

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the Quarter Ended March 31, 1999 Commission File Number: 0-3676

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

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

2550 Huntington Avenue
Alexandria, Virginia 22303-1499
(Address of Principal Executive Offices) (Zip Code)

Registrant's Telephone Number, Including Area Code: (703) 960-4600

Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value \$.05 per share
(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of
1934 during the preceding 12 months (or for such shorter period that the
registrant was required to file such reports), and (2) has been subject to
such filing requirements for the past 90 days.

Yes [x] No []

Number of shares of Common Stock outstanding as of May 1, 1999: 2,114,905.

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<TABLE>

VSE Corporation and Subsidiaries
Consolidated Financial Statements (Unaudited)

Consolidated Balance Sheets

(in thousands, except share amounts)

<CAPTION>

	March 31, December 31,	
	1999	1998
	-----	-----
<S>	<C>	<C>
Assets		
Current assets:		
Cash and cash equivalents	\$ 105	\$ 49
Accounts receivable, principally		
U.S. Government, net	24,855	27,574
Deferred tax assets	381	422
Other current assets	1,544	1,266
	-----	-----
Total current assets	26,885	29,311
Property and equipment, net	4,993	5,089
Deferred tax assets	418	449

Intangible assets, net	2,751	2,836
Other assets	2,990	3,052
	-----	-----
Total assets	\$ 38,037	\$ 40,737
	=====	=====
Liabilities and Stockholders' Investment		
Current liabilities:		
Current portion of long-term debt	\$ 1,333	\$ 1,333
Accounts payable and other current liabilities	10,083	11,846
Accrued expenses	6,642	6,388
Dividends payable	76	77
	-----	-----
Total current liabilities	18,134	19,644
Long-term debt	4,179	5,370
Deferred compensation	1,742	1,871
	-----	-----
Total liabilities	24,055	26,885
	-----	-----
Commitments and contingencies		
Stockholders' investment:		
Common stock, par value \$.05 per share, authorized 5,000,000 shares; issued 2,186,905 shares in 1999 and 1998	109	109
Paid-in surplus	3,832	3,832
Retained earnings	10,833	10,703
Treasury stock, at cost (72,000 shares in 1999 and 1998)	(792)	(792)
	-----	-----
Total stockholders' investment	13,982	13,852
	-----	-----
Total liabilities and stockholders' investment	\$ 38,037	\$ 40,737
	=====	=====

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<TABLE>

VSE Corporation and Subsidiaries

Consolidated Financial Statements (Unaudited)

Consolidated Statements of Income For the three months ended March 31,

(in thousands, except share amounts)

<CAPTION>

	1999	1998
	-----	-----
	<C>	<C>
Revenues, principally from contracts	\$ 40,917	\$ 41,664
Costs and expenses of contracts	40,253	41,023
	-----	-----
Gross profit	664	641
Selling, general and administrative expenses	215	208
Interest expense	88	101
	-----	-----
Pretax income	361	332
Provision for income taxes	155	154
	-----	-----
Net income	\$ 206	\$ 178
	=====	=====

Basic earnings per share:

Net income	\$ 0.10	\$ 0.08
	=====	=====

Diluted earnings per share:

Net income	\$ 0.10	\$ 0.08
	=====	=====

Weighted average shares outstanding: 2,114,905 2,129,867

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VSE Corporation and Subsidiaries

Consolidated Financial Statements (Unaudited)

Consolidated Statements of Stockholders' Investment

(in thousands)

<CAPTION>

	Common Stock					
	Shares	Paid-In Amount	Retained Surplus	Treasury Earnings	Treasury Stock	ESOP Obligation
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at						
December 31, 1997 ..	2,165	\$ 108	\$ 3,631	\$ 9,422	\$ --	\$(680)
Net income						
for the year	--	--	1,595	--	--	--
ESOP Obligation	--	--	--	--	--	(112)
Purchase of Treasury						
Stock	--	--	--	(792)	792	
Issuance of stock . . .	22	1	201	--	--	--
Dividends declared						
(\$.144)	--	--	(314)	--	--	--
Balance at						
December 31, 1998 ..	2,187	109	3,832	10,703	(792)	0
Net income						
for the period . . .	--	--	206	--	--	--
Dividends declared						
(\$.036)	--	--	(76)	--	--	--
Balance at						
March 31, 1999 . . .	2,187	\$ 109	\$ 3,832	\$ 10,833	\$ (792)	\$ 0

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VSE Corporation and Subsidiaries

Consolidated Financial Statements (Unaudited)

