SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the Quarter Ended June 30, 1999 Commission File Number: 0-3676

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

DELAWARE	54-0649263
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
2550 Huntington Avenue Alexandria, Virginia	22303-1499
(Address of Principal Executive Offices)	(Zip Code)

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes [x] No [ ]

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

<TABLE>
VSE Corporation and Subsidiaries
Consolidated Financial Statements (Unaudited)

Consolidated Balance Sheets

(in thousands, except share amounts)
<CAPTION>

<S>	June 30, 1999 <C>	December 31, 1998 <C>
Assets		
Current assets:		
Cash and cash equivalents	$ 58	$ 49
Accounts receivable, principally U.S. Government, net	25,857	34,105
Deferred tax assets	995	403
Other current assets	1,610	1,266
Total current assets	28,520	35,823
Property and equipment, net	4,773	4,480

Deferred tax assets	322	208
Intangible assets, net	1,269	2,836
Other assets	2,714	2,777
Assets of business transferred under contractual arrangements	800	1,124
Total assets	$ 38,398	$ 47,248
Liabilities and Stockholders' Investment		
Current liabilities:		
Current portion of long-term debt	$ 1,333	$ 1,333
Accounts payable and other current liabilities	8,645	12,063
Accrued expenses	6,620	5,935
Dividends payable	76	77
Net liabilities of business transferred under contractual arrangements	0	6,747
Total current liabilities	16,674	26,155
Long-term debt	6,006	5,370
Deferred compensation	1,788	1,871
Total liabilities	24,468	33,396
Commitments and contingencies		
Stockholders' investment:		
Common stock, par value $.05 per share, authorized 5,000,000 shares; issued 2,186,905 shares in 1999 and 1998	109	109
Paid-in surplus	3,832	3,832
Retained earnings	10,781	10,703
Treasury stock, at cost (72,000 shares in 1999 and 1998)	(792)	(792)
Total stockholders' investment	13,930	13,852
Total liabilities and stockholders' investment	$ 38,398	$ 47,248

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<TABLE>
VSE Corporation and Subsidiaries
Consolidated Financial Statements (Unaudited)

Consolidated Statements of Income For the three and six months ended June 30,

(in thousands, except share amounts)
<CAPTION>

	1999		1998	
	Three Months	Six Months	Three Months	Six Months
<S>	<C>	<C>	<C>	<C>
Revenues, principally from contracts	$ 46,050	$ 86,239	$ 38,385	$ 79,216
Costs and expenses of contracts	44,586	83,979	37,111	76,705
Gross profit	1,464	2,260	1,274	2,511
Selling, general and administrative expenses	333	492	161	296
Loss on CMstat operations	1,183	1,499	720	1,508
Interest expense	67	27	33	15
Pretax income (loss)	(119)	242	360	692

Provision (benefit) for income taxes	(142)	13	171	325
Net income	$ 23	$ 229	$ 189	$ 367
Basic earnings per share:				
Net income	$ .01	$ 0.11	$ 0.09	$ 0.17
Diluted earnings per share:				
Net income	$ .01	$ 0.11	$ 0.09	$ 0.17
Weighted average shares outstanding:	2,114,905	2,114,905	2,132,061	2,130,353

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<TABLE>

VSE Corporation and Subsidiaries

Consolidated Financial Statements (Unaudited)

Consolidated Statements of Stockholders' Investment

(in thousands)

<CAPTION>

	Common Stock Shares	Common Stock Amount	Paid-In Surplus	Retained Earnings	Treasury Stock	ESOP Obligation
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at December 31, 1997	2,165	$ 108	$ 3,631	$ 9,422	$ --	$ (680)
Net income for the year	--	--	--	1,595	--	--
ESOP Obligation	--	--	--	--	--	(112)
Purchase of Treasury Stock	--	--	--	--	(792)	792
Issuance of stock	22	1	201	--	--	--
Dividends declared ($.144)	--	--	--	(314)	--	--
Balance at December 31, 1998	2,187	109	3,832	10,703	(792)	0
Net income for the period	--	--	--	229	--	--
Dividends declared ($.072)	--	--	--	(151)	--	--
Balance at June 30, 1999	2,187	$ 109	$ 3,832	$ 10,781	$ (792)	$ 0

