Agreement and the provisions of a Letter of Credit Agreement, the provisions of this Agreement shall prevail and control unless otherwise expressly provided in the Letter of Credit Agreement. Upon (x) receipt of such notice, (y) payment of all Letter of Credit Fees and all other Fees payable in connection with the issuance of such Letter of Credit, and (z) receipt of a duly executed Letter of Credit Agreement, the Lender shall process such notice and Letter of Credit Agreement in accordance with its customary procedures and open such Letter of Credit on the Business Day specified in such notice. The Lender shall not be obligated to issue any Letter of Credit where the expiration date automatically renews or is "evergreen".

2.2.5 Payments of Letters of Credit.

The Borrowers hereby promise to pay to the Lender, ON DEMAND and in United States Dollars, the following which are herein collectively referred to as the "Current Letter of Credit Obligations":

(a) the amount which the Lender has paid or will be required to pay under each draft or draw on a Letter of Credit, whether such demand be in advance of the Lender's payment or for reimbursement for such payment;

(b) any and all reasonable charges and expenses which the Lender may pay or incur relative to the Letter of Credit and/or such draws or drafts; and

(c) interest on the amounts described in (a) and (b) not paid by the Borrowers as and when due and payable

under the provisions of (a) and (b) above from the day the same are due and payable until paid in full at a rate per

In addition, the Borrowers hereby promise to pay any and all other Letter of Credit Obligations as and when due and payable in accordance with the provisions of this Agreement and the Letter of Credit Agreements. The obligation of the Borrowers to pay Current Letter of Credit Obligations and all other Letter of Credit Obligations shall be absolute and unconditional under any and all circumstances and irrespective of any setoff, counterclaim or defense to payment which the Borrowers or any other account party may have or have had against the beneficiary of such Letter of Credit, the Lender, or any other Person, including, without limitation, any defense based on the failure of any draft or draw to conform to the terms of such Letter of Credit, any draft or other document proving to be forged, fraudulent or invalid, or the legality, validity, regularity or enforceability of such Letter of Credit, any draft or other documents presented with any draft, any Letter of Credit Agreement, this Agreement, or any of the other Financing Documents, all whether or not the Lender had actual or constructive knowledge of the same, and irrespective of any Collateral, security or guarantee therefor or right of offset with respect thereto and irrespective of any other circumstances whatsoever which constitutes, or might be construed to constitute, an equitable or legal discharge of the Borrowers for any Letter of Credit Obligations, in bankruptcy or otherwise; provided, however, that the Borrowers shall not be obligated to reimburse the Lender for any wrongful payment under such Letter of Credit made as a result of the Lender's willful misconduct. The obligation of the Borrowers to pay the Letter of Credit Obligations shall not be conditioned or contingent upon the pursuit by the Lender or any other Person at any time of any right or remedy against any Person which may be or become liable in respect of all or any part of such obligation or against any Collateral, security or guarantee therefor or right of offset with respect thereto.

The Letter of Credit Obligations shall continue to be effective, or be reinstated, as the case may be, if at any time payment of all or any portion of the Letter of Credit Obligations is rescinded or must otherwise be restored or returned by the Lender upon the insolvency, bankruptcy, dissolution, liquidation or reorganization of any Person, or upon or as a result of the appointment of a receiver, intervenor, or conservator of, or trustee or similar officer for, any Person, or any substantial part of such Person's property, all as though such payments had not been made.

2.2.6 Change in Law; Increased Cost.

If any change in any law or regulation or in the interpretation thereof by any court or other Governmental Authority charged with the administration thereof shall either (a) impose, modify or deem applicable any reserve, special deposit or similar requirement against Letters of Credit issued by the Lender, or (b) impose on the Lender any other condition regarding this Agreement or any Letter of Credit, and the result of any event referred to in clauses (a) or (b) above shall be to increase the cost to the Lender of issuing, maintaining or extending the Letter of Credit or the cost to the Lender of funding any obligation under or in connection with the Letter of Credit (which increase in cost shall be the result of the Lender's reasonable allocation of the aggregate of such cost increases resulting from such events), then, upon demand by the Lender, the Borrowers shall immediately pay to the Lender from time to time as specified by the Lender, additional amounts which shall be sufficient to compensate the Lender for such increased cost, together with interest on each such amount from the date demanded until payment in full thereof at a rate per annum equal to the then highest current rate of interest on the Revolving Loan. A certificate as to such increased cost incurred by the Lender, submitted by the Lender to the Borrowers, shall be conclusive, absent manifest error.

2.2.7 General Letter of Credit Provisions.

The Borrowers hereby instruct the Lender to pay any draft complying with the terms of any Letter of Credit irrespective of any instructions of the Borrowers to the contrary. The Borrowers assume all risks of the acts and omissions of the beneficiary and other users of any Letter of Credit. The Lender and its branches, Affiliates and/or correspondents shall not be responsible for and the Borrowers hereby indemnify and hold the Lender and its branches, Affiliates and/or correspondents harmless from and against all liability, loss and expense (including reasonable attorney's fees and

costs) incurred by the Lender and/or its branches, Affiliates and/or correspondents relative to and/or as a consequence of (a) any failure by the Borrowers to perform the agreements hereunder and under any Letter of Credit Agreement, (b) any Letter of Credit Agreement, this Agreement, any Letter of Credit and any draft, draw and/or acceptance under or purported to be under any Letter of Credit, (c) any action taken or omitted by the Lender and/or any of its branches, Affiliates and/or correspondents at the request of the Borrowers, (d) any failure or inability to perform in accordance with the terms of any Letter of Credit by reason of any control or restriction rightfully or wrongfully exercised by any de facto or de jure Governmental Authority, group or individual asserting or exercising governmental or paramount powers, and/or (e) any consequences arising from causes beyond the control of the Lender and/or any of its branches, Affiliates and/or correspondents.

Except for willful misconduct, the Lender and its branches, Affiliates and/or correspondents, shall not be liable or responsible in any respect for any (a) error, omission, interruption or delay in transmission, dispatch or delivery of any one or more messages or advices in connection with any Letter of Credit, whether transmitted by cable, telegraph, mail or otherwise and despite any cipher or code which may be employed, and/or (b) action, inaction or omission which may be taken or suffered by it or them in good faith or through inadvertence in identifying or failing to identify any beneficiary or otherwise in connection with any Letter of Credit.

Any Letter of Credit may be amended, modified or revoked only upon the receipt by the Lender from the Borrowers and the beneficiary (including any transferee and/or assignee of the original beneficiary), of a written consent and request therefor.

If any Laws, order of court and/or ruling or regulation of any Governmental Authority of the United States (or any state thereof) and/or any country other than the United States permits a beneficiary under a Letter of Credit to require the Lender and/or any of their respective branches, Affiliates and/or correspondents to pay drafts under or purporting to be under a Letter of Credit after the expiration date of the Letter of Credit, the Borrowers shall reimburse the Lender, as appropriate, for any such payment pursuant to provisions of Section 2.2.6 (Change in Law; Increased Cost).

Except as may otherwise be specifically provided in a Letter of Credit or Letter of Credit Agreement, the laws of the State and the Uniform Customs and Practice for Documentary Credits, 1993 Revision, International Chamber of Commerce Publication No. 500 shall govern the Letters of Credit. The Laws, rules, provisions and regulations of the Uniform Customs and Practice for Documentary Credits are hereby incorporated by reference. In the event of a conflict between the Uniform Customs and Practice for Documentary Credits and the laws of the State, the Uniform Customs and Practice for Documentary Credits shall prevail.

Section 2.3 Interest.

2.3.1 General Provisions.

All payments hereunder (including any payment or prepayment of principal, interest, fees and other charges) or with respect to the Notes or the Loans shall be made in lawful money of the United States of America, in immediately available funds without set-off, deduction or counterclaim of any kind, to the Lender, at its office at 8521 Leesburg Pike, Suite 405 Vienna, Virginia 22182, or at such other place as the Lender may in writing designate, and shall be applied, first to accrued Obligations other than principal and interest, next to accrued interest, then to principal due on Loans bearing interest at the Prime-based Rate, and last to interest due on Loans bearing interest at a LIBOR-based Rate the last day of the Interest Period applicable thereto, unless the Interest Period is six months, in which case interest shall be due quarterly on the last day of each calendar quarter. Borrowers authorize the Lender to debit demand deposit account number _____ or any other account with Lender (routing number _____) designated in writing by VSE, beginning September 30, 2007 for any payments due to the Lender. VSE further certifies that VSE holds legitimate ownership of this account and preauthorizes this periodic debit as part of its right under said ownership. At the option of the Lender, the Loans shall bear interest at the Default Rate, payable on demand, during any period of Default hereunder.

2.3.2 Inability to Determine Rate.

In the event that the Lender shall have determined (which determination shall be conclusive and binding upon the Borrowers) that by reason of circumstances affecting the interbank Eurodollar market adequate and reasonable means do not exist for ascertaining the LIBOR Rate for any given Interest Period, the Lender shall forthwith give notice (which may be telephonic and promptly confirmed in writing or by facsimile transmission) of such determination to Borrowers at least two Euro-dollar Business Days prior to, as the case may be, the conversion date of any portion of the Principal Amount bearing interest at the Prime-based Rate to a LIBOR-based Rate. If such notice is given: (a) any portion of the Principal Amount bearing interest at the Prime-based Rate that was to have been converted to a LIBOR-based Rate, subject to the provisions hereof, shall be continued at the Prime-based Rate and (b) any portion of the Principal Amount bearing interest at a LIBOR-based Rate shall be converted, on the last day of the then current Interest Period with respect thereto, to the Prime-based Rate. Until such notice has been withdrawn by the Lender, the Borrowers shall not have the right to have a LIBOR-based Rate apply to any portion of the Principal Amount.

2.3.3 Indemnity.

The Borrowers agree to indemnify and reimburse the Lender and to hold the Lender harmless from any loss, cost (including administrative costs) or expense which any one or more of the Lender may sustain or incur as a consequence of (a) a default by the Borrowers in payment when due of the principal amount of or interest on any LIBOR Amount, (b) the failure of the Borrowers to make, or convert the Applicable Interest Rate of, a Loan after the Borrowers have given a Rate Request, (c) the failure of the Borrowers to make any prepayment of a Loan after the Borrowers have given notice of such intention to make such a prepayment, and/or (d) the making by the Borrowers of a prepayment of a Loan on a day which is not the last day of the Interest Period for such LIBOR Amount, calculated as provided in the following paragraph. This agreement and covenant of the Borrowers shall survive termination or expiration of this Agreement and payment of the other Obligations.

Contemporaneously with any prepayment of principal of a LIBOR Amount, a prepayment fee shall be due and payable to the Lender in an amount equal to the product of

(A) the amount so prepaid

multiplied by

(B) the difference (but not less than zero) of

(i) the constant maturity 360-day interest yield (as of the first day of the then effective Interest Period and expressed as a decimal) for a United States Treasury bill, note, or bond (a "Treasury obligation") selected by the Lender, in an aggregate amount comparable to the amount prepaid, and having, as of the first day of the then effective Interest Period, a remaining term approximately equal to the original Interest Period,

minus

(ii) the 360-day interest yield (as of the Business Day immediately preceding the prepayment date and expressed as a decimal) on such Treasury obligation and having, as of the Business Day immediately preceding the prepayment date, a remaining term until maturity approximately equal to the unexpired portion of the Interest Period,

multiplied by

(C) the quotient of

(y) the number of calendar days in the unexpired portion of the Interest Period,

divided by

(x) 360.

The applicable yields on the Treasury obligations described above shall be determined based upon the Federal Reserve statistical release H.15 published for the applicable determination dates set forth above. Any Treasury obligation selected when the related Interest Period is one year or less shall be United States Treasury Bills. The Lender shall not be obligated or required to have actually reinvested the prepaid amount of the LIBOR Amount in any such Treasury obligation as a condition precedent to the Borrowers' being obligated to pay a prepayment fee as outlined above. The Lender shall not be obligated to accept any prepayment of principal unless it is accompanied by the prepayment fee, if any, due in connection therewith as calculated pursuant to the provisions of this paragraph. No prepayment fee payable in connection herewith shall in any event or under any circumstances be deemed or construed as a penalty.

2.3.4 Payment of Interest.

Unpaid and accrued interest on each LIBOR Loan shall be paid (a) on the earlier of (i) the last Business Day of each Interest Period for such LIBOR Amount and (ii) three (3) months from the date of the LIBOR Amount and (b) at maturity (whether by acceleration, declaration, extension or otherwise); provided, however that any and all unpaid and accrued interest on any LIBOR Amount prepaid prior to expiration of the then current Interest Period for such LIBOR Amount shall be paid immediately upon prepayment.

Section 2.4 General Financing Provisions.

2.4.1 Borrowers' Representatives.

The Borrowers hereby represent and warrant to the Lender that each of them will derive benefits, directly and indirectly, from each Letter of Credit and from each Loan, both in their separate capacity and as a member of the integrated group to which each of the Borrowers belong and because the successful operation of the integrated group is dependent upon the continued successful performance of the functions of the integrated group as a whole, because (a) this financing is enabling any Permitted Acquisition, (b) the terms of the consolidated financing provided under this Agreement are more favorable than would otherwise would be obtainable by the Borrowers individually, and (c) the Borrowers' additional administrative and other costs and reduced flexibility associated with individual financing arrangements which would otherwise be required if obtainable would substantially reduce the value to the Borrowers of the financing. The Borrowers in the discretion of their respective managements are to agree among themselves as to the allocation of the benefits of Letters of Credit and the proceeds of Loans; provided, however, that the Borrowers shall be deemed to have represented and warranted to the Lender at the time of allocation that each benefit and use of proceeds is a Permitted Use.

For administrative convenience, each Borrower hereby irrevocably appoints VSE as the Borrower's attorney-in-fact, with power of substitution (with the prior written consent of the Lender in the exercise of its sole and absolute discretion), in the name of VSE or in the name of the Borrower or otherwise to take any and all actions with respect to the this Agreement, the other Financing Documents, the Obligations and/or the Collateral (including, without limitation, the Proceeds thereof) as VSE may so elect from time to time, including, without limitation, actions to (i) request advances under the Loans, apply for and direct the benefits of Letters of Credits, and direct the Lender to disburse or credit the proceeds of any Loan directly to an account of VSE, any one or more of the Borrowers or otherwise, which direction shall evidence the making of such Loan and shall constitute the acknowledgment by each of the Borrowers of the receipt of the proceeds of such Loan or the benefit of such Letter of Credit, (ii) enter into, execute, deliver, amend, modify, restate, substitute, extend and/or renew this Agreement, any Additional Borrower Joinder Supplement, any other Financing Documents, security agreements, mortgages, deposit account agreements, instruments, certificates, waivers, letter of credit applications, releases, documents and agreements from time to time, and (iii) endorse any check or other item of payment in the name of the Borrower or in the name of VSE. The foregoing appointment is coupled with an interest, cannot be revoked without

the prior written consent of the Lender, and may be exercised from time to time through VSE's duly authorized officer, officers or other Person or Persons designated by VSE to act from time to time on behalf of VSE.

Each of the Borrowers hereby irrevocably authorizes each of the Lender to make Loans to any one or more of the Borrowers, and to issue or cause to be issued Letters of Credit for the account of any or all of the Borrowers, pursuant to the provisions of this Agreement upon the written, oral or telephone request of any one or more of the Persons who is from time to time a Responsible Officer of a Borrower under the provisions of the most recent certificate of corporate resolutions and/or incumbency of the Borrowers on file with the Lender and also upon the written, oral or telephone request of any one of the Persons who is from time to time a Responsible Officer of VSE under the provisions of the most recent certificate of corporate resolutions and/or incumbency for VSE on file with the Lender.

The Lender assumes no responsibility or liability for any errors, mistakes, and/or discrepancies in the oral, telephonic, written or other transmissions of any instructions, orders, requests and confirmations between the Lender and the Borrowers in connection with the Credit Facilities, any Loan, any Letter of Credit or any other transaction in connection with the provisions of this Agreement. Without implying any limitation on the joint and several nature of the Obligations, the Lender agrees that, notwithstanding any other provision of this Agreement, the Borrowers may create reasonable inter-company indebtedness between or among the Borrowers with respect to the allocation of the benefits and proceeds of the advances and Credit Facilities under this Agreement. The Borrowers agree among themselves, and the Lender consents to that agreement, that each Borrower shall have rights of contribution from all of the other Borrowers to the extent such Borrower incurs Obligations in excess of the proceeds of the Loans received by, or allocated to purposes for the direct benefit of, such Borrower. All such indebtedness and rights shall be, and are hereby agreed by the Borrowers to be, subordinate in priority and payment to the indefeasible repayment in full in cash of the Obligations, and, unless the Lender agrees in writing otherwise, shall not be exercised or repaid in whole or in part until all of the Obligations have been indefeasibly paid in full in cash. The Borrowers agree that all of such inter-company indebtedness and rights of contribution are part of the Collateral and secure the Obligations. Each Borrower hereby waives all rights of counterclaim, recoupment and offset between or among themselves arising on account of that indebtedness and otherwise. Each Borrower shall not evidence the inter-company indebtedness or rights of contribution by note or other instrument, and shall not secure such indebtedness or rights of contribution with any Lien or security. Notwithstanding anything contained in this Agreement to the contrary, the amount covered by each Borrower under the Obligations (including, without limitation, Section 2.4.9 (Guaranty)) shall be limited to an aggregate amount (after giving effect to any collections from, rights to receive contribution from or payments made by or on behalf of any other Borrower in respect of the Obligations) which, together with other amounts owing by such Borrowers to the Lender under the Obligations, is equal to the largest amount that would not be subject to avoidance under the Bankruptcy Code or any applicable provisions of any applicable, comparable state or other Laws.

2.4.2 Use of Proceeds of the Loans.

The proceeds of each advance under the Loans shall be used by the Borrowers for Permitted Uses, and for no other purposes except as may otherwise be agreed by the Lender in writing. The Borrowers shall use the proceeds of the Loans promptly.

2.4.3 Field Examination Fees.

The Borrower shall pay to the Lender a field examination fee (collectively, the "Field Examination Fees" and individually a "Field Examination Fee"), which Field Examination Fees shall be payable at the time of each field examination of the Borrowers' books and records in an amount prior to an Event of Default, not to exceed the Lender's actual costs of obtaining such field audit.

2.4.4 Computation of Interest and Fees.

All applicable Fees and interest shall be calculated on the basis of a year of 360 days for the actual number of days elapsed. Any

change in the interest rate on any of the Obligations resulting from a change in the Prime Rate shall become effective as of the opening of business on the day on which such change in the Prime Rate is announced.

