VSE Corporation and Subsidiaries

Forward Looking Statements

This filing contains statements which, to the extent they are not recitations of historical fact, constitute "forward looking statements" under federal securities laws. All such statements are intended to be subject to the safe harbor protection provided by applicable securities laws. For discussions identifying some important factors that could cause actual VSE Corporation ("VSE" or the "Company") results to differ materially from those anticipated in the forward looking statements contained in this filing, see VSE's "Narrative Description of Business," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Notes to Consolidated Financial Statements" contained in VSE's Annual Report and Form 10-K for the fiscal year ended December 31, 2004 (Form 10-K) filed with the Securities and Exchange Commission. Readers are cautioned not to place undue reliance on these forward looking statements, which reflect management's analysis only as of the date hereof. The Company undertakes no obligation to publicly revise these forward looking statements to reflect events or circumstances that arise after the date hereof. Readers should carefully review the risk factors described in other documents the Company files from time to time with the Securities and Exchange Commission.
PART I. Financial Information

Item 1. Financial Statements

VSE Corporation and Subsidiaries
Consolidated Financial Statements

Consolidated Balance Sheets

(in thousands except share and per share amounts)

<table>
<thead>
<tr>
<th></th>
<th>March 31, 2005</th>
<th>December 31, 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$44</td>
<td>$130</td>
</tr>
<tr>
<td>Accounts receivable, principally</td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Government, net</td>
<td>49,853</td>
<td>40,274</td>
</tr>
<tr>
<td>Contract inventories</td>
<td>4,374</td>
<td>8,504</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>1,120</td>
<td>1,077</td>
</tr>
<tr>
<td>Other current assets</td>
<td>1,523</td>
<td>1,595</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>$56,914</td>
<td>$51,580</td>
</tr>
<tr>
<td>Property and equipment, net</td>
<td>4,665</td>
<td>4,435</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>410</td>
<td>312</td>
</tr>
<tr>
<td>Goodwill</td>
<td>1,054</td>
<td>1,054</td>
</tr>
<tr>
<td>Other assets</td>
<td>3,184</td>
<td>2,971</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$66,227</td>
<td>$60,352</td>
</tr>
</tbody>
</table>

|                      |               |                   |
| **Liabilities and Stockholders' Investment** |               |                   |
| Current liabilities: |               |                   |
| Bank notes payable  | $ -           | $1,578            |
| Accounts payable    | 33,151        | 26,853            |
| Accrued expenses    | 7,216         | 7,452             |
| Dividends payable   | 114           | 114               |
| **Total current liabilities** | 40,481        | 35,997            |
| Deferred compensation | 1,473         | 1,312             |
The accompanying notes are an integral part of these balance sheets.

3-
VSE Corporation and Subsidiaries
Consolidated Financial Statements

For the three months ended March 31, 2005 and 2004

(in thousands except share and per share amounts)

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues, principally from contracts</td>
<td>$ 65,919</td>
<td>$ 42,609</td>
</tr>
<tr>
<td>Costs and expenses of contracts</td>
<td>63,755</td>
<td>41,462</td>
</tr>
<tr>
<td>Gross profit</td>
<td>2,164</td>
<td>1,147</td>
</tr>
<tr>
<td>Selling, general and administrative expenses</td>
<td>56</td>
<td>12</td>
</tr>
<tr>
<td>Interest income, net</td>
<td>(19)</td>
<td>(19)</td>
</tr>
<tr>
<td>Income before income taxes</td>
<td>2,127</td>
<td>1,154</td>
</tr>
<tr>
<td>Provision for income taxes</td>
<td>823</td>
<td>446</td>
</tr>
<tr>
<td>Net income</td>
<td>$ 1,304</td>
<td>$ 708</td>
</tr>
</tbody>
</table>

Basic earnings per share:

Net income                        $ 0.57  $ 0.32

Basic weighted average shares outstanding 2,279,326 2,216,216

Diluted earnings per share:

Net income                        $ 0.55  $ 0.31

Diluted weighted average shares outstanding 2,353,954 2,286,613

</TABLE>
The accompanying notes are an integral part of these financial statements.

VSE Corporation and Subsidiaries
Consolidated Financial Statements

<table>
<thead>
<tr>
<th>Deferred Stock Shares</th>
<th>Common Stock</th>
<th>Paid-In Amount</th>
<th>Stock-Based Surplus</th>
<th>Stock-Based Compensation</th>
<th>Retained Earnings</th>
<th>Stockholders' Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at (in thousands except per share data)</td>
<td>$2,277</td>
<td>$114</td>
<td>$4,879</td>
<td>($4)</td>
<td>$18,054</td>
<td>$23,043</td>
</tr>
<tr>
<td>Net income for the period</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,304</td>
<td>1,304</td>
</tr>
<tr>
<td>Exercised stock options</td>
<td>3</td>
<td>-</td>
<td>26</td>
<td>-</td>
<td>-</td>
<td>26</td>
</tr>
<tr>
<td>Tax benefit of options exercised</td>
<td>-</td>
<td>-</td>
<td>15</td>
<td>-</td>
<td>-</td>
<td>15</td>
</tr>
<tr>
<td>Deferred stock-based compensation</td>
<td>-</td>
<td>-</td>
<td>(3)</td>
<td>1</td>
<td>-</td>
<td>(2)</td>
</tr>
<tr>
<td>Amortization of deferred stock-based compensation</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>Dividends declared ($0.05)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(114)</td>
<td>(114)</td>
</tr>
<tr>
<td>Balance at March 31, 2005</td>
<td>2,280</td>
<td>$114</td>
<td>$4,917</td>
<td>($2)</td>
<td>$19,244</td>
<td>$24,273</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
For the three months ended March 31, 2005 2004

--- ---

Cash flows from operating activities:
Net income.......................... $ 1,304 $ 708

Adjustments to reconcile net income to net cash provided by (used in) operating activities:
Depreciation and amortization......... 326 262
Loss on sale of property and equipment . . 2 -
Deferred taxes......................... (141) (81)
Tax benefit of options exercised......... 15 14
Amortization of deferred stock-based compensation . (1) 4

Change in operating assets and liabilities:
(Decrease) increase in:
Accounts receivable.................... (9,579) (2,397)
Contract inventories................... 4,130 -
Other current assets and noncurrent assets .... (141) (108)

