

VSE CORPORATION
2550 Huntington Avenue, Alexandria, Virginia 22303-1499

Notice of 1999
Annual Meeting of
Stockholders and
Proxy Statement

Fellow Stockholders:

You are cordially invited to attend the annual meeting of stockholders of VSE Corporation to be held on Thursday, May 6, 1999, commencing at 10:00 a.m., Washington, D.C. time, at the Hilton Alexandria (formerly Radisson Plaza Hotel) at Mark Center, 5000 Seminary Road, Alexandria, Virginia 22311. The matters expected to be considered at the annual meeting are described in the accompanying notice of meeting and proxy statement.

In addition, at the meeting we will review the activities of the company during the past year and its current activities. Stockholders will have an opportunity to ask questions. I hope you will be able to join us.

To ensure that your VSE common stock is voted at the meeting, please promptly sign and date the enclosed proxy card and return it in the enclosed envelope. Your vote is important.

Please note the location for this meeting. The Hilton Alexandria at Mark Center is located at 5000 Seminary Road, Alexandria, Virginia 22311, just off Interstate 395.

Very truly yours,

VSE CORPORATION

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

VSE CORPORATION
2550 Huntington Avenue, Alexandria, Virginia 22303-1499

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON MAY 6, 1999

To the Stockholders of VSE Corporation:

Notice is hereby given that the annual meeting of stockholders of VSE Corporation, a Delaware corporation ("VSE"), will be held on Thursday, May 6, 1999, commencing at 10:00 a.m., Washington, D.C. time, at the Hilton Alexandria at Mark Center, 5000 Seminary Road, Alexandria, Virginia 22311, for the following purposes:

1. To elect eight directors to serve until the next annual meeting of stockholders and until their successors are duly elected and qualified;

2. To ratify the appointment of Arthur Andersen LLP as VSE's independent certified public accountants for the year ending December 31, 1999; and
3. To transact such other business as may properly come before the meeting or any adjournment thereof.

Only record holders of VSE common stock as of the close of business on March 22, 1999, will be entitled to notice of, and to vote at, the annual meeting or any adjournments thereof. The list of stockholders entitled to vote at the meeting or any adjournments thereof will be open to the examination of any stockholder during the 10 days prior to the meeting at VSE's offices located at 2550 Huntington Avenue, Alexandria, Virginia 22303-1499, during ordinary business hours.

The VSE Corporation 1998 Annual Report to Stockholders, which contains consolidated financial statements and other information of interest to stockholders, accompanies this proxy material.

Whether or not you expect to attend the meeting, please promptly complete, sign, date and return the enclosed proxy. To return your proxy you may use the self-addressed envelope, which requires no postage if mailed within the United States of America. If you attend the meeting, you may, if you wish, withdraw your proxy and vote your shares personally.

By Order of the Board of Directors,

/s/ C. S. Weber

C. S. Weber
Secretary

April 6, 1999

VSE CORPORATION

PROXY STATEMENT
Annual Meeting of Stockholders
to be held on May 6, 1999

INTRODUCTION

General

This proxy statement is being furnished to the stockholders of VSE Corporation, a Delaware corporation ("VSE"), in connection with the solicitation of proxies by the board of directors of VSE (the "Board") for use at VSE's annual meeting of stockholders to be held on Thursday, May 6, 1999, commencing at 10:00 a.m., Washington, D.C. time, at the Hilton Alexandria at Mark Center, 5000 Seminary Road, Alexandria, Virginia 22311, and at any adjournments thereof (the "Meeting") for the purposes specified in the accompanying notice of meeting.

The mailing address of VSE's principal executive office is 2550 Huntington Avenue, Alexandria, Virginia 22303-1499. VSE's telephone number is (703) 960-4600. This proxy statement and the accompanying notice and form of proxy are first being provided to the holders of VSE common stock, par value \$.05 per share (the "stockholders"), on or about April 6, 1999.

The close of business on March 22, 1999, is the record date for the determination of stockholders entitled to notice of, and to vote at, the Meeting. Holders of a majority of the outstanding VSE common stock, par value \$.05 per share (the "Stock" or "VSE Stock"), as of March 22, 1999, must be present at the Meeting, either in person or represented by proxy, to constitute a quorum for the transaction of business.

As of the close of business on March 22, 1999, there were 2,114,905 shares of Stock outstanding and approximately 308 stockholders of record. Each

stockholder is entitled to one vote for each share of Stock held of record as of the close of business on March 22, 1999, on all matters which may be submitted to the stockholders at the Meeting.