2.4.5 Maximum Interest Rate.

In no event shall any interest rate provided for hereunder exceed the maximum rate permissible for corporate borrowers under applicable law for loans of the type provided for hereunder (the "Maximum Rate"). If, in any month, any interest rate, absent such limitation, would have exceeded the Maximum Rate, then the interest rate for that month shall be the Maximum Rate, and, if in future months, that interest rate would otherwise be less than the Maximum Rate, then that interest rate shall remain at the Maximum Rate until such time as the amount of interest paid hereunder equals the amount of interest which would have been paid if the same had not been limited by the Maximum Rate. In the event that, upon payment in full of the Obligations, the total amount of interest paid or accrued under the terms of this Agreement is less than the total amount of interest which would, but for this Section, have been paid or accrued if the interest rates otherwise set forth in this Agreement had at all times been in effect, then the Borrowers shall, to the extent permitted by applicable law, pay the Lender, an amount equal to the excess of (a) the lesser of (i) the amount of interest which would have been charged if the Maximum Rate had, at all times, been in effect or (ii) the amount of interest which would have accrued had the interest rates otherwise set forth in this Agreement, at all times, been in effect over (b) the amount of interest actually paid or accrued under this Agreement. In the event that a court determines that the Lender has received interest and other charges hereunder in excess of the Maximum Rate, such excess shall be deemed received on account of, and shall automatically be applied to reduce, the Obligations other than interest, in the inverse order of maturity, and if there are no Obligations outstanding, the Lender shall refund to the Borrowers such excess.

2.4.6 Payments.

All payments of the Obligations, including, without limitation, principal, interest, Prepayments, and Fees, shall be paid by the Borrowers without setoff or counterclaim to the Lender (except as otherwise provided herein) at the Lender's office specified in Section 8.1 (Notices) in immediately available funds not later than noon (Eastern Time) on the due date of such payment. All payments received by the Lender after such time shall be deemed to have been received by the Lender for purposes of computing interest and Fees and otherwise as of the next Business Day. Payments shall not be considered received by the Lender until such payments are paid to the Lender in immediately available funds.

2.4.7 Liens; Setoff.

The Borrowers hereby grant to the Lender a continuing Lien for all of the Obligations upon any and all monies, Investment Property, and other property of the Borrowers and the Proceeds thereof, now or hereafter held or received by or in transit to, the Lender, and/or any Affiliate of the Lender, from or for the Borrowers, and also upon any and all deposit accounts (general or special) and credits of the Borrowers, if any, with the Lender or any Affiliate of the Lender, at any time existing, excluding any deposit accounts held by the Borrowers in their capacity as trustee for Persons who are not Borrowers or Affiliates of the Borrowers. Without implying any limitation on any other rights the Lender may have under the Financing Documents or applicable Laws, during the continuance of an Event of Default, the Lender, is hereby authorized by the Borrowers at any time and from time to time, without notice to the Borrowers, to set off, appropriate and apply any or all items hereinabove referred to against all Obligations (including, without limitation, the Obligations) then outstanding (whether or not then due), all in such order and manner as shall be determined by the Lender in its sole and absolute discretion.

2.4.8 Requirements of Law.

In the event that the Lender shall have determined in good faith that (a) the adoption of any Capital Adequacy Regulation, or (b) any change in any Capital Adequacy Regulation or in the interpretation or application thereof or (c) compliance by the Lender or any corporation controlling the Lender with any request or directive regarding any capital adequacy (whether or not having the force of law) from any central bank or

Governmental Authority, does or shall have the effect of reducing the rate of return on the capital of the Lender or any corporation controlling the Lender, as a consequence of the obligations of the Lender hereunder to a level below that which the Lender or any corporation controlling the Lender would have achieved but for such adoption, change or compliance (taking into consideration the policies of the Lender and the corporation controlling the Lender, with respect to capital adequacy) by an amount deemed by the Lender to be material, then from time to time, after submission by the Lender to the Borrowers of a written request therefor and a statement of the basis for such determination, the Borrowers shall pay to the Lender such additional amount or amounts in order to compensate for such reduction.

2.4.9 Guaranty.

(a) Each Borrower hereby unconditionally and irrevocably, guarantees to the Lender:

(i) the due and punctual payment in full (and not merely the collectibility) by the other Borrowers of the Obligations, including unpaid and accrued interest thereon, in each case when due and payable, all according to the terms of this Agreement, the Notes and the other Financing Documents;

(ii) the due and punctual payment in full (and not merely the collectibility) by the other Borrowers of all other sums and charges which may at any time be due and payable in accordance with this Agreement, the Notes or any of the other Financing Documents;

(iii) the due and punctual performance by the other Borrowers of all of the other terms, covenants and conditions contained in the Financing Documents; and

(iv) all the other Obligations of the other Borrowers.

(b) The obligations and liabilities of each Borrower as a guarantor under this Section 2.4.9 shall be absolute and unconditional and joint and several, irrespective of the genuineness, validity, priority, regularity or enforceability of this Agreement, any of the Notes or any of the Financing Documents or any other circumstance which might otherwise constitute a legal or equitable discharge of a surety or guarantor. Each Borrower in its capacity as a guarantor expressly agrees that the Lender may, in their sole and absolute discretion, without notice to or further assent of such Borrower and without in any way releasing, affecting or in any way impairing the joint and several obligations and liabilities of such Borrower as a guarantor hereunder:

(i) waive compliance with, or any defaults under, or grant any other indulgences under or with respect to any of the Financing Documents;

(ii) modify, amend, change or terminate any provisions of any of the Financing Documents;

(iii) grant extensions or renewals of or with respect to the Credit Facilities, the Notes or any of the other Financing Documents;

(iv) effect any release, subordination, compromise or settlement in connection with this Agreement, any of the Notes or any of the other Financing Documents;

(v) agree to the substitution, exchange, release or other disposition of the Collateral or any part thereof, or any other collateral for the Loan or to the subordination of any lien or security interest therein;

(vi) make advances for the purpose of performing any term, provision or covenant contained in this Agreement, any of the Notes or any of the other Financing Documents with respect to which the Borrowers shall then be in default;

(vii) make future advances pursuant to this Agreement or any of the other Financing Documents;

(viii) assign, pledge, hypothecate or otherwise transfer the Revolving Credit Commitments, the Obligations, the Notes, any of the other Financing Documents or any interest therein, all as and to the extent permitted by the provisions of this Agreement;

(ix) deal in all respects with the other Borrowers as if this Section 2.4.9 were not in effect;

(x) effect any release, compromise or settlement with any of the other Borrowers, whether in their capacity as a Borrower or as a guarantor under this Section 2.4.9, or any other guarantor; and

(xi) provide debtor-in-possession financing or allow use of cash collateral in proceedings under the Bankruptcy Code, it being expressly agreed by all Borrowers that any such financing and/or use would be part of the Obligations.

(c) The obligations and liabilities of each Borrower, as guarantor under this Section 2.4.9, shall be primary, direct and immediate, shall not be subject to any counterclaim, recoupment, set off, reduction or defense based upon any claim that a Borrower may have against any one or more of the other Borrowers, the Lender and/or any other guarantor and shall not be conditional or contingent upon pursuit or enforcement by the Lender of any remedies it may have against the Borrowers with respect to this Agreement, the Notes or any of the other Financing Documents, whether pursuant to the terms thereof or by operation of law. Without limiting the generality of the foregoing, the Lender shall not be required to make any demand upon any of the Borrowers, or to sell the Collateral or otherwise pursue, enforce or exhaust its or their remedies against the Borrowers or the Collateral either before, concurrently with or after pursuing or enforcing its rights and remedies hereunder. Any one or more successive or concurrent actions or proceedings may be brought against each Borrower under this Section 2.4.9, either in the same action, if any, brought against any one or more of the Borrowers or in separate actions or proceedings, as often as the Lender may deem expedient or advisable. Without limiting the foregoing, it is specifically understood that any modification, limitation or discharge of any of the liabilities or obligations of any one or more of the Borrowers, any other guarantor or any obligor under any of the Financing Documents, arising out of, or by virtue of, any bankruptcy, arrangement, reorganization or similar proceeding for relief of debtors under federal or state law initiated by or against any one or more of the Borrowers, in their respective capacities as borrowers and guarantors under this Section 2.4.9, or under any of the Financing Documents shall not modify, limit, lessen, reduce, impair, discharge, or otherwise affect the liability of each Borrower under this Section 2.4.9 in any manner whatsoever, and this Section 2.4.9 shall remain and continue in full force and effect. It is the intent and purpose of this Section 2.4.9 that each Borrower shall and does hereby waive all rights and benefits which might accrue to any other guarantor by reason of any such proceeding, and the Borrowers agree that they shall be liable for the full amount of the obligations and liabilities under this Section 2.4.9, regardless of, and irrespective to, any modification, limitation or discharge of the liability of any one or more of the Borrowers, any other guarantor or any obligor under any of the Financing Documents, that may result from any such proceedings.

(d) Each Borrower, as guarantor under this Section 2.4.9, hereby unconditionally, jointly and severally, irrevocably and expressly waives:

(i) presentment and demand for payment of the Obligations and protest of non-payment;

(ii) notice of acceptance of this Section 2.4.9 and of presentment, demand and protest thereof;

(iii) notice of any default hereunder or under the Notes or any of the other Financing Documents and notice of all indulgences;

(iv) notice of any increase in the amount of any portion of or all of the indebtedness guaranteed by

this Section 2.4.9;

(v) demand for observance, performance or enforcement of any of the terms or provisions of this Section 2.4.9, the Notes or any of the other Financing Documents;

(vi) all errors and omissions in connection with the Lender's administration of all indebtedness guaranteed by this Section 2.4.9, except errors and omissions resulting from acts of bad faith;

(vii) any right or claim of right to cause a marshalling of the assets of any one or more of the other Borrowers;

(viii) any act or omission of the Lender which changes the scope of the risk as guarantor hereunder; and

(ix) all other notices and demands otherwise required by law which the Borrower may lawfully waive.

Within ten (10) days following any request of the Lender so to do, each Borrower will furnish the Lender and such other persons as the Lender may direct with a written certificate, duly acknowledged stating in detail whether or not any credits, offsets or defenses exist with respect to this Section 2.4.9.

2.4.10 ACH Transactions and Swap Transactions.

The Borrowers may request and the Lender or its Affiliates may, in their sole and absolute discretion, provide ACH Transactions and Swap Transactions although the Borrowers are not required to do so. In the event the Borrowers request the Lender or its Affiliates to procure ACH Transactions or Swap Transactions, then the Borrowers agree to indemnify and hold the Lender or its affiliates harmless from any and all obligations now or hereafter owing to the or its affiliates. The Borrowers agree to pay the Lender or its Affiliates all amounts owing to the Lender or its Affiliates pursuant to ACH Transactions and Swap Transactions. In the event the Borrowers shall not have paid to the Lender or its Affiliates such amounts, the Lender may cover such amounts by an advance under the Revolving Loan, which advance shall be deemed to have been requested by the Borrowers. The Borrowers acknowledge and agree that the obtaining of ACH Transactions and Swap Transactions from the Lender or its Affiliates (a) is in the sole and absolute discretion of the Lender or its Affiliates and (b) is subject to all rules and regulations of the Lender or its Affiliates.

ARTICLE III THE COLLATERAL

Section 3.1 Debt and Obligations Secured.

All property and Liens assigned, pledged or otherwise granted under or in connection with this Agreement (including, without limitation, those under Section 3.2 (Grant of Liens)) or any of the Financing Documents shall secure (a) the payment of all of the Obligations, including, without limitation, any and all Outstanding Letter of Credit Obligations, and (b) the performance, compliance with and observance by the Borrowers of the provisions of this Agreement and all of the other Financing Documents or otherwise under the Obligations.

Section 3.2 Grant of Liens.

Each of the Borrowers hereby assigns, pledges and grants to the Lender and agrees that the Lender shall have a perfected and continuing security interest in, and Lien on, all of the Borrowers' Accounts, Inventory, Government Contracts, Chattel Paper, Documents, Instruments, Equipment, Investment Property, and General Intangibles and all of the Borrower's deposit accounts with any financial institution with which the Borrower maintains deposits, whether now owned or existing or hereafter acquired or arising, all returned, rejected or repossessed goods, the sale or lease of which shall have given or shall give rise to an Account or Chattel Paper, all insurance policies relating to the foregoing, all books and records in whatever media

(paper, electronic or otherwise) recorded or stored, with respect to the foregoing and all Equipment and General Intangibles necessary or beneficial to retain, access and/or process the information contained in those books and records, and Proceeds of the foregoing. Each of the Borrowers further agrees that the Lender shall have in respect thereof all of the rights and remedies of a secured party under the Uniform Commercial Code as well as those provided in this Agreement, under each of the other Financing Documents and under applicable Laws.

Section 3.3 Collateral Disclosure List.

On or prior to the Closing Date, the Borrowers shall deliver to the Lender a list (the "Collateral Disclosure List") which shall contain such information with respect to each Borrower's business and real and personal property as the Lender may require and shall be certified by a Responsible Officer of each of the Borrowers, all in the form provided to the Borrowers by the Lender. Promptly after demand by the Lender, the Borrowers, as appropriate, shall furnish to the Lender an update of the information contained in the Collateral Disclosure List at any time and from time to time as may be requested by the Lender.

Section 3.4 Personal Property.

The Borrowers acknowledge and agree that it is the intention of the parties to this Agreement that the Lender shall have a first priority, perfected Lien, in form and substance satisfactory to the Lender and its counsel, on all of the Borrowers' assets of any kind and nature whatsoever, whether now owned or hereafter acquired, subject only to the Permitted Liens, if any. In furtherance of the foregoing:

3.4.1 Investment Property, Chattel Paper, Promissory

Notes, etc.

On the Closing Date and without implying any limitation on the scope of Section 3.2 (Grant of Liens), each of the Borrowers shall deliver to the Lender, all originals of all of the Borrower's letters of credit, Investment Property, Chattel Paper, Documents and Instruments and, if the Lender so requires, shall execute and deliver a separate pledge, assignment and security agreements in form and content acceptable to the Lender, which pledge, assignment and security agreements shall assign, pledge and grant a Lien to the Lender on all of each Borrower's letters of credit, Investment Property, Chattel Paper, Documents and Instruments.

In the event that any of the Borrowers shall acquire after the Closing Date any letters of credit, Investment Property, Chattel Paper, Documents or Instruments, each such Borrower shall promptly so notify the Lender and deliver the originals of all of the foregoing to the Lender promptly and in any event within ten (10) days of each acquisition.

All letters of credit, Investment Property, Chattel Paper, Documents and Instruments shall be delivered to the Lender endorsed and/or assigned as required by the pledge, assignment and security agreement and/or as the Lender may require and, if applicable, shall be accompanied by blank irrevocable and unconditional stock or bond powers.

3.4.2 Patents, Copyrights and Other Property Requiring

Additional Steps to Perfect.

On the Closing Date and without implying any limitation on the scope of Section 3.2 (Grant of Liens), the Borrowers shall execute and deliver all Financing Documents and take all actions requested by the Lender in order to perfect a first priority assignment of Patents, Copyrights, Trademarks, customer lists or any other type or kind of intellectual property acquired by any of the Borrowers after the Closing Date.

3.4.3 Government Contracts Requiring Additional Steps

to Perfect.

Each Borrower covenants and agrees that it shall provide Lender with all necessary information and will execute and deliver such

documents as are required to comply with the Federal Assignment of Claims Act of 1940 (31 U.S.C. Section 3727 and 41 U.S.C. Section 15), to perfect Lender's security interest in Government Contracts on such Government Contracts as Lender may determine in its sole discretion.

Section 3.5 Record Searches.

As of the Closing Date and thereafter at the time any Financing Document is executed and delivered by the Borrowers pursuant to this Section, the Lender shall have received, in form and substance satisfactory to the Lender, such Lien or record searches with respect to all of the Borrowers and/or any other Person, as appropriate, and the property covered by such Financing Document showing that the Lien of such Financing Document will be a perfected first priority Lien on the property covered by such Financing Document subject only to Permitted Liens or to such other matters as the Lender may approve.

Section 3.6 Costs.

The Borrowers agree to pay, as part of the Enforcement Costs and to the fullest extent permitted by applicable Laws, on demand all costs, fees and expenses incurred by Lender in connection with the taking, perfection, preservation, protection and/or release of a Lien on the Collateral, including, without limitation:

(a) customary fees and expenses incurred by Lender in preparing, reviewing, negotiating and finalizing the Financing Documents from time to time (including, without limitation, reasonable attorneys' fees incurred in connection with preparing, reviewing, negotiating, and finalizing any of the Financing Documents, including, any amendments and supplements thereto);

(b) all filing and/or recording taxes or fees;

(c) all costs of Lien and record searches;

(d) reasonable attorneys' fees in connection with all legal opinions required; and

(e) all related costs, fees and expenses.

Section 3.7 Release.

Upon the indefeasible repayment in full in cash of the Obligations and performance of all Obligations of the Borrowers and all obligations and liabilities of each other Person, other than the Lender, under this Agreement and all other Financing Documents, the termination and/or expiration of all of the Revolving Credit Commitments, all Letters of Credit and all Outstanding Letter of Credit Obligations, upon the Borrowers' request and at the Borrowers' sole cost and expense, the Lender shall release and/or terminate any Financing Document but only if and provided that there is no commitment or obligation (whether or not conditional) of the Lender to re-advance amounts which would be secured thereby and/or no commitment or obligation of the Lender to issue any Letter of Credit or return or restore any payment of any Current Letter of Credit Obligations.

Section 3.8 Inconsistent Provisions.

In the event that the provisions of any Financing Document directly conflict with any provision of this Agreement, the provisions of this Agreement govern.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES

Section 4.1 Representations and Warranties.

The Borrowers, for themselves and for each other, represent and warrant to the Lender, as follows:

4.1.1 Subsidiaries.

The Borrowers have the Subsidiaries listed on the

Collateral Disclosure List attached hereto and made a part hereof and no others. Each of the Subsidiaries is a Wholly Owned Subsidiary except as shown on the Collateral Disclosure List, which correctly indicates the nature and amount of each Borrower's ownership interests therein.

4.1.2 Good Standing.

Each Borrower and its Subsidiaries (a) is a corporation duly organized, existing and in good standing under the laws of the jurisdiction of its incorporation, (b) has the corporate power to own its property and to carry on its business as now being conducted, and (c) is duly qualified to do business and is in good standing in each jurisdiction in which the character of the properties owned by it therein or in which the transaction of its business makes such qualification necessary.