Consolidated Statements of Cash Flows For the three months ended March 31,

(in thousands)

<CAPTION>

	1999	1998
<S>	<C>	<C>
Cash flows from operating activities:		
Net income	\$ 206	\$ 178
Adjustments to reconcile net income to net cash		
provided by operating activities:		
Depreciation and amortization	487	440
Deferred compensation plan expense	15	38
Change in assets and liabilities, net of		
discontinued operations		
(Increase) decrease in:		
Accounts receivable	2,719	(1,925)
Other current assets and noncurrent assets	(216)	(567)
Deferred taxes, net	72	537
Increase (decrease) in:		

Accounts payable and other current liabilities	(1,790)	1,472	
Accrued expenses	254	(411)	
	-----	-----	
Net cash provided by (used in) operating activities	1,747	(238)	
	-----	-----	
Cash flows from investing activities:			
Purchase of property and equipment, (net of dispositions)	(306)	(119)	
Net (payments of) proceeds from deferred compensation . .	(117)	59	
	-----	-----	
Net cash used in investing activities	(423)	(60)	
	-----	-----	
Cash flows from financing activities:			
Net (payments of) proceeds from bank loan	(1,191)	175	
Stock grants	0	202	
Cash dividends paid	(77)	(79)	
	-----	-----	
Net cash (used in) provided by financing activities	(1,268)	298	
	-----	-----	
Net increase in cash and cash equivalents	56	0	
Cash and cash equivalents at beginning of period	49	15	
	-----	-----	
Cash and cash equivalents at end of period	\$ 105	\$ 15	
	=====	=====	

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

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month period ended March 31, 1999 are not necessarily indicative of the results that may be expected for the year ending December 31, 1999. For further information refer to the consolidated financial statements and footnotes thereto included in the VSE Corporation Annual Report on Form 10-K for the year ended December 31, 1998.

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.

Litigation

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.

Segment Information

VSE has two reportable segments: the engineering, logistics, management, and technical services segment which provides diversified engineering, technical,

and management services ("ELMTS"), principally to agencies of the United States Government and to other government prime contractors; and the software products and services segment, which provides application software and services ("SPS") related to the installation of the software to primarily commercial customers.

The accounting policies are the same as those described in the summary of significant accounting policies for each segment. VSE's reportable segments are strategic business units that offer different products and services. They

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

are managed separately because each business requires different technology and marketing strategies. The software products and services segment was acquired as a unit, and the management has been maintained separately since the acquisition.

<TABLE>

The following table presents revenues and other financial information by business segment for the periods ended March 31, 1999 and March 31, 1998, in thousands:

<CAPTION>

March 31, 1999	ELMTS	SPS	Eliminations	Total
<S>	<C>	<C>	<C>	<C>
Revenues from unaffiliated customers	\$ 40,233	\$ 684	\$	\$40,917
Interest expense	(40)	128		88
Depreciation and amortization		421	66	487
Operating income (loss)		578	(217)	361
Assets	57,490	2,438	(21,891)	38,037
Expenditures for capital assets		371	0	371

March 31, 1998	ELMTS	SPS	Eliminations	Total
<S>	<C>	<C>	<C>	<C>
Revenues from unaffiliated customers	\$ 40,831	\$ 833	\$	\$41,664
Interest expense	0	101		101
Depreciation and amortization		380	60	440
Operating income (loss)		938	(606)	332
Assets	54,906	2,094	(17,318)	39,682
Expenditures for capital assets		115	6	121

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VSE CORPORATION AND SUBSIDIARIES
Management Discussion and Analysis

VSE and its subsidiaries and divisions have two reportable segments: the engineering, logistics, management and technical services segment ("ELMTS") and the software products and services segment ("SPS").

Engineering, logistics, management and technical services including information technology services are provided by VSE and by each of its subsidiaries and divisions including Energetics Incorporated ("Energetics"), Human Resource Systems, Inc. ("HRSI"), and BAV Division ("BAV"), GSA IT Services Division formed in January 1999, Indian Head Division ("Ordnance"), and Value Systems Services Division ("VSS"), unincorporated divisions of VSE. Two other VSE subsidiaries, VSE Corona, Inc. ("VCI") and Ship Remediation and Recycling, Inc. ("SRR") (formerly VSE Services Corporation ("VSES")) have generally been inactive since 1992.

Software products and services include sales of developed software products and the services related to the installation and use of the software. This

is the primary business of VSE's subsidiary CMstat Corporation ("CMstat").

