

Total current assets	19,920	16,395		
Property and equipment, net	3,612	3,078		
Deferred tax assets	0	248		
Intangible assets	3,977	102		
Other assets	1,854	1,449		
Total assets	<u>\$29,363</u>	<u>\$21,272</u>		
Liabilities and Stockholders' Investment				
Current liabilities:				
Accounts payable and other current liabilities	\$ 3,596	\$ 2,485		
Accrued expenses	6,910	5,661		
Accrued income taxes	494	70		
Dividends payable	74	69		
Total current liabilities	<u>11,074</u>	<u>8,285</u>		
Long-term debt	3,651	0		
Deferred tax liabilities	270	0		
Deferred compensation	1,218	886		
Total liabilities	<u>16,213</u>	<u>9,171</u>		
Commitments and contingencies				
Stockholders' investment:				
Common stock, par value \$.05 per share, authorized 5,000,000 shares; issued 1,948,044 shares	97	97		
Paid-in surplus	8,247	8,247		
Retained earnings	21,000	20,042		
Treasury stock, at cost (1,072,877 shares in 1995 and 1,078,877 shares in 1994)	(16,194)	(16,285)		
Total stockholders' investment	<u>13,150</u>	<u>12,101</u>		
Total liabilities and stockholders' investment	<u>\$29,363</u>	<u>\$21,272</u>		

</TABLE>

<TABLE>

VSE Corporation and Subsidiaries
Consolidated Financial Statements (Unaudited)

Consolidated Statements of Income For the three and nine months ended

(in thousands, except per share amounts)

<CAPTION>

	September 30,			
	1995	1994		
	Three	Nine	Three	Nine
	Months	Months	Months	Months
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Revenues, principally from contracts	\$21,204	\$54,469	\$15,778	\$49,547
Costs and expenses of contracts	19,605	51,569	14,342	46,557
Gross profit	<u>1,599</u>	<u>2,900</u>	<u>1,436</u>	<u>2,990</u>
Selling, general and administrative expenses	813	964	747	1,123
Interest expense	15	27	8	19

Pretax income	771	1,909	681	1,848
Provision for income taxes	312	739	266	726
Net income	<u>\$ 459</u>	<u>\$ 1,170</u>	<u>\$ 415</u>	<u>\$ 1,122</u>
Earnings per common share, based on				
weighted average shares outstanding:	<u>\$.53</u>	<u>\$ 1.35</u>	<u>\$.48</u>	<u>\$ 1.30</u>
Weighted average shares outstanding				
	<u>869,167</u>	<u>865,567</u>	<u>863,167</u>	<u>863,167</u>

</TABLE>

<TABLE>

VSE Corporation and Subsidiaries
Consolidated Financial Statements (Unaudited)

Consolidated Statements of Stockholders' Investment

(in thousands)
<CAPTION>

	Common Stock Shares	Paid-In Amount	Retained Surplus	Earnings	Treasury Stock
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Balance at December 31, 1993	1,948	\$97	\$8,247	\$18,757	\$(16,285)
Net income for the year	--	--	--	1,122	--
Dividends declared (\$.23)	--	--	--	(199)	--
Balance at September 30, 1994	<u>1,948</u>	<u>\$97</u>	<u>\$8,247</u>	<u>\$19,680</u>	<u>\$(16,285)</u>
Balance at December 31, 1994	1,948	\$97	\$8,247	\$20,042	\$(16,285)
Net income for the year	--	--	--	1,170	--
Dividends declared (\$.24)	--	--	--	(212)	--
Issuance of Treasury Stock	--	--	--	--	91
Balance at September 30, 1995	<u>1,948</u>	<u>\$97</u>	<u>\$8,247</u>	<u>\$21,000</u>	<u>\$(16,194)</u>

</TABLE>

<TABLE>

VSE Corporation and Subsidiaries
Consolidated Financial Statements (Unaudited)

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

(in thousands)
<CAPTION>

	1995	1994
<S>	<C>	<C>
Cash flows from operating activities:		