Increase (decrease) in:
Accounts payable and deferred compensation .... 6,459 3,110
Accrued expenses....................... (236) (281)

Net cash provided by operating activities 2,138 1,231

Cash flows from investing activities:
Purchase of property and equipment........ (558) (790)

Net cash used in investing activities (558) (790)

Cash flows from financing activities:
Net repayment of bank loans............. (1,578) -
Dividends paid.......................... (114) (88)
Proceeds from issuance of common stock.... 26 37

Net cash used in financing activities (1,666) (51)

Net (decrease) increase in cash and cash equivalents . (86) 390
Cash and cash equivalents at beginning of period . 130 9,843

Cash and cash equivalents at end of period . $ 44 $10,233

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

---

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

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2005 are not necessarily indicative of the results that may be expected for the year ending December 31, 2005. For further information refer to the consolidated financial statements and footnotes thereto included in the VSE Corporation Annual Report on Form 10-K for the year ended December 31, 2004. The Company operates within one reportable segment.

Use of Estimates in the Preparation of Financial Statements
The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates affecting the financial statements include the allowance for doubtful accounts and accruals for loss contracts, contract disallowance and self insured health claims.

Contract Inventories

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

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw material</td>
<td>$</td>
<td>$4,783</td>
</tr>
<tr>
<td>Work in process</td>
<td>10,668</td>
<td>3,721</td>
</tr>
<tr>
<td>Less: Progress payments received</td>
<td>(6,294)</td>
<td>-</td>
</tr>
<tr>
<td>Total contract inventories</td>
<td>$4,374</td>
<td>$8,504</td>
</tr>
</tbody>
</table>

Contract inventories consist of materials purchased, advances to suppliers, and other expenditures for use in a contract to modify and apply a protective system, the Tanker Ballistic Protection System ("TBPS"), to military vehicles for the U.S. Army. This contract was awarded to VSE in November 2004.

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

Raw material inventories consist of advances to suppliers for materials on this contract but on which work has not yet begun. Work in process contract inventories consist of amounts for materials, supplies and other expenditures for which work has been performed but for which the end unit has not yet been completed and accepted. Work in process contract inventory includes applicable indirect cost burdens, including general and administrative costs, of approximately $1 million and $442 thousand as of March 31, 2005 and December 31, 2004, respectively.

Debt

VSE has a revolving loan agreement with a bank under which the Company can borrow up to $15 million, subject to certain conditions, including a borrowing formula based on billed receivables. Under the loan agreement, the Company pays a fixed annual commitment fee and interest on any borrowings at a prime-based rate or an optional LIBOR-based rate. The expiration date of the revolving loan is May 31, 2006. The loan agreement contains collateral requirements by which Company assets secure amounts outstanding, restrictive covenants that include minimum tangible net worth and profitability requirements, a limit on annual dividends, and other affirmative and negative covenants. As of March 31, 2005, there were no amounts outstanding under this loan agreement. Amounts outstanding under this loan agreement as of December 31, 2004 were approximately $1.6 million, which was paid in January, 2005. Interest expense incurred on the loan for the three months ending March 31, 2005 and 2004 was approximately
$1 thousand and $0, respectively.

Accounting for Stock-based Compensation

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

-8-

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

Three Months Ended March 31,
2005 2004
----- -----
Net income, as reported                       $1,304 $  708
Add: Total stock-based employee
compensation expense as reported
under intrinsic value method
(APB No. 25) for all awards, net
of related tax effects                            -        3
Deduct: Total stock-based
compensation expense
determined under fair value based
method (SFAS No. 123) for all
awards, net of related tax effects              (62)        (19)
------ ----- 
Pro forma net income                          $1,242       $ 692
====== =====
Earnings per share:
Basic - as reported                           $0.57       $0.32
Diluted - as reported                         $0.55       $0.31
Basic - pro forma                             $0.54       $0.31
Diluted - pro forma                           $0.53       $0.30

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

The impact of adoption of SFAS 123(R) cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had we adopted SFAS 123(R) in prior periods, the impact of that standard would have approximated the impact of SFAS 123 as described in the disclosure of pro forma net income and earnings per share above. SFAS 123(R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. While the Company cannot estimate what those amounts
will be in the future (because they depend on, among other things, when
employees exercise stock options), the amount of operating cash flows recognized
for the three month periods ending March 31, 2005 and 2004 for such excess tax
deductions were approximately $15 thousand and $14 thousand, respectively.

Earnings Per Share

Basic earnings per share have been computed by dividing net income by the
weighted average number of shares of common stock outstanding during each
period. Shares issued during the period and shares reacquired during the period
are weighted for the portion of the period that they were outstanding. Diluted
earnings per share have been computed in a manner consistent with that of basic
earnings per share while giving effect to all potentially dilutive common shares
that were outstanding during each period. Potentially dilutive common shares
include incremental common shares issuable upon exercise of stock options.

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended March 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2005</td>
</tr>
<tr>
<td>Basic weighted average common shares outstanding</td>
<td>2,279,326</td>
</tr>
<tr>
<td>Diluted effect of options</td>
<td>74,628</td>
</tr>
<tr>
<td>Diluted weighted average common shares outstanding</td>
<td>2,353,954</td>
</tr>
</tbody>
</table>

Litigation

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

ITEM 2. Management's Discussion and Analysis of Financial Condition
and Results of Operations

Executive Overview

VSE Organization

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

Energetics Incorporated ("Energetics") is currently VSE's only active
subsidiary. Active divisions as of March 31, 2005 include BAV Division ("BAV"),
Coast Guard Division ("VCG"), Communications and Engineering Division ("CED"), Fleet Maintenance Division ("FMD"), Management Sciences Division ("MSD"), Systems Engineering Division ("SED"), and, Information Assurance Division ("IAD", formerly Value Systems Services Division or "VSS").

VSE also has several other subsidiaries and divisions that were inactive as of March 31, 2005.