Voting and Revocation of Proxies

All Stock represented by valid proxies will be voted at the Meeting in accordance with the directions on the proxies. If no direction is indicated on a proxy, the Stock represented thereby will be voted for (a) the election as VSE directors of the eight nominees listed below under "Election of Directors," and (b) the ratification of the appointment of Arthur Andersen LLP as VSE's independent certified public accountants for the year ending December 31, 1999, as discussed below.

Votes cast by proxy or in person at the Meeting will be tabulated by the inspectors of election appointed for the Meeting. The inspectors of election will treat abstentions as Stock that is present and entitled to vote for purposes of determining the presence of a quorum, but as unvoted for purposes of determining the approval of any matter submitted to stockholders for a vote. If a broker indicates on a proxy that such broker does not have discretionary authority as to certain Stock to vote on a particular matter, such shares will not be considered as present and entitled to vote with respect to such matter.

As of the date of this proxy statement, the Board does not intend to present, and has not been informed that any other person intends to present, any matter for action at the Meeting other than those specifically referred to herein. If, however, any other matters are properly presented to the Meeting for action, the proxy holders will vote the proxies, which confer authority on such holders to vote on such matters, in accordance with their best judgment. The persons named as attorneys-in-fact in the proxies are VSE officers.

A stockholder returning a proxy to VSE may revoke it at any time before it is exercised by granting a later proxy with respect to the same Stock or by communicating such revocation in writing to VSE's secretary. In addition, any stockholder who has executed a proxy but attends the Meeting may cancel a previously given proxy by voting in person whether or not the proxy has been revoked in writing.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding beneficial ownership of Stock as of March 22, 1999. The voting and investment powers of the Stock listed below are held solely by the reported owner unless otherwise indicated.

Name of Beneficial Owner	Shares beneficially owned	Percent of class
Certain Beneficial Owners		

VSE Corporation Employee ESOP/401(k) Plan (a)	688,522	32.6%
Non-employee Directors		

Calvin S. Koonce (b) (c)	405,423	19.2 %
Joseph M. Marchello (b)	15,968	*
David M. Osnos (b)	6,943	*
Jimmy D. Ross (b)	6,943	*
Bonnie K. Wachtel (b)	34,443	1.6%
Named Executive Officers and Other Directors		

Byron S. Bartholomew (b) (d)	42,031	2.0%
Donald M. Ervine (b)	88,859	4.2%
Robert J. Kelly (b)	9,193	*
James M. Knowlton (b)	41,748	2.0%
Richard B. McFarland (b)	44,499	2.1%
Mark A. Robin (b) (d)	29,661	1.4%

Group

 Directors, Nominees, and
 Executive Officers as a group
 (17 persons) (b) (e) 919,325 43.5%

* Represents less than 1% of outstanding Stock.

(a) These shares are held in trust for the benefit of the participants of the Plan. Three VSE officers serve as trustees of the Plan. The participants of the Plan have voting power over 627,363 shares allocated to their respective ESOP accounts, while the Plan trustees share voting and investment power over the remaining 61,159 shares. The mailing address for the Plan is 2550 Huntington Avenue, Alexandria, Virginia 22303-1499.

(b) Includes the following number of shares of stock which the non-employee directors, named executive officers, other directors, and all directors, nominees, and executive officers as a group (17 persons) have the right to purchase pursuant to the exercise of stock options which are or may become exercisable within the next 60 days: each of Calvin S. Koonce, Joseph M. Marchello, David M. Osnos, Jimmy D. Ross, and Bonnie K. Wachtel - - 6,943; Byron S. Bartholomew - 21,725, Donald M. Ervine - 50,412, Robert J. Kelly - 9,193, James M. Knowlton - 19,635, Richard B. McFarland - 26,085, Mark A. Robin - 18,010, and all directors, nominees, and executive officers as a group (17 persons) - 238,295.

(c) Mr. Koonce's mailing address is 6550 Rock Spring Drive, Suite 600, Bethesda, Maryland 20817.

(d) Excludes 61,363 shares beneficially owned or controlled as a trustee of the ESOP/401(k) Plan.