4.1.3 Power and Authority.

Each Borrower has full corporate power and authority to execute and deliver this Agreement, and the other Financing Documents to which it is a party, to make the borrowings and request Letters of Credit under this Agreement, and to incur and perform the Obligations whether under this Agreement, the other Financing Documents or otherwise, all of which have been duly authorized by all proper and necessary corporate action. No consent or approval of shareholders or any creditors of any Borrower, and no consent, approval, filing or registration with or notice to any Governmental Authority on the part of any Borrower, is required as a condition to the execution, delivery, validity or enforceability of this Agreement, or any of the other Financing Documents or the performance by any Borrower of the Obligations.

4.1.4 Binding Agreements.

This Agreement and the other Financing Documents executed and delivered by the Borrowers have been properly executed and delivered and constitute the valid and legally binding obligations of the Borrowers and are fully enforceable against each of the Borrowers in accordance with their respective terms, subject to bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting the rights and remedies of creditors and secured parties, and general principles of equity regardless of whether applied in a proceeding in equity or at law.

4.1.5 No Defaults, Violations.

(a) No Default or Event of Default has occurred and is continuing.

(b) None of the Borrowers nor any of their respective Subsidiaries is in default under or with respect to any obligation under any existing mortgage, indenture, contract or agreement binding on it or affecting its property in any respect which could be materially adverse to the business, operations, property or financial condition of any Borrower, or which could materially adversely affect the ability of any Borrower to perform its obligations under this Agreement or the other Financing Documents, to which any Borrower is a party.

4.1.6 Compliance with Laws.

None of the Borrowers nor any of their respective Subsidiaries is in violation of any applicable Laws (including, without limitation, any Laws relating to employment practices, to environmental, occupational and health standards and controls) or order, writ, injunction, decree or demand of any court, arbitrator, or any Governmental Authority affecting any Borrower or any of its properties, the violation of which, considered in the aggregate, could materially adversely affect the business, operations or properties of any Borrower and/or its Subsidiaries.

4.1.7 Investment Company Act.

None of the Borrowers nor any of their respective Subsidiaries is an investment company within the meaning of the Investment Company Act of 1940, as amended, nor is it, directly or indirectly, controlled by or acting on behalf of any Person which is an investment company within the meaning of said Act.

4.1.8 Litigation.

Except as otherwise disclosed on Schedule 4.1.8 attached hereto and made a part hereof, there are no proceedings, actions or investigations pending or, so far as any Borrower knows, threatened before or by any court, arbitrator or any Governmental Authority which, in any one case or in the aggregate, if determined adversely to the interests of any Borrower or any Subsidiary, would have a material adverse effect on the business, properties, condition (financial or otherwise) or operations, present or prospective, of any Borrower.

4.1.9 Financial Condition.

The consolidated financial statements of the Borrowers dated March 31, 2007, are complete and correct and fairly present the financial position of each of the Borrowers and its Subsidiaries and the results of their operations and transactions in their surplus accounts as of the date and for the period referred to and have been prepared in accordance with GAAP applied on a consistent basis throughout the period involved. There are no liabilities, direct or indirect, fixed or contingent, of any Borrower or any Subsidiary as of the date of such financial statements that are not reflected therein or in the notes thereto. There has been no adverse change in the financial condition or operations of any Borrower or any Subsidiary since the date of such financial statements and to the Borrowers' knowledge no such adverse change is pending or threatened. None of the Borrowers nor any Subsidiary has guaranteed the obligations of, or made any investment in or advances to, any Person, except as disclosed in such financial statements.

4.1.10 Full Disclosure.

The financial statements referred to in Section 4.1.9 (Financial Condition) of this Agreement, the Financing Documents (including, without limitation, this Agreement), and the statements, reports or certificates furnished by any Borrower in connection with the Financing Documents (a) do not contain any untrue statement of a material fact and (b) when taken in their entirety, do not omit any material fact necessary to make the statements contained therein not misleading. There is no fact known to any Borrower which such Borrower has not disclosed to the Lender in writing prior to the date of this Agreement with respect to the transactions contemplated by the Financing Documents which materially and adversely affects or in the future could, in the reasonable opinion of that Borrower materially adversely affect the condition, financial or otherwise, results of operations, business, or assets of any Borrower or of any Subsidiary.

4.1.11 Indebtedness for Borrowed Money.

Except for the Obligations and except as set forth in Schedule 4.1.11 attached hereto and made a part hereof, the Borrowers have no Indebtedness for Borrowed Money. The Lender has received photocopies of all promissory notes evidencing any Indebtedness for Borrowed Money set forth in Schedule 4.1.11, together with any and all subordination agreements, other agreements, documents, or instruments securing, evidencing, guarantying or otherwise executed and delivered in connection therewith.

4.1.12 Taxes.

Each of the Borrowers and its Subsidiaries has filed all returns, reports and forms for Taxes which, to the knowledge of the Borrowers, are required to be filed, and has paid all Taxes as shown on such returns or on any assessment received by it, to the extent that such Taxes have become due, unless and to the extent only that such Taxes, assessments and governmental charges are currently contested in good faith and by appropriate proceedings by a Borrower, such Taxes are not the subject of any Liens other than Permitted Liens, and adequate reserves therefor have been established as required under GAAP. All tax liabilities of the Borrowers were as of the date of audited financial statements referred to in Section 4.1.9 (Financial Condition), and are now, adequately provided for on the books of the Borrowers and its Subsidiaries, as appropriate. No tax liability has been asserted by the Internal Revenue Service or any state or local authority against any Borrower for Taxes in excess of those already paid.

4.1.13 ERISA.

With respect to any Plan that is maintained or contributed to by any Borrower and/or by any Commonly Controlled Entity or as to which any

of the Borrowers retains material liability: (a) no "accumulated funding deficiency" as defined in Code Section 412 or ERISA Section 302 has occurred, whether or not that accumulated funding deficiency has been waived; (b) no Reportable Event has occurred other than events for which reporting has been waived or that are unlikely to result in material liability for any of the Borrowers; (c) no termination of any plan subject to Title IV of ERISA has occurred; (d) neither any Borrower nor any Commonly Controlled Entity has incurred a "complete withdrawal" within the meaning of ERISA Section 4203 from any Multi-employer Plan that is likely to result in material liability for one or more of the Borrowers; (e) neither any Borrower nor any Commonly Controlled Entity has incurred a "partial withdrawal" within the meaning of ERISA Section 4205 with respect to any Multi-employer Plan that is likely to result in material liability for one or more of the Borrowers; (f) no Multi-employer Plan to which any Borrower or any Commonly Controlled Entity has an obligation to contribute is to the knowledge of the Borrowers, in "reorganization" within the meaning of ERISA Section 4241 nor has notice been received by any Borrower or any Commonly Controlled Entity that such a Multi-employer Plan will be placed in "reorganization."

4.1.14 Title to Properties.

The Borrowers have good and marketable title to all of their respective properties, including, without limitation, the Collateral and the properties and assets reflected in the balance sheets described in Section 4.1.9 (Financial Condition). The Borrowers have legal, enforceable and uncontested rights to use freely such property and assets. All of such properties, including, without limitation, the Collateral which were purchased, were purchased for fair consideration and reasonably equivalent value in the ordinary course of business of both the seller and the Borrowers and not, by way of example only, as part of a bulk sale.

4.1.15 Patents, Trademarks, Etc.

Each of the Borrowers and its Subsidiaries owns, possesses, or has the right to use all necessary Patents, licenses, Trademarks, Copyrights, permits and franchises to own its properties and to conduct its business as now conducted, without known conflict with the rights of any other Person. Any and all obligations to pay royalties or other charges with respect to such properties and assets are properly reflected on the financial statements described in Section 4.1.9 (Financial Condition).

4.1.16 Employee Relations.

Except as disclosed on Schedule 4.1.16 attached hereto and made a part hereof, (a) no Borrower nor any Subsidiary thereof nor any of the Borrower's or Subsidiary's employees is subject to any collective bargaining agreement, (b) no petition for certification or union election is pending with respect to the employees of any Borrower or any Subsidiary and no union or collective bargaining unit has sought such certification or recognition with respect to the employees of a Borrower, (c) there are no strikes, slowdowns, work stoppages or controversies pending or, to the best knowledge of the Borrowers after due inquiry, threatened between any Borrower and its employees, and (d) no Borrower nor any Subsidiaries is subject to an employment contract, commission contract or bonus agreement. Hours worked and payments made to the employees of any one or more of the Borrowers have not been in violation of the Fair Labor Standards Act or any other applicable law dealing with such matters. All payments due from any one or more of the Borrowers or for which any claim may be made against a Borrower, on account of wages and employee and retiree health and welfare insurance and other benefits have been paid or accrued as a liability on its books. The consummation of the transactions contemplated by the Financing Agreement will not give rise to a right of termination or right of renegotiation on the part of any union under any collective bargaining agreement to which any Borrower is a party or by which it is bound.

4.1.17 Presence of Hazardous Materials or Hazardous

Materials Contamination.

To the best of each Borrower's knowledge, (a) no Hazardous Materials are located on any real property owned, controlled or operated by of any Borrower or for which any Borrower is, or is claimed to be, responsible, except for reasonable quantities of necessary supplies for use by a Borrower in the ordinary course of its current line of business and stored, used and

disposed in accordance with applicable Laws and as otherwise permitted under Section 6.1.12 of this Agreement; and (b) no property owned, controlled or operated by any Borrower or for which any Borrower has, or is claimed to have, responsibility has ever been used as a manufacturing, storage, or dump site for Hazardous Materials nor is affected by Hazardous Materials Contamination at any other property.

4.1.18 Perfection and Priority of Collateral.

The Lender have, or upon execution and recording of this Agreement and the Security Documents will have, and will continue to have as security for the Obligations, a valid and perfected Lien on and security interest in all Collateral, free of all other Liens, claims and rights of third parties whatsoever except Permitted Liens, including, without limitation, those described on Schedule 4.1.18 attached hereto and made a part hereof.

4.1.19 Places of Business and Location of Collateral.

The information contained in the Collateral Disclosure List is complete and correct. The Collateral Disclosure List completely and accurately identifies the address of (a) the chief executive office of each Borrower, (b) any and each other place of business of each Borrower, (c) the location of all books and records pertaining to the Collateral, and (d) each location, other than the foregoing, where any of the Collateral is located. The proper and only places to file financing statements with respect to the Collateral within the meaning of the Uniform Commercial Code are the filing offices for those jurisdictions in which any one or more of the Borrowers maintain a place of business as identified on the Collateral Disclosure List.

4.1.20 Business Names and Addresses.

In the five (5) years preceding the date hereof, no Borrower has changed its name, identity or corporate structure, has conducted business under any name other than its current name, and has conducted its business in any jurisdiction other than those disclosed on the Collateral Disclosure List.

4.1.21 Equipment.

All Equipment is personalty and is not and will not be affixed to real estate in such manner as to become a fixture or part of such real estate. No equipment is held by any Borrower on a sale on approval basis.

4.1.22 Inventory.

The Inventory of the Borrowers is (a) of good and merchantable quality, free from defects, (b) not stored with a bailee, warehouseman, carrier, or similar party, (c) not on consignment, sale on approval, or sale or return, and (d) located at the places of business set forth on the Collateral Disclosure List. No goods offered for sale by any Borrower are consigned to or held on sale or return terms by that Borrower.

4.1.23 Accounts.

With respect to all Accounts and to the best of the Borrowers' knowledge (a) they are genuine, and in all respects what they purport to be, and are not evidenced by a judgment, an Instrument, or Chattel Paper (unless such judgment has been assigned and such Instrument or Chattel Paper has been endorsed and delivered to the Lender); (b) they represent bona fide transactions completed in accordance with the terms and provisions contained in the invoices, purchase orders and other contracts relating thereto, and the underlying transaction therefor is in accordance with all applicable Laws; (c) the amounts shown on the respective Borrower's books and records, with respect thereto are actually and absolutely owing to that Borrower and are not contingent or subject to reduction for any reason other than regular discounts, credits or adjustments allowed by that Borrower in the ordinary course of its business; (d) no payments have been or shall be made thereon except payments turned over to the Lender by the Borrowers to reduce the Obligations; (e) all Account Debtors thereon have the capacity to contract; and (f) the goods sold, leased or transferred or the services furnished giving rise thereto are not subject to any Liens except the security

interest granted to the Lender by this Agreement and Permitted Liens.

4.1.24 Compliance with Eligibility Standards.

Each Account included in the calculation of the Borrowing Base does and will at all times meet and comply with all of the standards for Eligible Receivables. With respect to those Accounts which the Lender has deemed Eligible Receivables (a) there are no facts, events or occurrences which in any way impair the validity, collectibility or enforceability thereof or tend to reduce the amount payable thereunder; and (b) there are no proceedings or actions known to any Borrower which are threatened or pending against any Account Debtor which might result in any material adverse change in the Borrowing Base.

4.1.25 Solvency

Each of the Borrowers is Solvent prior to and after giving effect to the making of the Loans.

4.1.26 Claims and Investigations.

There exist no pending or threatened claims, investigations (whether formal or informal), litigation, disputes, protests or other controversies involving the Borrowers or any Affiliate pertaining to or arising out of any contract with any Governmental Authority which, if adversely determined, would have a material adverse effect on the business, assets, operations or condition, financial or otherwise, of the Borrowers or any Affiliate. Neither the Borrowers nor any Affiliate has filed nor has any basis for filing any claims or demands for payment against the United States or any other party arising out of or in connection with any such contract, other than progress billings, public vouchers, and invoices submitted in the ordinary course of business.

4.1.27 Government Contract Obligations.

With respect to all Government Contracts no Borrower or any Affiliate has defaulted under any Government Contract which default would be a basis of terminating such Government Contract.

4.1.28 Post-closing Financial Statements.

Borrower will furnish to the Lender a post-closing pro-forma consolidated balance sheet of Borrowers and its Subsidiaries as of immediately after consummation of any Permitted Acquisition and the transactions incident thereto (each a "Post-closing Balance Sheet") together with post-closing financial projections for the fiscal year period subsequent to the Permitted Acquisition (each a "Post-closing Financial Projections"). The Post-closing Financial Projections will represent Borrowers best estimate of the future operations of each Borrower and are based on reasonable and conservative assumptions.

Section 4.2 Survival; Updates of Representations and Warranties.

All representations and warranties contained in or made under or in connection with this Agreement and the other Financing Documents shall survive the Closing Date, the making of any advance under the Loans and extension of credit made hereunder, and the incurring of any other Obligations and shall be deemed to have been made at the time of each request for, and again at the time of the making of, each advance under the Loans or the issuance of each Letter of Credit, except that the representations and warranties which relate to the financial statements which are referred to in Section 4.1.9 (Financial Condition), shall also be deemed to cover financial statements furnished from time to time to the Lender pursuant to Section 6.1.1 (Financial Statements).

ARTICLE V CONDITIONS PRECEDENT

Section 5.1 Conditions to the Initial Advance and Initial Letter of

Credit.

The making of the initial advance under the Loans and the issuance of the initial Letter of Credit is subject to the fulfillment on or before the

Closing Date of the following conditions precedent in a manner satisfactory in form and substance to the Lender and its counsel:

5.1.1 Organizational Documents - Borrowers

The Lender shall have received for each Borrower:

(a) a certificate of good standing certified by the Secretary of State, or other appropriate Governmental Authority, of the state of incorporation of such Borrower;

(b) a certified copy from the appropriate Governmental Authority under which such Borrower is organized, of such Borrower's recorded limited partnership certificate and all recorded amendments thereto;

(c) a certificate of qualification to do business for such Borrower certified by the Secretary of State or other Governmental Authority of each state in which such Borrower conducts business;

(d) a certificate dated as of the Closing Date by the Secretary or an Assistant Secretary of such Borrower covering:

(i) true and complete copies of that Borrower's corporate charter, bylaws, and all amendments thereto;

(ii) the incumbency, authority and signatures of the officers of such Borrower authorized to sign this Agreement and the other Financing Documents to which such Borrower is a party; and

(iii) the identity of such Borrower's current directors, common stock holders and other equity holders, as well as their respective percentage ownership interests.

5.1.2 Consents, Licenses, Approvals, Etc.

The Lender shall have received copies of all consents, licenses and approvals, required in connection with the execution, delivery, performance, validity and enforceability of the Financing Documents and such consents, licenses and approvals shall be in full force and effect.

5.1.3 Note.

The Lender shall have received the Revolving Credit Note, conforming to the requirements hereof and executed by a Responsible Officer of each Borrower and attested by a duly authorized representative of each Borrower.

5.1.4 Financing Documents and Collateral.

Each Borrower shall have executed and delivered the Financing Documents to be executed by it, and shall have delivered original Chattel Paper, Instruments, Investment Property, and related Collateral and all opinions, and other documents contemplated by ARTICLE III (The Collateral).

5.1.5 Other Documents, Etc.

The Lender shall have received such other certificates, opinions, documents and instruments confirmatory of or otherwise relating to the transactions contemplated hereby as may have been reasonably requested by the Lender.

5.1.6 Payment of Fees.

The Lender shall have received payment of any Fees due on or before the Closing Date.

5.1.7 Collateral Disclosure List.

Each Borrower shall have delivered the Collateral

Disclosure List required under the provisions of Section 3.3 (Collateral Disclosure List) duly executed by a Responsible Officer of each Borrower.

5.1.8 Recordings and Filings.

Each Borrower shall have: (a) executed and delivered all Financing Documents required to be filed, registered or recorded in order to create, in favor of the Lender, a perfected Lien in the Collateral (subject only to the Permitted Liens) in form and in sufficient number for filing, registration, and recording in each office in each jurisdiction in which such filings, registrations and recordings are required, and (b) delivered such evidence as the Lender may deem satisfactory that all necessary filing fees and all recording and other similar fees, and all Taxes and other expenses related to such filings, registrations and recordings will be or have been paid in full.

5.1.9 Insurance Certificate.

The Lender shall have received an insurance certificate in accordance with the provisions of Section 6.1.8 (Insurance) and Section 6.1.20 (Insurance With Respect to Equipment and Inventory).

5.1.10 Landlord's Waivers.

The Lender shall have received a landlord's waiver from each landlord of each and every business premise requested by the Lender, leased by each Borrower and on which any of the Collateral is or may hereafter be located, which landlords' waivers must be reasonably acceptable to the Lender and its counsel in their sole and absolute discretion.

Section 5.2 Conditions to all Extensions of Credit.