**TTD Discontinued Operations**

In February 2003, VSE decided to terminate operations of its Telecommunications Technologies Division ("TTD") due to declining revenues and significant losses sustained by this division. TTD continued work on uncompleted contracts during 2003 and 2004 to satisfy its contractual obligations and upon finishing work in July 2004, TTD was classified as a discontinued operation. Some of TTD's technical capabilities were transferred to other VSE divisions. The loss of revenue associated with the termination of TTD operations is not significant compared to total VSE revenue, while the elimination of TTD losses will improve VSE profits. There was no material impact on the quarters ended March 31, 2005 or 2004.

**VSE Customers and Services**

The Company is engaged principally in providing engineering, design, logistics, management and technical services to the U.S. Government (the "government"), other government prime contractors, and commercial entities. The largest customer for the services rendered by the Company is the U.S. Department of Defense ("Defense"), including agencies of the U.S. Army, Navy, and Air Force. Other customers include the Department of Homeland Security, the U.S. Postal Service, the Department of Energy, and the Department of Treasury.

The majority of VSE's work is performed for the U.S. Navy. BAV is a major provider of logistics, training, and technical assistance in support of the Navy's ship transfer program. FMD supports the Navy by providing a variety of services including ship installation efforts, combat systems inspections, ship repair and overhaul availability planning, harpoon weapons management, ordnance alteration, and air combat logistics. VCG provides services to the U.S. Coast Guard that are similar to the work performed by BAV for the Navy.

VSE also performs a significant amount of its work for the U.S. Army. SED provides the Army with equipment refurbishment services, military vehicle protection systems, engineering and technical support for ground weapons, logistics and training services, material procurement support, and prototype development support for combat vehicles. MSD provides the Army, as well as other government agencies and commercial organizations, with quality training services for product, process, and management optimization. CED provides management oversight and coordinates support efforts for a variety of government work orders on a large Army contract.

The Company has also provided support services to the U.S. Postal Service for more than twenty years and is continuing to support this customer through its SED Division. Energetics is focused on providing the Department of Energy and other government and industry customers with expert consulting services in environmental management and energy supply, resource management, and conservation. The Company also provides support services to the U.S. Department of Treasury and has offered products, services, and support in network, multimedia, and audio-visual technology including design, installation, management and support for voice, data, multimedia and related projects to various government agencies and commercial organizations.

**BAV Ship Transfer Program**

VSE's BAV Division provides the U.S. Navy with engineering, technical and logistical support services associated with the sale, lease, or transfer of Navy ships to foreign governments. The original contract associated with this program was a ten-year cost-plus contract awarded in 1995 with a total ceiling value of more than $1 billion. BAV was awarded a second contract in April 2005 to continue work on this program. The new contract is a five-year cost-plus contract with a total ceiling value of approximately $544 million. The level of revenues and associated profits resulting from fee income generated by this
program varies depending on a number of factors, including the timing of ship transfers and associated support services ordered by foreign governments and economic conditions of potential customers worldwide. The Company has experienced significant quarterly and annual revenue fluctuations and anticipates that future quarterly and annual revenues will be subject to variation primarily due to changes in the level of activity associated with the Navy's ship transfer program.

During its life, this program has been the Company's single largest revenue producer. Revenues generated by this program have typically accounted for approximately 40% to 50% of consolidated VSE revenues, and revenues generated by this program accounted for approximately 45% and 50% of consolidated revenues during the three month periods ended March 31, 2005 and 2004, respectively. The transfer of four U.S. Navy ships to Taiwan currently conducted under this program is a major contributor to the Company's revenues in 2005 and 2004. The original BAV contract is scheduled to end in 2005. VSE expects the Navy to begin issuing orders on the new contract in the second quarter of 2005 and to cease issuing new orders on the original contract at that time. BAV will continue work associated with the transfer of four ships to Taiwan under delivery orders previously issued on the original contract. For further discussion, refer to “Longer Term Concerns” under Management Outlook.

Contract terms specify award fee payments to BAV that are determined by performance and level of contract activity. A contract modification authorizing the award fee payment is issued subsequent to the period in which the work is performed. The Company does not recognize award fee income until the contract modification authorizing the award fee is certain. Award fees are made three times during the year. Accordingly, the Company typically has three quarterly reporting periods per year that include the recognition of BAV award fee income and one quarterly reporting period that does not include BAV award fee income. Due to such timing, and to fluctuations in the level of revenues, profits as a percentage of revenues will fluctuate from period to period. The three month periods ended March 31, 2005 and 2004 include BAV award fee income.

TBPS Program

In November 2004, VSE's SED Division was awarded a fixed-price letter contract by the U.S. Army to begin work on a program to provide a protection system for Army vehicles, the Tanker Ballistic Protection System ("TBPS"). Under this program, SED will apply a Fuel Tank Self-Sealing System and necessary Add-on Armor Panels for Army Fuel Dispensing Tankers as protection from damage resulting from hostile fire. Testing and preparatory work on this program was conducted in November and December 2004 and the TBPS was applied to the first tanker in January 2005. SED received a definitized $34.9 million firm fixed price per unit contract to formalize contract coverage and additional funding in March 2005. The Company also received a second fixed-price letter contract and is in negotiations with the Army for a second definitized contract under this program that would increase the amount of work by adding more tankers to be included in the program. This program is expected to contribute significantly to revenue growth in 2005 while also presenting new risks and challenges to VSE's business.

Government Procurement Policies and Practices

VSE's business is subject to the risks arising from economic conditions and political factors that may impact the budgets and program funding of customers served through VSE's contracts. VSE's revenues have historically been subject to annual fluctuations resulting from changes in the level of Defense spending. Future budgetary and funding decisions by government lawmakers or Defense restructuring efforts could affect the types and level of services provided by VSE to its government customers and could potentially have a material adverse impact on the Company's results of operations or financial condition.

The revenues of the Company depend on its ability to win new contracts and on the amount of work ordered by the government under the Company's existing contracts. The Company's ability to win new contracts is affected by government acquisition policies and procedures, including government procurement practices that in some years have tended toward bundling work efforts under large comprehensive ("omnibus") management contracts. This emphasis on large contracts presents challenges to winning new contract work, including making it more difficult for the Company to qualify as a bidder, increasing the level of
competition due to the award of fewer contracts, and forcing the Company into
direct competition with larger organizations that have greater financial resources and
larger technical staffs. Competing for these contracts requires the Company to
use teams of subcontractors to be able to offer the range of technical
competencies needed to do the work. While the use of subcontractors on a large

scale basis allows the Company to compete for this work, profit margins on
subcontract work are lower than on work performed by Company personnel, thereby
reducing the Company's overall profit margins.

