

ITEM 2. Properties

Refer to the discussion captioned "Description of Business" in VSE's 1995 Annual Report to Stockholders which is incorporated herein by reference.

ITEM 3. Legal Proceedings

Refer to Note 8 (Commitments and Contingencies - Litigation) of the "Notes to Consolidated Financial Statements" in VSE's 1995 Annual Report to Stockholders which is incorporated herein by reference.

ITEM 4. Submission of Matters to a Vote of Stockholders

Not applicable.

PART II

ITEM 5. Market for Registrant's Common Stock and Related Stockholder Matters

Refer to discussion captioned "VSE Common Stock" in VSE's 1995 Annual Report to Stockholders which is incorporated herein by reference.

ITEM 6. Selected Financial Data

Refer to table captioned "Financial Highlights" in VSE's 1995 Annual Report to Stockholders which is incorporated herein by reference.

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

Refer to discussion captioned "Management Discussion and Analysis" in VSE's 1995 Annual Report to Stockholders which is incorporated herein by reference.

ITEM 8. Financial Statements and Supplementary Data

Refer to section captioned "Consolidated Financial Statements" and "Notes to Consolidated Financial Statements" in VSE's 1995 Annual Report to Stockholders which is incorporated herein by reference. Also refer to the schedule on page S-1 of this report.

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

Not applicable.

PART III

ITEM 10. Directors and Executive Officers of the Registrant

Information with respect to VSE Directors is incorporated by reference to VSE's definitive proxy statement for its annual meeting of stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A (the "Proxy Statement") not later than 120 days after December 31, 1995. The executive officers are chosen annually at the board of directors meeting next following the annual meetings of stockholders and serve until their successors have been duly elected and qualified, or until resignation or removal. Also refer to section captioned "Executive Officers" in VSE's 1995 Annual Report to Stockholders which is incorporated herein by reference.

ITEM 11. Executive Compensation

Information with respect to this item is incorporated by reference to the discussion captioned "1995 Director Compensation," "Changes in Director Compensation," and "Certain Relationships and Related Transactions" in Item No. 1 (Election of Directors); Item No. 3 (VSE Corporation 1996 Stock Option Plan); and "All Other Compensation," "Employment Agreements," and "Summary Compensation Table" in "Compensation Committee Report" in the Proxy Statement.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management

Information with respect to this item is incorporated by reference to the discussion captioned "Security Ownership of Certain Beneficial Owners and Management" in the Proxy Statement.

ITEM 13. Certain Relationships and Related Transactions

Information with respect to this item is incorporated by reference to the discussion captioned "Certain Relationships and Related Transactions" in Item No. 1 (Election of Directors) in the Proxy Statement.

PART IV

ITEM 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) The following documents are filed as part of this report:

1. Financial statements from VSE's 1995 Annual Report to Stockholders which is incorporated herein by reference:

Report of Independent Public Accountants
In section captioned "Consolidated Financial Statements":
Consolidated Balance Sheets as of December 31, 1995 and 1994
Consolidated Statements of Income for the Years Ended
December 31, 1995, 1994, and 1993
Consolidated Statements of Stockholders' Investment for the Years
Ended December 31, 1995, 1994, and 1993
Consolidated Statements of Cash Flows for the Years Ended
December 31, 1995, 1994, and 1993
Notes to Consolidated Financial Statements

2. Financial Statement schedules required to be filed by Item 8 of this Form:

Form 10-K Schedule
Page Number Description
5 -- Report of Independent Public Accountants
S-1 II Valuation and Qualifying Accounts

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, financial notes, or supplementary financial information.

3. Exhibits:

Exhibits filed with this Form:

- I Subsidiaries of the Registrant
- II VSE Corporation 1995 Annual Report
- III Employment Agreement entered into as of January 1, 1996, by and between VSE Corporation and Donald M. Ervine
- IV Employment Agreement entered into as of January 1, 1996, by and between VSE Corporation and Richard B. McFarland
- V Restated Certificate of Incorporation of VSE Corporation dated as of February 6, 1996
- VI By-Laws of VSE Corporation as Amended through February 6, 1996

Exhibits not filed with this Form:

Specimen Stock Certificate as of May 19, 1983 (Exhibit 4 to Registration Statement No. 2-83255 dated April 22, 1983 on Form S-2).
Exchange Agreement dated as of March 25, 1992, amended as of September 1, 1992, by and between VSE Corporation and JBT Holding Corp., et al (Exhibit A to Exhibit 1, Proxy Statement, filed on Form 8-K on November 2, 1992).

VSE Corporation Deferred Supplemental Compensation Plan (Exhibit III to Form 10-K dated March 23, 1995).
Stock Purchase Agreement dated August 29, 1995 by and between VSE Corporation and the shareholders of Energetics Incorporated (Exhibit 2 to Form 8-K dated September 13, 1995 and Amendment 1 on Form 8-K/A dated November 9, 1995).

(b) Reports on Form 8-K:

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 the unaudited pro forma combined condensed financial statements.

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: March 22, 1996 By: /s/ C. S. Weber

C. S. Weber, Treasurer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on March 22, 1996, by the following persons on behalf of the Registrant and in the capacities indicated.

(a) Principal Executive Officers:

/s/ D. M. Ervine

D. M. Ervine, Chairman of the Board and Chief Executive Officer

/s/ R. B. McFarland

R. B. McFarland, President and Chief Operating Officer

(b) Principal Financial Officer: (c) Principal Accounting Officer:

/s/ C. S. Weber

/s/ T. J. Corridon

C.S. Weber, Senior Vice President T. J. Corridon, Senior Vice
Secretary and Treasurer President and Comptroller

(d) Directors:

/s/ Sarah Clements

/s/ R. B. McFarland

Sarah Clements

R. B. McFarland

/s/ D. M. Ervine

/s/ D. M. Osnos

D. M. Ervine

D. M. Osnos

/s/ J. D. Ross

R. J. Kelly

J. D. Ross

/s/ C. S. Koonce

/s/ B. K. Wachtel

C. S. Koonce

B. K. Wachtel

/s/ J. M. Marchello

J. M. Marchello

Report of Independent Public Accountants

To the Stockholders of VSE Corporation:

We have audited in accordance with generally accepted auditing standards, the consolidated financial statements included in VSE Corporation's annual report to stockholders incorporated by reference in this Form 10-K and have issued our report thereon dated March 1, 1996. Our audits were made for the purpose of forming an opinion on those statements taken as a whole. The schedule listed in the index is the responsibility of the company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic consolidated financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, fairly states, in all material respects the financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

/s/ ARTHUR ANDERSEN LLP

ARTHUR ANDERSEN LLP

Washington, D.C.,
March 1, 1996

VSE CORPORATION AND SUBSIDIARIES SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS
(in thousands)

<TABLE>
<CAPTION>

Description	Balance December 31, 1994	Additions to and Charged to Income	Deductions from Reserves	Balance December 31, 1995
<S>	<C>	<C>	<C>	<C>
Allowance for doubtful accounts	\$ 247	\$ (87)	\$ 0	\$ 160
Allowance for contract disallowances	\$ 1,338	\$ (651)	\$ 662	\$ 1,349
Valuation allowance for income taxes	\$ 50	\$ 0	\$ 0	\$ 50

Description	Balance December 31, 1993	Additions to and Charged to Income	Deductions from Reserves	Balance December 31, 1994
<S>	<C>	<C>	<C>	<C>

Allowance for doubtful accounts	\$ 251	\$ 0	\$ (4)	\$ 247
Allowance for contract disallowances	\$ 1,384	\$ 0	\$ (46)	\$ 1,338
Valuation allowance for income taxes	\$ 50	\$ 0	\$ 0	\$ 50

Description	Additions to and Deductions from			
	Balance December 31, 1992	Charged to Income	Reserves	Balance December 31, 1993
Allowance for doubtful accounts	\$ 246	\$ 0	\$ 5	\$ 251
Allowance for contract disallowances	\$ 1,391	\$ 0	\$ (7)	\$ 1,384
Valuation allowance for income taxes	\$ 0	\$ 0	\$ 50	\$ 50

</TABLE>

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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	Plan of acquisition, reorganization, arrangement, liquidation or succession Exchange Agreement dated as of March 25, 1992, amended as of September 1, 1992, by and between VSE Corporation and JBT Holding Corp., et al. (Exhibit A to Exhibit 1, Proxy Statement, filed on Form 8-K on November 2, 1992)	*
3	Articles of incorporation and by-laws Restated Certificate of Incorporation of VSE Corporation dated as of February 6, 1996 By-Laws of VSE Corporation as amended through February 6, 1996	Exhibit V Exhibit VI
4	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).	*
9	Voting trust agreement	Not Applicable
10	Material contracts Employment Agreement entered into as of January 1, 1996, by and between VSE Corporation and Donald M. Ervine Employment Agreement entered into as of January 1, 1996, by and between VSE Corporation and Richard B. McFarland VSE Corporation Deferred Supplemental Compensation Plan effective January 1, 1994 (Exhibit III to Form 10-K dated March 23, 1995) Stock Purchase Agreement dated August 29, 1995 by and between VSE Corporation and the shareholders of Energetics Incorporated (Exhibit 2 to Form 8-K dated September 13, 1995 and Amendment 1 on Form 8-K/A dated November 9, 1995)	Exhibit III Exhibit IV *

11	Statement re computation of per share earnings	Not Applicable
12	Statements re computation of ratios	Not Applicable
13	Annual report to security holders, Form 10-Q or quarterly report to security holders	Exhibit II
16	Letter re change in certifying accountant	Not Applicable
18	Letter re change in accounting principles	Not Applicable
19	Previously unfiled documents	Not Applicable
22	Subsidiaries of the registrant	Exhibit I
23	Published report regarding matters submitted to vote of security holders	Not Applicable
24	Consents of experts and counsel	Not Applicable
25	Power of attorney	Not Applicable
28	Additional exhibits	Not Applicable
29	Information from reports furnished to State insurance regulatory authorities	Not Applicable

*Document has been filed as indicated and is incorporated by reference herein.

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EXHIBIT I

SUBSIDIARIES OF THE REGISTRANT

The following is a listing of the subsidiaries of the Registrant:

	Jurisdiction of Organization -----
CMstat Corporation	Delaware
Energetics Incorporated	Maryland
Human Resource Systems, Inc.	Delaware
Schmoldt Engineering Services Company *	Oklahoma
VSE Corona, Inc.	Delaware
VSE Services Corporation	Delaware

* On February 7, 1996, the Registrant sold its wholly owned subsidiary Schmoldt Engineering Services Company.

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Exhibit II

VSE Corporation

1995 Annual Report

Engineering Solutions

Financial Highlights

Selected Financial Data (Unaudited) (In thousands, except per share data)

<TABLE>
<CAPTION>

	1995	1994	1993	1992	1991
<S>	<C>	<C>	<C>	<C>	<C>
Revenues, principally from contracts	\$75,067	\$65,581	\$79,609	\$78,305	\$68,317
Income (loss) from continuing operations	\$ 1,646	\$ 1,553	\$ 1,159	\$ 1,316	\$ (610)
Cumulative effect of change in accounting for income taxes.	0	0	284	0	0
Loss from discontinued operations	0	0	0	0	(4,068)
Gain on sale of discontinued operations	0	0	0	776	0
Net income (loss) . . .	\$ 1,646	\$ 1,553	\$ 1,443	\$ 2,092	\$ (4,678)
Earnings per common share:					
Income (loss) from continuing operations	\$ 1.90	\$ 1.80	\$ 1.34	\$.85	\$ (.36)
Cumulative effect of change in accounting for income taxes	0	0	.33	0	0
Loss from discontinued operations	0	0	0	0	(2.42)
Gain on sale of discontinued operations	0	0	0	.50	0
Net income (loss) . . .	\$ 1.90	\$ 1.80	\$ 1.67	\$ 1.35	\$ (2.78)
Total assets	\$29,106	\$21,272	\$23,546	\$20,820	\$34,326
Long-term obligations	\$ 6,546	\$ 886	\$ 3,834	\$ 3,282	\$ 3,789
Stockholders' investment . . .	\$13,553	\$12,101	\$10,816	\$ 9,623	\$21,599
Book value per common share .	\$ 15.59	\$ 14.02	\$ 12.53	\$ 11.15	\$ 12.92
Cash dividends per common share	\$.33	\$.31	\$.29	\$.28	\$.28

This consolidated summary of selected financial data should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this Annual Report.

</TABLE>

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Report from the Chairman and CEO

The company put on seven-league boots in 1995. During the year we reported a landmark contract award, aggressive acquisitions, important additions to our technology, and most importantly, the excitement we feel as new employees, managers, and directors join the VSE team. In this report I want to share with you some of our accomplishments in 1995 and our vision and strategies for continued growth in the years ahead.

The BAV Contract

VSE has been an important player in America's defense community since 1959, and we are determined to build on our reputation and strengths as a dependable and innovative contractor. Several years ago we identified a potential Navy program which could help meet the Navy's need to realize cost savings in the engineering, overhaul, maintenance, training, and logistic support associated with the transfer of Navy ships to foreign governments. Through the privatization of this effort, the Navy could complete the drawdown of its active and reserve ship inventory from the six hundred ship Navy previously required to the restated requirements of the post Cold War era.

Putting together a world-class team of subcontractors with the resources, skills, and global presence required to execute the contract (see inside cover), VSE's BAV Division submitted a proposal which was judged by the Navy to be technically superior to eight other competing proposals. Award of a cost plus award fee contract was made to BAV in August 1995. The award was protested by two of the other competitors, and in late January 1996 the General Accounting Office (GAO) denied the protests, upholding the Navy's selection of BAV. The contract, including option periods which may be exercised by the Navy, provides for a ten-year effort. Revenues under the contract will depend on the number and size of the delivery orders for ships and services which may be ordered by foreign governments. The Navy has estimated that up to \$1 billion, and possibly more, may be ordered under the contract during the ten-year period.

The Navy's ship transfer program is good for America. It means challenging work for American engineers and naval architects, technicians, suppliers and shipyards from Virginia to Oregon and New York to Louisiana, and many other states. The program will be substantially funded by foreign governments, and the additional capability gained by our allies as we transfer destroyers, frigates, and auxiliary ships to them will reduce the burden on our country in meeting mutual defense needs around the globe.

Work under the contract will be managed by BAV from VSE's headquarters facility in Alexandria, Virginia. During the initial years of the contract, we expect that the bulk of the work will be performed in U. S. shipyards by BAV's teaming partners. Because it is a delivery order contract, we are unable to predict the amount of work which will be ordered each year. While there are no assurances, our initial preparations are targeted towards revenues, principally subcontract revenues, of between \$100 and \$200 million a year. In terms of earnings, we do not expect the BAV work to be as profitable as some of our other contract operations. For example, we anticipate a substantial amount of nonbillable interest expense associated with financing large subcontracts. Notwithstanding the lower margins, the contract is expected to provide a substantial base for developing other business opportunities. Significant revenues under the contract are not expected to be recorded until later in 1996.

Report from the Chairman and CEO

The BAV contract represents the kind of opportunity for growth which VSE will continue to pursue in the years ahead. There are a number of other privatization programs which may develop in the defense establishment. We have identified some of these programs, and we are excited about our prospects. The BAV contract has increased our profile and reputation, and we hope to build rapidly on this success.

Other Business Developments

In previous years we outlined the key components of our strategy following the completion of the spin-off of our non-engineering subsidiaries in 1992. As the government downsizes its budget for new procurements, we streamlined our operations and targeted high profile defense opportunities such as ensuring logistics support for Navy aircraft, engineering support for Army wheeled and tracked vehicles, military readiness programs centered on technology insertion, product improvement, service life extension, prototype development, and information technology, and the growth of our non-defense business.

One of our largest program efforts in 1995, with option periods through 1999, is providing logistics support for Navy and Marine Corps aircraft such as the F/A-18 (Hornet), F-14 (Tomcat), A-6 (Intruder), AV-8B (Harrier), V-22 (Osprey), and a number of military helicopters, missiles, and cruise missiles. Our technical logistics support extends to data management and documentation; cost, readiness, and supportability analyses; logistics plans; and systems engineering and configuration management. We enjoyed significant growth in this program in 1995, and we anticipate further growth in 1996.

For Army clients, we continue to provide a broad range of engineering services. One high profile program is the effort of VSE engineers to develop an improved combat bridging vehicle design to assist in the rapid deployment of bridge sections like those being used by the Army on the rivers in Bosnia. Another important program is providing systems technical support services for a variety of military vehicles and trailers. Among the improvements recently developed are vehicle fire detection and suppression systems to improve the safety of military vehicles for U. S. combat personnel. Other efforts are directed to incorporating advanced technology in such areas as tires, tire inflation, lubrication, engine cooling, exhaust systems, anti-lock brakes, LED lights, collision avoidance, and other improvements to enhance the safety and extend the life-cycle of vehicle systems.

The use and development of information technology to solve client problems is an integral part of VSE's service approach. Since acquiring CMstat Corporation in May 1995, CMstat has doubled its revenues, nearly doubled its staff, and recorded important sales to major corporations in a number of key industries including aerospace, electronics, defense, and telecommunications. CMstat is a leading developer of cross-platform configuration management and product data management (CM/PDM) software.

VSE's growth in non-defense government agencies accelerated rapidly in 1995. With the acquisition of Energetics Incorporated in August 1995, VSE allied itself with one of the premiere companies supporting technology research, development, and demonstration programs, principally for the Department of Energy and other clients. Energy conservation and efficiency, advanced technology transfer, and feasibility, assessment, and development programs affecting industrial, transportation, and building concerns of the present and future are a few of the

Report from the Chairman and CEO

growth areas served by Energetics. Working with scientists, engineers, and policy experts from around the world, Energetics has established a reputation as a reliable management partner for energy and advanced technology programs.

Our engineering support services contract for the U. S. Postal Service continued in 1995 under a new, five-year competitive contract. Under effective management, and supported by contractor efforts such as those provided by VSE at the Engineering Center in Merrifield, Virginia, the Postal Service reported a surplus in 1995. We believe that VSE's record during the last twenty years in performing engineering and support service tasks for the Postal Service will assist us in expanding our business in 1996 with this important client.

Upgrading our technical capabilities is a strategic goal in VSE. We performed work in a number of new areas in 1995 which we hope will translate into contracts in the years ahead. Some of the new areas include sensor systems, facial recognition and imaging software, fastener classification and testing systems, automated data collection, antenna assembly transport systems, and battlefield power management products.

Our goal as always in everything we do is to provide clients with engineering solutions that work better and cost less. This is our promise, and this is the challenge met everyday by the employees who comprise the VSE Team.

Business Strategy

Based on the success obtained during the past three years, the Board of Directors reviewed its strategic guidance to management. Stated very simply, the Board determined that the company was on the right track to achieve growth and an increase in shareholder value.

The principal aim of our business is and remains to provide engineering solutions and other support services and products, primarily to the federal government, to maintain and modernize equipment and systems. Where our experience and qualifications permit, we also provide these services in related industries, such as the health care industry, and to commercial, state and local government customers.

The Board directed us to pursue revenue growth by increasing our existing business base and by accelerating our search for well-managed acquisition candidates. With the award of the BAV contract and the successful acquisitions of CMstat and Energetics in 1995, we believe this approach has the best potential to achieve future growth and income.

The defense industry and the government market continue to experience significant downsizing and consolidation. However, the market remains very large with substantial opportunities for growth. In recent years, government agencies have begun to emphasize corporate experience and best value in determining contract awards in addition to low price criteria. VSE and its subsidiaries and divisions are well positioned to compete in this environment.

At the same time, making superior acquisitions is a prerequisite for growth because smaller government budgets and larger, more cost-effective omnibus contracts intensify the competition. Given the competition, it is not likely that any one company can present the required depth of corporate experience necessary to win the large number of contracts necessary to grow at a sustained

Report from the Chairman and CEO

rate. Large teaming agreements (such as that proposed by VSE in winning the BAV contract), joint ventures, and strategic acquisitions will be necessary to achieve a sustained rate of revenue growth.

Substantial per share earnings and share price appreciation are important company and management goals. To achieve these goals, VSE is committed to (a) providing customers with quality services and products, and (b) observing all legal, ethical, industry, and regulatory standards in everything we do. We believe there is no other way to increase shareholder value.

In February 1996 VSE divested its wholly owned subsidiary Schmoldt Engineering Services Company of Bartlesville, Oklahoma. Schmoldt recorded a pretax loss in 1995, and it did not fit well into our current or prospective business lines and expectations for growth, income, and increased shareholder value.