The making of all advances under the Loans and the issuance of all Letters of Credit is subject to the fulfillment of the following conditions precedent in a manner satisfactory in form and substance to the Lender and its counsel:

5.2.1 Compliance.

Each Borrower shall have complied and shall then be in compliance with all terms, covenants, conditions and provisions of this Agreement and the other Financing Documents that are binding upon it.

5.2.2 Borrowing Base.

The Borrowers shall have furnished all Borrowing Base Reports required by Section 2.1.4 (Borrowing Base Report), there shall exist no Borrowing Base Deficiency, and as evidence thereof, the Borrowers shall have furnished to the Lender such reports, schedules, certificates, records and other papers as may be requested by the Lender, and the Borrowers shall be in compliance with the provisions of this Agreement both immediately before and immediately after the making of the advance requested.

5.2.3 Default.

There shall exist no Event of Default or Default hereunder.

5.2.4 Representations and Warranties.

The representations and warranties of each of the Borrowers contained among the provisions of this Agreement shall be true and with the same effect as though such representations and warranties had been made at the time of the making of, and of the request for, each advance under the Loans or the issuance of each Letter of Credit, except that the representations and warranties which relate to financial statements which are referred to in Section 4.1.9 (Financial Condition), shall also be deemed to cover financial statements furnished from time to time to the Lender pursuant to Section 6.1.1 (Financial Statements).

5.2.5 Adverse Change.

No adverse change shall have occurred in the condition

(financial or otherwise), operations or business of any Borrower that would, in the good faith judgment of the Lender, materially impair the ability of that Borrower to pay or perform any of the Obligations.

5.2.6 Legal Matters.

All legal documents incident to each advance under the Loans and each of the Letters of Credit shall be reasonably satisfactory to counsel for the Lender.

ARTICLE VI COVENANTS OF THE BORROWERS

Section 6.1 Affirmative Covenants.

So long as any of the Obligations (or any the Revolving Credit Commitments therefor) shall be outstanding hereunder, the Borrowers agree jointly and severally with the Lender as follows:

6.1.1 Financial Statements.

The Borrowers shall furnish to the Lender:

(a) Annual Statements and Certificates. The Borrowers shall furnish to the Lender as soon as available, but in no event more than ninety (90) days after the close of the Borrowers' fiscal years, (i) a copy of the annual financial statement in reasonable detail satisfactory to the Lender relating to the Borrowers and their Subsidiaries, prepared in accordance with GAAP and examined and certified by independent certified public accountants satisfactory to the Lender, which financial statement shall include a consolidated and consolidating balance sheet of the Borrowers and their Subsidiaries as of the end of such fiscal year and consolidated and consolidating statements of income, cash flows and changes in shareholders equity of the Borrowers and their Subsidiaries for such fiscal year, and (ii) a Compliance Certificate, in substantially the form attached to this Agreement as EXHIBIT C, containing a detailed computation of each financial covenant in this Agreement which is applicable for the period reported, a certification that no change has occurred to the information contained in the Collateral Disclosure List (except as set forth in any schedule attached to the certification), each prepared by a Responsible Officer of the Borrowers in a format acceptable to the Lender and (iii) if issued, a management letter in the form prepared by the Borrowers' independent certified public accountants.

(b) Quarterly Statements and Certificates. The Borrowers shall furnish to the Lender as soon as available, but in no event more than forty-five (45) days after the close of the Borrowers' fiscal quarters, consolidated and consolidating balance sheets of the Borrowers and its Subsidiaries as of the close of such period, consolidated and consolidating income, cash flows and changes in shareholders equity statements for such period, and a Compliance Certificate, in substantially the form attached to this Agreement as EXHIBIT C, containing a detailed computation of each financial covenant in this Agreement which is applicable for the period reported, a certification that no change has occurred to the information contained in the Collateral Disclosure List (except as set forth on any schedule attached to the certification), each prepared by a Responsible Officer of or on behalf of each Borrower in a format acceptable to the Lender, all as prepared and certified by a Responsible Officer of the Borrowers and accompanied by a certificate of that officer stating whether any event has occurred which constitutes a Default or an Event of Default hereunder, and, if so, stating the facts with respect thereto.

(c) Monthly Reports. The Borrowers shall furnish to the Lender within twenty (20) days after the end of each fiscal month, a Borrowing Base Report, and a report containing the following information:

(i) a detailed aging schedule of all Receivables by Account Debtor, in such detail, and accompanied by such supporting information, as the Lender may from time to time reasonably request;

(ii) a detailed aging of all accounts payable by supplier, in such detail, and accompanied by such supporting information, as the Lender may from time to time reasonably request; and

(iii) such other information as the Lender

may reasonably request.

(d) Contract Backlog Report. With the annual financial statements to be delivered hereunder or at such other times as the Lender may request, reports relating to the Receivable included in any Borrowing Base Report submitted during such quarter setting forth a description of contracts giving rise to such Receivable, the percentage of completion of the work to be performed with respect to such contracts, the amounts billed under such contracts and the amounts remaining to be billed, in form and detail satisfactory to the Lender.

(e) Government Contract Audits. Promptly after any Borrower's receipt thereof, notice of any final decision of a contracting officer disallowing costs aggregating more than One Hundred Thousand Dollars (\$100,000), which disallowed costs arising out of any audit of such Borrower's contract with a Governmental Authority.

(f) Additional Reports and Information. The Borrowers shall furnish to the Lender promptly, such additional information, reports or statements as the Lender may from time to time reasonably request.

6.1.2 Reports to SEC and to Stockholders.

The Borrowers will furnish to the Lender, promptly upon the filing or making thereof, at least one (1) copy of all financial statements, reports, notices and proxy statements sent by any Borrower to its stockholders, and of all regular and other reports filed by any Borrower with any securities exchange or with the Securities and Exchange Commission.

6.1.3 Recordkeeping, Rights of Inspection, Field

Examination, Etc.

(a) Each of the Borrowers shall, and shall cause each of its Subsidiaries to, maintain (i) a standard system of accounting in accordance with GAAP, and (ii) proper books of record and account in which full, true and correct entries are made of all dealings and transactions in relation to its properties, business and activities.

(b) Each of the Borrowers shall, and shall cause each of its Subsidiaries to, permit authorized representatives of the Lender to visit and inspect the properties of the Borrowers and its Subsidiaries, to review, audit, check and inspect the Collateral at any time with or without notice, to review, audit, check and inspect the Borrowers' other books of record at any time with or without notice and to make abstracts and photocopies thereof, and to discuss the affairs, finances and accounts of the Borrowers and their Subsidiaries, with the officers, directors, employees and other representatives of the Borrowers and their Subsidiaries and their respective accountants, all at such times during normal business hours and other reasonable times and as often as the Lender may reasonably request.

(c) Each of the Borrowers hereby irrevocably authorizes and directs all accountants and auditors employed by any of the Borrowers and/or any of their Subsidiaries at any time prior to the repayment in full of the Obligations to exhibit and deliver to the Lender copies of any and all of the financial statements, trial balances, management letters, or other accounting records of any nature of any or all of the Borrowers and/or any or all of their respective Subsidiaries in the accountant's or auditor's possession, and to disclose to the Lender any information they may have concerning the financial status and business operations of any or all of the Borrowers and/or any or all of their respective Subsidiaries. Further, each of the Borrowers hereby authorizes all Governmental Authorities to furnish to the Lender copies of reports or examinations relating to any and all of the Borrowers and/or any or all Subsidiaries, whether made by the Borrowers or otherwise.

(d) Any and all reasonable costs and expenses incurred by, or on behalf of, the Lender in connection with the conduct of any of the foregoing, including, without limitation, travel, lodging, meals, and other shall be part of the Enforcement Costs and shall be payable to the Lender upon demand. The Borrowers acknowledge and agree that such expenses may include, but shall not be limited to, any and all out-of-pocket costs and expenses of the Lender's employees and agents in, and when, traveling to any of the Borrowers' facilities.

6.1.4 Corporate Existence.

Each of the Borrowers shall maintain, and cause each of its Subsidiaries to maintain, its corporate existence in good standing in the jurisdiction in which it is incorporated and in each other jurisdiction where it is required to register or qualify to do business if the failure to do so in such other jurisdiction might have a material adverse effect on the ability of the Borrower to perform the Obligations, on the conduct of the Borrower's operations, on the Borrower's financial condition, or on the value of, or the ability of the Lender to realize upon, the Collateral.

6.1.5 Compliance with Laws.

Each of the Borrowers shall comply, and cause each of its Subsidiaries to comply, with all applicable Laws and observe the valid requirements of Governmental Authorities, the noncompliance with or the non-observance of which might have a material adverse effect on the ability of the Borrowers to perform the Obligations, on the conduct of the Borrowers' operations, on the Borrowers' consolidated financial condition, or on the value of, or the ability of the Lender to realize upon, the Collateral.

6.1.6 Preservation of Properties.

Each of the Borrowers will, and will cause each of its Subsidiaries to, at all times (a) maintain, preserve, protect and keep its properties, whether owned or leased, in good operating condition, working order and repair (ordinary wear and tear excepted), and from time to time will make all proper repairs, maintenance, replacements, additions and improvements thereto needed to maintain such properties in good operating condition, working order and repair, and (b) do or cause to be done all things necessary to preserve and to keep in full force and effect its material franchises, leases of real and personal property, trade names, Patents, Trademarks, Copyrights and permits which are necessary for the orderly continuance of its business.

6.1.7 Line of Business.

Each of the Borrowers will continue to engage substantially in the business of providing diversified engineering, technical and management services.

6.1.8 Insurance.

Each of the Borrowers will, and will cause each of its Subsidiaries to, at all times maintain with "A" or better rated insurance companies such insurance as is required by applicable Laws and such other insurance, in such amounts, of such types and against such risks, hazards, liabilities, casualties and contingencies as are usually insured against in the same geographic areas by business entities engaged in the same or similar business. Without limiting the generality of the foregoing, each of the Borrowers will, and will cause each of its Subsidiaries to, keep adequately insured all of its property against loss or damage resulting from fire or other risks insured against by extended coverage and maintain public liability insurance against claims for personal injury, death or property damage occurring upon, in or about any properties occupied or controlled by it, or arising in any manner out of the businesses carried on by it, all in such amounts not less than the Lender shall reasonably determine from time to time. Each of the Borrowers shall deliver to the Lender on the Closing Date (and thereafter on each date there is a material change in the insurance coverage) a certificate from the Borrowers' insurance carrier of the Borrowers containing a detailed list of the insurance then in effect and stating the names of the insurance companies, the types, the amounts and rates of the insurance, dates of the expiration thereof and the properties and risks covered thereby. Within thirty (30) days after notice in writing from the Lender, the Borrowers will obtain such additional insurance as the Lender may reasonably request.

6.1.9 Taxes.

Except to the extent that the validity or amount thereof is being contested in good faith and by appropriate proceedings, each of the Borrowers will, and will cause each of its Subsidiaries, to pay and discharge all Taxes prior to the date when any interest or penalty would accrue for the nonpayment thereof. Each of the Borrowers shall furnish to the Lender at such

times as the Lender may require proof satisfactory to the Lender of the making of payments or deposits required by applicable Laws including, without limitation, payments or deposits with respect to amounts withheld by any of the Borrowers from wages and salaries of employees and amounts contributed by any of the Borrowers on account of federal and other income or wage taxes and amounts due under the Federal Insurance Contributions Act, as amended.

6.1.10 ERISA.

Each Borrower will, and will cause each of its Commonly Controlled Entities to, comply with the funding requirements of ERISA with respect to Plans for its respective employees. No Borrower will permit with respect to any Plan (a) any prohibited transaction or transactions under ERISA or the Internal Revenue Code, which results, or may result, in any material liability of the Borrower, or (b) any Reportable Event if, upon termination of the Plan or Plans with respect to which one or more such Reportable Events shall have occurred, there is or would be any material liability of the Borrower to the PBGC. Upon the Lender's request, each Borrower will deliver to the Lender a copy of the most recent actuarial report, financial statements and annual report completed with respect to any Plan.

6.1.11 Notification of Events of Default and Adverse

Developments.

Each of the Borrowers shall promptly notify the Lender upon obtaining knowledge of the occurrence of:

(a) any Event of Default;

(b) any Default;

(c) any litigation instituted or their knowledge threatened against any of the Borrowers or any of their Subsidiaries and of the entry of any judgment or Lien (other than any Permitted Liens) against any of the assets or properties of any of the Borrowers or any Subsidiary where the claims against any Borrower or any Subsidiary exceed Two Hundred Fifty Thousand Dollars (\$250,000) and are not covered by insurance;

(d) any event, development or circumstance whereby the financial statements furnished hereunder fail in any material respect to present fairly, in accordance with GAAP, the financial condition and operational results of any of the Borrowers or any of their respective Subsidiaries;

(e) any default under any contract with any Governmental Authority or any event which if not corrected could give rise to a default under any such contract or a termination for convenience;

(f) any judicial, administrative or arbitral proceeding pending against any of the Borrowers or any of their respective Subsidiaries and any judicial or administrative proceeding known by any of the Borrowers to be threatened against any Borrower or any Subsidiary which, if adversely decided, could materially adversely affect the financial condition or operations (present or prospective) of any Borrower or any Subsidiary;

(g) the receipt by any of the Borrowers or any Subsidiary of any notice, claim or demand from any Governmental Authority which alleges that any of the Borrowers or any Subsidiary is in violation of any of the terms of, or has failed to comply with any applicable material Laws regulating its operation and business, including, but not limited to, the Occupational Safety and Health Act and the Environmental Protection Act; and

(h) any other development in the business or affairs of any of the Borrowers or any of their respective Subsidiaries which may be materially adverse; in each case describing in detail satisfactory to the Lender the nature thereof and the action the Borrowers propose to take with respect thereto.

6.1.12 Hazardous Materials; Contamination.

Each of the Borrowers agrees to:

(a) give notice to the Lender immediately upon acquiring knowledge of the presence of any Hazardous Materials or any Hazardous Materials Contamination on any property owned, operated or controlled by any Borrower or for which any Borrower is, or is claimed to be, responsible (provided that such notice shall not be required for Hazardous Materials placed or stored on such property in accordance with applicable Laws in the ordinary course (including, without limitation, quantity) of a Borrower's line of business expressly described in this Agreement), with a full description thereof;

(b) promptly comply with any Laws requiring the removal, treatment or disposal of Hazardous Materials or Hazardous Materials Contamination and provide the Lender with satisfactory evidence of such compliance;

(c) provide the Lender, within thirty (30) days after a demand by the Lender, with a bond, letter of credit or similar financial assurance evidencing to the Lender's satisfaction that the necessary funds are available to pay the cost of removing, treating, and disposing of such Hazardous Materials or Hazardous Materials Contamination and discharging any Lien which may be established as a result thereof on any property owned, operated or controlled by any Borrower or for which any Borrower is, or is claimed to be, responsible; and

(d) as part of the Obligations, defend, indemnify and hold harmless the Lender and its agents, employees, trustees, successors and assigns from any and all claims which may now or in the future (whether before or after the termination of this Agreement) be asserted as a result of the presence of any Hazardous Materials or any Hazardous Materials Contamination on any property owned, operated or controlled by any Borrower for which any Borrower is, or is claimed to be, responsible. Each Borrower acknowledges and agrees that this indemnification shall survive the termination of this Agreement and the Revolving Credit Commitments and the payment and performance of all of the other Obligations.

6.1.13 Disclosure of Significant Transactions.

Each of the Borrowers shall deliver to the Lender a written notice describing in detail each transaction by it involving the purchase, sale, lease, or other acquisition or loss or casualty to or disposition of an interest in Fixed or Capital Assets (other than Capital Expenditures permitted by Section 6.2.20 of this Agreement) which exceeds Two Hundred Fifty Thousand Dollars (\$250,000.00), said notices to be delivered to the Lender within thirty (30) days of the occurrence of each such transaction.

6.1.14 Financial Covenants.

(a) Tangible Net Worth. The Borrowers, on a consolidated basis, shall at all times maintain a Tangible Net Worth of not less than sum of Twenty-Five Million Dollars (\$25,000,000), plus fifty percent (50%) of the Borrowers' consolidated annual net income (after the payment or provision for payment of income taxes), on a cumulative basis, for each fiscal year of the Borrowers commencing with the fiscal year ending December 31, 2007.

(b) Net Income. The Borrowers will maintain, on a consolidated basis and tested as of the last day of each of Borrowers' fiscal quarters for the four (4) quarter period ending on that date, consolidated net income (after the payment or provision for payment of income taxes), less the amount of dividends declared in such period of not less than \$1.00.

6.1.15 Collection of Receivables.

Until such time that the Lender shall notify the Borrowers of the revocation of such privilege, the Borrowers and their Subsidiaries shall at their own expense have the privilege for the account of, and in trust for, the Lender of collecting their Receivables and receiving in respect

thereto all Items of Payment and shall otherwise completely service all of the Receivables including (a) the billing, posting and maintaining of complete records applicable thereto, (b) the taking of such action with respect to the Receivables as the Lender may request or in the absence of such request, as each of the Borrowers and each of the Subsidiaries may deem advisable; and (c) the granting, in the ordinary course of business, to any Account Debtor, any rebate, refund or adjustment to which the Account Debtor may be lawfully entitled, and may accept, in connection therewith, the return of goods, the sale or lease of which shall have given rise to a Receivable and may take such other actions relating to the settling of any Account Debtor's claim as may be commercially reasonable. The Lender may, at its option, at any time or from time to time after and during the continuance of an Event of Default hereunder, revoke the collection privilege given in this Agreement to any one or more of the Borrowers and each of the Subsidiaries by either giving notice of its assignment of, and Lien on the Collateral to the Account Debtors or giving notice of such revocation to the Borrowers. The Lender shall not have any duty to, and the Borrowers hereby release the Lender from all claims of loss or damage caused by the delay or failure to collect or enforce any of the Receivables or to preserve any rights against any other party with an interest in the Collateral. The Lender shall be entitled at any time and from time to time to confirm and verify Receivables.

6.1.16 Assignments of Receivables.

Each Borrower will promptly, upon request, execute and deliver to the Lender written assignments, in form and content acceptable to the Lender, of specific Receivables or groups of Receivables; provided, however, the Lien and/or security interest granted to the Lender, under this Agreement shall not be limited in any way to or by the inclusion or exclusion of Receivables within such assignments. Receivables so assigned shall secure payment of the Obligations and are not sold to the Lender whether or not any assignment thereof, which is separate from this Agreement, is in form absolute. The Borrowers agree that neither any assignment to the Lender nor any other provision contained in this Agreement or any of the other Financing Documents shall impose on the Lender any obligation or liability of any of the Borrowers with respect to that which is assigned and the Borrowers hereby agree jointly and severally to indemnify the Lender and hold the Lender harmless from any and all claims, actions, suits, losses, damages, costs, expenses, fees, obligations and liabilities which may be incurred by or imposed upon the Lender by virtue of the assignment of and Lien on any Borrower's rights, title and interest in, to, and under the Collateral.