(e) The group, including the trustees of the ESOP/401(k) Plan, consists of 17 persons. The 919,029 shares beneficially owned include 61,363 shares beneficially owned or controlled by the trustees of the ESOP/401(k) Plan.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended ("Exchange Act"), requires VSE's officers and directors and persons who own more than 10% of VSE's Stock to file reports of ownership and changes in ownership with the Securities and Exchange Commission ("SEC"). Such officers, directors, and stockholders are required by SEC regulations to furnish VSE with copies of all such reports that they file. Based solely on a review of copies of reports filed with the SEC and written representations by certain officers and directors, VSE believes that all persons subject to the reporting requirements of Section 16(a) filed the reports on a timely basis.

Item No. 1

ELECTION OF DIRECTORS

Nominees

At the Meeting, stockholders will elect, by a plurality of the votes cast, eight VSE directors, who will constitute the entire Board. Each nominee listed below is currently serving as a VSE director and was elected by the stockholders at the last annual meeting of stockholders, except for James M. Knowlton who was appointed by the Board on February 3, 1999, to fill the vacancy occasioned by the retirement of Richard B. McFarland. Each nominee elected as a director will serve until the next annual meeting of stockholders and until his or her successor is elected and qualified. If any nominee should become unable to serve for any reason, the proxies will be voted for such substitute nominee as shall be designated by the Board.

The eight nominees for election as VSE directors and certain information regarding them are as follows:

Name and Principal Occupation	Age	Director since
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considers the organization and work of VSE's internal audit function, and monitors the extent to which the findings and recommendations of these groups have been implemented.

Compensation Committee. The compensation committee met two times during 1998 and consists solely of non-employee directors, including General Ross, Chairman, Mr. Koonce, Mr. Marchello, and Ms. Wachtel. The committee is primarily concerned with corporate compensation policies, including incentive compensation, and with the compensation of the chief executive officer and certain other executive officers and employees.

Nominating and Corporate Ethics Committee. The nominating and corporate ethics committee met twice during 1998 and consists of Admiral Kelly, Chairman, and Mr. Osnos. The committee is primarily concerned with making recommendations to the Board with respect to nominees to be proposed for election as directors and with corporate policies regarding, among other things, business conduct, securities trading, indemnification of VSE officers and directors, and conflicts of interest involving VSE officers, directors, and employees. Stockholders of VSE may recommend persons to be nominated for election as directors of VSE at the annual meeting of stockholders. To be considered, such recommendation must be submitted in accordance with VSE's by-laws and must be received in writing by the secretary of VSE generally by February 15th, but in any event no later than 90 days before the date in the current year which corresponds to the date on which the meeting was held during the immediate prior year.

Planning Committee. The planning committee met twice during 1998 and consists of Mr. Ervine (acting), Chairman, Mr. Koonce, Mr. Marchello, General Ross, and Ms. Wachtel. The committee is primarily concerned with making recommendations to the Board with respect to business development opportunities, including acquisitions.

Finance Committee. The finance committee met twice in 1998 and consists of Mr. Osnos, Chairman, Mr. Ervine, Mr. Koonce, and Ms. Wachtel. The committee is primarily concerned with making recommendations to the Board with respect to VSE's capitalization and long-term funding requirements.

VSE's chairman and chief executive officer (Mr. Ervine) is an ex officio member of all standing committees of the Board. Mr. Ervine does not participate in meetings or discussions of the compensation committee concerned with establishing his salary or bonus.

Board Meetings

During 1998 the Board held six regular meetings. No director attended fewer than 75% of the aggregate of (a) the total number of Board meetings held (during the period during which he or she has been a director) and (b) the total number of meetings held by all committees of the Board on which he or she served.

Compensation of Directors

Each non-employee director is compensated at an annual rate of \$17,200, prorated in the event of a partial year of service. Directors who are employees of VSE receive no additional compensation for service as a director. In addition, no compensation is paid to a director for personal services rendered to VSE pursuant to a consulting services agreement between the director and VSE or any of VSE's subsidiaries or divisions, unless authorized as a special assignment by the Board. No such authorization was requested for or on behalf of any director in 1998. The foregoing procedures do not restrict reimbursement for expenses incurred by a director for attending meetings of the Board or its authorized committees.

Pursuant to the VSE Corporation 1996 Stock Option Plan (the "1996 Plan"), each non-employee VSE director, including each of the non-employee directors named in the foregoing table, is granted an annual nondiscretionary, five-year option to purchase 750 shares of VSE Stock commencing January 1, 1997. Each nondiscretionary option is vested 25% immediately on date of grant and 25% on each successive anniversary date after the grant (100% vested after three years). Each nondiscretionary option price per share is not less than the fair market value of VSE Stock as of the date the option is awarded. See Security Ownership of Certain Beneficial Owners and Management above for further information on the stock

options held by each VSE director.