The VSE Team

On December 31, 1995, Harold P. Weinberg retired from the Board of Directors, having devoted more than 34 years of service to VSE. Also in 1995, Jack Z. Moore, Vice President, retired after more than 30 years of service, and in early 1996, Edwin Barrineau, Senior Vice President, retired after 13 years of service. William J. Nelson, Vice President, was advanced to relieve Ed Barrineau as general manager of our systems engineering center operations. My thanks to each of these dedicated managers and to all other VSE service employees who retired during the year.

We are very pleased to report that Admiral Robert J. Kelly, USN, (Ret.) joined VSE's Board of Directors as of January 1, 1996. Admiral Kelly, formerly Commander in Chief of the U.S. Pacific Fleet, brings a wealth of experience and judgment to VSE that will materially assist us in sharpening our performance and expanding our horizons for the future. We are also delighted to welcome all the other men and women of talent and experience who joined VSE's service team in

1995, including Major General Thomas L. Prather, Jr., USA (Ret.), formerly Deputy Chief of Staff for Research, Development and Engineering, Army Materiel Command.

Continuing the precedent established last year, at the end of the Annual Report you will find the names of the VSE team members who served our customers at year-end. They are the people who make VSE the exciting growth company it has become, and we are happy to have the opportunity to recognize them.

As always, we welcome the support and interest of VSE's shareholders, and we look forward to meeting you at our Annual Meeting of Stockholders or at one of our offices. This is your company. Your considered questions, comments, and suggestions are always appreciated.

D. M. Ervine
Chairman and CEO

March 1996

Description of Business

General. During 1995 VSE Corporation ("VSE" or the "company") and its subsidiaries and divisions operated in a single industry, the professional and technical services industry.

Introduction. The company's engineering, technical, and management services operations are performed by VSE and its subsidiaries and divisions including the BAV Division, CMstat Corporation, Energetics Incorporated, Human Resource Systems, Inc., Schmoldt Engineering Services Company, Value Systems Services, and VSE Services Corporation. Engineering, technical, and management services accounted for 100% of VSE's revenues from continuing operations in 1995, 1994, and 1993.

Services, Facilities, Personnel, and Contracts. VSE was established in 1959. For the past 37 years, the company has provided diversified engineering, technical, and management services, principally to agencies of the United States Government (the "government") and to government prime contractors. VSE provides engineering, information technology, technical support, and management services to assist customers in their efforts to reduce the cost and improve the reliability and maintainability of various equipment and systems.

VSE services include program planning; design and engineering, including prototype development; electronic warfare support; logistics management; ship reactivation, maintenance, repair, overhaul planning, and follow on technical support; office automation systems and support; training; technology research, development, and demonstration programs involving energy conservation and efficiency, advanced technology transfers, and feasibility, assessment, and development programs; and information systems and products, including cross-platform technical data, product data, and configuration management (CM/PDM) support. Typical projects include sustaining engineering support for military vehicles, combat trailers, bridging systems, and amphibious transport; ocean engineering and mooring systems; depot repair operations; electronic warfare software development; machinery condition analysis; specification preparation for ship alterations and repairs; training and video aids for air-launched missiles; and technical data package preparation.

VSE's principal offices are located in a five-story building in Alexandria, Virginia, leased by VSE through the year 2003, cancelable as of 1998. This building contains approximately 108,000 square feet of engineering, shop, and administrative space. In addition, engineering services customers are also served from more than 20 branch offices located at or near customer sites to facilitate communications and enhance project performance. The branch offices are generally occupied under short-term leases and include an aggregate of approximately 160,000 square feet of office, shop, and warehouse space.

VSE also owns and operates an engineering test center in Ladysmith, Virginia, consisting of approximately 44 acres of land and an improved storage and vehicle maintenance facility. This facility has been used by VSE to test military and commercial equipment for which VSE provides system technical support and other engineering services and to supplement the Alexandria, Virginia, shop requirements.

VSE services are provided by a staff of approximately 1,200 employees (including about 285 part-time employees). These employees are professional and technical personnel having high levels of education, training, and skills, including (a) mechanical, electrical, electronic, chemical, industrial, energy and environmental services, marine, and ocean engineers, (b) computer systems, applications, and data management specialists, (c) technical editors and writers, and (d) graphic designers and technicians. The expertise required by VSE's customers also frequently includes knowledge of government administrative

Description of Business

procedures. Many VSE employees have had experience as government employees in the past. The company considers its relationships with employees to be excellent.

VSE seeks to provide its 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. Billing for services is generally accomplished by billing customers for a specified level-of-effort incurred in performing a project or providing a service or for installed products, systems, and maintenance charges.

During 1995, VSE provided services to the government under approximately 120 contracts, some of which are of an indefinite quantity/ordering nature. These 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. The services ordered pursuant to indefinite quantity/ordering arrangements are normally performed and completed within a one year period. During 1995 VSE provided services under approximately 525 such task orders.

The following table shows the revenues of VSE, its subsidiaries and divisions by customer or agency:

<TABLE>
<CAPTION>

VSE Revenues by Customer or Agency
(dollars in thousands)

Group or Agency	1995		1994		1993	
	Revenues	%	Revenues	%	Revenues	%
<S>	<C>	<C>	<C>	<C>	<C>	<C>
U. S. Navy	\$42,402	56.5%	\$36,086	55.0%	\$47,462	59.6%
U. S. Army	18,291	24.4	17,860	27.2	19,502	24.5
Other government customers	10,563	14.1	8,443	12.9	8,865	11.1
Commercial	3,811	5.0	3,192	4.9	3,780	4.8
Total	\$75,067	100.0%	\$65,581	100.0%	\$79,609	100.0%

</TABLE>

During 1995 VSE's 15 largest contracts accounted for approximately 80% of total revenues, and one such contract with the U. S. Navy accounted for more than 13% of such revenues. This contract included a base year and option periods which expired in June 1995. See "Results of Operations-Revenues" in "Management Discussion and Analysis" for a discussion of this contract.

The company's services are typically provided under cost-plus-fee, time-and-materials, or fixed-price contracts. Under cost-plus-fee contracts, the customer reimburses VSE for its allowable costs permitted by regulations and pays a fee based on negotiated terms. Under time-and-materials contracts, the customer pays VSE at fixed hourly rates for direct labor costs and the related overhead and profit, and reimburses VSE for the cost of materials without profit. Under fixed-price contracts, the customer pays an agreed price for services or products. Under fixed-price contracts and time-and-materials contracts, VSE bears the risk that increased or unexpected costs may reduce its profit or cause it to sustain a loss. To the extent VSE incurs actual costs

below anticipated costs on these contracts, VSE realizes greater profit margins.

Marketing, Backlog, Competition and Risks. VSE marketing activities are conducted by its professional staff of engineers, analysts, program managers, contract administrators, and other personnel. Information concerning new programs and requirements becomes available in the course of contract perform-

Description of Business

ance, through formal and informal briefings, from participation in professional organizations, and from literature published by the Government, trade associations, professional organizations, and commercial entities.

As of December 31, 1995, VSE had proposals pending for engineering services contracts covering approximately \$224 million in services for the Department of Defense or other government agencies or prime contractors. If these contracts are awarded to VSE, resulting ordering periods could extend through 2001. However, there is no assurance that VSE will be the successful bidder for any of these contracts. Moreover, there can be no assurance that contract awards, if any, will result in any revenues to VSE because (a) contract awards are often rescinded as a result of the government's bid protest procedures, (b) contracts may not be funded at the nominal amounts cited in competitive bid announcements, and (c) contracts when funded may be terminated at the convenience of the government.

During 1995 and 1994 VSE was awarded contracts having potential ceiling values of approximately \$1.1 billion and \$330 million, respectively.

VSE's funded backlog of work as of December 31, 1995, 1994, and 1993 was approximately \$37.6 million, \$36.9 million and \$33.8 million, respectively. "Funded" backlog is defined as orders for services that have not been fully rendered and for which funding has been provided either at the time of award or thereafter. Substantially all of the funded backlog is expected to be completed within one year.

The excess of unfulfilled contract estimates over the incremental funding authorized represents an "unfunded" backlog. Based on the total estimated value of contracts actually awarded, the potential revenues for work remaining to be performed under existing engineering services contracts (both funded and unfunded backlog) was approximately \$1.3 billion, \$350 million, and \$113 million, as of December 31, 1995, 1994 and 1993, respectively. VSE has no reasonable basis on which to determine when or if such backlog may be funded. However, because of uncertainties associated with changing program requirements and the ultimate availability of funds, VSE believes that measurements of unfunded backlog are of limited use in evaluating its future workload.

The services business in which VSE is engaged is very competitive. There are a substantial number of other organizations, some of which are large, diversified firms with greater financial resources and larger technical staffs, which are capable of rendering essentially the same services as those offered by VSE. Such companies may be publicly owned or privately held and may be divisions of much larger organizations including large manufacturing corporations. The government's own "in-house" capabilities are also, in effect, competitors of VSE (including the government's own non-profit federally funded research and development centers) because government employees often perform many of the services that might otherwise be performed by VSE.

Government agencies have placed an increased emphasis on awarding contracts of the types performed by VSE on a competitive basis as opposed to a non-competitive basis. All significant contracts currently being performed by VSE were either initially awarded on a competitive basis or have been renewed at least once on a competitive basis. In addition, the United States defense budget has been restrained by the federal budget deficit in recent years. As a result, there is increased competition for the remaining government work.

It is not possible to predict the extent of competition which VSE will encounter as a result of changing economic or competitive conditions, customer requirements, or technological developments. VSE believes the principal com-

Description of Business

petitive factors for the engineering services business in which VSE is engaged are technical and financial qualifications, quality of services and products, and price.

VSE's business with the government is subject to the risk that one or more of its potential contracts or extensions of existing contracts may be awarded by the contracting agency to a competitor, including "small and disadvantaged" or minority-owned businesses pursuant to "set-aside" programs administered by the Small Business Administration or may be "bundled" into omnibus contracts for very large businesses. In addition, VSE's business is subject to funding delays, extensions, and moratoriums caused by political and administrative disagreements such as occurred during the 1995 U.S. budget negotiations. To date, the effect of such negotiations and disagreements on VSE has not been material; however, no assurances can be given about such risks with respect to future years.

Government contracts are subject to termination at the government's convenience, which means that the government may terminate the contract at any time, without cause. However, during VSE's 37-year history the aggregate amount of such government terminations for convenience has not been material. If a government contract is terminated for convenience, generally VSE is reimbursed for its allowable costs to the date of termination and is paid a proportionate amount of the stipulated profit or fee for the work actually performed.

The books and records of the company are subject to audit by the Defense Contract Audit Agency, which audits can result in adjustments to contract costs and fees. Audits by such agency have been completed for all years through 1992 without material adjustments. However, there is no assurance that future adjustments will not be required.

Depending on solicitation requirements and other factors, VSE offers its 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 include prime contracts, subcontracts, cooperative arrangements, joint ventures, dedicated ventures, dedicated cost centers, separate profit centers (divisions), and subsidiaries.

In 1991 VSE formed the Value Systems Services ("VSS") division to join with a prime contractor on a bid for a U. S. Marine Corps contract. Services under the subcontract commenced in January 1992. The subcontract generated revenues to VSS of approximately \$4 million in 1994 and \$11 million in 1993 equal to about 10% of VSE's total business volume over these two years. In April 1994, work on this contract ceased.

In 1991 VSE also formed VSE Services Corporation ("VSES") as a subsidiary to compete for certain contracts, including security systems work and other commercial opportunities. VSES has been inactive since 1992.

In 1994 VSS was awarded a new contract with a different Navy customer to provide logistic support services for Naval aircraft, helicopters, and airborne weapons systems. This contract has the potential to generate revenues to VSE of about \$77 million over a five-year period ending in 1999.

VSE has sought to expand its engineering services customer base to non-defense clients, such as the U. S. Postal Service. In 1994, VSE won a re-compete of a contract worth approximately \$30 million for five years with the U. S. Postal Service.

Description of Business

VSE's subsidiary, Human Resource Systems, Inc. ("HRSI") provides health care staffing personnel such as nurses, pharmacists, and technicians, primarily to the U. S. Navy. HRSI has approximately 70 employees. HRSI has been awarded additional contracts from the U. S. Postal Service for real estate and environmental consulting.

In 1995 VSE made two acquisitions to expand and diversify its business base.

In May 1995, VSE acquired CMstat Corporation, an information technology company located in San Diego, California. CMstat is a leading supplier of commercial (off-the-shelf) software products and technology to manage engineering, product, and configuration management data. In August 1995, VSE acquired Energetics Incorporated, an energy management and environmental technology company located in Columbia, Maryland. Energetics provides technical and management services for advanced technology programs, primarily for the Department of Energy and other government and commercial clients.

In 1995 VSE also established the BAV Division to provide engineering, technical and support services for U.S. Navy ships to be sold, leased, or otherwise transferred to foreign governments. BAV was awarded a Navy contract in August 1995, which has the potential to generate revenues of up to \$1 billion depending on delivery order requirements and option periods exercised over the next ten years.

Schmoltdt Engineering Services Company, which was acquired by VSE in 1990, was divested in February 1996.

Management Discussion and Analysis

The discussion and analysis which follows is intended to assist in understanding and evaluating the results of operations, financial condition, and certain other matters of VSE Corporation and its wholly owned subsidiaries ("VSE" or the "company"), CMstat Corporation ("CMstat"), acquired in May 1995, Energetics Incorporated ("Energetics"), acquired in August 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. The company is engaged principally in providing engineering, software development, testing, and management services to the U. S. Government (the "government"). VCI and VSES have generally been inactive after 1992. Intercompany sales are principally at cost.

Results of Operations

Revenues

The following table shows the revenues from operations of VSE and subsidiaries and such revenues as a percent of total revenues:

<TABLE>
<CAPTION>

Revenues from Operations
(dollars in thousands)

Company or Business Unit	1995		1994		1993	
	Revenues	%	Revenues	%	Revenues	%
VSE (parent only)	\$56,888	75.8	\$57,042	87.0	\$65,332	82.1
VSS	8,396	11.2	5,503	8.4	11,222	14.1
Energetics	4,007	5.3	0	0.0	0	0.0
HRSI	1,655	2.2	1,138	1.7	896	1.1
BAV	1,431	1.9	0	0.0	0	0.0
CMstat	1,412	1.9	0	0.0	0	0.0
Schmoltdt Engineering	1,278	1.7	1,898	2.9	2,159	2.7
Total revenues	\$75,067	100.0	\$65,581	100.0	\$79,609	100.0

</TABLE>

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 the Defense budget will not have a material adverse impact on the company's

results of operations or financial position.

Substantially all of the company's revenues from operations depend on the award of new contracts, on current contracts not being terminated for the convenience of the government, and on the exercise of option periods and the satisfaction of incremental funding requirements on current contracts. In 1995, 1994 and 1993, the company did not experience any termination of contracts for the convenience of the government nor any non-exercise of option periods on current contracts which were material to the company's results of operations or financial position.

BAV Contract. In August 1995, VSE's BAV Division 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

Management Discussion and Analysis

governments. The contract award was protested and in January 1996 the General Accounting Office ("GAO") ruled in favor of BAV and denied the protest. BAV began work on the contract in September 1995 and continued to perform work 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 through 2005.

VSE Contracts. VSE had a contract with the U. S. Navy which accounted for approximately 14% of total revenues in 1995, 17% in 1994, and more than 20% in 1993. This contract was scheduled to expire in September 1992, but was extended through September 1995. The Navy combined the work performed under this contract with other related work, and VSE was not the successful bidder for the new contract. Substantially all work on the contract ended by September 1995.

VSE has another contract with the U. S. Navy which accounted for approximately 13% of revenues in 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 subcontractor work are not expected to continue at the increased levels experienced during 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 of about \$15.4 million during 1994 and 1993, equal to about 10.6% of VSE's consolidated revenues over these two years. A protest against the award of the prime contract was sustained by the GAO, and in October 1993, a new prime contract was awarded to a different contractor. Substantially all work on the VSS subcontract terminated effective April 1994. There was 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 11% of consolidated revenues in 1995.

Management Discussion and Analysis

Income from Operations

The following table shows consolidated revenues and income from operations of VSE and subsidiaries, other items of income and expense, and such amounts as a percent of total revenues:

<TABLE>
<CAPTION>

Income from Operations
(dollars in thousands)

Description	1995	%	1994	%	1993	%
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Revenues	\$75,067	100.0%	\$65,581	100.0%	\$79,609	100.0%
Costs and expenses . .	71,458	95.2	61,468	93.7	75,905	95.3
Gross profit	3,609	4.8	4,113	6.3	3,704	4.7
Selling, general and administrative expenses	763	1.0	1,577	2.4	1,751	2.2
Interest expense . . .	136	0.2	23	0.1	60	0.1
Income from operations before income taxes .	\$ 2,710	3.6%	\$ 2,513	3.8%	\$ 1,893	2.4%

</TABLE>

Costs and expenses of operations, as a percentage of revenues, remained relatively stable during 1995, 1994, and 1993. The percentage differences between 1995 and 1994 and between 1994 and 1993 are primarily due to a combination of factors, some of which are offsetting, including (a) differences between costs incurred and whether they may be billed based on contract provisions, (b) the effects of increases or decreases in facility and equipment lease renewals, fringe benefit programs, and similar period expenses, (c) costs associated with contract start-up and termination phases, and (d) effective project and cost management.

Selling, general and administrative expenses decreased in 1995 as compared to 1994 and in 1994 as compared to 1993, primarily due to a reduction in nonreimbursable administrative expenses.

Interest expense increased in 1995 as compared to 1994 due to the depletion of cash to consummate the acquisitions of CMstat and Energetics in 1995 (see "Acquisitions and Divestitures" below) and the use of bank borrowings to finance operations. Interest expense declined in 1994 as compared to 1993 primarily due to reduced bank borrowings attributable in part to a lower receivables financing requirement resulting from a lower sales volume.

Management Discussion and Analysis

Pretax Income

The following table sets forth the pretax income from consolidated operations of VSE and subsidiaries and the amount of changes of such items as compared with the prior period:

<TABLE>
<CAPTION>

Pretax Income from Operations (dollars in thousands)

	1995	1994	1995 to 1993	1994 to 1993	1993
<S>	<C>	<C>	<C>	<C>	<C>
Pretax income from operations:					
VSE (parent only)	\$2,094	\$2,071	\$1,308	\$ 23	\$ 763
VSS	387	418	538	(31)	(120)
Energetics	197	0	0	197	0
CMstat	166	0	0	166	0
HRSI	11	0	(52)	11	52
BAV	(8)	0	0	(8)	0
Schmoltd Engineering . .	(137)	24	99	(161)	(75)
Income from operations, before income taxes . .	\$2,710	\$2,513	\$1,893	\$ 197	\$ 620

</TABLE>

Pretax income from operations increased by approximately 8% in 1995 as compared to 1994. The increase in pretax income is primarily due to profits associated with the new business provided by the acquisitions of Energetics and CMstat and to the elimination of losses on certain VSE fixed price contracts. These increases to pretax income were partially offset by reductions in pretax income due to the reduced level of sales activity of Schmoldt Engineering and increased interest expense and other costs associated with the acquisitions of CMstat and Energetics.

Pretax income from operations increased by approximately 33% in 1994 as compared to 1993 due primarily to increases in income associated with VSE cost reductions, a nonrecurring reduction in income in 1993 due to a resolution of a claim against the company, increased profit margins on VSE time and material contracts, and increased income from invested cash surpluses. These increases to pretax income were offset by reductions in pretax income due to losses on certain VSE fixed price contracts, the termination of work associated with the VSS subcontract in 1994, and the reduced level of sales activity of Schmoldt Engineering.

Acquisitions and Divestitures

On May 31, 1995 the company acquired all of the outstanding capital stock of CMstat, which develops and supports software for commercial and government customers. On August 29, 1995 the company acquired all of the outstanding stock of Energetics, which supports government and industry technology programs in the fields of energy use and the environment.

Management Discussion and Analysis

On February 7, 1996, VSE sold its wholly owned subsidiary Schmoldt Engineering. Under the terms of the transaction, VSE sold all of the outstanding capital stock of Schmoldt Engineering to certain officers of Schmoldt Engineering in exchange for cash and a promissory note for which principal and interest is payable in installments between March 1, 1996 and September 1, 2001. The transaction resulted in a pretax loss of approximately \$300 thousand to VSE.