The use of subcontractors on government contracts also raises certain
performance and financial risks to VSE in that government prime contractors are
responsible for performing to the requirements of the contract and ensuring
compliance with U.S. Government regulations relative to the performance by
subcontractors.

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

Global Economic Conditions and Political Factors

VSE's business is subject to the risks arising from global economic conditions
and political factors associated with current and potential customers served
through VSE's contracts with the U.S. Government. An economic slowdown in
countries served under the BAV Ship Transfer Program could potentially affect
sales. Failure by the government of a potential foreign customer to approve and
fund acquisition of U.S. Navy ships serviced under the this program could affect
sales. In any one year, a significant amount of the Company's revenues may
result from sales on the BAV Ship Transfer Program to a single foreign
government. BAV sales to Egypt have historically comprised a large percentage of
the Company's total sales in any one year. Work associated with the transfer of
four ships to Taiwan under the BAV Ship Transfer Program during 2004 also
comprised a large percentage of total sales, and is expected to also comprise a
large percentage of 2005 sales.

Concentration of Continuing Revenues

<table>
<thead>
<tr>
<th>Source of Revenue</th>
<th>2005 Revenues</th>
<th>%</th>
<th>2004 Revenues</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>BAV Egypt</td>
<td>$13,009</td>
<td>20</td>
<td>$11,242</td>
<td>26</td>
</tr>
<tr>
<td>BAV Taiwan</td>
<td>15,788</td>
<td>24</td>
<td>8,038</td>
<td>19</td>
</tr>
<tr>
<td>BAV Other</td>
<td>644</td>
<td>1</td>
<td>1,974</td>
<td>5</td>
</tr>
<tr>
<td>Total BAV</td>
<td>$29,441</td>
<td>45</td>
<td>$21,254</td>
<td>50</td>
</tr>
<tr>
<td>VSE Other</td>
<td>36,478</td>
<td>55</td>
<td>21,355</td>
<td>50</td>
</tr>
<tr>
<td>Total Revenues</td>
<td>$65,919</td>
<td>100</td>
<td>$42,609</td>
<td>100</td>
</tr>
</tbody>
</table>

The current international situation posed by potential terrorist activity and
the continuing conflict in the Middle East could potentially increase the
political risks for revenues from both the BAV Ship Transfer and TBPS Programs.
International tensions can also affect work by FMD on U.S. Navy ships when they
are deployed outside of U.S. Navy facilities and are unavailable for maintenance
work during this time period. Adverse results arising from these global economic
and political risks could potentially have a material adverse impact on the
Management Outlook

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

Taiwan Ship Transfer. The Taiwan ship transfer effort is entering its second full year and is expected to continue to contribute significantly to BAV revenue levels in 2005. Funded backlog on the original BAV contract was approximately $50 million as of March 31, 2005.

TBPS Program. Most of the work on the initial $34.9 million contract on the TBPS Program is expected to be completed in 2005. Additionally, the second contract under this program, currently under negotiation, is also expected to begin generating revenue in 2005. Work on this program is expected to provide significant increases to Company revenues in 2005.

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

VSE's CED Division has a multi-year Rapid Response support contract issued by the U.S. Army Communications-Electronics Command (CECOM). The contract enhances the Company's revenue producing capabilities by allowing it to provide services through any of VSE's operating entities or through third party subcontractors for various end user government customers. If all options are exercised, this contract has a potential total ceiling of approximately $2.9 billion over an eight-year period. While it is not likely that the full ceiling amount will be realized, this contract has generated revenues for VSE of approximately $8.5 million and $5 million during the three months ended March 31, 2005 and 2004, respectively. Funded backlog on this contract as of March 31, 2005 is approximately $30 million. VSE continues to pursue new orders on this contract that present promising revenue opportunities for the future.

VSE's FMD Division has a contract with the U.S. Navy, SeaPort Enhanced, which includes a five-year base period and two five-year option periods. This contract is a procurement vehicle for the Navy to use for ordering services from a wide range of contractors to support all phases of naval ship and shipboard weapons systems acquisition and life-cycle support. While this award does not guarantee any revenues for VSE, the Company is one of several contractors eligible to bid for services during the life of the contract. VSE received the first delivery order on this contract, for approximately $300 thousand, in February 2005.

FMD also has a contract with the U.S. Navy to provide engineering and technical services to support Naval Sea Systems Command maintenance, overhaul, repair, and alteration of systems aboard ships. This contract has a total contract ceiling amount of $1.022 billion over a five-year period if all option periods are exercised. VSE is one of several awardees eligible to share in the potential total contract ceiling amount. During February and March 2005, FMD was awarded delivery orders for approximately $44 million in work on this contract.

Funded Backlog

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

(in millions)

-----------
Bookings for the three months ended March 31, 2005 . . . . . . $68
Funded backlog as of March 31, 2005 . . . . . . . . . . . $169
Revenues for the three months ended March 31, 2005 . . . . . $66

Longer Term Concerns

While 2005 is shaping up to be another strong year, VSE will be challenged to sustain the revenue growth experienced during 2004 and 2005 as the Company heads into 2006 and subsequent years. Certain work efforts that have supported VSE's growth in 2004 and that are expected to contribute significant revenues in 2005 are due to expire in the near future. Most of the current contract work on the TBPS program is expected to be completed by the end of 2005. The Taiwan Ship Transfer work is expected to continue at approximately the same level of effort through 2005 and 2006 and then be substantially completed in early 2007. VSE is exploring potential acquisition opportunities to mitigate the future loss of revenues associated with the expiration of the TBPS Program and the Taiwan Ship Transfer work. The Company intends to continue these efforts in 2005.

Critical Accounting Policies

VSE's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States, which require VSE to make estimates and assumptions. The Company believes the following critical accounting policies affect our more significant judgments, estimates and assumptions used in the preparation of its consolidated financial statements.

Revenue Recognition

Substantially all of the Company's services are performed for its customers on a contract basis. The three primary types of contracts used are cost-type contracts, time and materials contracts, and fixed-price contracts. Revenues result from work performed on these contracts by the Company's employees and from pass-through of costs for material and work performed by subcontractors.