Pursuant to the VSE Corporation 1998 Stock Option Plan (the "1998 Plan"), each non-employee VSE director may be granted an additional annual nondiscretionary, five-year stock option to purchase VSE Stock, commencing on January 1, 1999. Each nondiscretionary option is vested 25% immediately on date of grant and 25% on each successive anniversary date after the grant (100% vested after three years). Each nondiscretionary option price per share is not less than the fair market value of VSE Stock as of the date the option is awarded. The aggregate number of shares covered by annual nondiscretionary options granted to each outside director pursuant to the 1996 Plan and the 1998 Plan may not exceed 750 shares per year.

See Security Ownership of Certain Beneficial Owners and Management above for further information on the stock options held by each VSE director.

Pursuant to the VSE Corporation 1998 Non-employee Directors Stock Plan (the "Directors Stock Plan"), each non-employee director has the ability to elect that payment of all or a portion of their annual compensation (currently \$17,200 per year) be paid in VSE Stock at fair market value determined in accordance with Section 7(a) of the Directors Stock Plan.

Certain Relationships and Related Transactions

Pursuant to an agreement dated as of October 21, 1998, Donald M. Ervine serves as the Chief Executive Officer of VSE at a base salary of \$254,000 per annum. Mr. Ervine is employed for a term ending on January 1, 2001, subject to automatic extensions for successive one-year periods unless notice to terminate is given by Mr. Ervine at least 90 days prior to the expiration of the term or any such one-year extension of the term. Mr. Ervine's base salary is subject to review in January of each year, provided that the base salary shall not be less than \$254,000 per annum. Mr. Ervine is also eligible to receive an annual performance bonus each year as determined by the Board or its compensation committee. Mr. Ervine's employment may be terminated by the Board for willful and gross misconduct and in the case of death or disability which prevents Mr. Ervine from substantially fulfilling his duties for a period in excess of six months. If Mr. Ervine's employment is terminated because of death or illness or disability, he or his beneficiary, as the case may be, will be paid his annual base salary then in effect for one full year from the date of death or disability. Mr. Ervine's employment may also be terminated without cause on 60 days prior notice and on payment of a lump sum severance compensation payment equal to two times his base salary then in effect. The agreement includes a covenant by Mr. Ervine not to be involved, directly or indirectly, in a business enterprise that competes with VSE during the term of his employment and for two years thereafter. Under the terms of the agreement, Mr. Ervine will be nominated to serve as a director and will be elected Chairman of the Board during the term of his employment. In the event of a change of control of VSE, as defined, if, without his consent, Mr. Ervine is assigned duties materially inconsistent with his position and status with VSE, Mr. Ervine may terminate the agreement and will be entitled to a lump sum severance compensation payment equal to three times his annual base salary then in effect. The October 21, 1998, agreement described above replaced and superseded on substantially the same terms and conditions a prior employment agreement with Mr. Ervine dated as of January 1, 1996.

Pursuant to an agreement dated as of January 1, 1996, Richard B. McFarland served as the President and Chief Operating Officer of VSE until his resignation, effective as of February 5, 1999.

Pursuant to an agreement dated as of January 15, 1999, Admiral Robert J. Kelly, U.S. Navy (Ret.), serves as President and Chief Operating Officer of Energetics Incorporated (Energetics), a wholly owned subsidiary of VSE. Admiral Kelly is employed for a term ending on January 1, 2002, subject to automatic extensions for successive one-year periods unless notice to terminate is given by either Admiral Kelly or Energetics at least 90 days prior to the expiration of the term or any such one-year extension of the term. Other terms and conditions of Admiral Kelly's agreement are substantially similar to those of Mr. Ervine's 1999 agreement except that (a) Admiral Kelly is employed at a minimum base salary of \$166,000 per annum, and (b) Admiral Kelly will be nominated to serve as a director of VSE and a director of Energetics during the term of the agreement.

Pursuant to separate agreements entered into in December 1997 and expiring on January 1, 1999, subject to automatic extensions for successive one-year periods unless notice to terminate is given at least 90 days prior to the expiration of the term or any such one-year extension of the term, each executive officer of VSE (nine persons, including Mr. Knowlton, but not including Mr. Ervine) entered into an agreement with VSE to continue to serve in the executive officer's current or comparable capacity. The terms and conditions the executive officer agreements are similar to those of Mr. Ervine's agreement except that (a) each of the executive officers is employed at a minimum base salary equal to the executive officer's annual base salary in effect on the date the agreement was signed, subject to annual and special reviews, (b) each of the executive officers will be renominated to serve in the executive officer's current or comparable capacity, (c) in the event of termination without cause, each executive officer's lump sum severance compensation payment shall equal his or her annual base salary then in effect, and (d) in the event of a change of control of VSE, as defined, each executive officer may terminate the agreement and will be entitled to a lump sum severance compensation payment equal to two times his or her annual base salary then in effect.