Liquidity and Capital Resources

Cash Flows

A net decrease in cash and cash equivalents of approximately \$2.4 million during 1995 resulted from approximately \$6.6 million used in investing activities, approximately \$4.6 million provided by financing activities, and approximately \$450 thousand used in operations. Significant investing activities included approximately \$3.5 million associated with the acquisition of Energetics, approximately \$900 thousand associated with the acquisition of CMstat, and \$2.1 million associated with the purchase of property and equipment, including property and equipment purchases to support the new BAV contract. Significant financing activities included borrowing on the company's \$45 million revolving term loan, including commitments for checks outstanding at year end, of approximately \$4.9 million. Cash flows from operations declined by approximately \$6.5 million as compared to 1994 primarily due to the absence of the decline in receivables experienced in 1994 due to the terminated VSS subcontract and the additional accounts receivable associated with BAV, CMstat and Energetics in 1995.

A net increase in cash and cash equivalents of approximately \$2.1 million during 1994 resulted from approximately \$6.1 million provided by operations, approximately \$700 thousand used in investing activities, and approximately \$3.3 million used in financing activities. Cash flows from operations increased by approximately \$4.8 million as compared to 1993 primarily due to a reduction in the level of accounts receivable attributable to a decrease in the sales of VSE and the termination of work associated with the VSS subcontract. Investing activities consisted of the purchase of property and equipment. Significant financing activities included reductions of borrowings on the company's revolving term bank loan of approximately \$2.7 million.

A net increase in cash and cash equivalents of approximately \$200 thousand during 1993 resulted from approximately \$1.3 million provided by operations and approximately \$1.1 million used in investing activities. Investing activities consisted of the purchase of property and equipment.

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. Performance of work under the BAV contract is expected to substantially increase the company's requirements for cash, however, management believes that the cash flows from operations and the bank loan commitment are adequate to meet current operating cash requirements.

Management Discussion and Analysis

Working Capital

VSE's requirements for working capital are affected significantly by its revenues and accounts receivable, which are primarily from billings made by the company to the government or other government 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.

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.

Dividends

Cash dividends were declared at the rate of \$.325 per share during 1995, \$.305 per share during 1994, and \$.29 per share during 1993. Pursuant to its bank loan agreement (see Note 4 of "Notes to Consolidated Financial Statements"), the payment of cash dividends by VSE is subject to annual rate restrictions. VSE has paid cash dividends each year since 1973.

Income Taxes

The Financial Accounting Standards Board issued SFAS No. 109, "Accounting for Income Taxes." SFAS No. 109, which was implemented by VSE in fiscal year 1993, requires an asset and liability approach for financial accounting and reporting purposes. The implementation of SFAS No. 109 added approximately \$284 thousand to net income in 1993.

Inflation and Pricing

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

Executive Officers

Byron S. Bartholomew, 68
Executive Vice President - Business Development since 1993. Senior Vice President, Program Management, from 1979 to 1992. Service with the Company - 26 years.

Thomas J. Corridon, 38
Senior Vice President since 1995 and Comptroller since 1993. Vice President

since 1992. Assistant Vice President since 1991 and Director of Accounting since 1990. Service with the Company - 8 years.

Donald M. Ervine, 59
Chairman and Chief Executive Officer since 1992. President of VSE from 1988 to 1992. Service with the Company - 12 years.

Edward V. Karl, 58
Senior Vice President since 1995. Vice President and General Manager, Applied Engineering and Information Systems Center since 1993. Assistant Vice President since 1991. Service with the Company - 8 years.

James M. Knowlton, 53
Senior Vice President since 1993 and General Manager, Engineering and Logistics Center. Vice President since 1990. Service with the Company - 11 years.

Richard B. McFarland, 62
President and Chief Operating Officer since 1993, and a director of VSE since 1988. Service with the Company - 8 years.

Mark A. Robin, 42
Senior Vice President since 1995. Vice President and Director of Human Resources since 1993. Assistant Vice President since 1991. Service with the Company - 14 years.

Craig S. Weber, 50
Chief Financial Officer since 1993. Senior Vice President, Secretary and Treasurer since 1987. Service with the Company - 24 years.

VSE Common Stock

VSE common stock (par value \$.05 per share) is traded in The Nasdaq National Market System, trading symbol: VSEC; newspaper listing: VSE.

The following table sets forth the range of high and low sales price information on VSE common stock during the last two years based on information reported by the Nasdaq National Market System. Trading in the VSE common stock has been sporadic.

<TABLE>
<CAPTION>

Quarter	High	Low	Dividends
-----	-----	-----	-----
<S>	<C>	<C>	<C>
1994:			
March 31 . . .	13-1/2	12	\$.075
June 30 . . .	12-1/4	12	.075
September 30 .	13-1/8	11-1/2	.075
December 31 .	14-3/4	14-1/4	.08
For the year	14-3/4	11-1/2	\$.305
1995:			
March 31 . . .	15-3/4	14	\$.08
June 30 . . .	16-1/4	14-1/4	.08
September 30 .	29	14-3/4	.08
December 31 .	27	19-1/2	.085
For the year	29	14	\$.325

</TABLE>

There were approximately 1,400 stockholders of VSE common stock as of March 1, 1996, consisting of about 330 stockholders of record plus the number of beneficial owner proxy sets provided in connection with VSE's 1995 Annual Meeting of Stockholders to (a) brokers, banks, and nominees and (b) participants in the VSE Corporation Employee Stock Ownership/401(k) Plan.

VSE has a revolving term loan agreement with a bank which permits the payment of cash dividends at an annual rate not to exceed \$.60 per share, subject to maintaining a minimum consolidated tangible net worth and a maximum consolidated leverage ratio as defined in the loan agreement. See Note 4 (Debt) of "Notes to Consolidated Financial Statements" included elsewhere in this Annual Report.

Report of Independent Public Accountants
To the Stockholders of VSE Corporation:

We have audited the accompanying consolidated balance sheets of VSE Corporation (a Delaware corporation) and subsidiaries as of December 31, 1995 and 1994, and the related consolidated statements of income, stockholders' investment and cash flows for the years ended December 31, 1995, 1994, and 1993. 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 generally accepted auditing standards. Those standards require that we plan and perform an 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 financial position of VSE Corporation and subsidiaries as of December 31, 1995 and 1994, and the results of its operations and its cash flows for the years ended December 31, 1995, 1994 and 1993, in conformity with generally accepted accounting principles.

As discussed in Notes 1 and 7 to the consolidated financial statements, effective January 1, 1993, the Company changed its method of accounting for income taxes.

/s/ ARTHUR ANDERSEN LLP

ARTHUR ANDERSEN LLP

Washington, D.C.,
March 1, 1996

Consolidated Financial Statements

Consolidated Balance Sheets
(in thousands, except share amounts)

<TABLE>
<CAPTION>

	As of December 31,	
	1995	1994
	-----	-----
<S>	<C>	<C>
Assets		
Current assets:		
Cash and cash equivalents	\$ 711	\$ 3,124
Accounts receivable, principally		
U. S. Government, net	16,367	10,922
Deferred tax assets	822	1,491
Other current assets	1,068	858
	-----	-----
Total current assets	18,968	16,395
Property and equipment, net	4,498	3,078
Deferred tax assets	0	248

Intangible assets, net	3,874	102
Other assets	1,766	1,449
	-----	-----
Total assets	\$29,106	\$21,272
	=====	=====
Liabilities and Stockholders' Investment		
Current liabilities:		
Accounts payable and other current liabilities	\$ 3,204	\$ 2,555
Accrued expenses	5,729	5,661
Dividends payable	74	69
	-----	-----
Total current liabilities	9,007	8,285
Long-term debt	4,992	0
Deferred tax liabilities	427	0
Deferred compensation	1,127	886
	-----	-----
Total liabilities	15,553	9,171
	-----	-----
Commitments and contingencies (Notes 8 and 9)		
Stockholders' investment:		
Common stock, par value \$.05 per share, authorized 5,000,000 shares; issued 1,954,044 in 1995 and 1,948,044 shares in 1994	98	97
Paid-in surplus	8,338	8,247
Retained earnings	21,402	20,042
Treasury stock, at cost (1,084,877 shares)	(16,285)	(16,285)
	-----	-----
Total stockholders' investment	13,553	12,101
	-----	-----
Total liabilities and stockholders' investment	\$29,106	\$21,272
	=====	=====

See accompanying notes

</TABLE>

Consolidated Financial Statements

Consolidated Statements of Income (in thousands, except share amounts)

<TABLE>
<CAPTION>

	For the years ended December 31,		
	1995	1994	1993
	-----	-----	-----
<S>	<C>	<C>	<C>
Revenues, principally from contracts	\$75,067	\$65,581	\$79,609
Costs and expenses of contracts	71,458	61,468	75,905
	-----	-----	-----
Gross profit	3,609	4,113	3,704
Selling, general and administrative expenses	763	1,577	1,751
Interest expense	136	23	60
	-----	-----	-----
Income before income taxes	2,710	2,513	1,893
Provision for income taxes	1,064	960	734
	-----	-----	-----
Income before cumulative effect of change in accounting principle	1,646	1,553	1,159
Cumulative effect of change in accounting for income taxes	0	0	284
	-----	-----	-----

Net income	\$ 1,646	\$ 1,553	\$ 1,443
	=====	=====	=====

Earnings per common share, based on weighted average shares outstanding:			
Income before cumulative effect of change in accounting principle	\$ 1.90	\$ 1.80	\$ 1.34
Cumulative effect of change in accounting for income taxes	0	0	.33
	-----	-----	-----
Net income	\$ 1.90	\$ 1.80	\$ 1.67
	=====	=====	=====

Weighted average shares outstanding	866,398	863,167	863,167
	=====	=====	=====

See accompanying notes

</TABLE>

Consolidated Financial Statements

Consolidated Statements of Stockholders' Investment
(in thousands)

<TABLE>

	Common Stock Shares	Paid-In Amount	Retained Surplus	Retained Earnings	Treasury Stock	
	<C>	<C>	<C>	<C>	<C>	<S>
Balance at December 31, 1992	1,948	\$97	\$8,247	\$17,564	\$(16,285)	
Net income for the year	--	--	--	1,443	--	
Dividends declared (\$.29)	--	--	--	(250)	--	
	-----	-----	-----	-----	-----	
Balance at December 31, 1993	1,948	97	8,247	18,757	(16,285)	
Net income for the year	--	--	--	1,553	--	
Dividends declared (\$.305)	--	--	--	(268)	--	
	-----	-----	-----	-----	-----	
Balance at December 31, 1994	1,948	97	8,247	20,042	(16,285)	
Net income for the year	--	--	--	1,646	--	
Dividends declared (\$.325)	--	--	--	(286)	--	
Issuance of stock	6	1	91	--	--	
	-----	-----	-----	-----	-----	
Balance at December 31, 1995	1,954	\$98	\$8,338	\$21,402	\$(16,285)	
	=====	=====	=====	=====	=====	

See accompanying notes

</TABLE>

Consolidated Financial Statements

Consolidated Statements of Cash Flows
(in thousands)

<TABLE>

<CAPTION>

For the years ended December 31,
1995 1994 1993

	-----	-----	-----
<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net income	\$1,646	\$1,553	\$1,443
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,326	1,142	1,320
Loss (Gain) on sale of property and equipment	17	(10)	26
Deferred compensation plan expense	188	125	207
Cumulative effect of change in accounting principle	0	0	(284)
Change in assets and liabilities, net of acquisitions -			
(Increase) decrease in:			
Accounts receivable	(2,761)	4,241	(2,255)
Other current assets and noncurrent assets. . .	(457)	(119)	(65)
Deferred taxes	571	(232)	(145)
Increase (decrease) in:			
Accounts payable and other current liabilities			
	(385)	(294)	348
Accrued expenses.	(543)	34	338
Accrued taxes	(51)	(370)	364
	-----	-----	-----
Net cash provided by operations	(449)	6,070	1,297
	-----	-----	-----
Cash flows from investing activities:			
Acquisition of CMstat, net of cash received. . . .	(901)	0	0
Acquisition of Energetics, net of cash received .	(3,531)	0	0
Purchase of property and equipment	(2,139)	(656)	(1,095)
	-----	-----	-----
Net cash used in investing activities	(6,571)	(656)	(1,095)
	-----	-----	-----
Cash flows from financing activities:			
Net proceeds from (payments of) revolving term loan			
	4,939	(2,683)	442
Payments of other long-term debt	(212)	0	0
Cash dividends paid	(281)	(264)	(246)
Net proceeds from (payments of) deferred compensation			
	69	(375)	(151)
Issuance of common stock	92	0	0
	-----	-----	-----
Net cash provided by (used in) financing activities	4,607	(3,322)	45
	-----	-----	-----
Net (decrease) increase in cash and cash equivalents			
	(2,413)	2,092	247
Cash and cash equivalents at beginning of year.	3,124	1,032	785
	-----	-----	-----
Cash and cash equivalents at end of year. . . .	\$ 711	\$3,124	\$1,032
	=====	=====	=====

See accompanying notes

</TABLE>

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include VSE Corporation and its wholly owned subsidiaries ("VSE" or the "company"), CMstat Corporation ("CMstat"), Energetics Incorporated ("Energetics"), Human Resource Systems, Inc. ("HRSI"), Schmoldt Engineering Services ("Schmoldt Engineering"), VSE Corona, Inc. ("VCI"), VSE Services Corporation ("VSES"), and Value Systems Services ("VSS") and BAV, unincorporated divisions of VSE. The company is engaged principally in providing engineering, software development, testing, and management services to the U. S. Government. Intercompany sales are principally at cost. All significant intercompany transactions have been eliminated in consolida-

tion. Certain prior year balances have been reclassified for comparative purposes.

Cash and Cash Equivalents

The company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. In 1994, the company adopted Statement of Financial Accounting Standards ("SFAS") No. 115 "Accounting for Certain Investments in Debt and Equity Securities." The adoption was not material to the company's financial position or results of operations.

The company has classified all debt securities as available-for-sale. Available-for-sale securities are carried at fair value with unrealized gains and losses, net of tax, reported in a separate component of stockholders' investment. Realized gains and losses are included in other income. Available-for-sale securities at December 31, 1995 consisted of commercial paper of \$200 thousand. Available-for-sale securities at December 31, 1994 consisted of tax exempt master notes of \$1.6 million, 90 day commercial paper of \$1.2 million, and overnight repurchase agreements of \$883 thousand secured by U. S. Government agency securities. The estimated fair value of these securities approximated cost, and the amount of gross unrealized gains and losses was not significant.

Concentration of Credit Risk

Financial instruments that potentially subject the company to concentration of credit risk consist primarily of cash, cash equivalents and trade accounts receivable. The company believes that concentrations of credit risk with respect to trade accounts receivable are limited as they are primarily U. S. Government receivables.

Consolidated Statements of Cash Flows

Supplemental disclosures of cash flow information for the three years ended December 31, are presented below (in thousands):

	1995	1994	1993
	-----	-----	-----
Interest payments	\$ 107	\$ 44	\$ 39
Income tax payments	841	1,566	528

Contract Revenues

Substantially all of the company's revenues result from contract services performed for the U. S. Government or for contractors engaged in work for the U. S. Government under a variety of contracts. Revenues on cost-type contracts are recorded on the basis of recoverable costs incurred and fees earned.

Notes to Consolidated Financial Statements

Revenues on fixed price contracts are recorded as services are performed, using the percentage-of-completion method of accounting, primarily based on contract costs incurred to date compared with total estimated costs at completion. Revenues on time and material contracts are recorded on the basis of hours delivered plus other allowable direct costs as incurred.

The company provides for anticipated losses on contracts by a charge to income during the period in which losses are first identified.

A substantial portion of the contract and administrative costs is subject to audit by the Defense Contract Audit Agency. The company's indirect cost rates have been audited and approved for 1992 and prior years. In the opinion of management the audits of 1995, 1994 and 1993 will not result in adjustments, if any, having a material adverse effect on the company's results of operations or financial position.

The company's software revenues result from sales of software licenses and post contract customer support. Revenue from the sale of licenses is recognized upon delivery of the software. Revenue from the support is recognized ratably over the period to which the support agreement relates.

Income Taxes

Effective January 1, 1993, the company implemented the provisions of SFAS No. 109, "Accounting for Income Taxes." SFAS No. 109 requires an asset and liability approach to accounting for income taxes for financial statement purposes. Under SFAS No. 109, deferred tax assets and liabilities 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.

As a result of implementing the provisions of SFAS No. 109, the company recognized a cumulative one-time tax benefit of \$284 thousand or \$.33 per share as of January 1, 1993. This cumulative one-time tax benefit is the result of (a) a difference in the tax and financial accounting basis associated with certain real property, which difference was not previously recorded in the company's consolidated financial statements, and (b) an adjustment to the consolidated financial statements for previously recorded tax and financial accounting differences based on presently enacted tax rates.

Property and Equipment

Property and equipment (valued at cost) consisted of the following (in thousands):

	1995	1994	
	-----	-----	
Computer systems equipment	\$ 7,291	\$ 6,179	
Furniture, fixtures, equipment, and other	6,264	5,564	
Buildings	442	442	
Land and land improvements	385	385	
	-----	-----	
	14,382	12,570	
Less accumulated depreciation	(9,884)	(9,492)	
	-----	-----	
	\$ 4,498	\$ 3,078	
	=====	=====	

Depreciation and amortization expense for property and equipment was approximately \$1.1 million for 1995, \$1.1 million for 1994 and \$1.3 million for 1993. Depreciation of computer systems equipment is provided principally by the

Notes to Consolidated Financial Statements

double-declining method over periods of four to six years. Depreciation of furniture and fixtures is provided principally by the straight-line method over approximately nine years. Depreciation of all other property and equipment is provided principally by the double-declining method over periods of three to twenty years. Depreciation of buildings and land improvements is provided principally by the straight-line method over approximately thirty years.

Nonoperating Net Income

Nonoperating net income included in selling, general and administrative expenses, primarily interest income, was approximately \$81 thousand, \$128 thousand, and \$19 thousand for the years ended December 31, 1995, 1994, and 1993, respectively.

Deferred Compensation Plan

The company maintained a deferred compensation plan in 1993 that was discontinued as of the end of 1993. The company established the Deferred Supplemental Compensation Plan in 1994. Deferred compensation plan expense for the plans for the years ended December 31, 1995, 1994 and 1993 was approximately \$188 thousand, \$125 thousand and \$207 thousand, respectively.

Included in other assets are assets of the plans which include equity securities recorded at fair value and classified as available-for-sale. The fair value of these securities was \$940,131 and \$40,002 as of December 31, 1995 and 1994, respectively. Unrealized gains/(losses) were \$115,013 and (\$9,998)

for 1995 and 1994, respectively. Changes in the assets of the plans are offset in the company's financial statements by a corresponding change in the liability to plan participants.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Adoption of SFAS No. 121

In 1995, the company elected an early adoption of SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of". This adoption had no impact on the company.

(2) Acquisitions

On May 31, 1995 the company acquired all of the outstanding stock of CMstat, a leading developer and supplier of commercial off-the-shelf configuration and product data management solutions, for approximately \$970 thousand in cash. The acquisition was accounted for by the purchase method of accounting. The results of CMstat's operations since May 31, 1995 are included in these consolidated financial statements. The company has recorded approximately \$1.2 million of identifiable intangible assets, \$800 thousand of deferred taxes related to the identifiable intangible assets and \$400 thousand of goodwill. Goodwill and identifiable intangible assets are being amortized by the straight-line method generally over a period of ten years.

Notes to Consolidated Financial Statements

On August 29, 1995 the company acquired all of the outstanding stock of 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. The acquisition was accounted for by the purchase method of accounting. The results of Energetics' operations for the period August 29, 1995 through December 31, 1995 are included in these consolidated financial statements. The company has recorded approximately \$1.5 million of goodwill and \$100 thousand of identifiable intangible assets. Goodwill is being amortized by the straight-line method over fifteen years. Identifiable intangible assets are being amortized over one year.

The following unaudited pro forma results of operations for the years ended December 31, 1995 and 1994 assume the Energetics acquisition occurred as of the beginning of the respective periods after giving effect to certain adjustments, including amortization of identifiable intangible assets, increased interest expense on acquisition debt, and related income tax effects. The pro forma results have been prepared for comparative purposes only and do not purport to be indicative of what would have occurred had the acquisition been made as of those dates or of results which may occur in the future.