Revenues on cost-type contracts are recorded as contract allowable costs are incurred and fees earned. Profits on cost-type contracts are equal to the fees that are earned. The BAV contract terms specify award fee payments that are determined by performance and level of contract activity. Award fees are made three times during the year and a contract modification authorizing the award fee payment is issued subsequent to the period in which the work is performed. The Company does not recognize award fee income until the contract modification authorizing the award fee is certain. Due to such timing, and to fluctuations in the level of revenues, profits as a percentage of revenues on this contract will fluctuate from period to period.

Revenues for time and materials contracts are recorded on the basis of contract allowable labor hours worked times the contract defined billing rates, plus the cost of materials used in performance on the contract. Profits on time and materials contracts result from the difference between the cost of services performed and the contract defined billing rates for these services.

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

Revenues by contract type for the three months ended March 31, 2005 and 2004 were as follows (in thousands):

<table>
<thead>
<tr>
<th>Contract Type</th>
<th>Revenues</th>
<th>%</th>
<th>Revenues</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost-type . . .</td>
<td>$42,903</td>
<td>65</td>
<td>$29,827</td>
<td>70</td>
</tr>
<tr>
<td>Time and materials</td>
<td>12,516</td>
<td>19</td>
<td>7,669</td>
<td>18</td>
</tr>
<tr>
<td>Fixed-price . .</td>
<td>10,500</td>
<td>16</td>
<td>5,113</td>
<td>12</td>
</tr>
</tbody>
</table>
The Company will occasionally perform work at risk, which is work that is performed prior to the government formalizing funding for such work. Revenue related to work performed at risk is not recognized until it can be reliably estimated and its realization is probable. VSE recognizes this "risk funding" as revenue when the associated costs are incurred or the work is performed. As of March 31, 2005, VSE has recognized approximately $257 thousand in risk funding. VSE believes that it will receive funding for all of this risk funding revenue. VSE is at risk of loss for any risk funding not received. The Company provides for anticipated losses on contracts by a charge to income during the period in which losses are first identified.

Long-Lived Assets

In assessing the recoverability of long-lived assets, including goodwill and other intangibles, VSE must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. If these estimates or their related assumptions change in the future, VSE may be required to record impairment charges for these assets not previously recorded.

Goodwill

Goodwill and intangible assets with indefinite lives are subject to a review for impairment at least annually. The Company performs its annual impairment test on September 30. As of March 31, 2005, the Company had approximately $1.1 million of goodwill associated with its acquisition of Energetics in 1995. The Company has not recognized any reduction to the goodwill due to the impairment rules. If at some time in the future it is determined that impairment has occurred, such impairment could potentially have a material adverse impact on the Company's results of operations or financial condition.

Contingencies

From time to time VSE is subject to proceedings, lawsuits, and other claims related to environmental, labor, and other matters. VSE is required to assess the likelihood of any adverse judgments or outcomes to these contingencies as well as potential ranges of probable losses and establish reserves accordingly. The amount of reserves required may change in future periods due to new developments in each matter or changes in approach to a matter such as a change in settlement strategy.

Income Taxes

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

Recent Accounting Pronouncements

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

The impact of adoption of SFAS 123(R) cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had we adopted SFAS 123(R) in prior periods, the impact of that
standard would have approximated the impact of SFAS 123 as described in the
disclosure of pro forma net income and earnings per share above. SFAS 123(R)
also requires the benefits of tax deductions in excess of recognized
compensation cost to be reported as a financing cash flow, rather than as an
operating cash flow as required under current literature. This requirement will
reduce net operating cash flows and increase net financing cash flows in periods
after adoption. While the Company cannot estimate what those amounts will be in
the future (because they depend on, among other things, when employees exercise
stock options), the amount of operating cash flows recognized for the three
month periods ending March 31, 2005 and 2004 for such excess tax deductions were
approximately $15 thousand and $14 thousand, respectively.

Results of Operations

The following table sets forth certain items, including consolidated revenues,
pretax income and net income from continuing operations, and the changes in
these items for the three month periods ended March 31, 2005 and 2004 (in
thousands):

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2004</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Compared</td>
<td>to</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2005</td>
<td>2004</td>
<td>2004</td>
</tr>
<tr>
<td>Revenues</td>
<td>$65,919</td>
<td>$42,609</td>
<td>$23,310</td>
</tr>
<tr>
<td>Income before income taxes</td>
<td>$2,127</td>
<td>$1,154</td>
<td>$973</td>
</tr>
<tr>
<td>Provision for income taxes</td>
<td>823</td>
<td>446</td>
<td>377</td>
</tr>
<tr>
<td>Net income</td>
<td>$1,304</td>
<td>$708</td>
<td>$596</td>
</tr>
</tbody>
</table>

Revenues increased by approximately 55% for the three month period ended
March 31, 2005, as compared to the same period of 2004. The primary reasons for
the increase in revenues were 1) an increase in work performed under the BAV
Ship Transfer Program, including revenues associated with the Taiwan ship
transfer; 2) work attributable to the TBPS program; 3) increased levels of work
performed by FMD on its U. S. Navy contracts; and 4) an increase in work
performed on the CED Rapid Response contract.

Income before income taxes increased by approximately 84% for the three month
period ended March 31, 2005, as compared to the same period of 2004. The
increase was primarily due to profits associated with work on the TBPS program,
profits associated with the increased revenues of BAV and FMD, and a decrease in
the losses incurred by CED in 2005 as compared to 2004.

Financial Condition

VSE's financial condition did not change materially during the three months
ended March 31, 2005. The Company's largest assets are its accounts receivable
and inventories. The largest liabilities are its accounts payable and accrued
expenses. Accounts receivable increased approximately $9.6 million, and accounts
payable increased approximately $6.3 million during the first three months of
2005 due primarily to the increase in the level of business activity and the
associated billings to customers and subcontractor payments required to perform
this work. Inventories declined approximately $4.1 million during the first
three months of 2005 as materials and supplies were used to complete protection
systems for vehicles on the TBPS Program.

The change in total stockholders' investment in this period resulted primarily
from earnings and dividend activity and from the exercise of stock options.