There is no family relationship between any director or executive officer of VSE and any other director or executive officer of VSE.

The law firm of Arent Fox Kintner Plotkin & Kahn, PLLC, of which Mr. Osnos is a senior member, has represented and is expected to continue to represent VSE on various legal matters.

VSE and the trustees of its employee benefit plans effect certain of their transactions in VSE stock and employee benefit plan investments, respectively, through Wachtel & Co., Inc., of which Ms. Wachtel is a director, officer and shareholder, and through Koonce Securities, Inc., which is wholly owned by Mr. Koonce.

The Board recommends a vote FOR the proposal to elect each of the eight persons nominated to serve as a director of VSE for the ensuing year, and your proxy will be so voted unless you specify otherwise.

Item No. 2

APPOINTMENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Based on the recommendation of its audit committee, the Board has appointed the firm of Arthur Andersen LLP to be VSE's independent certified public accountants for the year ending December 31, 1999, and recommends to stockholders that they vote for ratification of that appointment. Although not required to do so, the Board has determined that it would be desirable to request approval of this appointment by stockholders. The ratification of the appointment of VSE's independent certified public accountants will require the affirmative vote by the holders of a majority of the outstanding Stock present in person or represented by proxy at the Meeting. If such approval is not received, the Board will reconsider the appointment. In 1998 Arthur Andersen LLP services included an examination of VSE's consolidated financial statements, the financial statements of certain subsidiaries and benefit plans, and tax consulting.

A representative of Arthur Andersen LLP is expected to attend the Meeting, will have an opportunity to make a statement, if he or she desires to do so, and will be available to respond to appropriate questions.

The Board recommends a vote FOR the proposal to ratify the appointment of Arthur Andersen LLP to serve as VSE's independent certified public accountants for the year 1999, and your proxy will be so voted unless you specify otherwise.

COMPENSATION COMMITTEE REPORT

The Board has established a compensation committee to (a) review corporate compensation policies, including incentive compensation, (b) set the compensation of the chief executive officer (the "CEO"), and (c) review the compensation of certain other executive officers and employees. The committee is composed entirely of non-employee directors (see "Committees

of the Board" above).

Compensation Philosophy

VSE's overall compensation philosophy is based on aligning employee compensation with industry standards and with financial performance objectives established by the Board. Under the committee's supervision, VSE has established compensation policies designed (a) to attract and retain qualified executive and corporate officers and (b) to link total executive compensation to corporate goals and specific individual goals appropriate for each executive and corporate officer. The key elements of VSE executive compensation are base salary, a performance bonus, and a long-term incentive plan.

Base Salary

The base salaries for executive officers and other corporate officers are established primarily on comparability to the range of compensation paid by companies of similar size and industry, as determined by commercially available wage and salary surveys. Size is determined primarily by reference to annual revenues and number of employees. VSE's industry group is engineering and technical services (SIC Code 8711). National and geographic differences in compensation are considered based on the executive's primary area of operations and responsibility. VSE targets a salary range generally between the 25th and the 50th percentile indicated by such surveys.

During 1993 the committee approved a compensation plan whereby salary ranges and ceilings were set for each of six specified executive and corporate officer pay grades. The intent of this policy was to enhance corporate competitiveness by (a) holding base salaries within a fixed salary range and (b) emphasizing the incentive compensation provided by the performance bonus and long-term incentive bonus program.

Performance Bonus

Consistent with the emphasis placed on competitiveness by holding salary increases in check, the committee approved a performance bonus plan in 1993 based on achieving corporate and business unit goals. This plan provides for the payment of a performance bonus, generally not to exceed 30% of base salary, on meeting certain specified performance criteria. A performance bonus in excess of 30% of base salary may be authorized when required to comply with incentives established pursuant to a written acquisition or employment agreement and as authorized by the Board.

The performance criteria or factors used to administer the incentive bonus program are established with the executive officer or manager at the beginning of each year. The performance factors are weighted approximately as follows: 20% on achieving corporate revenue and profit targets, 20% on achieving business unit revenue and profit targets, 15% on achieving budgeted efficiency ratios or cost reduction targets within a business unit, and 45% on achieving specified performance objectives within the business unit, such as proposals submitted and won, new business development, and total quality management.