(in thousands, except per share amounts)	1995	1994
Revenues	\$ 82,619	\$ 76,138
Net income	\$ 1,888	\$ 1,733
Net income per common share	\$ 2.18	\$ 2.01

(3) Accounts Receivable

The components of accounts receivable as of December 31, 1995 and 1994, were as follows (in thousands):

	1995	1994
Billed	\$ 10,250	\$ 6,131

Unbilled:			
Retainages	691	450	
Other (principally December work billed in January)	5,586	4,588	
Less-Allowance for doubtful accounts . . .	(160)	(247)	
	-----	-----	
Total accounts receivable	\$ 16,367	\$ 10,922	
	=====	=====	

The "Unbilled: Other" included in accounts receivable are reported net of an allowance for contract disallowances of approximately \$1.3 million as of December 31, 1995 and 1994. "Unbilled: Other" also includes certain costs which are not reimbursable under current contracts, but which the company believes will be reimbursable on execution of contract documentation or amendments increasing funding. Amounts not presently reimbursable included in "Unbilled: Other" were approximately \$328 thousand and \$700 thousand as of December 31, 1995, and 1994, respectively.

Contracts with the U. S. Government, primarily with the U. S. Department of Defense, accounted for approximately 95% of revenues in 1995, 1994, and 1993. These contracts were performed primarily in the engineering services industry. One such contract with the U. S. Navy accounted for approximately 14% to 23% of such revenues in 1993 through 1995.

Notes to Consolidated Financial Statements

The company generally expects to collect all accounts receivable other than retainages within one year. The carrying amount of the accounts receivable does not significantly differ from fair value.

(4) Debt

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

	1995	1994	
	-----	-----	
Revolving term loan borrowings and commitments . .	\$4,939	\$ 0	
Other debt	54	7	
	-----	-----	
	4,993	7	
Less portion due within one year	(1)	(7)	
	-----	-----	
	\$4,992	\$ 0	
	=====	=====	

VSE has a revolving term loan agreement (the "Loan") with a syndicate of three banks. Under the 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 interest rates and the amount of the commitment fee increase or decrease as VSE's leverage ratio increases or decreases. The Loan contains collateral requirements by which company assets are secured and restrictive covenants that include minimum tangible net worth and profitability requirements and a limit on annual dividends. The termination date of the Current Loan is May 31, 1997. Commitments above are for checks outstanding at December 31, 1995 of approximately \$800 thousand. The carrying value of the debt is not significantly different from fair value.

Other debt is related to debt acquired in the acquisitions of CMstat and Energetics.

(5) Accrued Expenses

The components of accrued expenses as of December 31, 1995 and 1994, were as follows (in thousands):

	1995	1994
	-----	-----
Accrued salaries	\$ 1,456	\$ 1,480

Accrued vacation	1,460	1,270
Estimated future losses on fixed price and time and material contracts	753	1,122
Other accrued expenses	2,060	1,789
	-----	-----
Total accrued expenses	\$ 5,729	\$ 5,661
	=====	=====

(6) Benefit Plans

VSE established an ESOP/401(k) plan in 1984. Under the provisions of the ESOP, the company and certain of its subsidiaries make contributions into a trust which purchases VSE stock on behalf of employees who meet certain age and service requirements and are employed at the end of the plan year. Contributions at the rate of up to 2% of eligible employee compensation may be made at the discretion of the board of directors. Contributions are allocated, subject to a vesting schedule, pro rata based on eligible employee compensation. The plan expense for

Notes to Consolidated Financial Statements

VSE and certain of its subsidiaries for 1995, 1994, and 1993, was approximately \$449 thousand, \$490 thousand, and \$531 thousand, respectively. There are no prior service costs under any VSE retirement plans.

The ESOP/401(k) plan owned 343,893 shares and 345,309 shares as of December 31, 1995 and 1994, respectively, which receive dividend payments and are included in the weighted average shares for earnings per share calculations.

Energetics maintains a profit sharing plan for 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 from August 29, 1995 to December 31, 1995 was approximately \$28 thousand.

Schmoltdt Engineering maintains a qualified defined contribution profit sharing plan for employees who elect to become participants and who meet certain eligibility requirements. At its discretion, Schmoltdt Engineering may make contributions to the plan in an amount of up to 15% of participant compensation. The plan expense for 1995 was \$0, and approximately \$15 thousand and \$12 thousand for 1994 and 1993, respectively.

In February 1996, the company announced that VSE's the board of directors had ratified, subject to shareholder approval, a Stock Option Plan for certain eligible employees and directors. Stock options may be granted from time to time up to 109,479 shares of the aggregate of common stock of the company. The shares would vest over a period from one to three years and the maximum term of the options granted would be five years.

(7) Income Taxes

The company files consolidated federal income tax returns with all of its subsidiaries. The components of the provision for income taxes are as follows (in thousands):

	1995	1994	1993
Current	-----	-----	-----
Federal	\$ 449	\$ 948	\$ 688
State	104	233	150
	-----	-----	-----
	553	1,181	838
Deferred Provision (Benefit) - resulting from:			
Deferred revenues	360	88	(154)
Other timing differences	140	(16)	82
Accelerated depreciation	95	(53)	(57)
Accrued expenses	90	41	(2)
Bad debt expense	34	0	0
Retainages not taxed until billed	14	(94)	165
Allowance for contract and other disallowances	1	(239)	(103)
Software development	(15)	0	0

Funded Backlog	(18)	0	0
Intangible assets	(30)	0	0
Deferred compensation	(160)	52	(35)
	-----	-----	-----
Income tax provision	\$1,064	\$ 960	\$ 734
	=====	=====	=====

The differences between the amounts of tax computed at the federal statutory rate of 34% and the provisions for income taxes for 1995, 1994, and 1993 are as follows (in thousands):

Notes to Consolidated Financial Statements

	1995	1994	1993
	-----	-----	-----
Tax at statutory federal income tax rate . . .	\$ 922	\$ 854	\$ 646
Increases (Decreases) in tax resulting from:			
State taxes, net of federal tax benefit . . .	133	127	87
Permanent differences for tax	9	0	5
Federal and state tax rate adjustments . . .	0	(21)	0
Other, net	0	0	(4)
	-----	-----	-----
Provision for income taxes	\$1,064	\$ 960	\$ 734
	=====	=====	=====

The company's deferred tax assets as of December 31, 1995 and 1994, 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):

	1995	1994
	-----	-----
Current deferred tax assets	\$ 1,888	\$ 2,112
Current deferred tax liabilities	(1,066)	(621)
	-----	-----
Net current deferred tax assets	822	1,491
	-----	-----
Noncurrent deferred tax assets	833	740
Noncurrent deferred tax liabilities	(1,210)	(442)
Valuation allowance	(50)	(50)
	-----	-----
Net noncurrent deferred tax (liabilities) assets	(427)	248
	-----	-----
Net deferred tax assets	\$ 395	\$ 1,739
	=====	=====

In 1993, the tax effect of certain differences between tax and book bases not previously recorded were recorded. Further, a valuation allowance, which is provided when it is more likely than not that some portion of the deferred tax asset will not be realized, was established for the deferred tax asset associated with certain real property because of the uncertainty that the deferred tax asset will be fully realized. Based on the company's taxable income in prior years, the company expects to realize the net deferred tax asset currently recorded.

The tax effects of temporary differences representing deferred tax assets and liabilities as of December 31, 1995 and 1994, are as follows (in thousands):

	1995	1994
	-----	-----
Deferred compensation	\$ 1,028	\$ 886
Allowance for contract and other disallowances . .	488	489
Accrued expenses	366	449
Other	262	432
Bad debt expense	65	99
Accelerated depreciation	(147)	(65)
Retainages not taxed until billed.	(191)	(177)
Deferred revenues	(684)	(324)
Intangible assets	(742)	0
	-----	-----

	445	1,789
Valuation allowance	(50)	(50)
	-----	-----
Net deferred tax assets	\$ 395	\$ 1,739
	=====	=====

Notes to Consolidated Financial Statements

(8) Commitments and Contingencies

Leases

The principal facilities of the company and its subsidiaries are generally rented under operating leases for periods of one to ten years. The company and its subsidiaries also lease equipment generally under noncancelable operating leases for periods of one to two years. Rent expense for 1995, 1994, and 1993, was approximately \$2.2 million, \$2.0 million, and \$2.2 million, respectively, which was net of sublease income of approximately \$272 thousand, \$331 thousand, and \$390 thousand, respectively. The future minimum annual rental required under leases having remaining noncancelable lease terms in excess of one year, net of noncancelable sublease income, will approximate \$2 million in 1996, \$1.8 million in 1997, \$1.2 million in 1998, \$840 thousand in 1999, and \$955 thousand in 2000 and \$1.3 million thereafter.

Note Guarantee

The company is a guarantor of an Industrial Development Revenue Note assumed by Alexandria Tech Center II/Starr Associates, a Virginia general partnership of which Starr Management Corporation, a former VSE subsidiary ("Starr"), is a 50% partner. As of December 31, 1995, the outstanding principal of the note was \$2.6 million. The note evidences loan proceeds that were used to finance the construction of an office building owned by the partnership for a period of ten years and has a one year lease for an additional 16% of the building. The ten year lease period expires in July 1997.

Starr has agreed to indemnify the company for any liabilities resulting from any guarantee given by VSE on behalf of Starr.

Litigation

During June 1993 a settlement was reached among VSE, a bank used by VSE, and a third party claimant to resolve a potential claim against VSE with respect to a letter of credit issued in 1988. VSE's charge to income before tax in 1993 for the settlement was approximately \$300 thousand.

The company and its subsidiaries have, in the normal course of business, certain other claims against them and against other parties. In the opinion of management, the resolution of these claims will not have a material adverse effect on the company's results of operations or financial position.

(9) Subsequent Event - Sale of Subsidiary Stock

On February 7, 1996, the company sold its wholly owned subsidiary Schmoldt Engineering. Schmoldt Engineering was purchased by SESCO, Inc., an Oklahoma corporation formed by certain officers and employees of Schmoldt Engineering. The company received approximately \$400 thousand in gross proceeds in the form of cash of \$100 thousand and notes of approximately \$300 thousand secured principally by the equipment and rolling stock of Schmoldt Engineering. The company will recognize a pretax loss of approximately \$300 thousand in the first quarter of fiscal 1996.

Selected Quarterly Data

Selected Quarterly Data (Unaudited)
(in thousands, except earnings per share)

<TABLE>
<CAPTION>

	1995 Quarters			
	1st	2nd	3rd	4th
<S>	<C>	<C>	<C>	<C>
Revenues	\$16,155	\$17,110	\$21,204	\$20,598
Gross profit	\$ 878	\$ 423	\$ 1,599	\$ 709
Net income	\$ 414	\$ 297	\$ 459	\$ 476
Weighted average number of common shares outstanding	863	865	869	869
Earnings per common share:				
Net income	\$.48	\$.34	\$.53	\$.55

	1994 Quarters			
	1st	2nd	3rd	4th
<S>	<C>	<C>	<C>	<C>
Revenues	\$17,479	\$16,290	\$15,778	\$16,034
Gross profit	\$ 929	\$ 625	\$ 1,436	\$ 1,123
Net income	\$ 353	\$ 354	\$ 415	\$ 431
Weighted average number of common shares outstanding	863	863	863	863
Earnings per common share:				
Net income	\$.41	\$.41	\$.48	\$.50

</TABLE>

Form 10-K

Securities and Exchange Commission
Washington, D. C. 20509

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, 1995
Commission File No. 0-3676

Registrant: VSE Corporation Incorporated in the State of Delaware
IRS Employer Identification No. 54-0649263

Address: 2550 Huntington Avenue
Alexandria, Virginia 22303-1499
Telephone: (703) 960-4600

Securities Registered Pursuant to Section 12(b) of the Act: None.

Securities Registered Pursuant to Section 12(g) of the Act:
Common Stock, par value \$.05 per share.

VSE Corporation 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
and has been subject to such filing requirements for the past 90 days.

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.

The aggregate market value (average of high and low sales prices) of VSE Corporation voting stock held by non-affiliates as of March 1, 1996, was \$10,400,000.

As of March 1, 1996, 869,167 shares of VSE Corporation Common Stock were outstanding.

Portions of the Registrant's 1995 Annual Report to stockholders for the year ended December 31, 1995, are incorporated by reference into Part I and II of this report.

Portions of the Registrant's Proxy Statement for the Annual Meeting of Stockholders expected to be held on May 4, 1996, are incorporated by reference in Part III of the Form 10-K.

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

VSE Corporation

Registrant

C. S. Weber, Senior Vice President, Secretary and Treasurer

March 22, 1996

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 22, 1996, by the following persons in the capacities indicated:

D. M. Ervine
Chairman and Chief Executive Officer

R. B. McFarland
President and Chief Operating Officer

C. S. Weber
Senior Vice President and Principal
Financial Officer

T. J. Corridon
Senior Vice President and Principal
Accounting Officer

A majority of the Directors of the Registrant whose names appear on page 37.

Form 10K Cross-Reference Index

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II.	5. Market for Registrant's Common Stock and Related Stockholder Matters	17	
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	9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	None	
III.	10. Directors and Executive Officers of the Registrant	*	
	11. Executive Compensation	*	
	12. Security Ownership of Certain Beneficial Owners and Management	*	
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IV.	14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K		
	(a) (1) Financial Statements:		

Report of Independent Public Accountants	18
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Notes to Consolidated Financial Statements	23-30
(a) (2) Financial Statement Schedules:	
Schedule II Valuation and Qualifying Accounts	+
(a) (3) Exhibits:	
Exhibits Filed with the Report:	
Subsidiaries of the Registrant (21)	+
Employment Agreement entered into as of January 1, 1996, by and between VSE Corporation and Donald M. Ervine	+
Employment Agreement entered into as of January 1, 1996, by and between VSE Corporation and Richard B. McFarland	+
Restated Certificate of Incorporation	+
Amended By-Laws	+
Exhibits Incorporated by Reference:	
Specimen Stock Certificate	+
Exchange Agreement dated as of March 25, 1992, amended as of September 1, 1992, by and between VSE Corporation and JBT Holding Corp., et al.	+
Deferred Supplemental Compensation Plan	+
Stock Purchase Agreement dated August 19, 1995 by and between VSE Corporation and the share- holders of Energetics Incorporated	+
(b) Reports on Form 8-K:	
Current Report on Form 8-K/A ((filed on November 9, 1995), amending the Current Report on Form 8-K filed on September 13, 1995.	+

*The information required by Part III, Items 10 through 13, is incorporated by reference from portions of the VSE Corporation Notice of 1996 Annual Meeting and Proxy Statement captioned "Security Ownership of Certain Beneficial Owners and Management," "Election of Directors," "VSE Corporation 1996 Stock Option Plan," and "Compensation Committee Report."

+Copies of financial statement schedules and exhibits are available on request.

VSE TEAM

Rene Abarcar
Douglas Ackerson
Bryan Adams
Heather Adams
Omega Adams
Richard Adams
William Adams
Ann Adcox
Annie Adicoff
Shiron Adkins
Nita Aguilar
Abbas
Ahmadi-Shirazi
James Ainsley
Melvin Ainsworth
Judith Akindemowo
William Albertolli
Judy Albrecht
Gail Alderdice
David Alexander
Jerry Alvey
Karl Amick

Frank Amoroso
Robert Amos
Jackie Anderson
Raymond Anderson
Royce Anderson
Wayne Anderson
Michael
Andrzejczyk
Rebecca Angeles
William Anthony
Hans Arlt
Vikki Arnold
Fred Artley
Michael Artuso
Dale Ash
Diana Ashley
Edward Ashlock
Ruth Ashworth
William Attaway
Bernadine Atwell
Stephen Austin
John Avery
S. Aziz Azimi
Dewey Babb
Joe Badin
Henry Baggott
Fred Bahrs
Charles Bailey
Janet Baity
Mark Baker
Michael Baker
Paul Baker
Ruth Baker
Joseph Balac
Eileen Ball
Sushil Baluja
Babatunde
Bamisaie
Betty Banbury
Edward Banek
Ernest Bannister
Ronald Baptie
Maurice Barker
Robert Barnett
Kurt Barnhart
Nathaniel Barr
Jose Barrera
Byron Bartholomew
Sandra Bartlett-Delaney
Mary Barton
Carol Baschmann
Francis Basquill
Terry Bates
Carolee Battaglia
Richard Battaglia
Robert Baxter
Mohammad Baz
Jason Beaulieu
Donald Becker
Bonna Bell
Dolores Bell
Keith Bell
Clarence Belle
John Bennett
Roland Bennett
Stephen Bennett
Margaret Bentley
Michael Bergels
Daniel Bergen
Jennifer Bergman
Lezlie Berman
Robert Bernatovich
Francis Beverina

Mark Bezanis
Mathew Bialowicz
Sarah Bieber
Harold Bigbie
David Biggins
Roger Bingham
Lisa Bishop
Robin Black
Mary Lee Blackwood
Andrea Blair
Deborah Blakeman
Loretta Blalock
August Blancaflor
Michael
Blankenship
Leonard Blood
Charles Bloom
Peter Bloom
Cynthia Blowe
Evelyn
Bobbitt-Moore
Steven Bodenhamer
Robert Boerum
Magdy Boghdady
James Bolden
Scott Bolden
Donald Boller
Annette Bonham
Judy Bonn
Towana Boone
Sara Bouchard
Kimberly Bourgeois
Randal Bowling
Patrick Brady
Berton Braley
Barton Branstetter
Eric Branton
Gail Bratten
Barbara Breehl
Steve Brennan
William Brewster
Marvin Briden
Barrie Briggs
Jan Brinch
Victoria Brock
Melissa Bromberg
Warren Brooks
Paul Broome
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Joseph Brown
Simonne Brown
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Chris Brzowski
Beau Buckner
Colleen Buckner
Edward Bugin
Andrea Bunch
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Tom Bustard
Isaac Bustillos
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Gene Butler

Robert Butler
Hobart Cable
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Henry Cahoon
Michael Campbell
Scott Campbell
Donald Candy
Claude Canell
Chris Caperton
Anthony Capriotti
Philip Carberry
Jim Carey
Richard Carrier
Kathleen Carrillo
Donald Carter
Patricia Carter
Doris Carvajal
Floyd Case
Nancy Casillas
Mark Cassol
John Cathcart
Karen Caudle
Frank Cauraugh
John Chambers
Harlan Chase
Ashwin Chaudhary
Tom Cheek
Daniel Chen
Tsoying Chen
Cynni Cheng
Jeanne Chepivetzki
Karen Childs
Gabriel Chinwendu
Joseph Cioe
Douglas Clark
Luther Clark
Michelle Clements
Jeanne Clifford
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Thomas Clinton
Julia Clore
Donald Close
Robert Coffey
Jared Coffin
Pamela Coffman
Andrea Coggins
Larry Coggins
Jacqueline Coker
Dale Coleman
Pamela Coleman
Sandra Coley
Kathryn Colley
John Collins
Martin Connell
Kathryn Connor
Quentin Conroy
Carl Conti
Mark Contreras
James Cook
Virginia Cook
Marlow Cooper
Regina Corbin
Cheryl Cornell
Thomas Corridon
Cecil Cory
Thomas Cosgrove
Dorothy
Cothran-Cooper
James Cottle
Alan Coulbourn
Ronald Counts
Rene Couture

Larry Cox
Robert Coyle
C. David Crandall
Matthew Crehan
Patricia Crenshaw
Gloria Crews
Jeffrey Crist
Lynette Cross
David Crossett
Helen Crytzer
William Culp
Henry Cunningham
David Curtis
Dora Curtis
Lynda Curtis
Joseph Czech
Theresa D'Arrigo
Michael Daniels
Donald Daugherty
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Claude Davis
Clifford Davis
Joyce Davis
Marvin Davis
Rondell Davis
Lester Dean
Robert Defazio
Albert Deiss
Thomas Delaney
Mary Delgado
Zelda Deloatch
Charles Delvecchio
Michele Demarest
Raymond Demattia
James Demel
Linda Demuth
Charles Dennis
William Denzer
Shu Mei Der
Michele Desouza
Richard Desposato
Peter Desrosiers
Judy Dewitt
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Michael Dicola
Sushma Dilawari
James Dinsmore
Patrick Dion
Phil DiPietro
Timothy Disney
Chris Dodd
John Dombrauskas
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Dana Doolittle
Mia Dorsey
John Dorso
Patricia Dougherty
Rochelle Doughton
Tenesa Douglas
Louise Dove
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Elizabeth Duffy
Paul Duncan
Donald Dunham
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John Dunning