6.1.17 Government Accounts.

The Borrowers will upon request of the Lender immediately notify the Lender if any of the Receivables arise out of contracts with the United States or with any other Governmental Authority, and, if requested by the Lender, execute any Instruments and take any steps required by the Lender in order that all moneys due and to become due under such contracts shall be assigned to the Lender, for the ratable benefit of the Lender and for the benefit of the Lender with respect to the Lender's Obligations, and notice thereof given to the Governmental Authority under the Federal Assignment of Claims Act or any other applicable Laws.

6.1.18 Notice of Returned Goods, etc.

The Borrowers will promptly notify, and will cause the Subsidiaries to promptly notify, the Lender of the return, rejection or repossession of any goods of the Borrowers or any Subsidiaries sold or delivered in respect of any Receivables, and of any claims made in regard thereto to the extent that the aggregate purchase price of any such goods in any given calendar month exceeds in the aggregate One Hundred Fifty Thousand Dollars (\$150,000.00) for such month.

6.1.19 Inventory.

With respect to the Inventory, the Borrowers and their Subsidiaries will, after an Event of Default: (a) maintain a perpetual inventory reporting system at all times, (b) keep correct and accurate records itemizing and describing the kind, type, quality and quantity of Inventory, the Borrowers' and Subsidiaries' cost therefor and the selling price thereof, all of which records shall be available to the officers, employees or agents of the Lender upon demand for inspection and copying thereof; (c) not store

any Inventory with a bailee, warehouseman or similar Person without the Lender's prior written consent, which consent may be conditioned on, among other things, delivery by the bailee, warehouseman or similar Person to the Lender of warehouse receipts, in form acceptable to the Lender, in the name of the Lender evidencing the storage of Inventory and the interests of the Lender therein; (d) permit the Lender and its agents or representatives to inspect and examine the Inventory and to check and test the same as to quality, quantity, value and condition at any time or times hereafter during the Borrowers' and Subsidiaries' usual business hours or at other reasonable times and (e) at the Lender's request, designate the Lender as the consignee on all bills of lading and other negotiable and non-negotiable documents. The Borrowers shall be permitted to sell their Inventory in the ordinary course of business until the occurrence of an Event of Default.

6.1.20 Insurance With Respect to Equipment and

Inventory.

The Borrowers will (a) maintain and cause each of their Subsidiaries to maintain hazard insurance with fire and extended coverage and naming the Lender as an additional insured with loss payable to the Lender as its respective interest may appear on the Equipment and Inventory in an amount at least equal to the lesser amount of the outstanding principal amount of the Obligations or the fair market value of the Equipment and Inventory (but in any event sufficient to avoid any co-insurance obligations) and with a specific endorsement to each such insurance policy pursuant to which the insurer agrees to give the Lender at least thirty (30) days written notice before any alteration or cancellation of such insurance policy and that no act or default of any of the Borrowers shall affect the right of the Lender to recover under such policy in the event of loss or damage; (b) file, and cause each of their Subsidiaries to file, with the Lender, upon its request, a detailed list of the insurance then in effect and stating the names of the insurance companies, the amounts and rates of the insurance, dates of the expiration thereof and the properties and risks covered thereby; and (c) within thirty (30) days after notice in writing from the Lender, obtain, and cause each of their Subsidiaries to obtain, such additional insurance as the Lender may reasonably request.

6.1.21 Maintenance of the Collateral.

The Borrowers will maintain the Collateral in good working order, saving and excepting ordinary wear and tear, and will not permit anything to be done to the Collateral that may materially impair the value thereof. The Lender, or an agent designated by the Lender, shall be permitted to enter the premises of each of the Borrowers and their Subsidiaries and examine, audit and inspect the Collateral at any reasonable time and from time to time without notice. The Lender shall not have any duty to, and the Borrowers hereby release the Lender from all claims of loss or damage caused by the delay or failure to collect or enforce any of the Receivables or to, preserve any rights against any other party with an interest in the Collateral.

6.1.22 Equipment.

The Borrowers shall (a) maintain all Equipment as personalty, (b) not affix any Equipment to any real estate in such manner as to become a fixture or part of such real estate, and (c) shall hold no Equipment on a sale on approval basis. The Borrowers hereby declare their intent that, notwithstanding the means of attachment, no goods of the Borrowers hereafter attached to any realty shall be deemed a fixture, which declaration shall be irrevocable, without the Lender's consent, until all of the Obligations have been paid in full and all of the Revolving Credit Commitments and Letters of Credit have been terminated or have expired.

6.1.23 Defense of Title and Further Assurances.

At their expense, the Borrowers will defend the title to the Collateral (and any part thereof), and will immediately execute, acknowledge and deliver any financing statement, renewal, affidavit, deed, assignment, continuation statement, security agreement, certificate or other document which the Lender may require in order to perfect, preserve, maintain, continue, protect and/or extend the Lien or security interest granted to the Lender under this Agreement, under any of the other Financing Documents and

the first priority of that Lien, subject only to the Permitted Liens. The Borrowers will from time to time do whatever the Lender may require by way of obtaining, executing, delivering, and/or filing financing statements, landlords' or mortgagees' waivers, notices of assignment and other notices and amendments and renewals thereof and the Borrowers will take any and all steps and observe such formalities as the Lender may require, in order to create and maintain a valid Lien upon, pledge of, or paramount security interest in, the Collateral, subject to the Permitted Liens. The Borrowers shall pay to the Lender on demand all taxes, costs and expenses incurred by the Lender in connection with the preparation, execution, recording and filing of any such document or instrument. To the extent that the Proceeds of any of the Accounts or Receivables of the Borrowers are expected to become subject to the control of, or in the possession of, a party other than the Borrowers or the Lender, the Borrowers shall cause all such parties to execute and deliver on the Closing Date security documents, financing statements or other documents as requested by the Lender and as may be necessary to evidence and/or perfect the security interest of the Lender, in those Proceeds. The Borrowers agree that a copy of a fully executed security agreement and/or financing statement shall be sufficient to satisfy for all purposes the requirements of a financing statement as set forth in Article 9 of the applicable Uniform Commercial Code. Each Borrower hereby irrevocably appoints the Lender as the Borrower's attorney-in-fact, with power of substitution, in the name of the Lender or in the name of the Borrower or otherwise, for the use and benefit of the Lender, but at the cost and expense of the Borrowers and without notice to the Borrowers, to execute and deliver any and all of the instruments and other documents and take any action which the Lender may require pursuant the foregoing provisions of this Section 6.1.23.

6.1.24 Business Names; Locations.

Each Borrower will notify and cause each of the Subsidiaries to notify the Lender not less than thirty (30) days prior to (a) any change in the name under which the Borrower or the applicable Subsidiary conducts its business, (b) any change of the location of the chief executive office of the applicable Borrower or Subsidiary, and (c) the opening of any new place of business or the closing of any existing place of business, and any change in the location of the places where the Collateral, or any part thereof, or the books and records, or any part thereof, are kept.

6.1.25 Subsequent Opinion of Counsel as to Recording

Requirements.

In the event that any Borrower or any Subsidiary shall transfer its principal place of business or the office where it keeps its records pertaining to the Collateral, upon the Lender's request the Borrowers will provide to the Lender a subsequent opinion of counsel as to the filing, recording and other requirements with which the Borrowers and their Subsidiaries have complied to maintain the Lien and security interest in favor of the Lender in the Collateral.

6.1.26 Use of Premises and Equipment.

The Borrowers agree that until the Obligations are fully paid and all of the Revolving Credit Commitments and the Letters of Credit have been terminated or have expired, the Lender (a) after and during the continuance of an Event of Default, may use any of the Borrowers' owned or leased lifts, hoists, trucks and other facilities or equipment for handling or removing the Collateral; and (b) shall have, and is hereby granted, a right of ingress and egress to the places where the Collateral is located, and may proceed over and through any of the Borrowers' owned or leased property.

6.1.27 Protection of Collateral.

The Borrowers agree that the Lender may at any time following an Event of Default take such steps as the Lender deems reasonably necessary to protect the interest of the Lender in, and to preserve the Collateral, including, the hiring of such security guards or the placing of other security protection measures as the Lender deems appropriate, may employ and maintain at any of the Borrowers' premises a custodian who shall have full authority to do all acts necessary to protect the interests of the Lender in the Collateral and may lease warehouse facilities to which the Lender may move all or any part of the Collateral to the extent commercially reasonable. The

Borrowers agree to cooperate fully with the Lender's efforts to preserve the Collateral and will take such actions to preserve the Collateral as the Lender may reasonably direct. All of the Lender's expenses of preserving the Collateral, including any reasonable expenses relating to the compensation and bonding of a custodian, shall be part of the Enforcement Costs.

Section 6.2 Negative Covenants.

So long as any of the Obligations or the Revolving Credit Commitments or Letters of Credit therefor shall be outstanding hereunder, the Borrowers agree with the Lender that without the prior written consent of the Lender:

6.2.1 Capital Structure, Merger, Acquisition or Sale

of Assets.

None of the Borrowers will alter or amend their capital structure, authorize any additional class of equity, issue any stock or equity of any class, enter into any merger or consolidation or amalgamation, windup or dissolve themselves (or suffer any liquidation or dissolution) or acquire all or substantially all the assets of any Person (other than in connection with a Permitted Acquisition), or sell, lease or otherwise dispose of any of its assets (except Inventory disposed of in the ordinary course of business prior to an Event of Default). Any consent of the Lender to the disposition of any assets may be conditioned on a specified use of the proceeds of disposition.

6.2.2 Subsidiaries.

None of the Borrowers will create or acquire any Subsidiaries other than the Subsidiaries identified on the Collateral Disclosure List.

6.2.3 Issuance of Stock.

None of the Borrowers will issue, or grant any option or right to purchase, any of its capital stock, except for stock issued under the terms of existing stock option plans, provided that no Event of Default has occurred or would exist after giving effect to the issuance, grant or purchases.

6.2.4 Purchase or Redemption of Securities, Dividend

Restrictions.

Declare or pay any dividends; purchase, redeem, retire, or otherwise acquire for value any of its capital stock now or hereafter outstanding; make any distribution of assets to its stockholders whether in cash, assets or obligations of a Borrower; allocate or otherwise set apart any sum for the payment of any dividend or distribution on, or for the purchase, redemption, or retirement of, any shares of its capital stock; make any other distribution by reduction of capital or otherwise in respect of any shares of its capital stock; or permit any Subsidiary to purchase or otherwise acquire for value any stock of a Borrower or another Subsidiary, except that if there is no Default at such time and no covenant violation would occur (a) VSE may pay dividends in an aggregate annual amount equal to \$.60 per share of common stock outstanding, (b) a Borrower may declare and deliver dividends and make distributions payable solely in its common stock; (c) a Borrower may purchase or otherwise acquire shares of its capital stock by exchange for or out of the proceeds received from a substantially concurrent issue of new shares of its capital stock and (d) VSE, during each fiscal year, may repurchase shares of its capital stock in amounts not to exceed Two Million Five Hundred Thousand and 00/100 Dollars (\$2,500,000.00) provided that no Borrower shall declare or pay any dividends permitted under this Section 6.2.4 other than VSE's normal quarterly cash dividend, until the Lender has received written notice from such Borrower at least five (5) Business Days in advance of declaring or paying any such dividend and has also received such other information as the Lender may have requested in order to verify the amount of the proposed dividends and to determine that the conditions precedent to the making of the requested dividends have been satisfied.

6.2.5 Indebtedness.

None of the Borrowers will create, incur, assume or suffer

to exist any Indebtedness for Borrowed Money or permit any Subsidiary to do so, except:

- (a) the Obligations;
- (b) current accounts payable arising in the ordinary course;
- (c) Indebtedness secured by Permitted Liens;
- (d) Indebtedness of the Borrowers existing on the date hereof and reflected on the financial statements furnished pursuant to Section 4.1.9 (Financial Condition);
- (e) Indebtedness of the Borrowers not otherwise permitted by this Agreement which, in the aggregate, does not exceed Fifty Thousand Dollars (\$50,000).

6.2.6 Investments, Loans and Other Transactions.

Except as otherwise provided in this Agreement, none of the Borrowers will, and will permit any of its Subsidiaries to, (a) make, assume, acquire or continue to hold any investment in any real property (unless used in connection with its business and treated as a Fixed or Capital Asset of any Borrower or any Subsidiary) or any Person, whether by stock purchase, capital contribution, acquisition of indebtedness of such Person or otherwise (including, without limitation, investments in any joint venture or partnership), (b) guaranty or otherwise become contingently liable for the Indebtedness or obligations of any Person, or (c) make any loans or advances, or otherwise extend credit to any Person, except:

(i) any advance to an officer or employee of any Borrower or any Subsidiary, provided that the aggregate amount of all such advances by all of the Borrowers and their Subsidiaries (taken as a whole) outstanding at any time shall not exceed at any time outstanding the aggregate principal sum of (i) Seven Hundred Fifty Thousand Dollars (\$750,000) for all such loans by the Borrower, plus (ii) reasonable advances for anticipated business expenses of employees that would be reimbursed to such employees under such Borrower's expense reimbursement policy, and (b) loans from VSE to Affiliates, not exceeding an aggregate outstanding principal amount at any time of Two Million Dollars (\$2,000,000);

(ii) the endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of business;

(iii) any investment in Cash Equivalents, which are pledged to the Lender, as collateral and security for the Obligations;

(iv) trade credit extended to customers in the ordinary course of business; and

(v) investments in any Targets pursuant to any Permitted Acquisition.

6.2.7 Stock of Subsidiaries.

None of the Borrowers will sell or otherwise dispose of any shares of capital stock of any Subsidiary (except in connection with a merger or consolidation of a Wholly Owned Subsidiary into any of the Borrowers or another Wholly Owned Subsidiary of any of the Borrowers or with the dissolution of any Subsidiary) or permit any Subsidiary to issue any additional shares of its capital stock except pro rata to its stockholders.

6.2.8 Liens.

Each Borrower agrees that it (a) will not create, incur, assume or suffer to exist any Lien upon any of its properties or assets, whether now owned or hereafter acquired, or permit any Subsidiary so to do, except for Liens securing the Obligations and Permitted Liens, (b) will not agree to, assume or suffer to exist any provision in any instrument or other document for confession of judgment, cognovit or other similar right or remedy, (c) will not allow or suffer to exist any Permitted Liens to be superior to Liens securing the Obligations, (d) will not enter into any contracts for the consignment of goods, will not execute or suffer the filing of any financing statements or the posting of any signs giving notice of consignments, and will not, as a material part of its business, engage in the

sale of goods belonging to others, other than sales of goods belonging to others which have been disclosed to the Lender, and (e) will not allow or suffer to exist the failure of any Lien described in the Security Documents to attach to, and/or remain at all times perfected on, any of the property described in the Security Documents.

6.2.9 Transactions with Affiliates.

None of the Borrowers nor any of their Subsidiaries will enter into or participate in any transaction except in the ordinary course of business, with any Affiliate or, except in the ordinary course of business, with the officers, directors, employees and other representatives of any Borrower and/or any Subsidiary.

6.2.10 Other Businesses.

None of the Borrowers nor any of their Subsidiaries will engage directly or indirectly in any business other than its current line of business described elsewhere in this Agreement.

6.2.11 ERISA Compliance.

None of the Borrowers nor any Commonly Controlled Entity shall: (a) engage in or permit any "prohibited transaction" (as defined in ERISA); (b) cause any "accumulated funding deficiency" as defined in ERISA and/or the Internal Revenue Code; (c) terminate any pension plan in a manner which could result in the imposition of a lien on the property of any Borrower pursuant to ERISA; (d) terminate or consent to the termination of any Multi-employer Plan; or (e) incur a complete or partial withdrawal with respect to any Multi-employer Plan.

6.2.12 Prohibition on Hazardous Materials.

None of the Borrowers shall place, manufacture or store or permit to be placed, manufactured or stored any Hazardous Materials on any property owned, operated or controlled by any Borrower or for which any Borrower is responsible other than Hazardous Materials placed or stored on such property in accordance with applicable Laws in the ordinary course of a Borrower's business expressly described in this Agreement.

6.2.13 Method of Accounting; Fiscal Year.

None of the Borrowers will:

(a) change the method of accounting employed in the preparation of any financial statements furnished to the Lender under the provisions of Section 6.1.1 (Financial Statements), unless required to conform to GAAP and on the condition that the Borrowers' accountants shall furnish such information as the Lender may request to reconcile the changes with the Borrowers' prior financial statements

(b) change its fiscal year from a year ending on December 31st.

6.2.14 Compensation.

None of the Borrowers nor any Subsidiary will pay any bonuses, fees, compensation, commissions, salaries, drawing accounts, or other payments (cash and non-cash), whether direct or indirect, to any stockholders of any Borrower or any Subsidiary, or any Affiliate of any Borrower or any Subsidiary, other than reasonable compensation for actual services rendered by stockholders in their capacity as officers or employees.

6.2.15 Transfer of Collateral.

None of the Borrowers nor any of their Subsidiaries will transfer, or permit the transfer, to another location of any of the Collateral or the books and records related to any of the Collateral.

6.2.16 Sale and Leaseback.

None of the Borrowers nor any of the Subsidiaries will

directly or indirectly enter into any arrangement to sell or transfer all or any substantial part of its fixed assets and thereupon or within one year thereafter rent or lease the assets so sold or transferred.

6.2.17 Disposition of Collateral.

None of the Borrowers will sell, discount, allow credits or allowances, transfer, assign, extend the time for payment on, convey, lease, assign, transfer or otherwise dispose of the Collateral, except, prior to an Event of Default, dispositions expressly permitted elsewhere in this Agreement, the sale of Inventory in the ordinary course of business, and the sale of unnecessary or obsolete Equipment, but only if the proceeds of the sale of such Equipment are (a) used to purchase similar Equipment to replace the unnecessary or obsolete Equipment or (b) immediately turned over to the Lender for application to the Obligations in accordance with the provisions of this Agreement.

6.2.18 Capital Expenditures

None of the Borrowers will, or will permit any Subsidiary to, directly or indirectly (by way of the acquisition of the securities of a Person or otherwise), make any Capital Expenditures in the aggregate for all of the Borrowers and their Subsidiaries (taken as a whole) in any fiscal year exceeding two percent (2.0%) of Borrowers' net revenue for such period.