Except for the 20% weighting factor assigned for corporate revenue and profit goals, the factors and weightings used to measure the performance of an individual executive or corporate officer depend on the conditions and corporate objectives with respect to the business unit or administrative function in which the executive or corporate officer works.

Long-term Compensation

During 1997 and 1998 the Board recommended and the stockholders approved the adoption of the VSE Corporation 1998 Stock Option Plan (the "1998 Plan"). Under the 1998 Plan, an aggregate of 343,750 shares of VSE stock may be purchased pursuant to the grant of options. Approximately 15,625 of the shares covered by the 1998 Plan are available for nondiscretionary grants to non-employee directors of VSE, and approximately 328,125 of the shares are available for discretionary grants to executive officers and key employees.

During 1996 the Board recommended and the stockholders approved the adoption of the VSE Corporation 1996 Stock Option Plan (the "1996 Plan"). Under the 1996 Plan, an aggregate of 273,697 shares of VSE stock may be purchased pursuant to the grant of options. Approximately 20% of the shares covered by the 1996 Plan are available for nondiscretionary grants to non-

employee directors of VSE, and approximately 80% of the shares are available for discretionary grants to executive officers and key employees.

The purpose of the 1998 Plan and 1996 Plan (collectively, the "Plans") is to provide non-employee directors, executive officers, and key personnel with long-term performance incentives and an identity of interests with the stockholders. VSE operates in a highly specialized field in which success is substantially dependent on the expertise of qualified and highly motivated key personnel. Management believes that the Plans have been of material assistance in recruiting, motivating, and retaining key personnel. Prior to adoption of the 1996 Plan, VSE had no long-term compensation plan.

Discretionary stock options granted under the Plans are approved by VSE's compensation committee based on recommendations submitted by management based on the perceived long-term contribution of key personnel. The compensation committee independently determines the number of stock options to be awarded to the Chairman and CEO and to the President and COO. Awards of discretionary stock option grants approved by the compensation committee are subject to ratification by the Board.

All Other Compensation

All VSE officers are entitled to participate in all company fringe benefit programs, including the VSE ESOP/401(k) plan, which is an IRS qualified plan available to all eligible employees. Amounts contributed to the VSE ESOP/401(k) on behalf of the named executive officers are included in the "Summary Compensation Table."

VSE has a non-qualified Deferred Supplemental Compensation Plan (the "DSC Plan") for all VSE officers to replace the former deferred compensation plan (the "DCU Plan"). The DSC Plan provides, at the Board's discretion, for an annual bonus pool not to exceed 12% of VSE's consolidated net income for the year. The annual bonus pool is allocated to the participant accounts of corporate officers in proportion to the ratio of the officer's performance bonus for the year (see "Performance Bonus" above) to total officer performance bonuses for the year. Pursuant to the DSC Plan, a bonus pool of approximately \$144,000 was authorized for 1998 for allocation to about 22 participant officer accounts. Benefits under the DSC Plan and predecessor DCU Plan are payable to the participant on retirement or resignation, subject to a vesting schedule, non-competition agreement, and other plan provisions, or in the event of a change of control of VSE. Amounts contributed to the DSC Plan on behalf of the named executive officers are included in the Summary Compensation Table.

Chief Executive Officer Compensation

During 1998, 1997 and 1996, Mr. Ervine, VSE's chairman and chief executive officer ("CEO"), was compensated in accordance with an employment agreement negotiated and approved by VSE's compensation committee in 1995 and dated as of January 1, 1996. Pursuant to the 1996 employment agreement, Mr. Ervine served as the Chief Executive Officer of VSE and was paid a minimum base salary of \$225,000 per annum for a term ending on January 1, 1999, subject to extension. Effective January 1, 1999, VSE entered into a new employment agreement with Mr. Ervine extending through January 1, 2002, and subject to automatic extensions for successive one-year periods unless notice to terminate is given at least 90 days prior to the expiration of the term or any such one-year extension of the term. The January 1, 1999, employment agreement provides for a minimum base salary of \$254,000, with other terms and conditions substantially similar to the predecessor January 1, 1996, employment agreement (see "Certain Relationships and Related Transactions" above for a description of the employment agreements).