Armando Duran
John Durand
Richard Durand
Marion Durham
Dennis Dutton
John Dydalowicz
Dianna Eader
Frederick Eckert
David Eckstut
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Ronald Edmonds
Charles Edwards
Otha Edwards
William Egan
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Roger Eilertson
Jack Eisenhauer
Geoffrey Eisenmann
Marcelo Eitel
Paul Elkins
Mark Elliott
Eugene Engebretsen
Kenneth Engelmeyer
Kyong Eom
Susan Erat
Kevin Erskine
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Irma Esquivel
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Andrea Ethell
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Daniel Fabrycki
Anthony Facciola
Claudia Fanning
Mindi Farber
Donna Farley
Darwin Faulkner
Hearl Faulkner
Ronald Fearfield
Jerome Fee
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Lisa Fenwick
Donald Ferrell
Leo Fetterolf
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Charles Fix
James Fleck
John Fletcher
Art Floor
Fred Forester
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Cynthia Fortner
Frank Foster
Hubert Foster
Robert Fowler
Anthony Frackowiak
Richard Fraer
Adnah Frain
Jay Franklin
Calvin Frantz
Melva Frazier
Paul Frazier
James Freeman
Andrew French
Alex Frenette
Robin Friedman
William Frizzell
Joseph Frosio

Jack Frost
Teresa Fuller
Harold Futrell
Paul Gain
Sandra Gaines
John Gallagher
Stephan Galloway
Anthony Gambello
Kathy Garner
Elaine Garrison
Renee Gaspari
Kevin Gassman
Bill Gay
Lisa Gaylor
Michael Geddings
Donald Geller
Delphine Geter
Felicia Gewerth
Carmelle Gibbons
Brenda Gick
Christina Gikakis
Christopher Gill
Marion Gillespie
Sandra Gillespie
John Gilroy
Arlyn Glassburn
Gwendolyn Glenn
Michael Goble
Arlene Goelz
Leonard Goldstein
Bradley Gollner
Terri Gomez
Edward Goode
Elliot Goodman
James Goodman
Elizabeth Goraj
Sandra Gorny
Ronald Gradine
Walter Graham
Nathaniel Granger
Charles Graves
Ronald Gray
Reginald Grayson
Aaron Green
Daniel Green
Rachel Lynn
Greenberg-Seaman
Jeffrey Greene
Normand Gregoire
Raphael Gregory
Mickey Griffin
Robert Grisko
Vladimir Groark
Jae Groves
Charles Grubbs
Joni Gruitt
Charles Gu
Thomas Guffain
Timothy Haan
Chuck Haczewski
Robin Hakan
Betty Hall
Michael Hamerly
William Hamlin
Janet Hanchuck
Bryce Haning
Letitia Hanley
Richard Hannah
Elizabeth Hardy
Ronald Hardy
George Harps
Diane Harrington
Andrea Harris

Ernest Harris
Susan Hart
Tracy Hartlage
Michelle Hartman
James Harvey
Ronald Harvey
Michael Harwell
Gordon Hatcher
William Hawes
John Hayden
George Hayes
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Mark Heller
Michael Helton
Keith Hemmer
Grace Henderson
Nancy Hendricks
Arne Herleikson
Kevin Herman
Peter Hernandez
Raymond Heslin
Glenn Hetterly
David Higgins
Doreen Hill
Elizabeth Hill
Josephine Hill
Stefanie Hill
Duane Hintz
David Hoagland
Margaret Hockeborn
Janet Hockenberry
Fred Hodge
Donald Hodgson
Milford Holland
Christopher
Holliday
Frederick Holtz
Brian Hook
Charles Hoover
Leroy Hopkins
Robert Hopkins
John Hornberger
Wanda Horton
Charles Hosse
Edward Houston
Ted Hover
Terry Howell
Donald Hudson
Walter Hudson
Amy Hughes
Ronald Hughes
Thomas Hughes
S. Brett Humble
Thomas Humble
Charles Hunley
Michael Hutson
Mary Iacona
John Ignat
Dana Illig
Jennifer Ingber
James Ingram
William Ingram
Mark Ish
Nicholas Iwan
Noel J. F. Pleta
Leonard Jackson
Michael Jackson
William Jackson
Michael Jacobs
Norman Jacobs
Louis James

Juan Jamora
Birl Jamrogowicz
Joseph Jaquith
Cecil Jarman
Eric Jasinski
Sandy Jeffrey
Julie Jividen
Mary Jo Baker
Tom Johanson

Ethel Johnduff
Cherri Johns
Andrew Johnson
Donald Johnson
Jeffery Johnson
Kenneth Johnson
Lavette Johnson
Patricia Johnson
Shannon Johnson
Wilbert Johnson
Charissa Jones
Cynthia Jones
Estelle Jones
Fritz Jones
Jeffrey Jones
Louis Jones
Ricky Jones
Susan Jones
Yvonne Jones
Susan Kaczmarek
Robert Kaminsky
Carolyn Kaplan
Sabeena Kapoor
Edward Karl
Rul Kashif
Franklin Kauffman
Kathleen Kaufman
Adolph Kawalec
Mary Keefer
Bob Keiser
Joseph Kelleher
Dwight Kelly
Jordan Kelso
Ryan Kemble
Charles Kennedy
Nicole Kennedy
Brendan Kerr
George Kervitsky
Michael Kidd
Martin Kiefer
Yen Kim Vo
Gerald King
Thomas Kingon
Jonathan Kirschner
Tamotsu
Kitabayashi
Catherine Klapakis
Donald Kleopfer
Cheryl
Klingensmith
Michelle
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James Knesel
Angela Knight
James Knowlton
Donna Knudsen
Leonard Koberg
Katharine Kohudic
George Kolb
Jin Koo-Irvine
Rollin Koontz
Frank Kos

Lawrence Kost
Harold Kraft
Annette Kramer
Micheal Kreinhop
Wendy Kreitzer
Michael Krenitsky
Robert Kruck
Frances Kruitbosch
David Krushell
Charles Kuder
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B. J. Kumar
Vijay Kumar
Daniel Kumi
Quon Kwan
Donald Krypta
John La Rose
Susan Lacambacal
Robert Lachance
Andrea Lachenmayr
Herman Ladoo
Hy Lam
William Lamar
Jan Lambert
George Landon
John Lantz
Sue Lapponese
Glenist Lardy
Vernon Larson
Henry Lasher
Charles Lasko
Gail Lathrop
John Laughlin
Jay Lauterbach
Daniel Lavery
Louis Lawrence
Anna Lazarek
Chon Le
Bernadette Leach-
Walker
Charles Lehmann
Jay Leikin
Eugene Lenehan
John Lentini
Joseph Lepri
Alistair Leslie
Virginia Leslie
Laura Levine
Gloria Lewis
Nicole Lewis
Nikki Lewis
Steven Lewis
Clyde
Lichtenwalner
Margaret Lieber
Catherine
Liedemann
Katherine Lilly
Richard Lippert
Cynthia Little
Eileen Little
Charles Livesay
Peggy Lloyd
Edward Lockard
Brett Lockwood
Buddy Lockwood
Thomas Loftus
Peter Lohr
Earnest Lomax
Barbara Long
Larrie Long
Tiffany Louvett
Donna Love

John Low
Lizabeth Lowe
Robert Lowe
Howard Lowitt
Mary Lucio
Sally Lundeen
Gary Lundquist
Kimberley Lunsford
Stephanie Lutz
Frederick Lyles
Kimberly Lyles
Natalie Lynch
Martin Lyon
Vernon Maas
Bruce Macdonald
Hershel Mack
Stephen Mack
Michelle MacLeod
Ashley Madison
Charles Madison
Larry Madsen
Stephen Mahaffey
Michael Mahaney
James Mahoney
Carla Makell
Daniel Malinowski
Teri Malone
Pia Manalastas
Larry Manchester
Larry Manley
Elijah Mann
Randolph Mann
Cynthia Manno
Tomeka Manuel
David Mao
Nancy Margolis
Phillip Marsh
Bruce Marshall
Carolyn Marshall
Robert C. Marshall
Robert G. Marshall
Robert L. Marshall
Robert M. Marshall
Derrick Martin
Lynn Martin
Charles Martinez
Carlos Martins
Edward Mascali
Joseph Masterson
John Mathes
Dennis Matney
Lisa Mattson
Craig Matzdorf
Ronnie Maxey
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Charles McAdams
Ian McCallum
Michael McCann
Alfred McClintock
Maxey McCormick
Walter McCoy
Jeffrey McCurdy
David McDaniel
Henry McFarland
Richard McFarland
Sean McGillen
Ellen McGinnis
Thomas McGinty
Davenna McGlone
Frederick McKay
Junious McKee
Sherrill Mcknight
Thomas McLaughlin

Ray McLean
Lee McMillan
Matthew McMillen
Janet McMurray
Claude McNair
Shawna McQueen
Melissa McWright
Ronald Medlock
Kenneth Meyer
Jennifer Miklovic
Frank Miley
Marie Miller
Dia Mims-Williams
Amy Mingo
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Liz Minor
David Mitchell
Eugene Mitchell
Robert Mitchell
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Stephen Mitton
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Fabian Montgomery
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Kevin Moore
William Moore
John Morehouse
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Bruce Moriarty
Donald Moriarty
John Moriarty
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Rick Mosteller
Donnelle Moten
Edward Mrazek
Bob Mudry
Joseph Muffler
Clare Mullins
Robert Murdock
Mark Murton
Steven Mutz
Wayne Myers
Keri-Beth Nagel
Raymond Nairn
Stephen Namie
John Naquin
Keramoddin Nazari
Karl
Nelson-Fjeldstad
William Nelson
Bernadeen Newby
Joseph Newman
Cheryl Newton
Alice Nguyen
Cuong Nguyen
My Nguyen
Trang Nguyen
Jamie Nicholas
Robert Nicholson
Robert Nielson
Christopher
Nikpora
George Nilas
Rudolph Notaro
Kimberly Nuhfer
Norman Nussbaum
Christopher Nutt
Eugene O'Brien
Alfred O'Meally
Delores O'Neal
Kimberly Oatneal

Bernice
Oberholtzer
Michael Ogonowski
Chester Olson
Cherie Ontiveros
Edward Orsatti
Edward Osiadacz
Hunyo Osiba
Francis Paca
Susan Page
Tim Panowicz
Vilone
Panyanouvong
David Parchert
Christopher Parke
Caroleene Paul
Frederick Pauley
Earle Payne
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Amy Pedersen
Paul Pedone
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Joan Pellegrino
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William Perry
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Matheas Pickett
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Robert Pierce
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Mark Podgorski
Curtis Pogue
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Kenneth Priestly
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Weldon Ragland
Karyl Ralles
Bonnie Ram
Geetha Raman
Melissa Ranslem
Roland Raquipiso

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Lisa Ratchford
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Jim Reed
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Adela Reyes
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John Rhodes
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Sandra Rice
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Gregory Rogers
Harris Rogers
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John Roland
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Michael Romnek
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Richard Ropes
Maria Rosales
Alfred Rose
Daniel Rosenblatt
Bonnie Rossi
Louis Rossi
Vickie Rossy
Maryetta Roth
Robert Rouzer
Michelle Rubio
Gustave Ruetenik
Sylvia Ruffin
Albert Russell
Theresa Ryal
Dennis Ryan
Sidney Ryan
Marvin Ryken
Jamshid Saadvandi
Rodney Saavedra
Timoteo Saguinsin
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Frank Saltarelli
Helen Sampson
Juli Sande
Eric Sanderman
Tracy Santella
John Santucci
Stephen Sartori

Anne Sautter
Giulio Savioli, Jr.
Giulio Savioli, Sr.
Vernon Savola
Lisa Sawyer
John Scanlon
George Scavuzzo
Donald Schaier
Rich Scheer
Todd Schimmel
John Schmedel
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Jeff Thornton
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Son Tran
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Trung Truong
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Kiyoshi Tsuji
James Tullis
Brigitte Tunstall-Breuer
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Laslo Tuske
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Gregory Tyson
Michael Ulrich

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Ronald Urban
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Thomas Vann
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Avinash Varma
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Gregory Wilson
Ray Wilson
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Sharon Woodson
Vernon Woolman
James Worthen
Mary-Lynn Wrabel

Jeffrey Wright
William Wright
Lawrence
Wroblewski
Christopher Wyatt
Michael Wyman
Kenneth Wyrick
Jeffrey Yambor
Elbert Yeatts
Norma Yeatts
David Yevonishon
Richelle Yoerk
James York
Barbara Young
Bill Zakrewski
Thomas Ziemba
Phillip Zubiata
Ronald Zuilkoski
Bill Zwack

Officers and Directors

Officers

Chairman of the Board
and Chief Executive Officer
Donald M. Ervine

President and
Chief Operating Officer
Richard B. McFarland

Executive Vice President,
Business Development
Byron S. Bartholomew

Senior Vice President,
Chief Financial Officer,
Secretary and Treasurer
Craig S. Weber

Senior Vice President and
Comptroller
Thomas J. Corridon

Senior Vice Presidents
Edwin Barrineau 1
Edward V. Karl
James M. Knowlton
Mark A. Robin

Vice Presidents
Maurice E. Barker
Francis F. Beverina
Robert C. Butler
Peter J. Desrosiers
John S. Gilroy
William J. Nelson
Thomas L. Prather, Jr. 2
Jayne M. Tuohig
Paul Vander Myde
John E. Weber
John J. Werbowski

Assistant Vice Presidents
Stephen W. Austin
Lester M. Buckner
Leonard Goldstein
David O. Hoagland 3
H. Eugene Hosier
Thomas R. Loftus

Board of Directors

Sarah Clements

Consultant; formerly Deputy for
Material Acquisition Management,
Office of the Assistant
Secretary of the Army

Donald M. Ervine

Chairman of the Board, VSE
Corporation

Robert J. Kelly 4

Admiral, U.S. Navy (Ret.);
formerly Commander in Chief,
U. S. Pacific Fleet and
Director of International
Operations, The Wing Group

Calvin S. Koonce

President, Koonce Securities,
Inc.

Joseph M. Marchello

Professor, Old Dominion
University; formerly Chancellor
of the University of Missouri
Rolla

Richard B. McFarland

President, VSE Corporation

David M. Osnos

Senior Partner,
Arent Fox, Kintner, Plotkin &
Kahn, Attorneys-at-Law

Jimmy D. Ross

General, U.S. Army (Ret.) and
Senior Vice President,
Biomedical Services, American
Red Cross

Bonnie K. Wachtel

Vice President and General
Counsel, Wachtel & Co., Inc.
Brokers and Underwriters

Director Emeritus

Harold P. Weinberg 5

Consultant; formerly Senior
Vice President and Director
(1961-1995), VSE Corporation

1 Retired January 31, 1996

2 Effective March 19, 1996

3 Until February 1, 1996

4 Effective January 31, 1996

5 Effective January 1, 1996

Corporate Profile

VSE Corporation is a professional services company established in 1959. VSE provides diversified engineering, development, testing, maintenance and management services and products to maintain and modernize equipment and systems, principally to agencies of the U. S. Government and to other prime contractors. The company's subsidiaries and divisions include BAV, CMstat Corporation, Energetics Incorporated, Human Resource Systems, Inc., VSE

Corona, Inc., VSE Services Corporation, Value Systems Services, and from July 1990 through February 6, 1996, Schmoldt Engineering Services Company. The company provides products and services to customers from more than 20 locations across the United States.

Corporate Address

The company's principal executive offices are located at 2550 Huntington Avenue, Alexandria, Virginia 22303-1499. The telephone number is (703) 960-4600. The telecopier number is (703) 960-2688. The Company's Worldwide Web address is <http://www.vsecorp.com>.

Annual Meeting of Stockholders

The Annual Meeting of Stockholders is expected to be held on May 4, 1996, at 10:00 a.m., at the Value Engineering Building, 2550 Huntington Avenue, Alexandria, Virginia 22303-1499.

Stockholder Inquiries

Inquiries concerning stock ownership, dividends, and stockholder changes of address may be directed to Registrar and Transfer Company, 10 Commerce Drive, Cranford, New Jersey 07016, (1-800-346-6084) or to the company at 2550 Huntington Avenue, Alexandria, Virginia 22303-1499, Attention: Corporate Secretary.

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EXHIBIT IV

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT is made and entered into as of January 1, 1996, by and between VSE Corporation, a Delaware corporation ("Employer"), and Richard B. McFarland ("Employee");

WHEREAS, Employee currently is employed by Employer as a member of Employer's board of directors ("the Board") and Employer's president and chief operating officer;

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

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

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

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

WHEREAS, Employer desires to have the foregoing assurances.

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

1. Term

The term of Employee's employment hereunder shall commence on the date hereof and shall continue until January 1, 1999, except as otherwise provided in Section 7. If the term of Employee's employment hereunder shall have continued until January 1, 1999, thereafter, such term of Employee's employment hereunder shall be deemed to be renewed automatically, on the same terms and conditions contained herein, for successive periods of one year each, unless and until either Employer or Employee, at least 90 days prior to the expiration of the original term or any such extended term, shall give written notice to the other of his or its intention not to renew the term of Employee's employment hereunder. All references herein to the "Term" refer to the original term of Employee's employment hereunder and all extensions thereof.

2. Duties

(a) Offices

During the Term, Employee shall serve as a director of Employer and as Employer's president and chief operating officer, and the Board shall renominate Employee as a director of Employer and reelect Employee as Employer's president and chief operating officer, and Employee shall perform the duties of those positions, as assigned to him by the Board. Employer agrees that Employee will be assigned only duties of the type, nature and dignity normally assigned to the chief operating officer of a corporation of the size, stature and nature of Employer. During the Term, Employee shall have, at a minimum, the same perquisites of office as he had on the date hereof, and he shall report directly to the Employer's chief executive officer.

(b) Full-Time Basis

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

3. Compensation

(a) Salary

During the Term, as compensation for services rendered by Employee hereunder, Employer shall pay to Employee a base salary at the rate of not less than \$175,000 per annum, payable in installments in accordance with Employer's policy governing salary payments to senior officers generally ("Base Salary"). In January of every year during the Term, Employee's compensation, including Base Salary, will be subject to the Board's review, provided that, the Base Salary shall not be less than the rate of \$175,000 per annum.

(b) Performance Bonus

Except as otherwise provided in Section 7, in addition to the Base Salary, Employee shall be eligible for an annual performance bonus as determined by the Board or its Compensation Committee ("Performance Bonus"). Any Performance Bonus payable pursuant to this Section 3(b) shall be paid within 30 days after the end of the fiscal period to which such Performance Bonus relates.

(c) Other Compensation Plans or Arrangements

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

(d) Tax Withholdings

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

4. Benefits

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

5. Expenses and Other Perquisites

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

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

(a) Exclusive Services

(i) During the Term, Employee shall at all times devote his full-time attention, energies, efforts and skills to Employer's business and shall not, directly or indirectly, engage in any other business activity, whether or not for profit, gain or other pecuniary advantages, without the Board's written consent, provided that such prior consent shall not be required with respect to (1) business interests that neither compete with Employer or any Subsidiaries nor interfere with Employee's duties and obligations hereunder and (2) Employee's charitable, eleemosynary, philanthropic or professional association activities.

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

(b) Confidential Information

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

(c) Business Opportunities

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

(ii) During the Term, Employee shall refrain from engaging in any activity, practice or act which conflicts with, or has the potential to conflict with, the interests of Employer or its Subsidiaries, and he shall avoid any acts or omissions which are disloyal to, or competitive with Employer or its Subsidiaries.

(d) Non-Solicitation of Executives

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

(e) Covenant Not To Compete

(i) If Employee voluntarily terminates the Term, or if Employer terminates the Term for Cause (as defined below), Employee shall not, during the first 24 consecutive months following such termination, engage in competition with Employer or any Subsidiary, or solicit, from any person or entity who purchased any then existing product or service from Employer or any Subsidiary during his employment hereunder, the purchase of any then existing product or service in competition with then existing products or services of Employer or any Subsidiary.

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

(f) Employee Acknowledgment

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

(g) Invalidity

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

(h) Specific Performance

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

7. Termination

(a) By Employer

(i) Termination for Cause

Employer may for Cause (as defined below) terminate the Term at any time by written notice to Employee. For purposes of this Agreement, the term "Cause" shall mean any one or more of the following: (1) conduct by Employee which is materially illegal or fraudulent; (2) the breach or violation by Employee of any of the material provisions of this Agreement, provided that Employee must first be given notice by the Board of the alleged breach or violation and 30 days to cure said alleged breach or violation; (3) Employee's use of illegal drugs or abuse of alcohol or authorized drugs which impairs Employee's ability to perform his duties hereunder, provided that Employee must be given notice by the Board of such impairment and 60 days to cure the impairment; (4) Employee's knowing and willful neglect of duties or negligence in the performance of his duties which materially affects Employer's or any Subsidiary's business, provided that Employee must first be given notice by the Board of such alleged neglect or negligence and 30 days to cure said alleged neglect or negligence. If a termination occurs pursuant to clause (1) above, the date on which the Term is terminated (the "Termination Date") shall be the date Employee receives notice of termination and, if a termination occurs pursuant to clauses (2), (3) or (4) above, the Termination Date shall be the date on which the specified cure period expires. In any event, as of the Termination Date (in the absence of satisfying the alleged

breach or violation within the applicable cure period), Employee shall be relieved of all of his duties hereunder and Employee shall not be entitled to the accrual or provision of any compensation or benefit, after the Termination Date but Employee shall be entitled to the provision of all compensation and other benefits that shall have accrued as of the Termination Date, including Base Salary, Performance Bonuses, paid leave benefits, Deferred Compensation Units, Deferred Supplemental Compensation, and reimbursement of incurred business expenses.