<TABLE>

The following table sets forth certain items including consolidated revenues, pretax income and net income, and the changes in these items by segment for the three month periods ended March 31, 1999 and 1998 (in thousands).

<CAPTION>

	1999 Compared to		
	1999	1998	1998
	-----	-----	-----
<S>	<C>	<C>	<C>
Engineering, Logistics, Management and Technical Services Segment:			
Revenues	\$40,233	\$40,831	\$ (598)
	=====	=====	=====
Pretax income	\$ 578	\$ 938	\$ (360)
Provision for income taxes	270	441	(171)
	-----	-----	-----
Net income	\$ 308	\$ 497	\$ (189)
	=====	=====	=====
Software Products and Services Segment:			
Revenues	\$ 684	\$ 833	\$ (149)
	=====	=====	=====
Pretax (loss)	\$ (217)	\$ (606)	\$ 389
Benefit for income taxes	(115)	(287)	172
	-----	-----	-----
Net (loss)	\$ (102)	\$ (319)	\$ 217
	=====	=====	=====

</TABLE>

RESULTS OF OPERATIONS

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 the company. The company is engaged principally in providing engineering, testing, and management services to the U.S. Government (the "government") and software products and related services to commercial customers. All significant intercompany transactions have been PAGE

VSE CORPORATION AND SUBSIDIARIES Management Discussion and Analysis

eliminated in consolidation. Certain prior year balances have been reclassified for comparative purposes.

Engineering, Logistics, Management and Technical Services Segment

Revenues for this segment for the three month period ending March 31, 1999 decreased by approximately 1% as compared to the same period of 1998. The decrease in revenues is primarily due to a decrease in work performed by VSE in 1999. Pretax income for this segment decreased by approximately 38% for the three month period ended March 31, 1999 as compared to the same period of 1998 due primarily to the decrease in work performed by VSE in 1999 without a corresponding timely decrease in indirect costs.

The largest customer for the engineering, logistics, management and technical services rendered by the company is the U.S. Department of Defense ("Defense"), including agencies of the U.S. Army, Navy, and Air Force. VSE's engineering services revenues have historically been subject to year to year fluctuations resulting from changes in the level of Defense spending. Defense spending has been reduced in recent years, and there can be no assurance that future reductions in the Defense spending 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 this segment 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 1999 and 1998, the company did not experience any termination of contracts for the convenience of the government or any non-exercise of option periods on current contracts which were material to the company's ongoing 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 governments. BAV began work on the contract in September 1995. 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. The contract accounted for approximately 54% and 53% of consolidated revenues from operations during the three month periods ended March 31, 1999 and 1998, respectively. The level of revenues generated by this contract will vary depending on a number of factors including the timing of ship transfers and associated support services ordered by foreign governments and economic conditions of potential customers worldwide. The company has experienced significant quarterly revenue fluctuations and anticipates that future quarterly revenues will be subject to significant variations primarily due to changes in the level of activity on this contract.

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Management Discussion and Analysis

Software Products and Services Segment

Revenues for this segment for the three month period ending March 31, 1999 decreased by about 18% as compared to the same period of 1998. The decrease in revenues is due to decreases in both product sales and consulting services related to the installation and implementation of CMstat products. Pretax loss for this segment was reduced by approximately 64% for the three month period ended March 31, 1999 as compared to the same period of 1998. The reduced loss is primarily due to operating cost reduction efforts implemented by management. The profitability of this segment is dependent upon CMstat's sales.

While management believes that CMstat will generate sufficient future revenues, failure to do so could adversely affect the company's results of operations.

The company expects that this segment will experience significant fluctuations in quarterly operating results due largely to the nature of CMstat's business. CMstat's future operating results will depend upon a number of factors, including the demand for its products, the size and timing of specific sales, the delay or deferral of customer implementations, the level of product and price competition that it encounters, the length of its sales cycles, the timing of new product introductions and product enhancements by CMstat and its competitors, the mix of products and services sold, the activities of and acquisitions by its competitors, and its ability to develop and market new products and control costs. CMstat's operating results could also be affected by general economic conditions. In addition, the decision to license and implement an enterprise-level business software system is usually discretionary, involves a significant commitment of customer resources and is subject to delays, budget cycles and to the internal authorization procedures of CMstat's customers. The loss or delay of individual orders could have a significant impact on CMstat's operating results, particularly on a quarterly basis. Furthermore, while CMstat's revenue from license fees is difficult to predict because of the length and variability of CMstat's sales cycles, CMstat's operating expenses are based on anticipated revenue trends. Because a high percentage of these expenses are relatively fixed, a delay in the recognition of revenue from a limited number of license transactions could cause significant variations in operating results from quarter to quarter. To the extent such expenses precede, or are not subsequently followed by, anticipated revenue, the company's operating results could be materially and adversely affected.