Liquidity and Capital Resources

Cash Flows

Cash and cash equivalents decreased by approximately $86 thousand during the
three months ended March 31, 2005. The decrease in cash and cash equivalents
during this period resulted from cash used in financing activities of
approximately $1.7 million, cash used in investing activities of approximately
$558 thousand, and cash provided by operating activities of approximately
$2.1 million. Financing activities consisted of repayment of amounts previously borrowed on the Company's bank loan of approximately $1.6 million, dividend payments, and proceeds received from the issuance of common stock due to the exercise of stock options. Investing activities consisted of expansion and improvement of facilities of approximately $172 thousand and purchases of property and equipment, net of dispositions, of approximately $386 thousand.

Cash and cash equivalents increased by approximately $390 thousand during the three months ended March 31, 2004. The increase in cash and cash equivalents during this period resulted from cash provided by operating activities of approximately $1.2 million, cash used in investing activities of approximately $790 thousand, and cash used in financing activities of approximately $51 thousand. Investing activities consisted of expansion and improvement of facilities of approximately $499 thousand and purchases of property and equipment, net of dispositions, of approximately $291 thousand. Financing activities consisted of dividend payments and proceeds received from the issuance of common stock.

The difference between cash provided by operating activities of approximately $2.1 million in 2005 as compared to approximately $1.2 million in 2004 is primarily due to: 1) an increase in net income; and 2) changes in the levels of accounts receivable, inventories, and accounts payable resulting from increases in revenue and the timing of associated material purchases, subcontractor payments, and receivables collections.

Quarterly cash dividends were paid at the rate of $.05 per share during the three months ended March 31, 2005. Under its bank loan agreement, VSE's payment of cash dividends is subject to a maximum annual rate. VSE has paid cash dividends each year since 1973.

Liquidity

The Company's internal sources of liquidity result primarily from operating activities, specifically from changes in the level of revenues and associated accounts receivable and accounts payable from period to period, and from profitability. Significant increases or decreases in revenue and accounts receivable and accounts payable can cause significant increases or decreases in internal liquidity.

Accounts receivable arise primarily from billings made by the Company to the government or other government prime contractors for services rendered, and payments received on accounts receivable represent the principal source of cash for the Company. Accounts receivable levels can be affected by contract retainages, differences between the provisional billing rates authorized by the government compared to the costs actually incurred by the Company, government delays in processing administrative paperwork for contract funding, and the timing of large materials purchases and subcontractor efforts used in performance on the Company's contracts.

Upon beginning work on the TBPS program, the Company acquired inventories consisting of materials, supplies, and other expenditures for which end units have not yet been completed and accepted. Although these costs are classified as inventories for accounting purposes, they are similar in nature to materials and direct supplies purchased for use in performance on the Company's other contracts in that they are solely and directly attributable to the contract and will be billed to the customer within a relatively short time. All of the inventories are expected to be liquidated, billed, and collected in 2005 or early 2006. These materials and direct supplies will not be restocked to maintain any permanent inventory levels.

Accounts payable arise primarily from purchases of subcontractor services and materials used by the Company in the performance of its contract work. Payments made on accounts payable, along with payments made to satisfy employee payroll and payroll associated expenses, make up the principal cash requirements of the Company. Accounts payable levels can be affected by changes in the level of contract work performed by the Company and by the timing of large materials purchases and subcontractor efforts used in performance on the Company's contracts.

Other cash requirements include the acquisition of capital assets for office and
computer support, facilities improvements, and the payment of cash dividends.

VSE's external sources of liquidity consist of a revolving bank loan agreement that provides loan financing based on the Company's accounts receivable (see "Notes to Consolidated Financial Statements"). The bank financing complements the internal sources of liquidity by providing increasing levels of borrowing capacity as accounts receivable levels increase. The bank loan agreement provided loan financing up to a maximum commitment of $15 million as of March 31, 2005. The Company has determined that the $15 million commitment is adequate to cover current and future liquidity requirements.

Performance of work under the BAV Ship Transfer Program, the TBPS program, and other contracts requiring large subcontract or material expenditures have the potential to cause substantial requirements for working capital; however, management believes that current cash surpluses, cash flows from future operations, and the bank loan commitment are adequate to meet current operating cash requirements.

Inflation and Pricing

Most of the contracts performed by VSE provide for estimates of future labor costs to be escalated for any option periods provided by the contracts, while the non-labor costs included in such contracts are normally considered reimbursable at cost. VSE property and equipment consists principally of computer systems equipment, furniture and fixtures, and land and improvements. The overall impact of inflation on replacement costs of such property and equipment is not expected to be material to VSE's future results of operations or financial condition.

Disclosures About Market Risk

Interest Rates

VSE's bank loan financing provides available borrowing to the Company at variable interest rates. The Company has not borrowed significant amounts on the loan in recent years. Accordingly, the Company does not believe that any movement in interest rates would have a material impact on future earnings or cash flows. If VSE were to significantly increase borrowings on the current loan arrangement, future interest rate changes could potentially have a material impact.

Foreign Currency

While a significant amount of the Company's business results from the services provided by BAV related to the transfer of ships to foreign governments, the BAV contract payments are made by the U.S. Government in U.S. dollars. Additionally, most funding requirements to support work performed or services purchased in foreign countries are made in U.S. dollars, and the infrequent disbursements that are made in foreign currencies are reimbursable to BAV in post conversion dollars. Foreign currency transactions of other VSE divisions or subsidiaries are virtually non-existent. Accordingly, the Company does not believe that it is exposed to any material foreign currency risk.
VSE CORPORATION AND SUBSIDIARIES

Item 3. Quantitative and Qualitative Disclosures About Market Risks


Item 4. Controls and Procedures

Based on their most recent evaluation the Company's Chief Executive Officer and Chief Financial Officer believe the Company's disclosure controls and procedures (as defined in Securities Exchange Act of 1934 Rules 13a-15(e)) are effective as of March 31, 2005 to ensure that information required to be disclosed by the Company's management, including its principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. There were no significant changes in the Company's internal control over financial reporting or other factors that could significantly affect these controls subsequent to the date of their evaluation and there were no corrective actions with regard to significant deficiencies and material weaknesses.

PART II. Other Information

Item 1. Legal Proceedings

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

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits.

Exhibit No.