Net income	\$ 1,170	\$ 707
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	1,993	545
(Gain) on sale of property and equipment	(2)	(14)
Deferred compensation plan expense	94	0
Change in assets and liabilities -		
(Increase) decrease in:		
Accounts receivable	(6,225)	5,750
Intangible assets	755	30
Other current assets and noncurrent assets	(2,230)	(215)
Deferred tax assets	453	(425)
Increase (decrease) in:		
Accounts payable and other current liabilities	1,204	(1,295)
Accrued expenses	1,249	305
Accrued and deferred taxes	424	(37)
Deferred tax liability	270	0
Net cash (used in) provided by operations	(845)	5,351
Cash flows from investing activities:		
Acquisition of CMstat Corporation	(970)	0
Acquisition of Energetics Incorporated	(3,660)	0
Purchase of property and equipment	(815)	(203)
Issuance of treasury shares	91	0
Net cash used in investing activities	(5,354)	(203)
Cash flows from financing activities:		
Net proceeds from (payments of) revolving term loan	3,592	(2,684)
Proceeds from other long-term debt	59	0
Cash dividends paid	(207)	(129)
Proceeds from (payments of) deferred compensation	145	(99)
Net cash provided by (used in) financing activities	3,589	(2,912)
Net increase (decrease) in cash and cash equivalents	(2,610)	2,236
Cash and cash equivalents at beginning of year	3,124	1,032
Cash and cash equivalents at end of period	\$ 514	\$ 3,268

</TABLE>

VSE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Condensed Consolidated Financial Statements

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine month periods ended September 30, 1995 are not necessarily indicative of the results that may be expected for the year ended December 31, 1995. For further information refer to the consolidated financial statements and footnotes thereto included in the VSE Corporation annual report on Form 10-K for the year ended December 31, 1994.

(1) Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include VSE Corporation ("VSE" or the "company"), CMstat Corporation ("CMstat"), Energetics Incorporated ("Energetics"), Human Resource Systems, Inc. ("HRSI"), Schmoltdt Engineering Services ("Schmoltdt Engineering"), VSE Corona, Inc. ("VCI"), VSE Services Corporation ("VSES"), and Value Systems Services ("VSS") and BAV, unincorporated divisions of VSE. All significant intercompany transactions have been eliminated in consolidation. Certain prior year balances have been reclassified for comparative purposes.

(2) CMstat Corporation Acquisition

On May 31, 1995 the company acquired all of the outstanding stock of CMstat Corporation, a leading developer and supplier of commercial off-the-shelf configuration and product data management solutions, for approximately \$970 thousand in cash. CMstat designs, manufactures, and supports the software developed for commercial and government customers. The acquisition was accounted for by the purchase method of accounting. The results of operations since May 31, 1995 are included in these financial statements. The company has recorded intangible assets of \$2.4 million allocating approximately \$400 thousand of Goodwill, \$1.2 million of intangible assets and \$800 thousand of deferred taxes thereon. These allocations are based on preliminary estimates made by management. The allocations to intangible assets may be revised at a later date, however, the impact of the differences, if any, in the final allocations are not expected to have a material impact on the financial statements. Goodwill and intangible assets are being amortized by the straight-line method over periods from seven to ten years.

VSE CORPORATION

Notes to Consolidated Financial Statements

(3) Energetics Incorporated Acquisition

On August 29, 1995 the company acquired all of the outstanding stock of Energetics Incorporated ("Energetics") for approximately \$3.7 million. Energetics assists government and industry in conducting effective technology programs, primarily in the fields of energy use and the environment. Principal clients include the U. S. Department of Energy, other U. S. Government prime contractors, public utilities, universities, and not-for-profit corporations and associations. The acquisition was accounted for by the purchase method of accounting. The results of operations for the period August 29, 1995 through September 24, 1995 and the balance sheet as of September 24, 1995 are included in these financial statements. The company has recorded intangible assets of \$1.6 million consisting of approximately \$1.5 million of goodwill and \$100 thousand of intangible assets. These allocations are based on preliminary estimates made by management. The allocations to intangible assets may be revised at a later date, however, the impact of the differences, if any, in the final allocations are not expected to have a material impact on the financial statements. Goodwill and intangible assets are being amortized by the straight-line method over periods from one to 15 years.

