

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**FORM 10-K**

(Mark One)

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

For the Fiscal Year Ended December 31, 2021

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

For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 000-3676



**VSE CORPORATION**

(Exact Name of Registrant as Specified in its Charter)

Delaware  
(State or Other Jurisdiction of Incorporation or Organization)

54-0649263  
(I.R.S. Employer Identification No.)

6348 Walker Lane  
Alexandria, Virginia  
(Address of Principal Executive Offices)

22310  
(Zip Code)

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

**Securities registered pursuant to Section 12(b) of the Act:**

<b>Title of each class</b>	<b>Trading Symbol</b>	<b>Name of each exchange on which registered</b>
Common Stock, par value \$0.05 per share	VSEC	The NASDAQ Global Select Market

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company  Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

The aggregate market value of outstanding voting stock held by non-affiliates of the Registrant as of June 30, 2021, the last business day of the registrant's most recently completed second quarter, was approximately \$521 million based on the last reported sales price of the registrant's common stock on the NASDAQ Global Select Market as of that date.

Number of shares of Common Stock outstanding as of February 28, 2022: 12,737,859.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of Registrant's definitive proxy statement for the Annual Meeting of Stockholders expected to be held on May 4, 2022, which is expected to be filed with the Securities and Exchange Commission on or about April 2, 2022, have been incorporated herein by reference into Part III of this report.

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## **Forward Looking Statements**

This Annual Report on Form 10-K ("Form 10-K") contains statements that, to the extent they are not recitations of historical fact, constitute "forward looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All such statements are intended to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and include this statement for purposes of such safe harbor provisions.

"Forward-looking" statements, as such term is defined by the Securities and Exchange Commission (the "SEC") in its rules, regulations and releases, represent our expectations or beliefs, including, but not limited to, statements concerning our operations, economic performance, financial condition, growth and acquisition strategies, investments and future operational plans. Without limiting the generality of the foregoing, words such as "may," "will," "expect," "believe," "anticipate," "intend," "forecast," "seek," "plan," "predict," "project," "could," "estimate," "might," "continue," "seeking" or the negative or other variations thereof or comparable terminology are intended to identify forward-looking statements. These statements, by their nature, involve substantial risks and uncertainties, certain of which are beyond our control, and actual results may differ materially depending on a variety of important factors, including, but not limited to, those identified in Item 1A, "Risk Factors" in this Form 10-K. All forward-looking statements made herein are qualified by these cautionary statements and risk factors and there can be no assurance that the actual results, events or developments referenced herein will occur or be realized.

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 occur or arise after the date hereof.

**PART I****ITEM 1. Business****History and Organization**

VSE Corporation ("VSE," the "Company," "we," "us," or "our") is a diversified aftermarket products and services company providing repair services, parts distribution, logistics, supply chain management and consulting services for land, sea and air transportation assets to commercial and government markets. We provide logistics and distribution services for legacy systems and equipment and professional and technical services to commercial customers; the government, including the United States Department of Defense ("DoD"); and federal civilian agencies. Our operations include supply chain management solutions, parts supply and distribution, and maintenance, repair and overhaul ("MRO") services for vehicle fleet, aviation, and other customers. We also provide vehicle and equipment maintenance and refurbishment, logistics, engineering support, energy services, IT and health care IT solutions, and consulting services.

VSE was incorporated in Delaware in 1959 and the parent company serves as a centralized managing and consolidating entity for our three operating segments, each of which consists of one or more wholly owned subsidiaries or unincorporated divisions that perform our services. Our operating segments include the Aviation segment, Fleet segment, and Federal and Defense segment. The term "VSE" or "Company" means VSE and its operating businesses unless the context indicates operations of only VSE as the parent company.

	Revenues (in thousands)					
	2021		2020		2019	
		%		%		%
Aviation	\$ 247,852	33	\$ 165,070	25	\$ 224,546	30
Fleet	233,532	31	242,170	37	214,520	28
Federal and Defense	269,469	36	254,419	38	313,561	42
Total	\$ 750,853	100	\$ 661,659	100	\$ 752,627	100

**Aviation**

Our Aviation segment provides international parts supply and distribution, supply chain solutions, and component and engine accessory MRO services supporting global aftermarket commercial and business and general aviation customers. This business offers a range of services to a diversified global client base of commercial airlines, regional airlines, cargo transporters, MRO integrators and providers, aviation manufacturers, corporate and private aircraft owners, and fixed-base operators ("FBOs"). This segment did not have any one client that comprised more than 10% of our consolidated revenues in 2021, 2020 or 2019.