(ii) Termination Without Cause

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

(b) Death or Disability

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

(c) By Employee

(i) Employee may, in his sole discretion, without cause, terminate the Term at any time upon 90 days' written notice to Employer. If Employee exercises such termination right, Employer may, at its option, at any time after receiving such notice from Employee, relieve him of his duties and terminate the Term at any time prior to the expiration of said notice period. If the Term is terminated by Employee or Employer pursuant to this Section 7(c)(i), Employee shall not be entitled to any further Base Salary or the accrual or provision of any compensation or benefits after the Termination Date, including, without limitation, any of the medical and hospitalization benefits described in Section 7(a)(ii)(1).

(ii) If, during the Term, a Change of Control (as defined below) occurs and, without his consent, Employee is assigned duties materially inconsistent with his position and status with Employer as of the date hereof, Employee may, in his sole discretion, terminate the Term upon 30 days' notice of Employer. If Employee exercises such termination right, Employer may, at its option, at any time after receiving such notice from Employee, relieve him of his duties hereunder and terminate the Term at any time prior to the expiration of said notice period. If this Agreement is terminated by Employee or Employer pursuant to this Section 7(c)(ii), Employee shall be entitled (a) to receive on or prior to the Termination Date a lump sum severance compensation payment equal to two (2) times the total amount of Employee's Base Salary payable hereunder, based on the amount in effect as of the Termination Date; (b) the medical and hospitalization benefits and all compensation and other benefits that shall have accrued as of the Termination Date, as described in Section 7(a)(ii)(1); and (c) to the automatic vesting and exercisability in whole or in part of all stock options or similar rights

to acquire capital stock granted by Employer to Employee; provided that Employee shall not be entitled, after the Termination Date to the accrual or provision of any other compensation or benefits payable hereunder, including the Performance Bonus.

(d) Change of Control

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

(e) No Duty to Mitigate

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

8. Arbitration

Whenever a dispute arises between the parties concerning this Agreement or any of the obligations hereunder, or Employee's employment generally, Employer and Employee shall use their best efforts to resolve the dispute by mutual agreement. If any dispute cannot be resolved by Employer and Employee, it shall be submitted to arbitration to the exclusion of all other avenues of relief and adjudicated pursuant to the American Arbitration Association's Rules for Employment Dispute Resolution then in effect. The decision of the arbitrator must be in writing and shall be final and binding on the parties, and judgment may be entered on the arbitrator's award in any court having jurisdiction thereof. The arbitrator's authority in granting relief to Employee shall be limited to an award of compensation, benefits and unreimbursed expenses as described in Sections 3, 4, and 5 above, and to the release of Employee from the provisions of Section 6 and the arbitrator shall have no authority to award other types of damages or relief to Employee, including consequential or punitive damages. The arbitrator shall also have no authority to award consequential or punitive damages to Employer for violations of this Agreement by Employee. The expenses of the arbitration shall be borne by the losing party to the arbitration and the prevailing party shall be entitled to recover from the losing party all of its or his own costs and attorneys fees with respect to the arbitration. Nothing in this Section 8 shall be construed to derogate Employer's rights to seek legal and equitable relief in a court of competent jurisdiction as contemplated by Section 6(h).

9. Non-Waiver

It is understood and agreed that one party's failure at any time to require the performance by the other party of any of the terms, provisions, covenants or conditions hereof shall in no way affect the first party's right

thereafter to enforce the same, nor shall the waiver by either party of the breach of any term, provision, covenant or condition hereof be taken or held to be a waiver of any succeeding breach.

10. Severability

If any provision of this Agreement conflicts with the law under which this Agreement is to be construed, or if any such provision is held invalid or unenforceable by a court of competent jurisdiction or any arbitrator, such provision shall be deleted from this Agreement and the Agreement shall be construed to give full effect to the remaining provision thereof.

11. Survivability

Unless otherwise provided herein, upon termination of the Term, the provisions of Sections 6(b), (d) and (e) shall nevertheless remain in full force and effect.

12. Governing Law

This Agreement shall be interpreted, construed and governed according to the laws of the Commonwealth of Virginia, without regard to the conflict of law provisions thereof.

13. Construction

The paragraph headings and captions contained in this Agreement are for convenience only and shall not be construed to define, limit or affect the scope or meaning of the provisions hereof. All references herein to Sections shall be deemed to refer to Sections of this Agreement.

14. Entire Agreement

This Agreement contains and represents the entire agreement of Employer and Employee and supersedes all prior agreements, representations or understandings, oral or written, express or implied with respect to the subject matter hereof. This Agreement may not be modified or amended in any way unless in a writing signed by each of Employer and Employee. No representation, promise or inducement has been made by either Employer or

Employee that is not embodied in this Agreement, and neither Employer nor Employee shall be bound by or liable for any alleged representation, promise or inducement not specifically set forth herein.

15. Assignability

Neither this Agreement nor any rights or obligations of Employer or Employee hereunder may be assigned by Employer or Employee without the other party's prior written consent. Subject to the foregoing, this Agreement shall be binding upon and inure to the benefit of Employer and Employee and their heirs, successors and assigns.

16. Notices

All notices required or permitted hereunder shall be in writing and shall be deemed properly given if delivered personally or sent by certified or registered mail, postage prepaid, return receipt requested, or sent by telegram, telex, telecopy or similar form of telecommunication, and shall be deemed to have been given when received. Any such notice or communication shall be addressed:

(a) if to Employer, to Chief Financial Officer, 2550 Huntington Avenue, Alexandria, Virginia 22303-1499 with a copy to: Carter Strong, Esquire, Arent Fox Kintner Plotkin & Kahn, 1050 Connecticut Avenue, N.W., Washington, D.C. 20036-5339 or (b) if to Employee, to his last known home address on file with Employer, or to such other address as Employer or Employee shall have furnished to the other in writing.

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

VSE CORPORATION
a Delaware corporation

Date:12/8/95 By:/s/ C. S. WEBER
C. S. Weber,
Chief Financial Officer

Date:12/8/95 /s/ RICHARD B. MCFARLAND
Richard B. McFarland

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EXHIBIT V

RESTATED CERTIFICATE OF INCORPORATION OF VSE CORPORATION

VSE Corporation (the "Corporation"), originally incorporated under the name Value Engineering Company, whose original Certificate of Incorporation was filed with the Secretary of State of Delaware on January 22, 1959, hereby restates its Certificate of Incorporation in its entirety and certifies that at a meeting of the Corporation's board of directors this Restated Certificate of Incorporation was declared advisable and duly adopted by the Corporation's directors in accordance with the provisions of Section 245 of the General Corporation Law of the State of Delaware. This Restated Certificate of Incorporation only restates and integrates and does not further amend the Corporation's Certificate of Incorporation as heretofore amended or supplemented and there is no discrepancy between those provisions as so amended or supplemented and the provisions of this Restated Certificate of Incorporation.

FIRST. The name of the corporation is VSE CORPORATION.

SECOND. The registered office of the corporation within the State of Delaware is Three Christina Centre, 201 N. Walnut Street, City of Wilmington 19801, County of New Castle. The registered agent of the Corporation within the State of Delaware is The Company Corporation, Three Christina Centre, 201 N. Walnut Street, City of Wilmington 19801, County of New Castle, the business office of which is identical with the registered office of the Corporation.

THIRD. The nature of the business, or objects or purposes to be transacted, promoted or carried on are:

To carry on the business of research, experimentation, invention, discovery, testing, development, and utilization of processes and methods, or improvements thereto, in all the arts and sciences; including the conception, development, execution and completion of special scientific and development projects, on its own behalf and on behalf of any other person, firm, association, corporation, public or private, or the Government of the United States of America, or any foreign government, or any political subdivision thereof, or any governmental agency, and in this connection to operate testing stations as may be necessary or advisable.

To construct, buy, sell, lease, license, maintain and operate laboratories and laboratory facilities of all kinds; to carry on and make tests, experiments, analyses and to do research work and to perform analytical, experimental and research services of all kinds whether of a scientific nature or otherwise, and to do any and all acts and transact any and all business which shall or may be or become incidental to or arise out of or be connected with such business, or any part thereof.

To engage in and carry on the business of consultants; to construct, supervise the construction of, install, maintain, own, operate, lease, repair, service, and generally deal in and deal with electronic, electrical, electro-mechanical and mechanical apparatus, devices, systems, processes, machinery, supplies and any other articles or materials used or capable of being used in connection with any of the foregoing.

To acquire by purchase, assignment, grant, license or otherwise, to apply for, secure, lease or in any manner obtain, to develop, hold, own, use, exploit, operate, enjoy and introduce, to sell, assign, lease, mortgage, pledge, grant licenses and rights of all kinds in respect of, or otherwise dispose of, and generally to deal in and with and turn to account for any or all purposes, either for itself or as nominee or agent for others:

(1) Any and all inventions, devices, processes, discoveries and formulae, and improvements and modifications thereof and rights and interests therein;

(2) Any and all letters patent or applications for letters patent of the United States of America or of any other country, state, locality or authority, and any and all rights, interests and privileges connected therewith or incidental or appertaining thereto.

To manufacture, purchase, sell and generally trade and deal in and with any article, product or commodity produced as the result of or through the use of any such inventions, devices, processes, discoveries, formulae and improvements and modifications thereof, or the like, or any articles, products, commodities, supplies and materials used or suitable to be used in connection therewith or in any manner applicable or incidental thereto; to grant licenses, sub-licenses, rights, interests and privileges in respect of any of the foregoing, and to supervise or otherwise exercise such control over its licensees or grantees and the business conducted by them, as may be agreed upon in its contracts or agreements with such licensees or grantees for the protection of its rights and interest therein, and to secure to it the payment of agreed royalties or other considerations.

To manufacture, purchase or otherwise acquire, invest in, own, mortgage, pledge, sell, assign and transfer or otherwise dispose of, trade, deal in and deal with goods, wares and merchandise and personal property of every class and description.

To acquire, and pay for in cash, stock or bonds of this corporation or otherwise, the good will, rights, assets and property, and to undertake or assume the whole or any part of the obligations or liabilities of any person, firm, association or corporation.

To acquire by purchase, subscription or otherwise, and to receive, hold, own, guarantee, sell, assign, exchange, transfer, mortgage, pledge or otherwise dispose of or deal in and with any of the shares of the capital stock, or any voting trust certificates in respect of the shares of capital stock, scrip, warrants, rights, bonds, debentures, notes, trust, receipts, and other securities, obligations, choses in action and evidences of indebtedness or interest issued or created by any corporations, joint stock companies, syndicates, associations, firms, trusts or persons, public or private, or by the Government of the United States of America, or by any foreign government, or by any state, territory, province, municipality or other political subdivision or by any governmental agency, and as owner thereof to possess and exercise all the rights, powers and privileges of ownership, including the right to execute consents and vote thereon, and to do any and all acts and things necessary or advisable for the preservation, protection, improvement and enhancement in value thereof.

To enter into, make and perform contracts of every kind and description with any person, firm, association, corporation, municipality, county, state, body politic or government or colony or dependency thereof.

To borrow or raise monies for any of the purposes of the corporation and, from time to time without limit as to amount, to draw, make,

accept, endorse, execute and issue promissory notes, drafts, bills of exchange, warrants, bonds, debentures and other negotiable or non-negotiable instruments and evidences of indebtedness, and to secure the payment of any thereof and of the interest thereon by mortgage upon or pledge, conveyance or assignment in trust of the whole or any part of the property of the corporation, whether at the time owned or thereafter acquired, and to sell, pledge or otherwise dispose of such bonds or other obligations of the corporation for its corporate purposes.

To loan to any person, firm or corporation any of its surplus funds, either with or without security.

To purchase, hold, sell and transfer the shares of its own capital stock; provided it shall not use its funds or property for the purchase of its own shares of capital stock when such use would cause any impairment of its capital except as otherwise permitted by law, and provided further that shares of its own capital stock belonging to it shall not be voted upon directly or indirectly.

To have one or more offices, to carry on all or any of its operations and business and without restriction or limit as to amount to purchase or otherwise acquire, hold, own, mortgage, sell, convey or otherwise dispose of, real and personal property of every class and description in any of the states, districts, territories or colonies of the United States, and in any and all foreign countries, subject to the laws of such state, district, territory, colony or country.

In general to carry on any other business in connection with the foregoing, and to have and exercise all the powers conferred by the laws of Delaware upon corporations formed under the General Corporation Law of the State of Delaware, and to do any or all of the things hereinbefore set forth to the same extent as natural persons might or could do.

The objects and purposes specified in the foregoing clauses shall, except where otherwise expressed, be in nowise limited or restricted by reference to, or inference from, the terms of any other clause in this certificate of incorporation, but the objects and purposes specified in each of the foregoing clauses of this article shall be regarded as independent objects and purposes.

FOURTH. The total number of shares of stock which the corporation shall have authority to issue is five million (5,000,000), and the par value of each of the shares is Five Cents (\$.05), amounting in the aggregate to Two Hundred Fifty Thousand Dollars (\$250,000.00).

FIFTH. The minimum amount of capital with which the corporation will commence its business is One Thousand Dollars (\$1,000.00).

SIXTH. The corporation is to have perpetual existence.

SEVENTH. The private property of the stockholders shall not be subject to the payment of corporate debts to any extent whatever.

EIGHTH. In furtherance and not in limitation of the powers conferred by statute, the board of directors is expressly authorized :

To make, alter, or repeal the bylaws of the corporation.

To authorize and cause to be executed mortgages and liens upon the real and personal property of the corporation.

To set apart out of any of the funds of the corporation available for dividends a reserve or reserves for any proper purpose and to abolish any such reserve in the manner in which it was created.

By resolution passed by a majority of the whole board, to designate one or more committees, each committee to consist of two or more of the directors of the corporation, which, to the extent provided in the resolution or in the by-laws of the corporation, shall have and may exercise the powers of the board of directors in the management of the business and affairs of the corporation, and may authorize the seal of the corporation to be affixed to all papers which may require it. Such

committee or committees shall have such name or names as may be stated in the by-laws of the corporation or as may be determined from time to time by resolution adopted by the board of directors.

When and as authorized by the affirmative vote of the holders of a majority of the stock issued and outstanding having voting power given at a stockholders' meeting duly called for that purpose, or when authorized by the written consent of the holders of a majority of the voting stock issued and outstanding, to sell, lease or exchange all or substantially all of the property and assets of the corporation, including its good will and its corporate franchises, upon such terms and conditions and for such consideration, which may be in whole or in part shares of stock in, and/or other securities of, any other corporation or corporations, as its board of directors shall deem expedient and for the best interests of the corporation.

NINTH. Meetings of stockholders may be held outside the State of Delaware, if the by-laws so provide. The books of the corporation may be kept (subject to any provision contained in the statutes) outside the State of Delaware at such place or places as may be designated from time to time by the board of directors or in the by-laws of the corporation. Elections of directors need not be by ballot unless the by-laws of the corporation shall so provide.

TENTH. The corporation reserves the right to amend, alter, change or repeal any provision contained in this certificate of incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation.

ELEVENTH. No Director shall be personally liable to the corporation or any stockholder for monetary damages for a breach of fiduciary duty as a director, except for any matter in respect of which such director shall be liable under Section 174 of Title 8 of the Delaware Code (relating to the Delaware General Corporation Law) or any amendment thereto or successor provision thereto or shall be liable by reason that, in addition to any and all other requirements for such liability, he (i) shall have breached his duty of loyalty to the corporation or its stockholders, (ii) shall not have acted in good faith, or, in failing to act, shall not have acted in good faith, (iii) shall have acted in a manner involving intentional misconduct or a knowing violation of law or, in failing to act, shall have acted in a manner involving intentional misconduct or a knowing violation of law or (iv) shall have derived an improper personal benefit. Neither the amendment nor repeal of this Article Eleventh, nor the adoption of any provision of the certificate of incorporation inconsistent with this Article Eleventh, shall eliminate or reduce the effect of this Article Eleventh in respect of any matter occurring, or any cause of action, suit or claim that, but for this Article Eleventh would accrue or arise, prior to such amendment, repeal or adoption of an inconsistent provision.

IN WITNESS WHEREOF, VSE Corporation has caused this certificate to be signed and executed in its name by D.M. Ervine, its chairman of the board of directors and chief executive officer, attested by C.S. Weber, its secretary, this 20th day of February, 1996.

ATTEST:

VSE CORPORATION

/s/ C. S. WEBER
C.S. Weber,
Secretary

/s/ D. M. ERVINE
D.M. Ervine,
Chairman of the Board of Directors
and Chief Executive Officer

EXHIBIT IV

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT is made and entered into as of January 1, 1996, by and between VSE Corporation, a Delaware corporation ("Employer"), and Richard B. McFarland ("Employee");

WHEREAS, Employee currently is employed by Employer as a member of Employer's board of directors ("the Board") and Employer's president and chief operating officer;

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

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

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

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

WHEREAS, Employer desires to have the foregoing assurances.

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

1. Term

The term of Employee's employment hereunder shall commence on the date hereof and shall continue until January 1, 1999, except as otherwise provided in Section 7. If the term of Employee's employment hereunder shall have continued until January 1, 1999, thereafter, such term of Employee's employment hereunder shall be deemed to be renewed automatically, on the same terms and conditions contained herein, for successive periods of one year each, unless and until either Employer or Employee, at least 90 days prior to the expiration of the original term or any such extended term, shall give written notice to the other of his or its intention not to renew the term of Employee's employment hereunder. All references herein to the "Term" refer to the original term of Employee's employment hereunder and all extensions thereof.

2. Duties

(a) Offices

During the Term, Employee shall serve as a director of Employer and as Employer's president and chief operating officer, and the Board shall renominate Employee as a director of Employer and reelect Employee as Employer's president and chief operating officer, and Employee shall perform the duties of those positions, as assigned to him by the Board. Employer agrees that Employee will be assigned only duties of the type, nature and dignity normally assigned to the chief operating officer of a corporation of the size, stature and nature of Employer. During the Term, Employee shall have, at a minimum, the same perquisites of office as he had on the date hereof, and he shall report directly to the Employer's chief executive officer.

(b) Full-Time Basis

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

3. Compensation

(a) Salary

During the Term, as compensation for services rendered by Employee hereunder, Employer shall pay to Employee a base salary at the rate of not less than \$175,000 per annum, payable in installments in accordance with Employer's policy governing salary payments to senior officers generally ("Base Salary"). In January of every year during the Term, Employee's compensation, including Base Salary, will be subject to the Board's review, provided that, the Base Salary shall not be less than the rate of \$175,000 per annum.

(b) Performance Bonus

Except as otherwise provided in Section 7, in addition to the Base Salary, Employee shall be eligible for an annual performance bonus as determined by the Board or its Compensation Committee ("Performance Bonus"). Any Performance Bonus payable pursuant to this Section 3(b) shall be paid within 30 days after the end of the fiscal period to which such Performance Bonus relates.

(c) Other Compensation Plans or Arrangements

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

(d) Tax Withholdings

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

4. Benefits

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

5. Expenses and Other Perquisites

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

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

(a) Exclusive Services

(i) During the Term, Employee shall at all times devote his full-time attention, energies, efforts and skills to Employer's business and shall not, directly or indirectly, engage in any other business activity, whether or not for profit, gain or other pecuniary advantages, without the Board's written consent, provided that such prior consent shall not be required with respect to (1) business interests that neither compete with Employer or any Subsidiaries nor interfere with Employee's duties and obligations hereunder and (2) Employee's charitable, eleemosynary, philanthropic or professional association activities.

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

(b) Confidential Information

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

(c) Business Opportunities

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

(ii) During the Term, Employee shall refrain from engaging in any activity, practice or act which conflicts with, or has the potential to conflict with, the interests of Employer or its Subsidiaries, and he shall avoid any acts or omissions which are disloyal to, or competitive with Employer or its Subsidiaries.