-----------
10.1 Employment Agreement dated as of February 10, 2005, by and between Energetics Incorporated and James E. Reed

31.1 Section 302 CEO Certification

31.2 Section 302 CFO and PAO Certification

32.1 Section 906 CEO Certification

32.2 Section 906 CFO and PAO Certification

(b) Reports on Form 8-K.


Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has omitted all other items contained in "Part II. Other Information" because such other items are not applicable or are not required if the answer is negative or because the information required to be reported therein has been previously reported.
Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

VSE CORPORATION

Date: April 27, 2005  /s/ D. M. Ervine  

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

THIS EMPLOYMENT AGREEMENT is made and entered into as of February 10, 2005, by and between Energetics Incorporated, a Maryland corporation ("Employer" or "Energetics"), and James E. Reed ("Employee");

WHEREAS, Employee has rendered several years of service to Employer;

WHEREAS, Employee resigned his position as a Senior Vice President of Energetics in 2001;

WHEREAS, Employer wishes to induce Employee to return to service as Chief Operating Officer and later, as President of Energetics;

WHEREAS, Employer is a wholly owned subsidiary of VSE Corporation, a Delaware corporation ("VSE" or "Parent Company"), which Parent Company together with its wholly owned subsidiaries, including Energetics, is referred to herein as the "Covered Company";

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 of VSE ("Change of 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 to engage objectively in any potential deliberations or negotiations respecting such Change in Control without fear of any direct or implied threat to employment, status and responsibilities; and

WHEREAS, Employee 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 31, 2007, except as otherwise provided in Section 7. If the term of Employee's employment hereunder shall have continued until January 31, 2007, 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 Employee or Employer, at least 60 days prior to the expiration of the original term or any such extended term, shall give written notice to the other party of intent 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 any extensions thereof.

2. Duties

(a) Offices

During the Term, Employee shall serve as Employer's Chief Operating Officer and commencing on a date prior to July 30, 2005, as Employer's President. Employer agrees that Employee will be assigned only duties of the type, nature and dignity normally assigned to someone in a comparable position at a corporation of the size, stature and nature of Employer. During the Term, Employee shall report to Energetics' President, and on assuming the duties of Energetics' President, shall report to the Energetics' board of directors (the "Board") and the Board's chairman (the "Chairman") for all operational and administrative matters concerning...
Energetics.

(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 duties hereunder or present a conflict of interest with the interests of any Covered Company.

3. Compensation

(a) Salary

During the Term, as compensation for services rendered by Employee hereunder, Employer shall pay to Employee a base salary of $175,000 per annum, payable in installments in accordance with Employer's policy governing salary payments to senior officers generally ("Base Salary"). Effective July 1 of every year during the Term, Employee's compensation, including Base Salary, will be subject to review.

(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 of Directors ("Performance Bonus"). Any Performance Bonus payable pursuant to this Section 3(b) shall be paid within 60 days after the end of the year 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.

(d) Consultation with VSE

It is understood that the Chairman and the Board will consult with VSE's board of directors and compensation committee in respect of review of Employee's Base Salary, Performance Bonus, and other benefits hereunder.

(e) 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 vacation benefits and 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 Employer. These fringe benefits and perquisites may include holidays, group health insurance, short-term and long-term disability insurance, life insurance, and profit sharing plan contributions.

5. Expenses and Other Perquisites. Employer shall reimburse Employee for all reasonable and proper business expenses incurred by him during the Term in the performance 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 Chairman's written consent provided that such prior consent shall not be required with respect to (1) business interests that neither compete with any Covered Company 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 Chairman'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 Employee's 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, partnership, limited liability company, trust, joint venture, or other entity (collectively a "Person") with which any Covered Company is currently or has previously done business or any subsequent line of business developed by Employee or any Covered Company 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 one percent of any such company's outstanding equity.

(b) Confidential Information

During the Term and the period commencing on the date of termination thereof and ending on the second anniversary of such termination date, 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, where such information is not generally known in the trade or industry or was regarded or treated as confidential by any Covered Company, and where such information refers or relates in any manner whatsoever to the business activities, processes, services or products of any Covered Company. 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 property of any Covered Company and all 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 any Covered Company, Employer or any other Covered Company might reasonably consider pursuing. Upon termination of the Term, regardless of the circumstances thereof, Employer or such other Covered Company 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 any Covered Company, and he shall avoid any acts or omissions which are disloyal to, or competitive with any Covered Company.

(d) Non-Solicitation of Employees

During the Term and until the second anniversary of the termination of the Term, Employee shall not, except in the course of duties hereunder, directly or indirectly, induce or attempt to induce or otherwise counsel, advise, ask or encourage any person to leave the employ of any Covered Company, or solicit or offer employment to any person who was employed by any Covered Company 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, before the second anniversary of such termination, engage in competition with any Covered Company, or solicit, from any Person who purchased any then existing product or service from any Covered Company during the Term, the purchase of any then existing product or service in competition with then existing products or services of any Covered Company.

(ii) For purposes of this Agreement, Employee shall be deemed to engage in competition with a Covered Company if Employee 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 engaged in providing technical and management services to any Person which any Covered Company, during the Term, has developed or is working to develop.

(f) Employee Acknowledgment

Employee hereby agrees and acknowledges that the restrictions imposed upon by the provisions of this Section 6 are fair and reasonable considering the nature
of the business of each Covered Company, and are reasonably required for each Covered Company'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 Employee breaches any of the provisions of this Section 6, the remedies available at law to Employer or Parent Company would be inadequate and in lieu thereof, or in addition thereto, Employer or Parent Company 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 and Parent Company 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 terminate the Term for Cause (as defined below) 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 or contrary to Employer's policy; (2) the breach or violation by Employee of this Agreement, provided that Employee must first be given notice by the Energetics President or the Chairman 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 duties hereunder, provided that Employee must be given notice by the Chairman 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 duties which materially affects the business of any Covered Company, provided that Employee must first be given notice by the Chairman 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 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, 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) five days' prior notice thereof and (b) on or prior to the Termination Date, a lump sum severance compensation payment equal to Employee's Base Salary as of the effective Termination Date (e.g., if the Base Salary was $175,000, Employee would be entitled to a lump sum severance payment of $175,000). 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 or longer if permitted under Employer's policies and procedures; (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, and reimbursements of incurred expenses; and (c) all stock options or similar rights to acquire capital stock granted by VSE to Employee shall automatically become vested and exercisable in whole or in part.