ARTICLE VII DEFAULT AND RIGHTS AND REMEDIES

Section 7.1 Events of Default.

The occurrence of any one or more of the following events shall constitute an "Event of Default" under the provisions of this Agreement:

7.1.1 Failure to Pay.

The failure of the Borrowers to pay any of the Obligations as and when due and payable in accordance with the provisions of this Agreement, the Notes and/or any of the other Financing Documents.

7.1.2 Breach of Representations and Warranties.

Any representation or warranty made in this Agreement or in any report, statement, schedule, certificate, opinion (including any opinion of counsel for the Borrowers), financial statement or other document furnished in connection with this Agreement, any of the other Financing Documents, or the Obligations, shall prove to have been false or misleading when made (or, if applicable, when reaffirmed) in any material respect.

7.1.3 Failure to Comply with Covenants.

The failure of the Borrowers to perform, observe or comply with any covenant, condition or agreement contained in this Agreement.

7.1.4 Default Under Other Financing Documents or

Obligations.

A default shall occur under any of the other Financing Documents or under any other Obligations, and such default is not cured within any applicable grace period provided therein.

7.1.5 Receiver; Bankruptcy.

Any Borrower or any Subsidiary shall (a) apply for or consent to the appointment of a receiver, trustee or liquidator of itself or any of its property, (b) admit in writing its inability to pay its debts as they mature, (c) make a general assignment for the benefit of creditors, (d) be adjudicated a bankrupt or insolvent, (e) file a voluntary petition in bankruptcy or a petition or an answer seeking or consenting to reorganization or an arrangement with creditors or to take advantage of any bankruptcy, reorganization, insolvency, readjustment of debt, dissolution or liquidation law or statute, or an answer admitting the material allegations of a petition

filed against it in any proceeding under any such law, or take corporate action for the purposes of effecting any of the foregoing, (f) by any act indicate its consent to, approval of or acquiescence in any such proceeding or the appointment of any receiver of or trustee for any of its property, or suffer any such receivership, trusteeship or proceeding to continue undischarged for a period of sixty (60) days, or (g) by any act indicate its consent to, approval of or acquiescence in any order, judgment or decree by any court of competent jurisdiction or any Governmental Authority enjoining or otherwise prohibiting the operation of a material portion of any Borrower's or any Subsidiary's business or the use or disposition of a material portion of any Borrower's or any Subsidiary's assets.

7.1.6 Involuntary Bankruptcy, etc.

(a) An order for relief shall be entered in any involuntary case brought against any Borrower or any Subsidiary under the Bankruptcy Code, or (b) any such case shall be commenced against any Borrower or any Subsidiary and shall not be dismissed within sixty (60) days after the filing of the petition, or (c) an order, judgment or decree under any other Law is entered by any court of competent jurisdiction or by any other Governmental Authority on the application of a Governmental Authority or of a Person other than any Borrower or any Subsidiary (i) adjudicating any Borrower, or any Subsidiary bankrupt or insolvent, or (ii) appointing a receiver, trustee or liquidator of any Borrower or of any Subsidiary, or of a material portion of any Borrower's or any Subsidiary's assets, or (iii) enjoining, prohibiting or otherwise limiting the operation of a material portion of any Borrower's or any Subsidiary's business or the use or disposition of a material portion of any Borrower's or any Subsidiary's assets, and such order, judgment or decree continues unstayed and in effect for a period of thirty (30) days from the date entered.

7.1.7 Judgment.

Unless adequately insured in the opinion of the Lender, the entry of a final judgment for the payment of money involving more than \$200,000 against any Borrower or any Subsidiary, and the failure by such Borrower or such Subsidiary to discharge the same, or cause it to be discharged, within thirty (30) days from the date of the order, decree or process under which or pursuant to which such judgment was entered, or to secure a stay of execution pending appeal of such judgment.

7.1.8 Execution; Attachment.

Any execution or attachment shall be levied against the Collateral, or any part thereof, and such execution or attachment shall not be set aside, discharged or stayed within thirty (30) days after the same shall have been levied.

7.1.9 Default Under Other Borrowings.

Default shall be made with respect to any Indebtedness for Borrowed Money of any of the Borrowers (other than the Loans) in excess of Two Hundred Thousand Dollars (\$200,000) if the effect of such default is to accelerate the maturity of such Indebtedness for Borrowed Money or to permit the holder or obligee thereof or other party thereto to cause such Indebtedness for Borrowed Money to become due prior to its stated maturity.

7.1.10 Challenge to Agreements.

Any Borrower or any Guarantor shall challenge the validity and binding effect of any provision of any of the Financing Documents or shall state its intention to make such a challenge of any of the Financing Documents or any of the Financing Documents shall for any reason (except to the extent permitted by its express terms) cease to be effective or to create a valid and perfected first priority Lien (except for Permitted Liens) on, or security interest in, any of the Collateral purported to be covered thereby.

7.1.11 Material Adverse Change.

The Lender, in its sole discretion, determines in good faith that a material adverse change has occurred in the financial condition of any of the Borrowers.

7.1.12 Impairment of Position.

The Lender, in its sole discretion, determines in good faith that an event has occurred which impairs the prospect of payment of any of the Obligations and/or the value of the Collateral.

7.1.13 Collateral Inadequacy.

The determination in good faith by the Lender that the security for the Obligations is inadequate.

7.1.14 Change in Ownership.

The failure of VSE to own at least fifty one percent (51%) of the voting capital stock of the other Borrowers.

7.1.15 Liquidation, Termination, Dissolution, Change

in Management, etc.

Any Borrower shall liquidate, dissolve or terminate its existence or any change occurs in the management or control of any Borrower without the prior written consent of the Lender.

7.1.16 De-Listing of Stock.

The failure of the stock of VSE to be listed on NASDAQ or a national stock exchange.

7.1.17 Government Default.

The issuance to a Borrower or any Subsidiary or (a) a cure notice or a show-cause notice relating to a possible termination for default under any contract which is either a contract with a Governmental Authority or is a subcontract (at any tier) which is related to a contract between a third party and Governmental Authority and, within thirty (30) calendar days after the date of such notice, no written notification is received by such Borrower or such Subsidiary from the cognizant contracting officer or customer official stating that a termination will not occur; or (b) a notice of actual termination of default (complete or partial), under any such contract or subcontract; provided, however, that no Event of Default shall be declared based upon clauses (a) or (b) of this Section 7.1.17 if the notice in question is issued at a time when the Unearned Contract Value of the contract or subcontract in question is less than \$500,000.

Section 7.2 Remedies.

Upon the occurrence of any Event of Default, the Lender may, in the exercise of its sole and absolute discretion from time to time, and shall, at any time thereafter exercise any one or more of the following rights, powers or remedies.

7.2.1 Acceleration.

The Lender may declare any or all of the Obligations to be immediately due and payable, notwithstanding anything contained in this Agreement or in any of the other Financing Documents to the contrary, without presentment, demand, protest, notice of protest or of dishonor, or other notice of any kind, all of which the Borrowers hereby waive.

7.2.2 Further Advances.

The Lender may from time to time without notice to the Borrowers suspend, terminate or limit any further advances, loans or other extensions of credit under the Revolving Credit Commitments, under this Agreement and/or under any of the other Financing Documents. Further, upon the occurrence of an Event of Default or Default specified in Sections 7.1.5 (Receiver; Bankruptcy) or 7.1.6 (Involuntary Bankruptcy, etc.), the Revolving Credit Commitments and any agreement in any of the Financing Documents to provide additional credit and/or to issue Letters of Credit shall immediately and automatically terminate and the unpaid principal amount of the Notes (with accrued interest thereon) and all other Obligations then outstanding, shall immediately become due and payable without further action of any kind and

without presentment, demand, protest or notice of any kind, all of which are hereby expressly waived by the Borrowers.

7.2.3 Uniform Commercial Code.

The Lender shall have all of the rights and remedies of a secured party under the applicable Uniform Commercial Code and other applicable Laws. Upon demand by the Lender, the Borrowers shall assemble the Collateral and make it available to the Lender, at a place designated by the Lender. The Lender or its agents may without notice from time to time enter upon any Borrower's premises to take possession of the Collateral, to remove it, to render it unusable, to process it or otherwise prepare it for sale, or to sell or otherwise dispose of it.

Any written notice of the sale, disposition or other intended action by the Lender with respect to the Collateral which is sent by regular mail, postage prepaid, to the Borrowers at the address set forth in Section 8.1 (Notices), or such other address of the Borrowers which may from time to time be shown on the Lender's records, at least ten (10) days prior to such sale, disposition or other action, shall constitute commercially reasonable notice to the Borrowers. The Lender may alternatively or additionally give such notice in any other commercially reasonable manner. Nothing in this Agreement shall require the Lender to give any notice not required by applicable Laws.

If any consent, approval, or authorization of any state, municipal or other Governmental Authority or of any other Person or of any Person having any interest therein, should be necessary to effectuate any sale or other disposition of the Collateral, the Borrowers agree to execute all such applications and other instruments, and to take all other action, as may be required in connection with securing any such consent, approval or authorization.

The Borrowers recognize that the Lender may be unable to effect a public sale of all or a part of the Collateral consisting of Investment Property by reason of certain prohibitions contained in the Securities Act of 1933, as amended, and other applicable Federal and state Laws. The Lender may, therefore, in its discretion, take such steps as it may deem appropriate to comply with such Laws and may, for example, at any sale of the Collateral consisting of securities restrict the prospective bidders or purchasers as to their number, nature of business and investment intention, including, without limitation, a requirement that the Persons making such purchases represent and agree to the satisfaction of the Lender that they are purchasing such securities for their account, for investment, and not with a view to the distribution or resale of any thereof. The Borrowers covenant and agree to do or cause to be done promptly all such acts and things as the Lender may request from time to time and as may be necessary to offer and/or sell the securities or any part thereof in a manner which is valid and binding and in conformance with all applicable Laws. Upon any such sale or disposition, the Lender shall have the right to deliver, assign and transfer to the purchaser thereof the Collateral consisting of securities so sold.

7.2.4 Specific Rights With Regard to Collateral.

In addition to all other rights and remedies provided hereunder or as shall exist at law or in equity from time to time, the Lender may (but shall be under no obligation to), without notice to any of the Borrowers, and each Borrower hereby irrevocably appoints the Lender as its attorney-in-fact, with power of substitution, in the name of the Lender and/or in the name of any or all of the Borrowers or otherwise, for the use and benefit of the Lender, but at the cost and expense of the Borrowers and without notice to the Borrowers:

- (a) request any Account Debtor obligated on any of the Accounts to make payments thereon directly to the Lender, with the Lender taking control of the Proceeds thereof;
- (b) compromise, extend or renew any of the Collateral or deal with the same as it may deem advisable;
- (c) make exchanges, substitutions or surrenders of all or any part of the Collateral;
- (d) copy, transcribe, or remove from any place of business of any Borrower or any Subsidiary all books, records, ledger sheets, correspondence, invoices and documents, relating to

or evidencing any of the Collateral or without cost or expense to the Lender, make such use of any Borrower's or any Subsidiary's place(s) of business as may be reasonably necessary to administer, control and collect the Collateral;

(e) repair, alter or supply goods if necessary to fulfill in whole or in part the purchase order of any Account Debtor;

(f) demand, collect, receipt for and give renewals, extensions, discharges and releases of any of the Collateral;

(g) institute and prosecute legal and equitable proceedings to enforce collection of, or realize upon, any of the Collateral;

(h) settle, renew, extend, compromise, compound, exchange or adjust claims in respect of any of the Collateral or any legal proceedings brought in respect thereof;

(i) endorse or sign the name of any Borrower upon any Items of Payment, certificates of title, Instruments, Investment Property, stock powers, documents, documents of title, financing statements, assignments, notices or other writing relating to or part of the Collateral and on any proof of claim in bankruptcy against an Account Debtor;

(j) clear Inventory through customs in the Lender's or any Borrower's name and to sign and deliver to customs officials powers of attorney in any Borrower's name for such purpose;

(k) notify the Post Office authorities to change the address for the delivery of mail to the Borrowers to such address or Post Office Box as the Lender may designate and receive and open all mail addressed to any of the Borrowers; and

(l) take any other action necessary or beneficial to realize upon or dispose of the Collateral or to carry out the terms of this Agreement.

7.2.5 Application of Proceeds.

Any proceeds of sale or other disposition of the Collateral will be applied by the Lender to the payment first to any and all Enforcement Costs, and any balance of such proceeds will be applied to the Obligations in such order and manner as the Lender shall determine. If the sale or other disposition of the Collateral fails to fully satisfy the Obligations, the Borrowers shall remain liable to the Lender for any deficiency.

7.2.6 Performance by Lender.

If the Borrowers shall fail to pay the Obligations or otherwise fail to perform, observe or comply with any of the conditions, covenants, terms, stipulations or agreements contained in this Agreement or any of the other Financing Documents, the Lender without notice to or demand upon the Borrowers and without waiving or releasing any of the Obligations or any Default or Event of Default, may (but shall be under no obligation to) at any time thereafter make such payment or perform such act for the account and at the expense of the Borrowers, and may enter upon the premises of the Borrowers for that purpose and take all such action thereon as the Lender may consider necessary or appropriate for such purpose and each of the Borrowers hereby irrevocably appoints the Lender as its attorney-in-fact to do so, with power of substitution, in the name of the Lender, or in the name of any or all of the Borrowers or otherwise, for the use and benefit of the Lender, but at the cost and expense of the Borrowers and without notice to the Borrowers. All sums so paid or advanced by the Lender together with interest thereon from the date of payment, advance or incurring until paid in full at the Post-Default Rate and all costs and expenses, shall be deemed part of the Enforcement Costs, shall be paid by the Borrowers to the Lender on demand, and shall constitute and become a part of the Obligations.

7.2.7 Other Remedies.

The Lender may from time to time proceed to protect or enforce its rights by an action or actions at law or in equity or by any other appropriate proceeding, whether for the specific performance of any of the covenants contained in this Agreement or in any of the other Financing Documents, or for an injunction against the violation of any of the terms of this Agreement or any of the other Financing Documents, or in aid of the

exercise or execution of any right, remedy or power granted in this Agreement, the Financing Documents, and/or applicable Laws. The Lender is authorized to offset and apply to all or any part of the Obligations all moneys, credits and other property of any nature whatsoever of any or all of the Borrowers now or at any time hereafter in the possession of, in transit to or from, under the control or custody of, or on deposit with, the Lender or any Affiliate of the Lender.

ARTICLE VIII
MISCELLANEOUS

Section 8.1 Notices.

All notices, requests and demands to or upon the parties to this Agreement shall be in writing and shall be deemed to have been given or made when delivered by hand on a Business Day, or two (2) days after the date when deposited in the mail, postage prepaid by registered or certified mail, return receipt requested, or when sent by overnight courier, on the Business Day next following the day on which the notice is delivered to such overnight courier, addressed as follows:

Borrowers: VSE Corporation
2550 Huntington Avenue
Alexandria, Virginia 22303
Attention: R.J. Hannah

Lender: Citizens Bank of Pennsylvania
8521 Leesburg Pike, Suite 405
Vienna, Virginia 22182
Attention: Leslie Grizzard

with a copy to: Troutman Sanders LLP
1660 International Drive, Suite 600
McLean, Virginia 22102
Attention: Richard M. Pollak, Esq.

By written notice, each party to this Agreement may change the address to which notice is given to that party, provided that such changed notice shall include a street address to which notices may be delivered by overnight courier in the ordinary course on any Business Day.

Section 8.2 Amendments; Waivers.

8.2.1 In General.

This Agreement and the other Financing Documents may not be amended, modified, or changed in any respect except by an agreement in writing signed by the Lender and the Borrowers. No waiver of any provision of this Agreement or of any of the other Financing Documents, nor consent to any departure by the Borrowers therefrom, shall in any event be effective unless the same shall be in writing signed by the Lender. No course of dealing between the Borrowers and the Lender and no act or failure to act from time to time on the part of the Lender shall constitute a waiver, amendment or modification of any provision of this Agreement or any of the other Financing Documents or any right or remedy under this Agreement, under any of the other Financing Documents or under applicable Laws.

Section 8.3 Cumulative Remedies.

The rights, powers and remedies provided in this Agreement and in the other Financing Documents are cumulative, may be exercised concurrently or separately, may be exercised from time to time and in such order as the Lender shall determine, subject to the provisions of this Agreement, and are in addition to, and not exclusive of, rights, powers and remedies provided by existing or future applicable Laws. In order to entitle the Lender to exercise any remedy reserved to it in this Agreement, it shall not be necessary to give any notice, other than such notice as may be expressly required in this Agreement. Without limiting the generality of the foregoing and subject to the terms of this Agreement, the Lender may:

(a) proceed against any one or more of the Borrowers with or without proceeding against any other Person

(including, without limitation, any one or more of the Guarantors) who may be liable (by endorsement, guaranty, indemnity or otherwise) for all or any part of the Obligations;

(b) proceed against any one or more of the Borrowers with or without proceeding under any of the other Financing Documents or against any Collateral or other collateral and security for all or any part of the Obligations;

(c) without reducing or impairing the obligation of the Borrowers and without notice, release or compromise with any guarantor or other Person liable for all or any part of the Obligations under the Financing Documents or otherwise;

(d) without reducing or impairing the obligations of the Borrowers and without notice thereof:

(i) fail to perfect the Lien in any or all Collateral or to release any or all the Collateral or to accept substitute Collateral;

(ii) approve the making of advances under the Revolving Loan under this Agreement;

(iii) waive any provision of this Agreement or the other Financing Documents;

(iv) exercise or fail to exercise rights of set-off or other rights; or

(v) accept partial payments or extend from time to time the maturity of all or any part of the Obligations.

Section 8.4 Severability.

In case one or more provisions, or part thereof, contained in this Agreement or in the other Financing Documents shall be invalid, illegal or unenforceable in any respect under any Law, then without need for any further agreement, notice or action:

(a) the validity, legality and enforceability of the remaining provisions shall remain effective and binding on the parties thereto and shall not be affected or impaired thereby;

(b) the obligation to be fulfilled shall be reduced to the limit of such validity;

(c) if such provision or part thereof pertains to repayment of the Obligations, then, at the sole and absolute discretion of the Lender, all of the Obligations of the Borrowers to the Lender shall become immediately due and payable; and

(d) if the affected provision or part thereof does not pertain to repayment of the Obligations, but operates or would prospectively operate to invalidate this Agreement in whole or in part, then such provision or part thereof only shall be void, and the remainder of this Agreement shall remain operative and in full force and effect.

Section 8.5 Successors and Assigns.