(d) Non-Solicitation of Executives

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

(e) Covenant Not To Compete

(i) If Employee voluntarily terminates the Term, or if Employer terminates the Term for Cause (as defined below), Employee shall not, during the first 24 consecutive months following such termination, engage in competition with Employer or any Subsidiary, or solicit, from any person or entity who purchased any then existing product or service from Employer or any Subsidiary during his employment hereunder, the purchase of any then existing product or service in competition with then existing products or services of Employer or any Subsidiary.

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

(f) Employee Acknowledgment

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

(g) Invalidity

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

(h) Specific Performance

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

7. Termination

(a) By Employer

(i) Termination for Cause

Employer may for Cause (as defined below) terminate the Term at any time by written notice to Employee. For purposes of this Agreement, the term "Cause" shall mean any one or more of the following: (1) conduct by Employee which is materially illegal or fraudulent; (2) the breach or violation by Employee of any of the material provisions of this Agreement, provided that Employee must first be given notice by the Board of the alleged breach or violation and 30 days to cure said alleged breach or violation; (3) Employee's use of illegal drugs or abuse of alcohol or authorized drugs which impairs Employee's ability to perform his duties hereunder, provided that Employee must be given notice by the Board of such impairment and 60 days to cure the impairment; (4) Employee's knowing and willful neglect of duties or negligence in the performance of his duties which materially affects Employer's or any Subsidiary's business, provided that Employee must first be given notice by the Board of such alleged neglect or negligence and 30 days to cure said alleged neglect or negligence. If a termination occurs pursuant to clause (1) above, the date on which the Term is terminated (the "Termination Date") shall be the date Employee receives notice of termination and, if a termination occurs pursuant to clauses (2), (3) or (4) above, the Termination Date shall be the date on which the specified cure period expires. In any event, as of the Termination Date (in the absence of satisfying the alleged

breach or violation within the applicable cure period), Employee shall be relieved of all of his duties hereunder and Employee shall not be entitled to the accrual or provision of any compensation or benefit, after the Termination Date but Employee shall be entitled to the provision of all compensation and other benefits that shall have accrued as of the Termination Date, including Base Salary, Performance Bonuses, paid leave benefits, Deferred Compensation Units, Deferred Supplemental Compensation, and reimbursement of incurred business expenses.

(ii) Termination Without Cause

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

(b) Death or Disability

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

(c) By Employee

(i) Employee may, in his sole discretion, without cause, terminate the Term at any time upon 90 days' written notice to Employer. If Employee exercises such termination right, Employer may, at its option, at any time after receiving such notice from Employee, relieve him of his duties and terminate the Term at any time prior to the expiration of said notice period. If the Term is terminated by Employee or Employer pursuant to this Section 7(c)(i), Employee shall not be entitled to any further Base Salary or the accrual or provision of any compensation or benefits after the Termination Date, including, without limitation, any of the medical and hospitalization benefits described in Section 7(a)(ii)(1).

(ii) If, during the Term, a Change of Control (as defined below) occurs and, without his consent, Employee is assigned duties materially inconsistent with his position and status with Employer as of the date hereof, Employee may, in his sole discretion, terminate the Term upon 30 days' notice of Employer. If Employee exercises such termination right, Employer may, at its option, at any time after receiving such notice from Employee, relieve him of his duties hereunder and terminate the Term at any time prior to the expiration of said notice period. If this Agreement is terminated by Employee or Employer pursuant to this Section 7(c)(ii), Employee shall be entitled (a) to receive on or prior to the Termination Date a lump sum severance compensation payment equal to two (2) times the total amount of Employee's Base Salary payable hereunder, based on the amount in effect as of the Termination Date; (b) the medical and hospitalization benefits and all compensation and other benefits that shall have accrued as of the Termination Date, as described in Section 7(a)(ii)(1); and (c) to the automatic vesting and exercisability in whole or in part of all stock options or similar rights

to acquire capital stock granted by Employer to Employee; provided that Employee shall not be entitled, after the Termination Date to the accrual or provision of any other compensation or benefits payable hereunder, including the Performance Bonus.

(d) Change of Control

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

(e) No Duty to Mitigate

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

8. Arbitration

Whenever a dispute arises between the parties concerning this Agreement or any of the obligations hereunder, or Employee's employment generally, Employer and Employee shall use their best efforts to resolve the dispute by mutual agreement. If any dispute cannot be resolved by Employer and Employee, it shall be submitted to arbitration to the exclusion of all other avenues of relief and adjudicated pursuant to the American Arbitration Association's Rules for Employment Dispute Resolution then in effect. The decision of the arbitrator must be in writing and shall be final and binding on the parties, and judgment may be entered on the arbitrator's award in any court having jurisdiction thereof. The arbitrator's authority in granting relief to Employee shall be limited to an award of compensation, benefits and unreimbursed expenses as described in Sections 3, 4, and 5 above, and to the release of Employee from the provisions of Section 6 and the arbitrator shall have no authority to award other types of damages or relief to Employee, including consequential or punitive damages. The arbitrator shall also have no authority to award consequential or punitive damages to Employer for violations of this Agreement by Employee. The expenses of the arbitration shall be borne by the losing party to the arbitration and the prevailing party shall be entitled to recover from the losing party all of its or his own costs and attorneys fees with respect to the arbitration. Nothing in this Section 8 shall be construed to derogate Employer's rights to seek legal and equitable relief in a court of competent jurisdiction as contemplated by Section 6(h).

9. Non-Waiver

It is understood and agreed that one party's failure at any time to require the performance by the other party of any of the terms, provisions, covenants or conditions hereof shall in no way affect the first party's right

thereafter to enforce the same, nor shall the waiver by either party of the breach of any term, provision, covenant or condition hereof be taken or held to be a waiver of any succeeding breach.

10. Severability

If any provision of this Agreement conflicts with the law under which this Agreement is to be construed, or if any such provision is held invalid or unenforceable by a court of competent jurisdiction or any arbitrator, such provision shall be deleted from this Agreement and the Agreement shall be construed to give full effect to the remaining provision thereof.

11. Survivability

Unless otherwise provided herein, upon termination of the Term, the provisions of Sections 6(b), (d) and (e) shall nevertheless remain in full force and effect.

12. Governing Law

This Agreement shall be interpreted, construed and governed according to the laws of the Commonwealth of Virginia, without regard to the conflict of law provisions thereof.

13. Construction

The paragraph headings and captions contained in this Agreement are for convenience only and shall not be construed to define, limit or affect the scope or meaning of the provisions hereof. All references herein to Sections shall be deemed to refer to Sections of this Agreement.

14. Entire Agreement

This Agreement contains and represents the entire agreement of Employer and Employee and supersedes all prior agreements, representations or understandings, oral or written, express or implied with respect to the subject matter hereof. This Agreement may not be modified or amended in any way unless in a writing signed by each of Employer and Employee. No representation, promise or inducement has been made by either Employer or

Employee that is not embodied in this Agreement, and neither Employer nor Employee shall be bound by or liable for any alleged representation, promise or inducement not specifically set forth herein.

15. Assignability

Neither this Agreement nor any rights or obligations of Employer or Employee hereunder may be assigned by Employer or Employee without the other party's prior written consent. Subject to the foregoing, this Agreement shall be binding upon and inure to the benefit of Employer and Employee and their heirs, successors and assigns.

16. Notices

All notices required or permitted hereunder shall be in writing and shall be deemed properly given if delivered personally or sent by certified or registered mail, postage prepaid, return receipt requested, or sent by telegram, telex, telecopy or similar form of telecommunication, and shall be deemed to have been given when received. Any such notice or communication shall be addressed:

(a) if to Employer, to Chief Financial Officer, 2550 Huntington Avenue, Alexandria, Virginia 22303-1499 with a copy to: Carter Strong, Esquire, Arent Fox Kintner Plotkin & Kahn, 1050 Connecticut Avenue, N.W., Washington, D.C. 20036-5339 or (b) if to Employee, to his last known home address on file with Employer, or to such other address as Employer or Employee shall have furnished to the other in writing.

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

VSE CORPORATION
a Delaware corporation

Date:12/8/95 By:/s/ C. S. WEBER
C. S. Weber,
Chief Financial Officer

Date:12/8/95 /s/ RICHARD B. MCFARLAND
Richard B. McFarland

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EXHIBIT V

RESTATED CERTIFICATE OF INCORPORATION OF VSE CORPORATION

VSE Corporation (the "Corporation"), originally incorporated under the name Value Engineering Company, whose original Certificate of Incorporation was filed with the Secretary of State of Delaware on January 22, 1959, hereby restates its Certificate of Incorporation in its entirety and certifies that at a meeting of the Corporation's board of directors this Restated Certificate of Incorporation was declared advisable and duly adopted by the Corporation's directors in accordance with the provisions of Section 245 of the General Corporation Law of the State of Delaware. This Restated Certificate of Incorporation only restates and integrates and does not further amend the Corporation's Certificate of Incorporation as heretofore amended or supplemented and there is no discrepancy between those provisions as so amended or supplemented and the provisions of this Restated Certificate of Incorporation.

FIRST. The name of the corporation is VSE CORPORATION.

SECOND. The registered office of the corporation within the State of Delaware is Three Christina Centre, 201 N. Walnut Street, City of Wilmington 19801, County of New Castle. The registered agent of the Corporation within the State of Delaware is The Company Corporation, Three Christina Centre, 201 N. Walnut Street, City of Wilmington 19801, County of New Castle, the business office of which is identical with the registered office of the Corporation.

THIRD. The nature of the business, or objects or purposes to be transacted, promoted or carried on are:

To carry on the business of research, experimentation, invention, discovery, testing, development, and utilization of processes and methods, or improvements thereto, in all the arts and sciences; including the conception, development, execution and completion of special scientific and development projects, on its own behalf and on behalf of any other person, firm, association, corporation, public or private, or the Government of the United States of America, or any foreign government, or any political subdivision thereof, or any governmental agency, and in this connection to operate testing stations as may be necessary or advisable.

To construct, buy, sell, lease, license, maintain and operate laboratories and laboratory facilities of all kinds; to carry on and make tests, experiments, analyses and to do research work and to perform analytical, experimental and research services of all kinds whether of a scientific nature or otherwise, and to do any and all acts and transact any and all business which shall or may be or become incidental to or arise out of or be connected with such business, or any part thereof.

To engage in and carry on the business of consultants; to construct, supervise the construction of, install, maintain, own, operate, lease, repair, service, and generally deal in and deal with electronic, electrical, electro-mechanical and mechanical apparatus, devices, systems, processes, machinery, supplies and any other articles or materials used or capable of being used in connection with any of the foregoing.

To acquire by purchase, assignment, grant, license or otherwise, to apply for, secure, lease or in any manner obtain, to develop, hold, own, use, exploit, operate, enjoy and introduce, to sell, assign, lease, mortgage, pledge, grant licenses and rights of all kinds in respect of, or otherwise dispose of, and generally to deal in and with and turn to account for any or all purposes, either for itself or as nominee or agent for others:

(1) Any and all inventions, devices, processes, discoveries and formulae, and improvements and modifications thereof and rights and interests therein;

(2) Any and all letters patent or applications for letters patent of the United States of America or of any other country, state, locality or authority, and any and all rights, interests and privileges connected therewith or incidental or appertaining thereto.

To manufacture, purchase, sell and generally trade and deal in and with any article, product or commodity produced as the result of or through the use of any such inventions, devices, processes, discoveries, formulae and improvements and modifications thereof, or the like, or any articles, products, commodities, supplies and materials used or suitable to be used in connection therewith or in any manner applicable or incidental thereto; to grant licenses, sub-licenses, rights, interests and privileges in respect of any of the foregoing, and to supervise or otherwise exercise such control over its licensees or grantees and the business conducted by them, as may be agreed upon in its contracts or agreements with such licensees or grantees for the protection of its rights and interest therein, and to secure to it the payment of agreed royalties or other considerations.

To manufacture, purchase or otherwise acquire, invest in, own, mortgage, pledge, sell, assign and transfer or otherwise dispose of, trade, deal in and deal with goods, wares and merchandise and personal property of every class and description.

To acquire, and pay for in cash, stock or bonds of this corporation or otherwise, the good will, rights, assets and property, and to undertake or assume the whole or any part of the obligations or liabilities of any person, firm, association or corporation.

To acquire by purchase, subscription or otherwise, and to receive, hold, own, guarantee, sell, assign, exchange, transfer, mortgage, pledge or otherwise dispose of or deal in and with any of the shares of the capital stock, or any voting trust certificates in respect of the shares of capital stock, scrip, warrants, rights, bonds, debentures, notes, trust, receipts, and other securities, obligations, choses in action and evidences of indebtedness or interest issued or created by any corporations, joint stock companies, syndicates, associations, firms, trusts or persons, public or private, or by the Government of the United States of America, or by any foreign government, or by any state, territory, province, municipality or other political subdivision or by any governmental agency, and as owner thereof to possess and exercise all the rights, powers and privileges of ownership, including the right to execute consents and vote thereon, and to do any and all acts and things necessary or advisable for the preservation, protection, improvement and enhancement in value thereof.

To enter into, make and perform contracts of every kind and description with any person, firm, association, corporation, municipality, county, state, body politic or government or colony or dependency thereof.

To borrow or raise monies for any of the purposes of the corporation and, from time to time without limit as to amount, to draw, make,

accept, endorse, execute and issue promissory notes, drafts, bills of exchange, warrants, bonds, debentures and other negotiable or non-negotiable instruments and evidences of indebtedness, and to secure the payment of any thereof and of the interest thereon by mortgage upon or pledge, conveyance or assignment in trust of the whole or any part of the property of the corporation, whether at the time owned or thereafter acquired, and to sell, pledge or otherwise dispose of such bonds or other obligations of the corporation for its corporate purposes.

To loan to any person, firm or corporation any of its surplus funds, either with or without security.

To purchase, hold, sell and transfer the shares of its own capital stock; provided it shall not use its funds or property for the purchase of its own shares of capital stock when such use would cause any impairment of its capital except as otherwise permitted by law, and provided further that shares of its own capital stock belonging to it shall not be voted upon directly or indirectly.

To have one or more offices, to carry on all or any of its operations and business and without restriction or limit as to amount to purchase or otherwise acquire, hold, own, mortgage, sell, convey or otherwise dispose of, real and personal property of every class and description in any of the states, districts, territories or colonies of the United States, and in any and all foreign countries, subject to the laws of such state, district, territory, colony or country.

In general to carry on any other business in connection with the foregoing, and to have and exercise all the powers conferred by the laws of Delaware upon corporations formed under the General Corporation Law of the State of Delaware, and to do any or all of the things hereinbefore set forth to the same extent as natural persons might or could do.

The objects and purposes specified in the foregoing clauses shall, except where otherwise expressed, be in nowise limited or restricted by reference to, or inference from, the terms of any other clause in this certificate of incorporation, but the objects and purposes specified in each of the foregoing clauses of this article shall be regarded as independent objects and purposes.

FOURTH. The total number of shares of stock which the corporation shall have authority to issue is five million (5,000,000), and the par value of each of the shares is Five Cents (\$.05), amounting in the aggregate to Two Hundred Fifty Thousand Dollars (\$250,000.00).

FIFTH. The minimum amount of capital with which the corporation will commence its business is One Thousand Dollars (\$1,000.00).

SIXTH. The corporation is to have perpetual existence.

SEVENTH. The private property of the stockholders shall not be subject to the payment of corporate debts to any extent whatever.

EIGHTH. In furtherance and not in limitation of the powers conferred by statute, the board of directors is expressly authorized :

To make, alter, or repeal the bylaws of the corporation.

To authorize and cause to be executed mortgages and liens upon the real and personal property of the corporation.

To set apart out of any of the funds of the corporation available for dividends a reserve or reserves for any proper purpose and to abolish any such reserve in the manner in which it was created.

By resolution passed by a majority of the whole board, to designate one or more committees, each committee to consist of two or more of the directors of the corporation, which, to the extent provided in the resolution or in the by-laws of the corporation, shall have and may exercise the powers of the board of directors in the management of the business and affairs of the corporation, and may authorize the seal of the corporation to be affixed to all papers which may require it. Such

committee or committees shall have such name or names as may be stated in the by-laws of the corporation or as may be determined from time to time by resolution adopted by the board of directors.

When and as authorized by the affirmative vote of the holders of a majority of the stock issued and outstanding having voting power given at a stockholders' meeting duly called for that purpose, or when authorized by the written consent of the holders of a majority of the voting stock issued and outstanding, to sell, lease or exchange all or substantially all of the property and assets of the corporation, including its good will and its corporate franchises, upon such terms and conditions and for such consideration, which may be in whole or in part shares of stock in, and/or other securities of, any other corporation or corporations, as its board of directors shall deem expedient and for the best interests of the corporation.

NINTH. Meetings of stockholders may be held outside the State of Delaware, if the by-laws so provide. The books of the corporation may be kept (subject to any provision contained in the statutes) outside the State of Delaware at such place or places as may be designated from time to time by the board of directors or in the by-laws of the corporation. Elections of directors need not be by ballot unless the by-laws of the corporation shall so provide.

TENTH. The corporation reserves the right to amend, alter, change or repeal any provision contained in this certificate of incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation.

ELEVENTH. No Director shall be personally liable to the corporation or any stockholder for monetary damages for a breach of fiduciary duty as a director, except for any matter in respect of which such director shall be liable under Section 174 of Title 8 of the Delaware Code (relating to the Delaware General Corporation Law) or any amendment thereto or successor provision thereto or shall be liable by reason that, in addition to any and all other requirements for such liability, he (i) shall have breached his duty of loyalty to the corporation or its stockholders, (ii) shall not have acted in good faith, or, in failing to act, shall not have acted in good faith, (iii) shall have acted in a manner involving intentional misconduct or a knowing violation of law or, in failing to act, shall have acted in a manner involving intentional misconduct or a knowing violation of law or (iv) shall have derived an improper personal benefit. Neither the amendment nor repeal of this Article Eleventh, nor the adoption of any provision of the certificate of incorporation inconsistent with this Article Eleventh, shall eliminate or reduce the effect of this Article Eleventh in respect of any matter occurring, or any cause of action, suit or claim that, but for this Article Eleventh would accrue or arise, prior to such amendment, repeal or adoption of an inconsistent provision.

IN WITNESS WHEREOF, VSE Corporation has caused this certificate to be signed and executed in its name by D.M. Ervine, its chairman of the board of directors and chief executive officer, attested by C.S. Weber, its secretary, this 20th day of February, 1996.

ATTEST:

VSE CORPORATION

/s/ C. S. WEBER
C.S. Weber,
Secretary

/s/ D. M. ERVINE
D.M. Ervine,
Chairman of the Board of Directors
and Chief Executive Officer

EXHIBIT VI

BY-LAWS OF VSE CORPORATION (As Amended Through February 6, 1996)

ARTICLE I

OFFICES

Section 1. The registered office of the corporation shall be in the City of Wilmington, County of New Castle, State of Delaware.

Section 2. The corporation may also have offices at such other places both within and without the State of Delaware as the board of directors may from time to time determine or the business of the corporation may require.

ARTICLE II

MEETING OF STOCKHOLDERS

Section 1. All meetings of the stockholders for the election of directors shall be held in the Washington, D.C., metropolitan area, at such place as may be fixed from time to time by the board of directors, or at such other place as shall be designated from time to time by the board of directors and stated in the notice of the meeting. Meetings of stockholders for any other purpose may be held at such time and place, within or without the State of Delaware, as shall be stated in the notice of the meeting or in a duly executed waiver of notice thereof.

Section 2. Annual meetings of stockholders, commencing with the year 1986, shall be held in the month of May each year at a date and at a time to be fixed by the board of directors and stated in the notice of meeting, at which time they shall elect by a plurality vote a board of directors, and transact such other business as may properly be brought before the meeting.

Section 3. Written notice of the annual meeting stating the place, date and hour of the meeting shall be given to each stockholder entitled to vote thereat at least ten days before the date of the meeting.

Section 4. The officer who has charge of the stock ledger of the corporation shall prepare and make, at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at said meeting, arranged in alphabetical order, showing the address of and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, either at a place within the city, town or village where the meeting is to be held and which place shall be specified in the notice of the meeting, or, if not specified, at the place where said meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

Section 5. Special meetings of the stockholders, for any purpose or purposes, unless otherwise prescribed by statute or by the certificate of incorporation, may be called by the chairman and chief executive officer and shall be called by the chairman and chief executive officer or secretary at the request in writing of a majority of the board of directors, or at the request in writing of stockholders owning twenty-five percent (25%) in amount of the entire capital stock of the corporation issued and outstanding and entitled to vote. Such request shall state the purpose or purposes of the proposed meeting.

Section 6. Written notice of a special meeting of stockholders, stating the place, date and hour of the meeting and the purpose or purposes for which the meeting is called, shall be given to each stockholder entitled to vote thereat, at least five days before the date fixed for the meeting.