</TABLE>

<TABLE>

VSE Corporation and Subsidiaries

Consolidated Financial Statements (Unaudited)

Consolidated Statements of Cash Flows For the six months ended June 30,

(in thousands)

<CAPTION>

<S>	1999 <C>	1998 <C>
Cash flows from operating activities:		
Net income (loss)	$ 229	$ 367
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	844	759
Deferred compensation plan expense	23	72
Change in assets and liabilities		
(Increase) decrease in:		
Accounts receivable	8,248	(1,689)
Other current assets and noncurrent assets	1,157	(919)
Deferred taxes, net	(706)	381
Increase (decrease) in:		
Accounts payable and other current liabilities	(3,437)	(3,443)
Accrued expenses	685	286
Net liabilities of business transferred under contractual arrangements	(6,765)	958
Net cash provided by (used in) operating activities	278	(3,228)
Cash flows from investing activities:		
Purchase of property and equipment, (net of dispositions)	(666)	(220)
Net (payments of) proceeds from deferred compensation	(87)	119
Net cash used in investing activities	(753)	(101)
Cash flows from financing activities:		
Net proceeds from bank loan	636	3,710
Stock grants	0	202
Advance to ESOP	0	(112)
Cash dividends paid	(152)	(158)
Net cash provided by financing activities	484	3,642
Net increase in cash and cash equivalents	9	313
Cash and cash equivalents at beginning of period	49	15
Cash and cash equivalents at end of period	$ 58	$ 328

</TABLE>

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

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six month period ended June 30, 1999 are not necessarily indicative of the results that may be expected for the year ending December 31, 1999. For further information refer to the consolidated financial statements and footnotes thereto included in the VSE Corporation Annual Report on Form 10-K for the year ended December 31, 1998.

Use of Estimates in the Preparation of Financial Statements

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

Litigation

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

Segment Information

Prior to May 21, 1999, VSE had two reportable segments: the engineering, logistics, management, and technical services segment ("ELMTS"), which provides diversified engineering, technical, and management services principally to agencies of the United States Government and to other government prime contractors; and the software products and services segment ("SPS"), which provides application software and services related to the installation of the software to primarily commercial customers.

On May 21, 1999, the company sold all of its interests in the SPS segment for an $800 thousand promissory note and certain fixed assets valued at approximately $342 thousand. The sale is a divestiture for legal and tax

purposes but not for accounting purposes. The sale is not afforded treatment of a discontinued operation for accounting purposes under Staff Accounting Bulletin No. 30, " Accounting for Divestiture of a Subsidiary or Other Business Operation" ("SAB No. 30") since the sale did not transfer the risks of ownership as it is interpreted under SAB No. 30, because the sales price is primarily dependent on the buyer's ability to repay the promissory note.

As such, the results of the SPS segment will be included in the company's financial statements and are presented as the single line item "Loss on CMstat operations" in the Consolidated Statement of Income. The assets and liabilities are presented as separate line items in the Consolidated Balance Sheet as "Assets of business transferred under contractual arrangements" and "Net liabilities of business transferred under contractual arrangements", respectively.

The accounting policies are the same as those described in the summary of significant accounting policies for each segment. VSE's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies. The software products and services segment was acquired as a unit, and the management has been maintained separately since the acquisition.

<TABLE>
The following table presents revenues and other financial information by business segment for the three and six month periods ended June 30, 1999 and June 30, 1998, in thousands:
<CAPTION>

Three months ended June 30, 1999	ELMTS	SPS	Total
<S>	<C>	<C>	<C>
Revenues from unaffiliated customers	$ 46,050	$ 174	$46,224
Interest expense	27	40	67
Depreciation and amortization	423	39	462

Operating income (loss)	1,103	(1,222)	(119)
Expenditures for capital assets	461	12	473

Six months ended June 30, 1999	ELMTS	SPS	Total
<S>	<C>	<C>	<C>
Revenues from unaffiliated customers	$ 86,239	$ 902	$87,141
Interest expense	27	128	155
Depreciation and amortization	844	105	949
Operating income (loss)	1,720	(1,478)	242
Expenditures for capital assets	819	25	844