Notwithstanding anything herein to the contrary, the expiration or non-renewal of the Term by Employer or Employee pursuant to Section 1 shall not be considered a termination without Cause for the purposes of this Agreement, including Section 7(a)(ii).

(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 period of 365 consecutive days 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 Parent Company and one appointed by the Employee or 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 180 consecutive days, Employee (or designated beneficiary) will be paid his Base Salary then in effect for 365 days 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 60 days' written notice to the Chairman. If Employee exercises such termination right, Employer may, at its option, at any time after receiving such notice from Employee, relieve
Employee of all duties and terminate the Term at any time prior to the expiration of said notice period, and such termination shall not constitute a termination without Cause pursuant to this Agreement, including Section 7(a)(ii). 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, except standard medical and hospitalization benefits in accordance with Employer's policy.

(ii) If, during the Term, a Change of Control (as defined below) occurs, Employee may terminate the Term for Good Reason (as defined below) upon 30 days' notice to Employer. If Employee exercises such termination right, Employer may, at its option, at any time after receiving such notice from Employee, relieve Employee of all duties hereunder and terminate the Term at any time prior to the expiration of said notice period, and such termination shall not constitute a termination without Cause pursuant to this Agreement, including Section 7(a)(ii). However, if this Agreement is terminated by Employee or Employer pursuant to this Section 7(c)(ii), Employee shall be entitled to (a) payment on or prior to the Termination Date of a lump sum severance compensation payment equal to Employee's Annual Base Salary as of the Termination Date (e.g., if the Base Salary was $175,000, Employee would be entitled to a lump sum payment of $175,000); (b) continue the medical and hospitalization benefits in accordance with Employer's policy and to payment of all compensation and other benefits that shall have accrued as of the Termination Date, as described in Section 7(a)(ii)(l); 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 VSE to Employee; provided that Employee shall not be entitled, after the Termination Date to the accrual or provision of any other compensation payable hereunder, including the Performance Bonus.

(d) Change of Control and Good Reason

(i) 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:

(1) any "person," including a "group," as such terms are 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 VSE ("Voting Securities") under any VSE-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 45% or more of the outstanding Voting Securities;

(2) 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 45% or more of the outstanding Voting Securities;

(3) except in the case of a merger or consolidation in which (a) VSE 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), VSE's shareholders approve an agreement to merge, consolidate, liquidate, or sell all or substantially all of VSE's assets; or

(4) either a majority or three or more directors are elected to the VSE Board of Directors without having previously been nominated and approved by the members of the VSE Board of Directors incumbent on the day immediately preceding such election. For purposes of this Section 7, "affiliate" of a Person shall mean a Person that directly or indirectly controls, is controlled by, or is under common control with the Person or other entity specified.

(ii) For purposes of this Section 7, "Good Reason" shall mean after the occurrence of a Change in Control, any one or more of the following events has occurred:

(1) a material change in the nature of Employee's authorities, duties, responsibilities or status (including offices and titles) from those in effect immediately prior to the Change in Control;

(2) the relocation of Employee's place of employment to a location in excess of 75 miles from the place of Employee's employment immediately prior to the Change in Control, except for required travel on Employee's business to an extent substantially equivalent to Employee's business travel obligations immediately prior to the Change in Control; or

(3) any reduction by Employer of Employee's Base Salary or material reduction in Employee's incentive benefits from those in effect immediately prior to the Change in Control; or

(4) Employer breaches any obligation hereunder and such breach is not cured
within 30 days after Employer's receipt of notice thereof from Employee.

(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 damages hereunder.

(f) VSE Board Approval

Notwithstanding anything herein to the contrary, the Term shall expire as of March 31, 2005, if this Agreement has not been previously approved by VSE's board of directors, and any such termination shall not constitute a termination without Cause pursuant to this Agreement, including Section 7(a)(ii).

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 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 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 Chairman c/o Chief Executive Officer, VSE Corporation, 2550 Huntington Avenue, Alexandria, Virginia 22303-1499; or (b) if to Employee, to the 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.

ENERGETICS INCORPORATED, a Maryland corporation

By: /s/ R J KELLY

R. J. Kelly, President

By: /s/ James E. Reed

James E. Reed
CERTIFICATION PURSUANT TO
RULE 13A-14 OF THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, D. M. Ervine, Chairman, President, Chief Executive Officer and Chief Operating Officer of the Company, certify that:

1. I have reviewed this quarterly report on Form 10-Q of VSE Corporation (the "Registrant");

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this quarterly report;

4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Registrant and we have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   (b) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and

   (c) disclosed in this quarterly report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the Registrant's auditors and the audit committee of Registrant's Board of Directors (or persons performing the equivalent function):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Dated: April 27, 2005 /s/ D.M. Ervine

D. M. Ervine
Chairman, President,
Chief Executive Officer and
Chief Operating Officer
I, T. R. Loftus, Senior Vice President and Chief Financial Officer of the Company, certify that:

1. I have reviewed this quarterly report on Form 10-Q of VSE Corporation (the "Registrant");

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this quarterly report;

4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Registrant and we have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   (b) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and

   (c) disclosed in this quarterly report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the Registrant's auditors and the audit committee of Registrant's Board of Directors (or persons performing the equivalent function):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Dated: April 27, 2005

/s/ T. R. Loftus

T. R. Loftus
Senior Vice President and
Chief Financial Officer
(Principal Accounting Officer)
Pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as Chairman, President, Chief Executive Officer and Chief Operating Officer of VSE Corporation (the "Company"), does hereby certify that to the best of the undersigned's knowledge:

1) the Company's Quarterly Report on Form 10-Q for the quarter ending March 31, 2005 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

Dated: April 27, 2005 /s/ D. M. Ervine

D. M. Ervine
Chairman, President,
Chief Executive Officer and
Chief Operating Officer
Pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as Senior Vice President and Chief Financial Officer of VSE Corporation (the "Company"), does hereby certify that to the best of the undersigned's knowledge:

1) the Company's Quarterly Report on Form 10-Q for the quarter ending March 31, 2005 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

Dated: April 27, 2005     /s/ T. R. Loftus
T. R. Loftus
Senior Vice President and
Chief Financial Officer
(Principal Accounting Officer)