(4) BAV Division

On August 17, 1995 the company was notified that BAV was awarded a contract with the U. S. Navy to provide engineering, technical and logistical support services associated with the sale, lease, or transfer of Navy ships to foreign governments. The contract is a cost plus award fee contract with a base year and nine option years. The total potential value of the contract is approximately \$1 billion. In September 1995 the contract award was protested and the protest is currently under review by the General Accounting Office ("GAO"). BAV continues to perform under the contract during the protest period.

(5) Debt

<TABLE>

Long-term Debt

Long-term Debt as of September 30, 1995 and December 31, 1994 was as follows (in thousands):

<CAPTION>

	September 30, 1995	December 31, 1994	
	<C>	<C>	
Revolving term loan	\$3,592	\$ 0	
Other debt	208	3	
	<u>3,800</u>	<u>3</u>	
Less portion due within one year . . .	(149)	(3)	
	<u>\$3,651</u>	<u>\$ 0</u>	

</TABLE>

At September 30, 1995, VSE had a revolving term loan agreement (the "Loan") with a bank whereby VSE could borrow up to \$8 million, subject to a borrowing base formula and certain other conditions and covenants. Interest was charged on amounts borrowed under the Loan at the prime rate of interest established by the

VSE CORPORATION

Notes to Consolidated Financial Statements

bank or at an optional federal funds based rate. A commitment fee of was charged on the average unused portion of the loan commitment. Borrowings were secured by VSE assets. The termination date of the Loan was May 31, 1997.

Other debt is related to debt assumed in the acquisitions of CMstat and Energetics and will be extinguished by the end of 1996.

On October 26, 1995, the original revolving term loan agreement was replaced with a new revolving term loan agreement (the "Current Loan") with a syndicate of three banks. Under the Current Loan, VSE can borrow up to \$45 million, subject to a borrowing formula based on billed receivables. Interest is charged at a prime-based rate or at an optional LIBOR-based rate. A commitment fee is charged on the unused portion of the loan commitment. The prime-based rate and the LIBOR-based rate and the amount of the commitment fee increase or decrease as VSE's leverage ratio increases or decreases. The Current Loan contains collateral requirements similar to those in the original Loan and restrictive covenants that include minimum tangible net worth and profitability requirements and a limit on annual dividendse. The termination date of the Current Loan is May 31, 1997.

VSE CORPORATION AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
RESULTS OF OPERATIONS AND FINANCIAL CONDITION

<TABLE>

The following table sets forth certain items, including consolidated revenues, pretax income, and net income and the amount of changes of such items for the three and nine month periods ended September 30, 1995 and 1994 (in thousands).

<CAPTION>

Three Months Ended September 30, 1995	Nine Months Ended September 30, 1995	1995 Compared to 1994 Three Months	Nine Months
---	--	--	----------------

<S>	<C>	<C>	<C>	<C>	<C>	<C>
Revenues, principally from contracts . . .	\$21,204	\$15,778	\$54,469	\$49,547	\$5,426	\$4,922
Pretax income . . .	\$ 771	\$ 681	\$ 1,909	\$ 1,848	\$ 90	\$ 61
Provision for income taxes . . .	312	266	739	726	46	13
Net income	\$ 459	\$ 415	\$ 1,170	\$ 1,122	\$ 44	\$ 48

</TABLE>

RESULTS OF OPERATIONS

The results of operations includes the operations of VSE Corporation ("VSE" or the "company"), CMstat Corporation ("CMstat"), acquired in May of 1995, Energetics Incorporated ("Energetics"), acquired in August of 1995, Human Resource Systems, Inc. ("HRSI"), Schmoltdt Engineering Services Company ("Schmoltdt Engineering"), VSE Corona, Inc. ("VCI"), VSE Services Corporation ("VSES"), and Value Systems Services ("VSS") and BAV, unincorporated divisions of VSE, all of which operate principally in the engineering, software development, testing, and management services industry. Intercompany sales are principally at cost.