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

Three months ended June 30, 1998	ELMTS	SPS	Total
<S>	<C>	<C>	<C>
Revenues from unaffiliated customers	$ 38,385	$ 645	$39,030
Interest expense	15	136	151
Depreciation and amortization	379	61	440
Operating income (loss)	1,080	(720)	360
Expenditures for capital assets	107	27	134

Six months ended June 30, 1998	ELMTS	SPS	Total
<S>	<C>	<C>	<C>
Revenues from unaffiliated customers	$ 79,216	$1,478	$80,694
Interest expense	15	237	252
Depreciation and amortization	759	121	880
Operating income (loss)	2,119	(1,427)	692
Expenditures for capital assets	222	33	255

</TABLE>

VSE CORPORATION AND SUBSIDIARIES
Management Discussion and Analysis

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

Engineering, logistics, management and technical services including information technology services are provided by VSE and by each of its subsidiaries and divisions including Energetics Incorporated ("Energetics"), Human Resource Systems, Inc. ("HRSI"), BAV Division ("BAV"), Fleet Maintenance Division ("Fleet Maintenance") formed in June 1999, GSA IT Services Division formed in January 1999, Indian Head Division ("Ordnance"), and Value Systems Services Division ("VSS"), unincorporated divisions of VSE. One other VSE subsidiary, Ship Remediation and Recycling, Inc. ("SRR") (formerly VSE Services Corporation ("VSES")) is not currently active.

Software products and services include sales of developed software products and the services related to the installation and use of the software. This is the primary business of VSE's former subsidiary CMstat Corporation ("CMstat"), sold in May 1999. (See "Divestiture" below).

<TABLE>
The following table sets forth certain items including consolidated revenues,

pretax income and net income, and the changes in these items by segment for the three and six month periods ended June 30, 1999 and 1998 (in thousands). The revenues, pretax losses and net losses of the SPS segment for the three and six month periods ended June 30, 1999 include the activity of CMstat through May 21, 1999.

<CAPTION>

	Three Months Ended June 30, 1999	Three Months Ended June 30, 1998	Six Months Ended June 30, 1999	Six Months Ended June 30, 1998	1999 Compared to 1998 Three Months	1999 Compared to 1998 Six Months
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Engineering, Logistics, Management and Technical Services Segment:						
Revenues	$46,050	$38,385	$86,239	$79,216	$ 7,665	$7,023
Pretax income	$ 1,103	$ 1,080	$ 1,720	$ 2,119	$ 23	$ (399)
Provision for income taxes	413	433	683	874	(20)	(191)
Net income	$ 690	$ 647	$ 1,037	$ 1,245	$ 43	$ (208)

VSE CORPORATION AND SUBSIDIARIES
Management Discussion and Analysis

	Three Months Ended June 30, 1999	Three Months Ended June 30, 1998	Six Months Ended June 30, 1999	Six Months Ended June 30, 1998	1999 Compared to 1998 Three Months	1999 Compared to 1998 Six Months
Software Products and Services Segment:						
Revenues	$ 174	$ 645	$ 902	$ 1,478	$ (471)	$ (576)
Pretax loss	$(1,222)	$ (720)	$(1,478)	$(1,427)	$ (502)	$ (51)
Benefit for income taxes	(555)	(262)	(670)	(549)	(293)	(121)
Net loss	$ (667)	$ (458)	$ (808)	$ (878)	$ (209)	$ 70

</TABLE>

RESULTS OF OPERATIONS

The discussion and analysis which follows is intended to assist in understanding and evaluating the results of operations, financial condition, and certain other matters of the company. The company is engaged principally in providing engineering, testing, and management services to the U. S. Government (the "government") and software products and related services to commercial customers. All significant intercompany transactions have been eliminated in consolidation. Certain prior year balances have been reclassified for comparative purposes.

Engineering, Logistics, Management and Technical Services Segment

Revenues for this segment for the three and six month periods ending June 30, 1999 increased by approximately 20% and 9%, respectively, as compared to the same periods of 1998. The increase in revenues is primarily due to the timing of BAV revenue from quarter to quarter. (See "BAV Contract" below). The increase in revenue was partially offset by a decrease in the revenue of VSE.