The CEO's performance bonus for each of the years presented was determined by the committee on the basis of five factors of approximately equal weight: revenue growth, return on equity, return on sales, leadership, and long-term stockholder goals. The first three factors are measured based on interim consolidated financial statements or management reports which are subject to adjustment based on annual audited financial statements. The last two factors are subjective measures evaluated by the committee in executive session. For 1998, the Compensation Committee recommended a bonus of \$175,000 for the CEO, based on VSE's return to profitability and other efforts to increase stockholder value. The Compensation Committee also set the CEO's base salary for 1999 at \$254,000, a 4% increase over the 1998 rate. For 1997 the CEO did not receive a performance bonus due to reported losses by the

company on a consolidated basis, whereas a bonus of \$125,000 was recommended for 1996 based on the five factor analysis described above.

Pursuant to the 1998 Plan, the committee recommended that the CEO be awarded a discretionary stock option covering 7,000 shares of VSE Stock, effective January 1, 1998.

The 1998 base salary, performance bonus, and discretionary stock option grant recommended for Mr. McFarland, VSE's former President and Chief Operating Officer, were based on similar reviews and criteria as for the CEO.

Compensation Committee: Jimmy D. Ross (Chair), Calvin S. Koonce, Joseph M. Marchello, Bonnie K. Wachtel

Compensation Committee Interlocks and Insider Participation

Mr. Koonce is a major stockholder of VSE. See "Security Ownership of Certain Beneficial Owners and Management." The trustees of VSE's employee benefit plans effect certain of their transactions through Koonce Securities, Inc., which is wholly owned by Mr. Koonce, and through Wachtel & Co., Inc., of which Ms. Wachtel is a director, officer, and shareholder.

Mr. Osnos is a senior member of the law firm of Arent Fox Kintner Plotkin & Kahn, PLLC, which has represented and is expected to continue to represent VSE on various legal matters. See "Certain Relationships and Related Transactions."

VSE's chairman and chief executive officer (Mr. Ervine) is an ex officio member of all Board committees, including the compensation committee. Mr. Ervine does not participate in meetings or discussions of the compensation committee concerned with establishing his salary or bonus.

Summary Compensation Table

<TABLE>

The following table reports the compensation paid for the past three years for each of the five most highly compensated VSE executive officers, including the chief executive officer.

<CAPTION>

Name and Principal Position	Fiscal Year	Long-term Compensation			Options (#)	Other Compensation (\$)(*)
		Annual Compensation (\$)	Bonus (\$)	Awards (\$)		
Donald M. Ervine Chairman of the Board and Chief Executive Officer	1998	246,100	175,000	7,000	108,912	
	1997	234,000	-0-	4,000	3,000	
	1996	225,000	125,100	39,412	31,042	
Richard B. McFarland President and Chief Operating Officer (retired February 1999)	1998	193,500	85,000	-0-	94,400	
	1997	182,000	30,000	3,750	21,000	
	1996	175,000	100,000	22,335	43,433	
Byron S. Bartholomew Executive Vice President and Marketing Director	1998	158,000	34,600	2,000	55,417	
	1997	150,800	25,000	3,125	8,608	
	1996	139,400	12,700	17,080	31,100	
James M. Knowlton President and Chief Operating Officer** (effective February 1999)	1998	139,900	45,000	6,000	41,700	
	1997	130,000	25,000	3,125	3,000	
	1996	130,000	50,000	10,510	14,217	
Mark A. Robin Senior Vice President, Human Resources, and President, Human Resource Systems, Inc.	1998	139,100	45,000	5,000	40,700	
	1997	106,080	40,000	2,500	18,459	
	1996	93,600	20,000	10,510	16,640	

(*) The column headed "All Other Compensation" includes (a) contributions made

by VSE to two "defined contribution" employee benefit plans: the VSE Employee ESOP/401(k) Plan, which is generally available to all VSE employees, and the DSC Plan (see plan description in the "Compensation Committee Report"); (b) cash paid for unused accumulated personal leave; (c) an imputed, taxable housing benefit of \$18,000 for Mr. McFarland for 1998 through 1996 for occupancy of a VSE condominium in Alexandria, Virginia, and (d) the fair market value of VSE Stock grants paid in 1998 as follows: Mr. Ervine - 4,000 shares, Mr. McFarland - 3,750 shares, Mr. Bartholomew - 3,125 shares, Mr. Knowlton - 3,125 shares, and Mr. Robin - 2,500 shares.

(**) Mr. Knowlton has served as VSE's President and Chief Operating Officer since February 1999. Prior to February 1999, he served as VSE's Executive Vice President and Deputy Chief Operating Officer (since 1997) and as General Manager of VSE's BAV Division since (since 1995).