Revenues for the three and nine month periods ended September 30, 1995 increased by about 34% and 10%, respectively, compared to the same periods of 1994. The increase in revenues is primarily due to: the increase in services performed by VSS associated with the VSS Navy contract (see discussion about the "VSS Contract" below), revenues associated with the acquisition of CMstat and Energetics, and an increase in sales of materials and subcontract services by VSE.

Pretax income for the three and nine month periods ended September 30, 1995 increased by about 13% and 3%, respectively, compared to the same periods of 1994. The increase in pretax income is primarily due to an increase in profits associated with the additional revenues provided by the VSS Navy contract and the income of CMstat and Energetics.

The largest customer for the engineering services rendered by the company is the U. S. Department of Defense ("Defense"), including agencies of the U. S. Army, Navy, and Air Force. The Defense budget has been restrained by the federal budget deficit in recent years, and as a result of this and increased competition, VSE's engineering services revenues have decreased from the levels attained in prior years. There can be no assurance that future reductions in

VSE CORPORATION AND SUBSIDIARIES Management Discussion and Analysis

the Defense budget will not have a material adverse impact on the company's revenues, results of operations, and financial position.

Substantially all of the company's revenues from continuing operations depend on the exercise of option periods and the satisfaction of incremental funding requirements on current contracts, on current contracts not being terminated for the convenience of the Government, and on the incremental funding requirements on current contracts. In 1995 and 1994 the company did not experience any termination of contracts for the convenience of the Government or any non-exercise of option periods on current contracts which were material to the company's business.

BAV Contract. In August 1995, the BAV Division of VSE was awarded a contract with the U. S. Navy to provide engineering, technical and logistical support services associated with the sale, lease or transfer of Navy ships to foreign governments. BAV began work on the contract, however, the contract award was protested and the protest is currently under review by the General Accounting Office ("GAO"). BAV continues to perform under the contract during the protest period. This contract has the potential, if all options are exercised, to

generate revenues in excess of one billion dollars over a ten year period from 1995 to 2005.

VSE Contracts. VSE has a contract with the U. S. Navy which accounted for approximately 18% of consolidated revenues for the nine month period ended September 30, 1995. This contract was scheduled to expire in September 1992, but was extended through September 1995. The Navy had announced that it intended to combine the work performed under this contract with other related work, and VSE had been informed that it was not the successful bidder for the new contract. Substantially all work on the contract ended by September 30, 1995. The company has been able to replace the contract with new contracts and continues to look for opportunities to support the affected workforce.

VSE has another contract with the U. S. Navy which accounted for approximately 13% of revenues for the nine month period ended September 30, 1995. Revenues for this contract have increased substantially compared to prior years due to increased requirements for materials and subcontract work. Although work on the contract is expected to continue through its completion date of September 1996, future levels of materials sales and subcontract work are not expected to continue at the increased levels experienced during the nine months ended September 30, 1995.

VSS Subcontract. Beginning in January 1992, VSS provided services to the U. S. Marine Corps under a subcontract. The subcontract generated revenues to VSS equal to about 8% of VSE's consolidated revenues for the nine month period

VSE CORPORATION AND SUBSIDIARIES

Management's Discussion and Analysis

ended September 30, 1994. A protest against the award of the prime contract was sustained by the General Accounting Office, and in October 1993, a new prime contract was awarded to a different contractor. Substantially all work on the VSS subcontract terminated effective April 23, 1994. There is no revenue associated with this subcontract during 1995.

VSS Contract. In February 1994 VSS was awarded a new contract with a U. S. Navy customer. In September 1994 VSS began work on the contract. The contract generated revenues to VSS equal to approximately 12% of consolidated revenues during the nine month period ended September 30, 1995.