Pretax income for this segment increased by approximately 2% for the three month period and decreased by approximately 19% for the six month period ended June 30, 1999 as compared to the same periods of 1998. The decrease for the six month period was due primarily to the decrease in work performed by VSE in 1999 without a corresponding timely decrease in indirect costs. In addition to the sale of the SPS segment (See "Divestiture" below), the company is continuing the process of restructuring which includes continued emphasis and focus on decreasing its indirect costs. The increase for the three month period was due to the increased profitability of BAV and some of the other VSE divisions, which offset the reduced profitability of VSE.

The largest customer for the engineering, logistics, management and technical services rendered by the company is the U.S. Department of Defense ("Defense"), including agencies of the U.S. Army, Navy, and Air Force. VSE's engineering services revenues have historically been subject to annual fluctuations resulting from changes in the level of Defense spending. Accordingly, there can be no assurance that future reductions in Defense spending will not have a material adverse impact on the company's results of operations or financial position.

Substantially all of the company's revenues from this segment depend on the award of new contracts, on current contracts not being terminated for the convenience of the government, on the exercise of option periods, and the satisfaction of incremental funding requirements on current contracts. In 1999 and 1998, the company did not experience any termination of contracts for the convenience of the government or any non-exercise of option periods on current contracts which were material to the company's ongoing results of operations or financial position.

BAV Contract. In August 1995, VSE's BAV Division was awarded a contract with the U.S. Navy to provide engineering, technical and logistical support services associated with the sale, lease, or transfer of Navy ships to foreign governments. BAV began work on the contract in September 1995. This contract has the potential, if all options are exercised, to generate revenues in excess of one billion dollars over a ten year period from 1995 through 2005.

The contract accounted for approximately 56% and 50% of consolidated revenues from operations during the six month periods ended June 30, 1999 and 1998, respectively. The level of revenues generated by this contract will vary depending on a number of factors including the timing of ship transfers and associated support services ordered by foreign governments and economic conditions of potential customers worldwide. The company has experienced significant quarterly revenue fluctuations and anticipates that future quarterly revenues will be subject to significant variations primarily due to changes in the level of activity on this contract.

Software Products and Services Segment

The company sold its CMstat subsidiary in May 1999. (See "Divestiture" below). The revenues and pretax losses of this segment for the three and six month periods ended June 30, 1999 include the activity of CMstat through May 21, 1999, and the pretax loss includes a loss on sale. Accordingly, year to year comparisons of revenue and income for this segment are not meaningful. As a result of the sale of CMstat, the company will no longer have any active business operations in the software products and services segment. The company's 1999 quarterly operating results for the SPS segment, are therefore not a good indicator of future quarterly results.

Divestiture

On May 21, 1999, VSE sold its wholly owned subsidiary CMstat Corporation which comprised 100% of the business activity of the SPS segment. Under terms of the sale, VSE transferred approximately 100% of the outstanding capital stock of CMstat to a company wholly-owned by CMstat's CEO in exchange for fixed assets valued at approximately $342 thousand and an $800 thousand promissory note for which principal and interest is payable in installments between September 1, 1999 and May 20, 2006. The transaction resulted in a net loss of approximately $574 thousand to VSE.

Liquidity and Capital Resources

Cash and cash equivalents increased by approximately $10 thousand during the six month period ended June 30, 1999. Cash used in investing activities of approximately $750 thousand was financed by cash provided by financing activities of approximately $480 thousand and cash provided by operating activities of approximately $280 thousand. Significant investing activities included purchases of property and equipment of approximately $670 thousand. Significant financing activities included increased borrowing on the company's bank loan, including commitments for checks outstanding, of approximately $640 thousand.

A net increase in cash and cash equivalents of approximately $310 thousand during the six month period ended June 30, 1998 resulted from approximately $3.6 million provided by financing activities, approximately $3.2 million used in operating activities and approximately $100 thousand used in investing activities.

Significant financing activities included increased borrowing on the company's bank loan, including commitments for checks outstanding, of approximately $3.7 million. Significant investing activities included purchases of property and equipment of approximately $220 thousand.