This Agreement and all other Financing Documents shall be binding upon and inure to the benefit of the Borrowers, the Lender and their respective heirs, personal representatives, successors and assigns, except that the Borrowers shall not have the right to assign their rights hereunder or any interest herein without the prior written consent of Lender.

Section 8.6 Continuing Agreements.

All covenants, agreements, representations and warranties made by the Borrowers in this Agreement, in any of the other Financing Documents, and in

any certificate delivered pursuant hereto or thereto shall survive the making by the Lender of the Loans, the issuance of Letters of Credit by the Lender and the execution and delivery of the Notes, shall be binding upon the Borrowers regardless of how long before or after the date hereof any of the Obligations were or are incurred, and shall continue in full force and effect so long as any of the Obligations are outstanding and unpaid. From time to time upon the Lender's request, and as a condition of the release of any one or more of the Security Documents, the Borrowers and other Persons obligated with respect to the Obligations shall provide the Lender with such acknowledgments and agreements as the Lender may require to the effect that there exists no defenses, rights of setoff or recoupment, claims, counterclaims, actions or causes of action of any kind or nature whatsoever against the Lender, and/or any of its or its agents and others, or to the extent there are, the same are waived and released.

Section 8.7 Enforcement Costs.

The Borrowers agree to pay to the Lender on demand all Enforcement Costs, together with interest thereon from the date incurred or advanced until paid in full at a per annum rate of interest equal at all times to the Post-Default Rate. Enforcement Costs shall be immediately due and payable at the time advanced or incurred, whichever is earlier. Without implying any limitation on the foregoing, the Borrowers agree, as part of the Enforcement Costs, to pay upon demand any and all stamp and other Taxes and fees payable or determined to be payable in connection with the execution and delivery of this Agreement and the other Financing Documents and to save the Lender harmless from and against any and all liabilities with respect to or resulting from any delay in paying or omission to pay any Taxes or fees referred to in this Section. The provisions of this Section shall survive the execution and delivery of this Agreement, the repayment of the other Obligations and shall survive the termination of this Agreement.

Section 8.8 Applicable Law; Jurisdiction.

8.8.1 Applicable Law.

As a material inducement to the Lender to enter into this Agreement, each of the Borrowers acknowledges and agrees that the Financing Documents, including, this Agreement, shall be governed by the Laws of the State, as if each of the Financing Documents and this Agreement had each been executed, delivered, administered and performed solely within the State even though for the convenience and at the request of the Borrowers, one or more of the Financing Documents may be executed elsewhere. The Lender acknowledges, however, that remedies under certain of the Financing Documents that relate to property outside the State may be subject to the laws of the state in which the property is located.

8.8.2 Submission to Jurisdiction.

The Borrowers irrevocably submit to the jurisdiction of any state or federal court sitting in the State over any suit, action or proceeding arising out of or relating to this Agreement or any of the other Financing Documents. Each of the Borrowers irrevocably waives, to the fullest extent permitted by law, any objection that it may now or hereafter have to the laying of the venue of any such suit, action or proceeding brought in any such court and any claim that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum. Final judgment in any such suit, action or proceeding brought in any such court shall be conclusive and binding upon the Borrowers and may be enforced in any court in which the Borrowers are subject to jurisdiction, by a suit upon such judgment, provided that service of process is effected upon the Borrowers in one of the manners specified in this Section or as otherwise permitted by applicable Laws.

8.8.3 Appointment of Agent for Service of Process.

The Borrowers hereby irrevocably designate and appoint _____ as the Borrowers' authorized agent to receive on the Borrowers' behalf service of any and all process that may be served in any suit, action or proceeding of the nature referred to in this Section in any state or federal court sitting in the State. If such agent shall cease so to act, the Borrowers shall irrevocably designate and appoint without delay another such agent in the State

satisfactory to the Lender and shall promptly deliver to the Lender evidence in writing of such other agent's acceptance of such appointment and its agreement that such appointment shall be irrevocable.

8.8.4 Service of Process.

Each of the Borrowers hereby consents to process being served in any suit, action or proceeding of the nature referred to in this Section by (a) the mailing of a copy thereof by registered or certified mail, postage prepaid, return receipt requested, to the Borrower at the Borrower's address designated in or pursuant to Section 8.1 (Notices), and (b) serving a copy thereof upon the agent, if any, designated and appointed by the Borrower as the Borrower's agent for service of process by or pursuant to this Section. The Borrowers irrevocably agree that such service (y) shall be deemed in every respect effective service of process upon the Borrowers in any such suit, action or proceeding, and (z) shall, to the fullest extent permitted by law, be taken and held to be valid personal service upon the Borrowers. Nothing in this Section shall affect the right of the Lender to serve process in any manner otherwise permitted by law or limit the right of the Lender otherwise to bring proceedings against the Borrowers in the courts of any jurisdiction or jurisdictions.

Section 8.9 Duplicate Originals and Counterparts.

This Agreement may be executed in any number of duplicate originals or counterparts, each of such duplicate originals or counterparts shall be deemed to be an original and all taken together shall constitute but one and the same instrument.

Section 8.10 Headings.

The headings in this Agreement are included herein for convenience only, shall not constitute a part of this Agreement for any other purpose, and shall not be deemed to affect the meaning or construction of any of the provisions hereof.

Section 8.11 No Agency.

Nothing herein contained shall be construed to constitute the Borrowers as the agent of the Lender for any purpose whatsoever or to permit the Borrowers to pledge any of the credit of the Lender. The Lender shall not be responsible or liable for any shortage, discrepancy, damage, loss or destruction of any part of the Collateral wherever the same may be located and regardless of the cause thereof. The Lender shall not by anything herein or in any of the Financing Documents or otherwise, assume any of the Borrowers' obligations under any contract or agreement assigned to the Lender, Lender shall not be responsible in any way for the performance by the Borrowers of any of the terms and conditions thereof.

Section 8.12 Date of Payment.

Should the principal of or interest on the Notes become due and payable on other than a Business Day, the maturity thereof shall be extended to the next succeeding Business Day and in the case of principal, interest shall be payable thereon at the rate per annum specified in the Notes during such extension.

Section 8.13 Entire Agreement.

This Agreement is intended by the Lender and the Borrowers to be a complete, exclusive and final expression of the agreements contained herein. Neither the Lender nor the Borrowers shall hereafter have any rights under any prior agreements pertaining to the matters addressed by this Agreement but shall look solely to this Agreement for definition and determination of all of their respective rights, liabilities and responsibilities under this Agreement.

Section 8.14 Waiver of Trial by Jury.

THE BORROWERS, AND THE LENDER HEREBY JOINTLY AND SEVERALLY WAIVE TRIAL BY JURY IN ANY ACTION OR PROCEEDING TO WHICH THE BORROWER AND THE LENDER MAY BE PARTIES, ARISING OUT OF OR IN ANY WAY PERTAINING TO (A) THIS AGREEMENT, (B) ANY OF THE FINANCING DOCUMENTS, OR (C) THE COLLATERAL. THIS WAIVER

CONSTITUTES A WAIVER OF TRIAL BY JURY OF ALL CLAIMS AGAINST ALL PARTIES TO SUCH ACTIONS OR PROCEEDINGS, INCLUDING CLAIMS AGAINST PARTIES WHO ARE NOT PARTIES TO THIS AGREEMENT.

This waiver is knowingly, willingly and voluntarily made by the Borrowers and the Lender, and the Borrowers and the Lender hereby represent that no representations of fact or opinion have been made by any individual to induce this waiver of trial by jury or to in any way modify or nullify its effect. The Borrowers and the Lender further represent that they have been represented in the signing of this Agreement and in the making of this waiver by independent legal counsel, selected of their own free will, and that they have had the opportunity to discuss this waiver with counsel.

Section 8.15 Liability of the Lender.

The Borrowers hereby agree that the Lender shall not be chargeable for any negligence, mistake, act or omission of any accountant, examiner, agency or attorney employed by the Lender in making examinations, investigations or collections, or otherwise in perfecting, maintaining, protecting or realizing upon any lien or security interest or any other interest in the Collateral or other security for the Obligations.

By inspecting the Collateral or any other properties of the Borrowers or by accepting or approving anything required to be observed, performed or fulfilled by the Borrowers or to be given to the Lender pursuant to this Agreement or any of the other Financing Documents, the Lender shall not be deemed to have warranted or represented the condition, sufficiency, legality, effectiveness or legal effect of the same, and such acceptance or approval shall not constitute any warranty or representation with respect thereto by the Lender.

Section 8.16 Indemnification.

The Borrowers agrees to indemnify and hold harmless, the Lender, the parent and Affiliates of the Lender and the parent's and Affiliates' officers, directors, shareholders, employees and agents (each an "Indemnified Party," and collectively, the "Indemnified Parties"), from and against any and all claims, liabilities, losses, damages, costs and expenses (whether or not such Indemnified Party is a party to any litigation), including without limitation, reasonable attorney's fees and costs and costs of investigation, document production, attendance at depositions or other discovery, incurred by any Indemnified Party with respect to, arising out of or as a consequence of (a) this Agreement or any of the other Financing Documents, including without limitation, any failure of the Borrowers to pay when due (at maturity, by acceleration or otherwise) any principal, interest, fee or any other amount due under this Agreement or the other Loan documents, or any other Event of Default; (b) the use by the Borrowers of any proceeds advanced hereunder; (c) the transactions contemplated hereunder; or (d) any claim, demand, action or cause of action being asserted against (i) the Borrowers or any of their Affiliates by any other Person, or (ii) any Indemnified Party by the Borrowers in connection with the transactions contemplated hereunder. Notwithstanding anything herein or elsewhere to the contrary, the Borrowers shall not be obligated to indemnify or hold harmless any Indemnified Party from any liability, loss or damage resulting from the gross negligence, willful misconduct or unlawful actions of such Indemnified Party. Any amount payable to the Lender under this Section will bear interest at the Post-Default Rate from the due date until paid.

[SIGNATURES APPEAR ON THE FOLLOWING PAGE]

IN WITNESS WHEREOF, each of the parties hereto have executed and delivered this Business Loan and Security Agreement under their respective seals as of the day and year first written above.

WITNESS/ATTEST: VSE CORPORATION

/s/ R. J. Hannah /s/ D. M. Ervine

By: _____ (Seal)
Name: D. M. Ervine
Title: Chairman, President and CEO/COO

WITNESS/ATTEST: ENERGETICS INCORPORATED

/s/ R. J. Hannah /s/ D. M. Ervine
By: _____ (Seal)
Name: D. M. Ervine
Title: Chairman of the Board

WITNESS/ATTEST: VSE SERVICES INTERNATIONAL, INC.

/s/ R. J. Hannah /s/ D. M. Ervine
By: _____ (Seal)
Name: D. M. Ervine
Title: Chairman of the Board

WITNESS/ATTEST: INTEGRATED CONCEPTS AND RESEARCH
CORPORATION

/s/ R. J. Hannah /s/ D. M. Ervine
By: _____ (Seal)
Name: D. M. Ervine
Title: Chairman of the Board

WITNESS: CITIZENS BANK OF PENNSYLVANIA

/s/ Laurie Louis /s/ Leslie Grizzard
By: _____ (Seal)
Name: Leslie Grizzard
Title: Senior Vice President

LIST OF EXHIBITS

- A. Additional Borrower Joinder Supplement
B. Revolving Credit Note
C. Form of Compliance Certificate

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- Schedule 4.1.8 Litigation
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BUSINESS LOAN AND SECURITY AGREEMENT

Dated

August 14, 2007

By and Among

VSE CORPORATION,

ENERGETICS INCORPORATED,

VSE SERVICES INTERNATIONAL, INC.

INTEGRATED CONCEPTS AND RESEARCH CORPORATION

as Borrowers,

CITIZENS BANK OF PENNSYLVANIA,

as Lender

Exhibit 10.2
FIRST AMENDMENT TO
BUSINESS LOAN AND SECURITY AGREEMENT

THIS FIRST AMENDMENT TO BUSINESS LOAN AND SECURITY AGREEMENT (this "Agreement") made as of the 21st day of May, 2008 by and among VSE CORPORATION, a corporation organized under the laws of the State of Delaware ("VSE"), ENERGETICS INCORPORATED, a corporation organized under the laws of the State of Maryland ("Energetics"), VSE SERVICES INTERNATIONAL, INC., a corporation organized under the laws of the State of Delaware ("VSI"), INTEGRATED CONCEPTS AND RESEARCH CORPORATION, a corporation organized under the laws of the District of Columbia ("ICRC"), G&B SOLUTIONS, INC., a corporation organized under the laws of the Commonwealth of Virginia ("G&B"), jointly and severally (each of VSE, Energetics, VSI, ICRC and G&B a "Borrower"; and collectively, the "Borrowers") and CITIZENS BANK OF PENNSYLVANIA, a bank chartered in the State of Pennsylvania, its successors and assigns (the "Lender").

RECITALS

A. The Lender has made a revolving line of credit in the current maximum principal amount of Twenty-Five Million Dollars (\$25,000,000), jointly and severally, to the Borrowers (the "Loan") pursuant to that certain Business Loan and Security Agreement, dated August 14, 2007, by and among VSE, Energetics, VSI, ICRC and the Lender (the Business Loan and Security Agreement, as amended from time to time, is hereinafter called, the "Business Loan Agreement").

B. The Loan is currently evidenced by that certain Revolving Promissory Note, dated August 14, 2007, from VSE, Energetics, VSI, and ICRC in favor of the Lender in the maximum principal amount of Twenty-Five Million Dollars (\$25,000,000) (as amended from time to time, is hereinafter called the "Note").

C. Pursuant to that certain Additional Borrower Joinder Supplement dated April 14, 2008 by and among VSE, Energetics, VSI, ICRC, G&B and Lender, G&B was added as a party to each of the Financing Documents.

D. The Borrowers have requested that the Lender increase the maximum principal amount of the Loan and revise other provisions of the Business Loan Agreement and the Lender has agreed on the condition, among others, that this Agreement be executed and delivered by the Borrowers to the Lender.

E. All capitalized terms used herein and not otherwise defined shall have the meanings given to such terms in the Business Loan Agreement.

NOW, THEREFORE, in consideration of the premises, the mutual agreements herein contained, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. Recitals. The parties hereto acknowledge and agree that the above Recitals are true and correct in all respects and that the same are incorporated herein and made a part hereof by reference.

2. Definitions.

(a) The following defined terms set forth in Section 1.1 of the Business Loan Agreement are amended and restated in their entirety as follows:

"Fees" means the collective reference to each fee payable to the Lender, under the terms of this Agreement or under the terms of any of the other Financing Documents, including, without limitation, the Revolving Credit Unused Line Fees, Letter of Credit Fees and the Field Examination Fees.

"Leverage Ratio" means the ratio of Total Funded Debt on a specified date to EBITDA for the four (4) quarter period then ending on such date.

"LIBOR rate" means the London interbank offered rate of major banks for deposits in United States Dollars for a designated period (e.g. one, two, three or six months) as set forth at Telerate Page 3750 at approximately 11:00 a.m. London time on the third Euro-Dollar Business Day preceding the date when the LIBOR-based Rate will be become effective; provided, however, that if such

information is not available on Telerate, the "LIBOR rate" shall be determined from information supplied to the Lender by a nationally recognized reporting service for similar information acceptable to the Lender.

"LIBOR Rate Margin" means the amount determined to be in effect from time to time using the chart set forth below. The initial LIBOR Rate Margin will be determined at the Supplemental Closing Date using the Leverage Ratio calculated by reference to the consolidated financial statements of VSE most recently received by the Lender. Commencing on the date following the Supplemental Closing Date when the Lender receives the consolidated financial statements of VSE in accordance with this Agreement and on each such date thereafter, the LIBOR Rate Margin will be reset based on the Leverage Ratio calculated by reference to such consolidated financial statements.

LIBOR Rate Margin	Leverage Ratio
1.25%	Less than 1.0 to 1.0
1.75%	Equal to or greater than 1.0 to 1.0 but less than 2.0 to 1.0
2.00%	Equal to or greater than 2.0 to 1.0

In the event VSE fails to provide such consolidated financial statements when due, the LIBOR Rate Margin shall be 2.00% until such time as such consolidated financial statements are submitted as required by this Agreement.

"Obligations" means all present and future, whether now existing or contemplated or hereafter arising, of any one or more of the Borrowers to the Lender under, arising pursuant to, in connection with and/or on account of the provisions of this Agreement, each Note, each Security Document, and/or any of the other Financing Documents, the Loans, and/or any of the Facilities including, without limitation, the principal of, and interest on, each Note, late charges, the Fees, Enforcement Costs, and prepayment fees (if any), letter of credit reimbursement obligations, letter of credit fees or fees charged with respect to any guaranty of any letter of credit; also means all other present and future indebtedness, duties, obligations, and liabilities, whether now existing or contemplated or hereafter arising, of any one or more of the Borrowers to the Lender or its Affiliates of any nature whatsoever, including, without limitation, any indebtedness, duties, obligations, and liabilities, under or in connection with, any Swap Transaction or Bank Products, regardless of whether such indebtedness, duties, obligations, and liabilities be direct, indirect, primary, secondary, joint, several, joint and several, fixed or contingent; and also means any and all renewals, extensions, substitutions, amendments, restatements and rearrangements of any such indebtedness, duties, obligations, and liabilities.

"Prime Rate Margin" means zero percent (0.0%).

"Revolving Credit Expiration Date" means May 21, 2010.

(b) The following defined terms are added in alphabetical order to Section 1.1 of the Business Loan Agreement:

"Bank Products" shall mean any (i) commercial credit card, purchase card and merchant card services, or other commercial credit card services or facilities, (ii) cash management services or facilities, (iii) foreign investment or exchange products or services or (iv) products under any non-speculative hedging agreement or arrangement, extended to any Borrower by Lender or any Affiliate of Lender, from time to time.

"EBITDA" means as to Borrowers for any period of determination thereof, the sum of (a) net profit (or loss) determined in accordance with GAAP consistently applied, plus (b) interest expense and income tax provisions for such period, plus (c) depreciation and amortization of assets for such period, plus (d) non-cash stock compensation, plus (e) non-cash non-recurring charges, as approved in writing by the Lender prior to the due date of the Compliance Certificate as required under Sections 6.1.1(a) (Annual Statements and Certificates) and 6.1.1(b) (Quarterly Statements and Certificates), minus any non-cash gains to the extent included in net income. EBITDA shall be determined on a rolling basis, based on the four (4) quarter period then ending. EBITDA from any Permitted Acquisitions will be included on a pro forma basis.