Section 7. Business transacted at any special meeting of stockholders shall be limited to the purposes stated in the notice.

Section 8. The holders of a majority of the stock issued and outstanding

and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders for the transaction of business except as otherwise provided by statute or by the certificate of incorporation. If, however, such quorum shall not be present or represented at any meeting of the stockholders, the stockholders entitled to vote thereat, present in person or represented by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented. At such adjourned meeting at which a quorum shall be present or represented any business may be transacted which might have been transacted at the meeting as originally notified. If the adjournment is for more than thirty days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

Section 9. When a quorum is present at any meeting, the vote of the holders of a majority of the stock having voting power present in person or represented by proxy shall decide any question brought before such meeting, unless the question is one upon which by express provision of the statutes or of the certificate of incorporation, a different vote is required in which case such express provision shall govern and control the decision of such question.

Section 10. Unless otherwise provided in the certificate of incorporation, each stockholder shall at every meeting of the stockholders be entitled to one vote in person or by proxy for each share of the capital stock having voting power held by such stockholder, but no proxy shall be voted on after three years from its date, unless the proxy provides for a longer period.

Section 11. Unless otherwise provided in the certificate of incorporation, any action required to be taken at any annual or special meeting of stockholders of the corporation, or any action which may be taken at any annual or special meeting of such stockholders, may be taken without a meeting, without prior notice and without a vote, if a consent in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not consented in writing.

ARTICLE III

DIRECTORS

Section 1. The number of directors which shall constitute the whole board shall be a minimum of six directors and a maximum of ten directors. Within the limits above specified, the number of directors shall be determined by resolution of the board of directors or by the stockholders at the annual meeting. The directors shall be elected at the annual meeting of the stockholders, except as provided in Section 2 of this Article, and each director elected shall hold office until his successor is elected and qualified; however, no person who is not serving as a director of the corporation as of January 1, 1993, who has attained 65 years of age or more, shall be nominated, elected or qualified to serve as a director of the corporation. Directors need not be stockholders.

Section 2. Vacancies and newly created directorships resulting from any increase in the authorized number of directors may be filled by a majority of the directors then in office, though less than a quorum, or by a sole remaining director, and the directors so chosen shall hold office until the next annual election and until their successors are duly elected and shall qualify, unless sooner displaced. If there are no directors in office, then an election of directors may be held in the manner provided by statute. If, at the time of filling any vacancy or any newly created directorship, the directors then in office shall constitute less than a majority of the whole board (as constituted immediately prior to such increase), the Court of Chancery may, upon application of any stockholder or stockholders holding at least ten percent of the total number of the shares at the time outstanding having a right to vote for such directors, summarily order an election to be held to fill any such vacancies or newly created directorships, or to replace the directors chosen by the directors then in office.

Section 3. The business of the corporation shall be managed by or shall be under the direction of its board of directors which may exercise all such powers of the corporation and do all such lawful acts and things as are not by statute or by the certificate of incorporation or by these by-laws directed or required to be exercised or done by the stockholders.

Section 4. Stockholders of the corporation may recommend persons to be nominated for election as directors of the corporation at the annual meeting of stockholders. To be considered for nomination, such recommendation must be received in writing by the secretary of the corporation no later than ninety (90) days before the date which corresponds to the date on which the annual meeting of stockholders was held during the immediate prior year. Such recommendation shall be accompanied by the name of the stockholder proposing the candidate, evidence that stockholder is a beneficial owner of the outstanding stock of the corporation as of the record date established for the determination of stockholders entitled to notice of and to vote at the annual meeting of stockholders, the name of candidate being proposed for nomination, and the candidate's biographical data and qualifications.

MEETINGS OF THE BOARD OF DIRECTORS

Section 4. The board of directors of the corporation may hold meetings, both regular and special, either within or without the State of Delaware.

Section 5. The first meeting of each newly elected board of directors shall be held at such time and place as shall be fixed by the vote of the stockholders at the annual meeting and no notice of such meeting shall be necessary to the newly elected directors in order legally to constitute the meeting, provided a quorum shall be present. In the event of the failure of the stockholders to fix the time or place of such first meeting of the newly elected board of directors, or in the event such meeting is not held at the time and place so fixed by the stockholders, the meeting may be held at such time and place as shall be specified in a notice given as hereinafter provided for special meetings of the board of directors, or as shall be specified in a written waiver signed by all of the directors.

Section 6. Regular meetings of the board of directors may be held on two days written notice at such time and at such place as shall from time to time be determined by the board.

Section 7. Special meetings of the board may be called by the chairman and chief executive officer on two days notice to each director; special meetings shall be called by the chairman and chief executive officer or secretary in like manner and on like notice on the written request of two directors unless the board consists of only one director; in which case special meetings shall be called by the chairman or secretary in like manner and on like notice on the written request of the sole director.

Section 8. At all meetings of the board a majority of the directors shall constitute a quorum for the transaction of business and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the board of directors, except as may be otherwise specifically provided by statute or by the certificate of incorporation. If a quorum shall not be present at any meeting of the board of directors the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

Section 9. Unless otherwise restricted by the certificate of incorporation or these by-laws, any action required or permitted to be taken at any meeting of the board of directors or of any committee thereof may be taken without a meeting, if a written consent thereto is signed by all members of the board or of such committee as the case may be, and such written consent is filed with the minutes of proceedings of the board or committee.

Section 10. Unless otherwise restricted by the certificate of incorporation or these by-laws, members of the board of directors, or any committee designated by the board of directors, may participate in a meeting of the board of directors, or any committee, by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and such participation in a meeting shall constitute presence in person at the meeting.

COMMITTEES OF DIRECTORS

Section 11. The board of directors may, by resolution passed by a majority of the whole board, designate one or more committees, each committee to consist of one or more of the directors of the corporation; however, no committee shall be empowered by the board to initiate or take any action without prior ratification of such proposed action by the majority of the board of directors then in office.

No such committee or committees of the board of directors shall have the power or authority

(a) to amend the certificate of incorporation (except that a committee may, to the extent authorized in the resolution or resolutions providing for the issuance of shares of stock adopted by the board of directors as provided in Section 151(a), fix any of the preferences or rights of such shares relating to dividends, redemption, distribution of assets of the corporation or the conversion into, or the exchange of such shares for, shares of any other class or classes or any other series of the same or any other class or classes of stock of the corporation),

(b) to adopt an agreement of merger or consolidation,

(c) to recommend to the stockholders the sale, lease or exchange of all or substantially all of the corporation's property and assets,

(d) to recommend to the stockholders a dissolution of the corporation or a revocation of a dissolution, or

(e) to amend the by-laws of the corporation;

and, unless the resolution or certificate of incorporation expressly so provide, no such committee shall have the power or authority

(f) to declare a dividend or to authorize the issuance of stock or to adopt a certificate of ownership and merger.

Such committee or committees shall have such name or names as may be determined from time to time by resolution adopted by the board of directors.

The standing committees of the board of directors shall have authority to make recommendations to the board, as follows: the Audit Committee shall have authority to make recommendations to the board with respect to the appointment of an independent public accounting firm to review the corporation's books and records, to review the corporation's internal and external audit programs, and to receive the audited opinion and management report of the independent accounting firm appointed by the corporation; the Compensation Committee shall have the authority to review and recommend to the board the compensation of the Chief Executive Officer and to review the compensation of other officers of the corporation; the Finance Committee shall have the authority to make recommendations to the board with respect to the corporation's capitalization and long-term funding alternatives; the Nominating Committee shall have the authority to review and to make recommendations to the Board with respect to persons to serve on the board of the corporation; the Planning Committee shall have the authority to review and to make recommendations to the board with respect to business development and capitalization. Further, each of the aforesaid standing committees shall have and may exercise a general oversight responsibility respecting the management of the business and affairs of the corporation as related to the specified powers of the committee, as aforesaid, and as related to such other matters as may be referred thereto by resolution of the board.

Section 12. Each committee shall keep regular minutes of its meetings and report the same to the board of directors when required.

COMPENSATION OF DIRECTORS

Section 13. Unless otherwise restricted by the certificate of incorporation or these by-laws, the board of directors shall have the authority to fix the compensation of directors. The directors may be paid their expenses, if any, of attendance at each meeting of the board of directors and may be paid a fixed sum for attendance at each meeting of the board of directors or a stated salary as director. No such payment shall preclude any director from serving the corporation in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like compensation for attending committee meetings.

REMOVAL OF DIRECTORS

Section 14. Unless otherwise restricted by the certificate of incorporation

or by law, any director or the entire board of directors may be removed, with or without cause, by the holders of a majority of shares entitled to vote at an election of directors.

DIRECTORS EMERITUS

Section 15. Unless otherwise restricted by the corporation's certificate of incorporation or by law, the corporation may have and appoint such directors emeritus as shall seem advisable to the board of directors. To qualify for appointment as a director emeritus, the nominee shall be a retired director of the corporation. The term "director emeritus" is an honorary title entitling the holder thereof to all of the rights and privileges thereunto pertaining. No compensation shall be paid by the corporation to a director emeritus for service as such; however, the board of directors shall have the authority to award honoraria or to reimburse expenses, if any, under specified conditions set forth in a resolution of the board. The holder of the title "director emeritus" shall not act as and shall not be considered a director, officer or otherwise as an employee or agent of the corporation.

ARTICLE IV

NOTICES

Section 1. Whenever, under the provisions of the statutes or of the certificate of incorporation or of these by-laws, notice is required to be given to any director or stockholder, it shall be given in writing, by mail, addressed to such director or stockholder, at his address as it appears on the records of the corporation, with postage thereon prepaid, and such notice shall be deemed to be given at the time when the same shall be deposited in the United States mail. Notice to directors may also be given by telegram or telecopy.

Section 2. Whenever any notice is required to be given under the provisions of the statutes or of the certificate of incorporation or of these by-laws, a waiver thereof in writing, signed by the person or persons entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent thereto.

ARTICLE V

OFFICERS

Section 1. The offices of the corporation shall be a chairman and chief executive officer, a president and chief operating officer, one or more vice-presidents, a chief financial officer, a secretary, a treasurer, and a comptroller, and such other offices as shall seem advisable to the board. Two or more offices may be held by the same person, unless the certificate of incorporation or these by-laws otherwise provide.

Section 2. The board of directors at its first meeting after each annual meeting of stockholders shall choose a chairman and chief executive officer from among the directors, and shall choose a president and chief operating officer, one or more vice-presidents, a chief financial officer, a secretary, a treasurer, and a comptroller, none of whom need be a member of the board. The board may also choose such additional vice-presidents and assistant secretaries, treasurers, and comptrollers as shall seem advisable to the board.

Section 3. The board of directors may appoint such other officers and agents as it shall deem necessary who shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the board.

Section 4. The salary of the Chairman and Chief Executive Officer shall be reviewed by the Compensation Committee. The Chairman of the Compensation Committee will present the recommendations of the Compensation Committee on the salary of the Chairman and Chief Executive Officer to the board of directors for ratification and approval. The salaries of all officers of the corporation (other than the Chairman and Chief Executive Officer) shall be reviewed by the Compensation Committee and fixed by the Chairman and Chief

Executive Officer.

Section 5. The officers of the corporation shall hold office until their successors are chosen and qualify. Any officer elected or appointed by the board of directors may be removed at any time by the affirmative vote of a majority of the board of directors. Any vacancy occurring in any office of the corporation shall be filled by the board of directors.

THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Section 6. The chairman and chief executive officer of the corporation shall be ex officio a member of all standing committees, shall have general and active management of the business of the corporation, shall see that all orders and resolutions of the board of directors are carried into effect, and, unless otherwise provided by the board of directors, shall preside at all meetings of the stockholders and the board of directors.

Section 7. He shall execute bonds, mortgages and other contracts requiring a seal, under the seal of the corporation, except where required or permitted by law to be otherwise signed and executed and except where the signing and execution thereof shall be expressly delegated by the board of directors to some other officer or agent of the corporation.

Section 8. He shall, as chairman and chief executive officer, be vested with authority to perform, singly or together with other officers of the corporation, all of the duties given or imposed by these by-laws or the board of directors of the other officers or employees of the corporation.

THE PRESIDENT AND CHIEF OPERATING OFFICER

Section 9. The president shall be the chief operating and administrative officer of the corporation and shall have such other powers as may be prescribed by the board of directors or chairman and chief executive officer, under whose supervision he shall be.

Section 10. In the absence or disability of the chairman and chief executive officer, or in the event of his inability or refusal to act, the president and chief operating officer shall perform the duties of the chairman and chief executive officer, and when so acting, shall have all the powers of and be subject to all the restrictions upon the chairman and chief executive officer. In the absence or disability of the president and chief operating officer, the chairman and chief executive officer shall select and recommend to the board of directors for ratification a candidate to fill the office of president and chief operating officer. Candidates may be selected from the board of directors, officers or employees of the corporation or from sources outside of the corporation. The chairman and chief executive officer will perform the duties of the president and chief operating officer until a candidate is chosen and ratified by the board of directors and has qualified to perform the duties of the office of president and chief operating officer.

THE VICE-PRESIDENTS

Section 11. The vice-president, or if there shall be more than one, the vice presidents in the order determined by the board of directors (such as executive vice president, senior vice president, vice president, and assistant vice president, or in the absence of any determination, then in the order of their election), shall perform such duties and have such powers as prescribed by the Chairman and Chief Executive Officer under whose supervision they will be.

CHIEF FINANCIAL OFFICER

Section 12. The chief financial officer of the corporation shall have the financial management of the business and shall perform such other duties as may be prescribed by the board of directors or chief executive officer, under whose supervision he shall be.

THE SECRETARY AND ASSISTANT SECRETARIES

Section 13. The secretary shall attend all meetings of the board of

directors and all meetings of the stockholders and record all the proceedings of the meetings of the corporation and of the board of directors in a book to be kept for that purpose and shall perform like duties for the standing committees when required. He shall give, or cause to be given, notice of all meetings of the stockholders and special meetings of the board of directors, and shall perform such other duties as may be prescribed by the board of directors or chairman and chief executive officer, under whose supervision he shall be. He shall keep in safe custody the seal of the corporation and he, or an assistant secretary, shall have authority to affix the same to any instrument requiring it and, when so affixed, it may be attested by his signature or by the signature of such assistant secretary. The board of directors may give general authority to any other officer to affix the seal of the corporation and to attest the affixing by his signature.

Section 14. The assistant secretary, or if there be more than one, the assistant secretaries in the order determined by the board of directors (or if there be no such determination, then in the order of their election), shall, in the absence of the secretary or in the event of his inability or refusal to act, perform the duties and exercise the powers of the secretary and shall perform such other duties and have such other powers as the board of directors may from time to time prescribe.

THE TREASURER AND ASSISTANT TREASURERS

Section 15. The treasurer shall have the custody of the corporate funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the corporation and shall deposit all moneys and other valuable effects in the name and to the credit of the corporation in such depositories as may be designated by the board of directors.

Section 16. He shall disburse the funds of the corporation as may be ordered by the board of directors, taking proper vouchers for such disbursements, and shall render to the chairman and chief executive officer and the board of directors, at its regular meetings, or when the board of directors so requires, an account of all his transactions as treasurer and of the financial condition of the corporation.

Section 17. The assistant treasurer, or if there shall be more than one, the assistant treasurers in the order determined by the board of directors (or if there be no such determination, then in the order of their election) shall, in the absence of the treasurer or in the event of his inability or refusal to act, perform the duties and exercise the powers of the treasurer and shall perform such other duties and have such other powers as the board of directors may from time to time prescribe.

THE COMPTROLLER AND ASSISTANT COMPTROLLERS

Section 18. The comptroller of the corporation shall be the chief accounting officer of the corporation and shall perform such other duties as may be prescribed by the board of directors or chief executive officer, under whose supervision he shall be.

Section 19. The assistant comptroller, or if there be more than one, the assistant comptrollers in the order determined by the board of directors (or if there be no such determination, then in the order of their election), shall, in the absence of the comptroller or in the event of his inability or refusal to act, perform the duties and exercise the powers of the comptroller and shall perform such other duties and have such other powers as the board of directors may from time to time prescribe.

ARTICLE VI

CERTIFICATES OF STOCK

Section 1. Every holder of stock in the corporation shall be entitled to have a certificate, signed by, or in the name of the corporation by, the chairman and chief executive officer, the president, or a vice-president, and by the treasurer or an assistant treasurer or the secretary or an assistant secretary of the corporation, bearing the corporate seal or a facsimile thereof certifying the number of shares owned by him in the corporation.

Section 2. Where a certificate is signed (1) by a transfer agent or an

assistant transfer agent or (2) by a transfer clerk acting on behalf of the corporation and a registrar, the signature of any such chairman and chief executive officer, president, vice-president, treasurer, assistant treasurer, secretary, or assistant secretary may be facsimile. In case any officer or officers who have signed, or whose facsimile signature or signatures have been used on, any such certificate or certificates shall cease to be such officer or officers of the corporation, whether because of death, resignation or otherwise, before such certificate or certificates have been delivered by the corporation, such certificate or certificates may nevertheless be adopted by the corporation and be issued and delivered as though the person or persons who signed such certificate or certificates or whose facsimile signature or signatures have been used thereon had not ceased to be such officer or officers of the corporation.

LOST CERTIFICATES

Section 3. The Secretary or Treasurer who has charge of the transfer and issuance of stock of the corporation shall issue a new certificate or certificates in place of any certificate or certificates theretofore issued by the corporation allegedly lost, upon the submission by the owner of such lost or destroyed certificate, or his legal representative, to the corporation of a bond in such sum as it may direct as indemnity against any claim that may be made against the corporation with respect to the certificate alleged to have been lost or destroyed.

TRANSFERS OF STOCK

Section 4. Upon surrender to the corporation or the transfer agent of the corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, it shall be the duty of the corporation to issue a new certificate to the person entitled thereto, cancel the old certificate, and record the transaction upon its books.

FIXING RECORD DATE

Section 5. In order that the corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or and adjournment thereof, or to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the board of directors may fix, in advance, a record date, which shall not be more than sixty nor less than ten days before the date of such meeting, nor more than sixty days prior to any other action; except that the record date for the determination of stockholders entitled to notice of and to vote at the annual meeting of stockholders shall be forty-five days prior to the date of said annual meeting of stockholders, or if the forty-fifth day shall not be a business day, then on the first business day next following the forty-fifth day prior to the date of said annual meeting of stockholders. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the board of directors may fix a new record date for the adjourned meeting.

REGISTERED STOCKHOLDERS

Section 6. The corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and to hold liable for calls and assessments a person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Delaware.

ARTICLE VII

GENERAL PROVISIONS

DIVIDENDS

Section 1. Dividends upon the capital stock of the corporation, subject to

the provisions of the certificate of incorporation, if any, may be declared by the board of directors at any regular or special meeting, pursuant to law. Dividends may be paid in cash, in property, or in shares of the capital stock, subject to the provisions of the certificate of incorporation.

Section 2. Before payment of any dividend, there may be set aside out of any funds of the corporation available for dividends such sum or sums as the directors from time to time, in their absolute discretion, think proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the corporation, or for such other purpose as the directors shall think conducive to the interest of the corporation, and the directors may modify or abolish any such reserve in the manner in which it was created.

ANNUAL STATEMENT

Section 3. The board of directors shall present at each annual meeting, and at any special meeting of the stockholders when called for by vote of the stockholders, a full and clear statement of the business and condition of the corporation.

CHECKS

Section 4. All checks or demands for money and notes of the corporation shall be signed by such officer or officers or such other person or persons as the board of directors may from time to time designate.

FISCAL YEAR

Section 5. The fiscal year of the corporation shall be fixed by resolution of the board of directors.

SEAL

Section 6. The corporate seal shall have inscribed thereon the name of the corporation, the year of its organization and the words "Corporate Seal, Delaware". The seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise.

INDEMNIFICATION

Section 7. The corporation shall indemnify its officers, directors, employees and agents to the extent permitted by the General Corporation Law of Delaware.

ARTICLE VIII

AMENDMENTS

Section 1. These by-laws may be altered, amended or repealed or new by-laws may be adopted by the stockholders or by the board of directors, when such power is conferred upon the board of directors by the certificate of incorporation at any regular meeting of the stockholders or of the board of directors or at any special meeting of the stockholders or of the board of directors if notice of such alteration, amendment, repeal or adoption be contained in the notice of such special meeting. If the power to adopt, amend or repeal by-laws is conferred upon the board of directors by the certificate of incorporation it shall not divest or limit the power of the stockholders to adopt, amend or repeal by-laws.