The difference between the cash provided by operating activities of approximately $280 thousand in 1999 as compared to the cash used in operating activities of approximately $3.2 million in 1998 is primarily due to the reduction in assets associated with the sale of CMstat and to changes in the levels of accounts receivable and accounts payable associated with fluctuations in BAV contract activity.

The company's principal requirements for cash are to finance the costs of operations pending the collection of accounts receivable, to acquire capital assets for office and computer support, to pay cash dividends, and to finance internal research and development. Performance of work under the BAV contract has the potential to cause substantial requirements for cash; however, management believes that the cash flows from future operations and the bank term loan and revolving loan commitment are adequate to meet current operating cash requirements.

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

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

VSE CORPORATION AND SUBSIDIARIES
Management Discussion and Analysis

Quarterly cash dividends at the rate of $.036 per share were declared during the three month period ended June 30, 1999. Pursuant to its bank loan agreement, the payment of cash dividends by VSE is subject to a maximum annual rate. VSE has paid cash dividends each year since 1973.

ESOP Advances

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

Inflation and Pricing Policy

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

Global Economic Conditions

VSE's business is subject to the risks arising from global economic conditions associated with potential foreign customers served through VSE's contracts with the U.S. Government. Adverse economic conditions in certain parts of the world could potentially affect BAV sales. Management is unable to predict what, if any, impact such conditions may have on the company's financial position or results of operations.

Year 2000

Overview. The "Year 2000" issue, or the inability of many computerized systems to properly recognize a date in the year 2000, could potentially affect the company's ability to perform many common business functions. The company recognizes the impact that this could have on its operating and financial results and has implemented a Year 2000 Action Plan ("Y2K Plan") to address the issue. The Y2K Plan includes: 1) Assignment of compliance responsibilities to operating managers, staff directors, information technology staff, contract administration and procurement staff, and the Comptroller. Additionally, the company has assigned a Senior Vice President to serve as the Y2K Coordinator, with responsibility for ensuring development

and implementation of the Y2K Plan; 2) Development of a Y2K Communications System to ensure proper information dissemination and reporting with regard to Year 2000 compliance efforts; and 3) Development and implementation of a Year 2000 Compliance Program ("Y2K Program").

State of Readiness. Ongoing assessments of the impact of the Year 2000 issue on systems and operations have been formalized into the Y2K Program. The Y2K Program includes phases for awareness, inventory and assessment, correction and renovation (including validation and testing and implementation), and contingency planning.

Awareness. Managers have been informed about the nature of the Year 2000 problem and what efforts the company is undertaking to address it. This includes: distribution of reference materials and lists of vendor certified Year 2000 compliant hardware, equipment, and software; selection of contact points for each location and organization for Year 2000 compliance issues; and assignment of responsibility for ensuring that operations are not disrupted or are only minimally affected. At this time, all of the company's initially identified efforts associated with the awareness phase have been completed. Additional awareness efforts, if any, will be made as they become known.

Inventory and Assessment. Identification has been made of all "Mission Critical" actions or functions and of all hardware, equipment, software, and embedded systems used to conduct the "Mission Critical" actions or functions. "Mission Critical" is defined as an action or function that must happen in order to serve a customer or line of business comprising more than 10% of the revenue base or pre-tax profit of an organization within the company. This phase includes: 1) Developing inventory listings of all hardware, equipment, software, embedded systems, operating systems, custom user applications, and contract obligations having a Year 2000 impact; 2) Analyzing and developing corrective actions for each of the items on the inventory listings; 3) Procuring programs and tools to provide compliance for the items on the inventory listings; and 4) Surveying manufacturers and vendors to obtain certification of their products as Year 2000 compliant. The inventory and assessment phase is approximately 100% complete. Analysis of the items on the inventory listing has been done primarily using internally administered programs supplied by independent outside sources. Approximately 99% of the hardware, equipment, and embedded systems and approximately 90% of the software, operating systems, custom user applications and contract obligations on the inventory listing have been found to be Year 2000 compliant.