"Fixed Charge Coverage Ratio" means as to Borrowers for any period of determination thereof the ratio of (a) the sum of (i) EBITDA, plus (ii) operating lease payments (including rent), minus (iii) cash taxes, minus

(iv) dividends, minus (v) share repurchases to (b) Fixed Charges.

"Fixed Charges" means as to Borrowers for any period of determination thereof, the sum of (i) scheduled or required principal payments on all Indebtedness for Borrowed Money of Borrowers, plus (ii) all operating lease payments (including rent), plus (iii) cash interest expense, plus (iv) any earn out payments of Borrowers.

"Supplemental Closing Date" means May 21, 2008.

"Total Funded Debt" means as to Borrowers for any period of determination thereof the sum of (i) all Indebtedness for Borrowed Money of Borrowers, plus (ii) any accrued earn out payments of Borrowers (net of any Cash Equivalents for purposes of calculating accrued earn out payments of Borrowers).

"Unused Fee Margin" means that per annum percentage rate determined by Lender from time to time in accordance with the chart set forth below.

Revolving Credit Unused Line Fee	Leverage Ratio
0.10%	Less than 1.0 to 1.0
0.15%	Equal to or greater than 1.0 to 1.0 but less than 2.0 to 1.0
0.20%	Equal to or greater than 2.0 to 1.0

3. Revolving Credit Facility. Section 2.1.1 of the Loan Agreement is hereby amended and restated in its entirety as follows:

2.1.1 Revolving Credit Facility.

Subject to and upon the provisions of this Agreement, the Lender establishes a revolving credit facility in favor of the Borrowers. The aggregate of all advances under the Revolving Credit Facility is sometimes referred to in this Agreement collectively as the "Revolving Loan". The Lender's "Revolving Credit Committed Amount" is \$35,000,000. During the Revolving Credit Commitment Period, any or all of the Borrowers may request advances under the Revolving Credit Facility in accordance with the provisions of this Agreement; provided that after giving effect to any Borrower's request the aggregate outstanding principal balance of the Revolving Loan and all Letter of Credit Obligations would not exceed the lesser of (i) the Revolving Credit Committed Amount or (ii) the Borrowing Base.

Unless sooner paid, the unpaid Revolving Loan, together with interest accrued and unpaid thereon and all other Obligations shall be due and payable in full on the Revolving Credit Expiration Date. Interest on the Revolving Loan shall be payable on each Interest Payment Date.

4. Revolving Credit Unused Line Fee. Section 2.1.10 of the Loan Agreement is hereby amended and restated in its entirety as follows:

2.1.10 Revolving Credit Unused Line Fee.

Borrowers shall pay to Lender a revolving credit facility fee (collectively, the "Revolving Credit Unused Line Fees" and individually, a "Revolving Credit Unused Line Fee") in an amount equal to the Unused Fee Margin multiplied by the average daily unused and undisbursed portion of the Revolving Credit Committed Amount in effect from time to time accruing during each calendar quarter. For purposes of clarification, the face amount of outstanding Letters of Credit shall be considered usage of the Revolving Credit Committed Amount. The accrued and unpaid portion of the Revolving Credit Unused Line Fee shall be paid by Borrowers to Lender on the last day of each calendar quarter, commencing on the first such date following the Supplemental Closing Date, and on the Revolving Credit Termination Date.

5. Financial Statements. Section 6.1.1 of Business Loan Agreement is hereby amended as follows:

(a) Section 6.1.1(c) is hereby amended and restated in its entirety as follows:

(c) Quarterly Reports. The Borrowers shall furnish to the Lender within twenty (20) days after the end of each fiscal quarter, a Borrowing Base Report, and a report containing the following information:

(i) a detailed aging schedule of all Receivables by Account Debtor, in such detail, and accompanied by such supporting information, as the Lender may from time to time reasonably request;

(ii) a detailed aging of all accounts payable by supplier, in such detail, and accompanied by such supporting information, as the Lender may from time to time reasonably request; and

(iii) such other information as the Lender may reasonably request.

(b) Section 6.1.1(g) is hereby added its entirety immediately after Section 6.1.1(f) as follows:

(g) Annual Projections. The Borrowers shall furnish to the Lender as soon as available, but in no event less than forty-five (45) days after the end of each fiscal year, management prepared annual financial projections on a consolidated basis for the Borrowers for the immediately succeeding fiscal year.

6. Financial Covenants. Section 6.1.14 of the Business Loan Agreement is hereby amended and restated in its entirety as follows:

6.1.14 Financial Covenants.

(a) Leverage Ratio. Borrowers will maintain, on a consolidated basis and tested as of the last day of each of Borrowers' fiscal quarters, commencing on March 31, 2008, for the four (4) quarter period ending on that date, a Leverage Ratio of not greater than 3.00 to 1.00.

(b) Fixed Charge Coverage Ratio. Borrowers will maintain, on a consolidated basis and tested as of the last day of each of Borrowers' fiscal quarters, commencing on March 31, 2008, for the four (4) quarter period ending on that date, a Fixed Charge Coverage Ratio of not less than 1.25 to 1.00.

(c) Profitability. Borrowers will maintain, on a consolidated basis and tested as of the last day of each of Borrowers' fiscal quarters, commencing on March 31, 2008, for the four (4) quarter period ending on that date, net income, minus cash dividends declared by Borrowers during such period, in excess of \$1.00.

7. Exhibits to Loan Agreement. Exhibit B (Revolving Credit Note) to the Business Loan Agreement is hereby replaced in its entirety with the form attached hereto as Exhibit A.

8. Conditions Precedent. This Agreement shall be deemed effective by Lender upon the satisfaction by Borrowers of each of the following:

(a) the due execution and delivery to Lender of this Agreement by each party hereto;

(b) the due execution and delivery to Lender of that certain Amended and Restated Revolving Promissory Note, dated as of the date hereof, by each Borrower in favor of Lender;

(c) the due execution and delivery to Lender of the Collateral Disclosure List by each party thereto;

(d) a legal opinion letter from Borrowers' counsel, Arent Fox, dated as of the date hereof;

(e) proof that the Borrowers have paid all fees, costs and expenses to the Lender in connection with this Agreement, including, but not limited to, the Lender's attorneys fees; and

(f) such other information, instruments, opinions, documents, certificates and reports as the Lender may deem necessary.

9. Representations. The Borrowers hereby confirm that:

(a) The representations, warranties and covenants set forth in Articles IV and VI of the Business Loan Agreement, are true and correct as of the date hereof; and

(b) The Borrowers have no defenses, rights of setoff, claims, counterclaims, or causes of action of any kind or nature whatsoever against the Lender, or any agent, attorney, legal representative, predecessor-in-interest, or affiliate of the Lender, directly or indirectly in any manner connected with, pursuant to, or by virtue of the Obligations or any of the Financing Documents, and TO THE EXTENT ANY SUCH DEFENSES, RIGHTS OF SETOFF, CLAIMS, COUNTERCLAIMS, OR CAUSES OF ACTION EXIST, SUCH DEFENSES, RIGHTS, CLAIMS, COUNTERCLAIMS, AND CAUSES OF ACTION ARE HEREBY FOREVER WAIVED, DISCHARGED AND RELEASED.

10. Counterparts. This Agreement may be executed in any number of duplicate originals or counterparts, each of which duplicate original or counterpart shall be deemed to be an original and all taken together shall constitute one and the same instrument.

11. Financing Documents; Governing Law; Etc. This Agreement is one of the Financing Documents defined in the Business Loan Agreement and shall be governed and construed in accordance with the laws of the Commonwealth of Virginia. The headings and captions in this Agreement are for the convenience of the parties only and are not a part of this Agreement.

12. Acknowledgments. Each Borrower hereby confirms to Lender the enforceability and validity of each of the Financing Documents. In addition, each Borrower hereby agrees to the execution and delivery of this Agreement and the terms and provisions, covenants or agreements contained in this Agreement shall not in any manner release, impair, lessen, modify, waive or otherwise limit the joint and several liability and obligations of the Borrowers under the terms of any of the Financing Documents, except as otherwise specifically set forth in this Agreement.

13. Modifications. This Agreement may not be supplemented, changed, waived, discharged, terminated, modified or amended, except by written instrument executed by the parties.

[signatures are on the following page.]

IN WITNESS WHEREOF, each of the parties hereto have executed and delivered this Agreement under their respective seals as of the day and year first written above.

BORROWERS:

WITNESS/ATTEST: VSE CORPORATION

/s/ R. J. Hannah /s/ M. A. Gauthier

By: _____ (Seal)
Name: Maurice A. Gauthier
Title: CEO, President, and COO

WITNESS/ATTEST: ENERGETICS INCORPORATED

/s/ R. J. Hannah /s/ D. M. Ervine

By: _____ (Seal)
Name: D. M. Ervine
Title: Chairman of the Board

WITNESS/ATTEST: VSE SERVICES INTERNATIONAL, INC.

/s/ R. J. Hannah /s/ D. M. Ervine

By: _____ (Seal)
Name: D. M. Ervine
Title: Chairman of the Board

WITNESS/ATTEST: INTEGRATED CONCEPTS AND RESEARCH CORPORATION

/s/ R. J. Hannah /s/ D. M. Ervine

By: _____ (Seal)
Name: D. M. Ervine
Title: Chairman of the Board

WITNESS: G&B SOLUTIONS, INC.

/s/ R. J. Hannah

/s/ D. M. Ervine

By: _____ (Seal)

Name: D. M. Ervine

Title: Chairman of the Board

WITNESS:

LENDER:

CITIZENS BANK OF PENNSYLVANIA

/s/ Owen Burman

By: _____ (Seal)

Name: Owen Burman

Title: Vice President

Exhibit 10.3
SEVERANCE AND MUTUAL PROTECTION AGREEMENT

This Severance and Mutual Protection Agreement ("Agreement") is by and between VSE Corporation ("Employer") and Thomas M. Kiernan ("Employee"). Employer and Employee will be referred to collectively as the "Parties."

Employer is in the business of creating, sustaining, and improving the systems, equipment, and processes of government through core competencies in legacy systems sustainment, obsolescence management, prototyping, reverse engineering, technology insertion, supply chain management, foreign military sales, management consulting, and process improvement, and providing innovative services and technologies including program management to help its customers succeed in the engineering, energy, environment, information technology, infrastructure and defense services markets (collectively, the "Employer Business"). Employee acknowledges that in connection with Employee's employment with Employer, Employee will have access to and will obtain knowledge about Corporate Opportunities and Confidential Information of Employer as defined below; and will develop relationships with actual and potential customers, contractors, vendors, suppliers and employees. Employer acknowledges that Employee holds a key position with Employer and Employer wishes to provide an incentive for Employee to remain employed and protection in the event Employee is terminated without Cause or resigns for a Good Reason as defined below.

In consideration for Employee's initial and/or continued employment with Employer, and for the promises contained in this Agreement, and for other good and valuable consideration, the Parties agree to the following terms:

1. **Duty of Loyalty:** Employee agrees that during Employee's employment with Employer, Employee has a duty of undivided loyalty to Employer, and Employee will not engage in any conduct that violates this duty of loyalty or that presents a conflict between Employee's own personal interests and the interests of Employer.
2. **Corporate Opportunities:** During Employee's employment with Employer, Employee promptly will inform Employer in writing of all opportunities he becomes aware of that, given the nature of Employer Business, reasonably would be of interest to Employer for consideration ("Corporate Opportunities"). During and after Employee's employment with Employer, Employee will not directly or indirectly use, disclose, divert, exploit, trade upon, solicit, participate in or otherwise benefit from any of such Corporate Opportunities for himself or any other party, unless Employer expressly forever disclaims any interest in such opportunity in a written document signed by an authorized representative of Employer.
3. **Nondisclosure:** Except as required by law or as authorized in the performance of Employee's duties for Employer and for the benefit of Employer, during and after employment with Employer, Employee will not directly or indirectly disclose or use any Confidential Information. For the purposes of this Agreement, "Confidential Information" means information about Employer and/or its parents, subsidiaries and affiliated entities (collectively "Affiliates") and its and their business, operations, finances, personnel and customers, that is not in the public domain and that Employee obtained in the course of employment with Employer and includes without limitation information constituting or relating to trade secrets; Corporate Opportunities; strategic plans; marketing plans; financial information; bid information; contract information; personnel information; actual and potential customers; customer lists; carrier information; contact lists; passwords, source codes and other similar information. Information does not lose its protection as Confidential Information if it was disclosed by Employee or any other person in violation of an obligation not to disclose such information.
4. **Nonsolicitation of Employees:** During Employee's employment with Employer and for a period of two (2) years thereafter, Employee will not, for the benefit of Employee or any other person or entity besides Employer, whether as an employee, consultant, independent contractor, officer, director, shareholder (except as a shareholder of a publicly traded company in which Employee owns less than 5% of the stock), owner, member, partner or in any other capacity, directly or indirectly solicit for hire, any person who then is, an employee of Employer; The foregoing sentence will only prohibit such conduct where the purpose or effect of such conduct is directly or indirectly to encourage, assist, permit, facilitate, result in, or cause the person (aa)

to cease, curtail or refrain from entering into such a relationship with Employer; or (bb) to enter into such a relationship with any other person engaged in a Competing Business. For the purposes of this Agreement, a "Competing Business" is any enterprise engaged in the Employer Business. Such provision will not prohibit assisting with the hiring of Employer's employee(s) if such employee(s) respond to a public job posting, provided Employee does not direct Employer's employee(s) to the existence of such job posting.

5. Third Party Board membership. Notwithstanding paragraph 1 above, Employer shall permit Employee to serve as a member of the Board of Directors of an unrelated company, provided such membership (1) is not with a company which substantially is in the same Employer Business and is commonly viewed as a competitor of Employer and (2) such membership does not pose a conflict of interest with Employee's duty of loyalty to the Employer. Employee shall request written consent in writing to serve on such a Board and Employer shall grant reasonable consent in writing.

6. Reasonableness and Remedies: Employee acknowledges that the provisions of this Agreement are reasonable and necessary for the legitimate business interests of Employer. Employee further agrees that in the event Employee materially breaches any provision of this Agreement, Employer may suffer irreparable injury that could not be adequately remedied by money damages alone, and thus Employer would be entitled to seek and receive appropriate injunctive relief in addition to all other relief that a court may deem proper, including without limitation money damages.

7. Employment Status: Nothing in this Agreement will guarantee that Employee will be employed by Employer for a definite period of time, or alter the at-will employment relationship between the Parties. Either party may terminate their relationship at any time for any lawful reason with or without Cause or Good Reason as defined below.

8. Severance Benefits: If at any time during Employee's employment with Employer, Employer terminates Employee's employment without Cause or Employee resigns for a Good Reason, Employer will provide Employee with a severance benefit equal to continuation of Employee's base salary for twelve months (12) months from the date of termination plus the pro-rated value up to the date of termination of any additional compensation plans for which Employee was then a participant, including but not limited to, the Corporate Performance Bonus Plan, Deferred Supplemental Compensation Plan, the Restricted Stock Plan (with automatic vesting as of the date of termination) and all accrued annual leave earned during the period up to such termination date, less applicable withholdings and deductions, payable in installments in accordance with Employer's payroll practices (the "Severance Benefits"). Employee's entitlement to the Severance Benefits will be conditional upon (i) Employee's execution of a separation agreement and mutual general release mutually agreed upon by the Parties; and (ii) Employee's continuing compliance with all of the terms of this Agreement.

For the purposes of this Agreement, "Cause" shall mean Employee has (A) engaged in gross negligence or willful misconduct in the performance of Employee's duties; (B) willfully engaged in conduct that Employee knows or, based on facts known to Employee, should know is materially injurious to Employer or any of its Affiliates; (C) materially breached any provision of this Agreement; (D) been convicted of, or entered a plea bargain or settlement admitting guilt for, fraud, embezzlement, or any other felony (but specifically excluding felonies involving a traffic violation); or (E) materially violated any substantial policy of Employer, but in each case only if Employer has provided written notice to Employee within 90 days after the condition providing the basis for such Cause first exists and if such Cause has not been corrected or cured by Employee (if cureable) within 30 days after Employee has received written notice from Employer of Employer's intent to terminate Employee's employment for Cause and specifying in detail the basis for such termination.

For the purposes of this Agreement, "Good Reason" means (A) a material diminution in Employee's base salary rate; (B) a material diminution in Employee's authority, duties or responsibilities; (C) a material change in the geographic location at which Employee must perform Employee's duties; or (D) any other material breach of this Agreement by Employer, but in each case only if Employee has provided written notice to Employer within 90 days after the condition providing the basis for such Good Reason first exists and if such

November 6, 2008

November 7, 2008

Date

Date

Exhibit 21

SUBSIDIARIES OF THE REGISTRANT

The following is a listing of the subsidiaries of the Registrant:

	Jurisdiction of Organization -----
Energetics Incorporated	Maryland
G&B Solutions, Inc.	Virginia
Integrated Concepts and Research Corporation	District of Columbia
VSE Services International, Inc.	Delaware

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements of our reports dated March 2, 2009, with respect to the consolidated financial statements of VSE Corporation and subsidiaries and with respect to the effectiveness of internal control over financial reporting of VSE Corporation included in this Annual Report (Form 10-K), for the year ended December 31, 2008:

Name	Registration Number	Date Filed
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Registration Statements on Form S-8		

2006 Restricted Stock Plan	333-134285	5/19/2006
2004 Stock Option Plan and 2004 Non-employee Directors Stock Plan	333-115218	5/6/2004

/s/ Ernst & Young LLP

McLean, Virginia
March 2, 2009

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, M. A. Gauthier, certify that:

1. I have reviewed this annual report on Form 10-K of VSE Corporation;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and 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 report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) 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 report based on such evaluation; and
 - (d) Disclosed in this 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 officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, 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: March 3, 2009

/s/ M. A. Gauthier

M. A. Gauthier
Chief Executive Officer, President
and Chief Operating Officer

Exhibit 31.2

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

I, T. R. Loftus, certify that:

1. I have reviewed this annual report on Form 10-K of VSE Corporation;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and 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 report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) 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 report based on such evaluation; and
 - (d) Disclosed in this 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 officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, 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: March 3, 2009

/s/ T. R. Loftus

T. R. Loftus
Executive Vice President and
Chief Financial 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 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) our Annual Report on Form 10-K for the year ending December 31, 2008 (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 our Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 3, 2009

/s/ M. A. Gauthier

M. A. Gauthier
Chief Executive Officer, President
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 Executive Vice President and Chief Financial Officer of VSE Corporation (the "Company"), does hereby certify that to the best of the undersigned's knowledge:

1) our Annual Report on Form 10-K for the year ending December 31, 2008 (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 our Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 3, 2009

/s/ T. R. Loftus

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