CMstat derives substantially greater profit margins from license fees than from service revenues or from sales of third-party equipment and software. The mix of revenues among these three components can fluctuate materially from quarter to quarter, and such fluctuations can have a significant effect on margins. Should lower margin service revenues or revenues from sales of third-party equipment and software increase in the future as a percentage of the company's total revenues, CMstat's margins and income from operations could be adversely affected.

As a result of these and other factors, the company's operating results for any quarter are subject to significant variation, and the company believes that period-to-period comparisons of its operating results are not necessarily

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Management Discussion and Analysis

meaningful and should not be relied upon as indications of future performance. The company's 1999 quarterly operating results are not a good indicator of future quarterly results.

Liquidity and Capital Resources

Cash and cash equivalents increased by approximately \$56 thousand during the three month period ended March 31, 1999. Cash provided by operating activities of approximately \$1.7 million was used to reduce financing requirements by approximately \$1.3 million and to finance investing activities of approximately \$.4 million. Significant financing activities included reduced borrowing on the company's bank loan, including commitments for checks outstanding, of approximately \$1.2 million. Significant investing activities included purchases of property and equipment of approximately \$.3 million.

Cash and cash equivalents remained unchanged during the three month period ended March 31, 1998. Cash provided by financing activities of approximately \$298 thousand was used to finance approximately \$238 thousand in operating activities and approximately \$60 thousand in investing activities. Significant financing activities included increased borrowing on the company's revolving loan, including commitments for checks outstanding, of approximately \$175 thousand. Significant investing activities included purchases of property and equipment of approximately \$119 thousand.

The difference between the cash provided by operating activities of approximately \$1.7 million in 1999 as compared to the cash used in operating activities of approximately \$.2 million in 1998 is primarily due to changes in the levels of accounts receivable and accounts payable associated with fluctuations in BAV contract activity.

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, to pay cash dividends, and to finance internal research and development, primarily software development. Performance of work under the BAV contract has the potential to cause substantial requirements for cash; however, management believes that the cash flows from future operations and the bank term loan and revolving loan commitment are adequate to meet current operating cash requirements.

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 completed 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, and (e) profitability.

Government contracts generally require VSE to pay for material and subcontract costs included in VSE's contract billings prior to receiving payment for such

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Management Discussion and Analysis

costs from the government. However, such contracts generally provide for progress payments on a monthly or semimonthly basis, thereby reducing requirements for working capital.

Quarterly cash dividends at the rate of \$.036 per share were declared during the three month period ended March 31, 1999. Pursuant to its bank loan agreement, the payment of cash dividends by VSE is subject to a maximum annual rate. VSE has paid cash dividends each year since 1973.

ESOP Advances

During 1998, 1997 and 1996, the company advanced the ESOP trust \$112 thousand, \$330 thousand and \$350 thousand, respectively, in connection with distributions made to terminated participants. In December 1998, the company purchased 72,000 shares of VSE stock from the ESOP at market price and the ESOP simultaneously returned the proceeds of \$792,000 from the stock sale to the company as repayment of the advances.

Inflation and Pricing Policy

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

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BY-LAWS OF VSE CORPORATION
(As Amended Through February 3, 1999)

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 and Corporate Ethics Committee shall have the authority, from time to time,

(a) to recommend to the Board

i. nominees for election to the Board and, in the event of vacancies on the Board, nominees for appointment to the Board,

ii. corporate policies regarding, among other things, business conduct and securities trading, including compliance with law and related policies,

iii. corporate policies regarding indemnification of VSE directors and officers, and

iv. corporate policies regarding conflicts of interests involving VSE directors, officers, and employees;

(b) to provide, as the Committee deems advisable or appropriate, review and oversight in respect of the implementation of and compliance with any of the above-mentioned policies adopted by the Board, including the provision of administrative and interpretative advice and directives to VSE's Insider Trading Compliance Officer and to other VSE directors and officers and, in respect of the previously-described corporate policies, sales of VSE securities by VSE's Employee Stock Ownership Plan that may directly or indirectly benefit VSE; and (c) in connection with the foregoing matters set forth in clauses (a) and (b), to consult with and obtain the advice of VSE's legal, accounting, financial and other advisors;

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.

Section 4. Deleted.

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.