Correction and Renovation. The items identified in the inventory and assessment phase have been redesigned, repaired, converted, or replaced, as necessary, to ensure Year 2000 compliance. Corrections and renovations are documented and this documentation is distributed to the affected managers and staff. Testing plans are developed and validation and testing occurs. Risk analysis is conducted and contingency planning issues are identified. The correction and renovation phase is approximately 10% completed and is expected to be completed prior to November of 1999.

Costs. Costs incurred to date for Year 2000 compliance efforts have been minimal and are included as part of the company's ongoing administrative costs and have not been separately identified. The company continues to upgrade and improve its information technology systems as part of its normal effort to maintain a competitive edge. As these upgrades and improvements are made, the company is ensuring that all are Year 2000 compliant. Therefore, the majority of costs incurred for computer systems that ensure Year 2000 compliance are expenditures that are made in the normal course of business. Total property and equipment expenditures for 1998, including expenditures for computers and computer systems, were approximately $1.6 million. Expenditures for 1999 are expected to remain at about the same level. Accordingly, management believes that the incremental costs of ensuring that the company's information technology systems are Year 2000 compliant will not materially affect the company's consolidated financial position, liquidity, or results of operations through December 31, 1999.

Risks. The full range of potential risks associated with the Year 2000 issue is under review. Potential risks include obligations related to contract performance on current and past contracts, the reliance on infrastructure services to conduct the company's business operations, and the possibility of liquidity issues caused by payment problems with VSE's banks or government customers. Although management believes that the risks associated with internal issues regarding the Year 2000 problem will be minimal, the risks associated with external issues are difficult to predict. If these external issues cause massive failures to systems upon which the company is reliant, the results could materially affect the company's consolidated financial position, liquidity, or results of operations.

The government agency that pays the majority of the company's billings, the Defense Finance and Accounting Service ("DFAS"), has issued published assurances that it is diligently pursuing a Year 2000 compliance strategy and is confident that its payments to contractors will continue uninterrupted in January 2000.

Contingency Plans. The Y2K Plan calls for the development of contingency plans. VSE currently has extra borrowing capacity under its bank loan agreement and intends to maintain this extra borrowing capacity beyond the year 2000 to provide funding in the event of government customer payment problems. Contingency plans related to contract performance obligations and to business operation infrastructure services will be developed prior to December of 1999.

Market Risk

The company does not use derivative instruments to alter the interest characteristics of its debt instruments. The aggregate fair value of the company's financial instruments approximates the carrying value at June 30, 1999.

VSE CORPORATION AND SUBSIDIARIES
Management Discussion and Analysis

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 results to differ materially from those anticipated in the forward looking statements contained in this statement, see VSE's Securities and Exchange Commission filings including, but not limited to, VSE's Annual Report on Form 10-K for the fiscal year ended December 31, 1998 (Form 10-K), including discussions contained in VSE's "Letter to Stockholders"; "VSE Operations"; "Description of Business"; "Management Discussion and Analysis"; and "Notes to Consolidated Financial Statements" in the VSE Corporation 1998 Annual Report incorporated by reference and attached to VSE's Form 10-K filing.

VSE CORPORATION AND SUBSIDIARIES

PART II. Other Information

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

(a) Exhibits.

None.

(b) Reports on Form 8-K.

On May 26, 1999, the Registrant filed a Current Report on Form 8-K reporting the sale of its software products and services business segment, which consists of the operations of CMstat Corporation ("CMstat"), to a company wholly owned by CMstat's CEO, John S. Daley.

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

VSE CORPORATION AND SUBSIDIARIES

SIGNATURES

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

VSE CORPORATION

/s/ C. S. WEBER
Date: August 13, 1999 ------------------------------------
C. S. Weber, Senior Vice President,
and Secretary

/s/ T. J. CORRIDON

Date: August 13, 1999 -------------------------------------

T. J. Corridon, Senior Vice President
and Chief Financial Officer
(Principal Financial Officer)

/s/ T. R. Loftus

Date: August 13, 1999 -------------------------------------

T. R. Loftus, Vice President and
Comptroller
(Principal Accounting Officer)

The financial information included in this report reflects all known adjustments normally determined or settled at year-end which are, in the opinion of management, necessary to a fair statement of the results for the interim periods. The accompanying notes to consolidated financial statements are an integral part of this report.

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