</TABLE>

Option Grants in Last Fiscal Year

<TABLE>

The following table reports the options granted in fiscal year 1999 for each of the five most highly compensated VSE executive officers, including the chief executive officer.

<CAPTION>

Name	Potential realizable value -----Individual Grants----- at assumed annual rates of stock appreciation for option term						
	% of Total Options Granted to	Hypothetical value realized at	Hypothetical value realized at				
Name	Options Granted (#)*	Employees in Fiscal Year	Exercise Price (\$/share)	Expiration Date	5% stock appreciation (\$)	10% stock appreciation (\$)	
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Donald M. Ervine	7,000	10.6%	10.93	12/31/03	21,130	46,710	
Richard B. McFarland	-0-	--	--	--	--	--	
Byron S. Bartholomew	2,000	3.0%	10.93	12/31/03	6,040	13,346	
James M. Knowlton	6,000	9.1%	10.93	12/31/03	18,119	40,037	
Mark A. Robin	5,000	7.6%	10.93	12/31/03	15,099	33,364	

* Non-qualified stock options which became 25% exercisable on award date (1/1/99) and 25% exercisable on each of the first three anniversary dates thereafter (1/1/00, 1/1/01, and 1/1/02), except in the event of a change in control of VSE, in which case such options become immediately exercisable.

</TABLE>

Aggregate Options Exercised in Last Fiscal Year and Fiscal Year-end Option Values

<TABLE>

The following table reports the options exercised, exercisable, and unexercisable as of the end of VSE's fiscal year 1998 for each of the five most highly compensated VSE executive officers, including the chief executive officer.

<CAPTION>

Name	Value of unexercised Number of unexercised in-the-money* options at 12/31/98(#) options at 12/31/98(\$)						
	Shares acquired on exercise(#)	Value realized(\$)	Exercisable	Unexercisable	Exercisable	Unexercisable	
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Donald M. Ervine	--	--	31,559	11,853	21,549	9,962	
Richard B. McFarland	--	--	18,626	7,459	13,757	7,191	
Byron S. Bartholomew	--	--	14,372	5,833	10,789	5,767	
James M. Knowlton	--	--	9,445	4,190	7,891	4,801	
Mark A. Robin	--	--	9,132	3,878	7,240	4,150	

* Based on a closing VSE stock price of \$11.50 per share on December 31, 1998 (Nasdaq).
</TABLE>

Performance Graph

Set forth below is a line graph comparing the cumulative total return of VSE Stock with (a) a performance index for the broad market in which VSE Stock is traded and (b) a published industry index. VSE Stock is traded on the Nasdaq Stock Market, and VSE's 4-digit industry SIC Code is 8711, Engineering Services. Accordingly, the performance graph compares the cumulative total return for VSE Stock with (a) an index for the Nasdaq Stock Market (U. S. companies) ("Nasdaq Index") and (b) a published industry index for SIC Code 8711 ("Industry Index").

[insert graph]

* Total return assumes reinvestment of dividends and assumes \$100 invested on December 31, 1993, in VSE Stock, the Nasdaq Index, and the Industry Index.

Performance Graph Table

	1993	1994	1995	1996	1997	1998
VSE Stock	100	125	243	292	225	272
Nasdaq Index	100	105	136	169	207	292
Industry Index	100	70	88	104	126	118

STOCKHOLDER PROPOSALS

Proposals of stockholders intended to be presented at VSE's 1999 annual meeting of stockholders must be received by VSE's secretary at its principal executive offices, 2550 Huntington Avenue, Alexandria, Virginia 22303-1499, by no later than the close of business on December 7, 1999, to be considered for inclusion in VSE's proxy material relating to such meeting.

OTHER MATTERS

VSE will bear the costs of the solicitation of proxies for use at the Meeting. In addition to the use of the mails, proxies may be solicited by personal interview, telephone and telegram by directors, officers and employees of VSE. Arrangements will also be made with brokerage houses and other custodians, nominees, and fiduciaries, who are record holders of Stock, for forwarding solicitation material to the beneficial owners of the Stock. VSE will, on the request of such record holders, pay the reasonable expenses for completing the mailing of such materials to the beneficial owners.

Please sign and promptly return your proxy in the enclosed envelope. Your vote is important.

By Order of the Board of Directors,

/s/ C. S. Weber

C. S. Weber, Secretary

April 6, 1999