Liquidity and Capital Resources

A net decrease in cash and cash equivalents of approximately \$2.6 million during the nine month period ended September 30, 1995, resulted from approximately \$5.4 million in cash used in investing activities, approximately \$3.6 million in cash provided by financing activities and approximately \$800 thousand used in operations.

Investing activities consisted primarily of cash payments of approximately \$3.7 million associated with the investment in Energetics, \$970 thousand associated with the investment in CMstat Corporation and \$815 thousand associated with the purchase of property and equipment. Financing activities consisted primarily of the company's revolving term loan of \$3.6 million. Cash used in operations consisted primarily of an increase in accounts receivable due primarily to the acquisitions and several significant material purchases under a contract at the end of the quarter offset by an increase in net income, reduced accounts payable and accrued expenses.

The company's principal requirements for cash are to finance the costs of operations pending the collection of accounts receivable, to acquire capital assets for office and computer support, and to pay cash dividends. As of September 30, 1995, VSE had borrowings of approximately \$3.6 million outstanding under its \$8 million bank loan. Execution on the BAV contract described above is expected to substantially increase the company's requirements for cash, however, management believes that the cash flows from operations and a new \$45 million bank loan commitment that was executed on October 26, 1995 are adequate to meet current operating cash requirements.

VSE's requirements for working capital are affected significantly by its

revenues and accounts receivable, which arise primarily from billings made by the company to the U. S. Government or other prime contractors for services rendered. Such accounts receivable generally do not present liquidity or collection problems. Working capital is also affected by (a) contract retainages, (b) start-up and termination costs associated with new or complete contracts, (c) capital equipment requirements, and (d) differences between the provisional billing rates authorized by the government compared to the costs actually incurred by the company.

VSE CORPORATION AND SUBSIDIARIES

Management's Discussion and Analysis

Government contracts generally require VSE to pay for material and subcontract costs included in VSE's contract billings prior to receiving payment for such costs from the Government. However, such contracts generally provide for progress payments on a monthly or semimonthly basis, thereby reducing requirements for working capital.

Cash dividends were declared at \$.24 per share during the nine month period ended September 30, 1995. Pursuant to its bank loan agreement, the payment of cash dividends is subject to annual rate restrictions. VSE has paid cash dividends each year since 1973.

Inflation and Pricing Policy

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

VSE CORPORATION AND SUBSIDIARIES

PART II. Other Information

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

(a) Exhibits.

None

(b) Reports on Form 8-K.

On August 18, 1995, the Registrant filed a Current Report on Form 8-K reporting on an award of a cost-plus-award-fee contract to BAV by the U. S. Navy to provide engineering, technical, and logistics support services for various classes of U. S. ships bought, leased, or otherwise transferred to foreign governments. The initial value of the contract is approximately \$202 million. If all options are exercised by the Government, the total contract value is estimated to be in excess of one billion dollars over a ten year period.

On September 13, 1995, the Registrant filed a Current Report on Form 8-K reporting the acquisition of Energetics Incorporated ("Energetics") of Columbia, Maryland on August 29, 1995. The Registrant acquired all of the outstanding capital stock for \$3.7 million pursuant to a Stock Purchase Agreement.

On November 9, 1995, the Registrant filed a Current Report on Form 8-K/A, Amendment No. 1, to the Current Report on Form 8-K filed on September 13, 1995. The amendment reported Energetics' unaudited Financial Statements as of June 30, 1995 and for the seven months ended June 30, 1994 and 1995, and audited

Financial Statements for the year ended November 27, 1994 together with auditors' report. The Current Report also reported the Registrant's unaudited pro forma combined condensed financial statements and notes to unaudited pro forma combined condensed financial statements.

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

VSE CORPORATION AND SUBSIDIARIES

SIGNATURES

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

VSE CORPORATION

Date: November 14, 1995 C. S. Weber
C. S. Weber, Senior Vice President,
Secretary and Treasurer
(Principal Financial Officer)

Date: November 14, 1995 T. J. Corridon
T. J. Corridon, Vice President
and Director of Accounting
(Principal Accounting Officer)

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