**Fleet**

Our Fleet segment provides parts supply, inventory management, e-commerce fulfillment, logistics and other services to assist aftermarket commercial and federal customers with their supply chain management. Operations of this segment are conducted by our wholly owned subsidiary Wheeler Fleet Solutions, which supports the government and commercial truck fleets with parts, sustainment solutions and managed inventory services. Revenues for this business are derived from the sale of vehicle parts and mission critical supply chain services to support client truck fleets. The United States Postal Service ("USPS") comprised approximately 20%, 27%, and 22% of our consolidated revenues in 2021, 2020 and 2019, respectively.

**Federal and Defense**

Our Federal and Defense segment provides aftermarket refurbishment and sustainment services to extend and maintain the life cycle of military vehicles, ships and aircraft for the DoD. The segment provides foreign military sales services, engineering, logistics, maintenance, configuration management, prototyping, technology, and field support services to the DoD and other customers. We also provide energy consulting services and IT solutions to various DoD, federal civilian agencies and commercial clients. The foreign military sales program with the U.S. Department of Navy ("FMS Program") comprised approximately 13%, 15%, and 12% of our consolidated revenues in 2021, 2020 and 2019, respectively.

### ***Acquisition and Divestitures***

In July 2021, we acquired Global Parts Group, Inc. ("Global Parts"), which provides distribution and MRO services for business and general aviation ("B&GA") aircraft families. The acquisition expands our existing B&GA focus and further diversifies our product and platform offerings to include additional airframe components, while expanding our customer base of regional and global B&GA customers. Global Parts is a subsidiary of VSE Aviation, Inc. under our Aviation segment.

In March 2021, we acquired HAECO Special Services, LLC ("HSS"), which offers scheduled depot maintenance, contract field deployment and unscheduled drop-in maintenance for the DoD, primarily for the sustainment of the U.S. Air Force ("USAF") KC-10 fleet. HSS is a subsidiary of VSE Corporation under our Federal & Defense Services segment.

In January 2019, we acquired 1st Choice Aerospace Inc. ("1st Choice Aerospace"), with operations in Florida and Kentucky. 1st Choice Aerospace provides component MRO services and products for new generation and legacy commercial aircraft families. 1st Choice Aerospace is a subsidiary of VSE Aviation, Inc., under our Aviation segment.

In February 2020, we sold our subsidiary Prime Turbines, LLC ("Prime Turbines") and certain related inventory assets for \$20.0 million in cash and a \$8.3 million note receivable to be paid over a period from 2020 through 2024. Our Aviation segment discontinued turboprop engine MRO services and will concentrate on higher growth potential component/accessory repair and parts distribution while further expanding our presence within the global commercial and general aviation markets. Prime Turbines' revenues totaled less than 1% and approximately 4% of our revenue for 2020 and 2019, respectively.

In June 2020, we sold all of the inventory of our subsidiary CT Aerospace, LLC ("CT Aerospace") for a \$6.9 million note receivable to be paid to us over a period from 2020 through 2025. Our Aviation segment discontinued sales and leasing of engines and supply of used serviceable engine parts. CT Aerospace's revenues totaled less than 1% and less than 2% of our revenue for 2020 and 2019, respectively.

See Note (2) "Acquisition and Divestitures" to our Consolidated Financial Statements included in Item 8 of this annual report on Form 10-K for additional information regarding our acquisition and divestitures.

### **Products and Services**

We provide a broad array of capabilities and resources to support our clients' aftermarket transportation assets, vehicle fleets, aircraft, systems, equipment and processes. We focus on creating value by sustaining and extending the life and improving the performance of our client assets through core offerings in supply chain management, parts supply and distribution, MRO, equipment refurbishment, logistics and engineering. We also provide IT solutions and energy consulting services.

Typical offerings include supply chain and inventory management services; vehicle fleet sustainment programs; vehicle fleet parts supply and distribution; MRO of aircraft components and engine accessories; aircraft and airframe parts supply and distribution; engineering support for military vehicles; military equipment refurbishment and modification; ship MRO and follow-on technical support; logistics management support; sustainable energy supply and electric power grid modernization projects, IT infrastructure and data management, and IT data services for health and public safety. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" below for more information regarding our business.

### **Revenues and Contracts**

We offer our products and professional and technical services through various ordering agreements and negotiated and competitive contract arrangements. Our revenues are derived from the delivery of products and from contract services performed for our customers for each of our three segments as follows:

- Our Aviation segment revenues result from the sale of aircraft parts and performance of MRO services for private and commercial aircraft owners, aviation MRO providers, aviation original equipment manufacturers and other clients.
- Our Fleet segment revenues result from the sale of aftermarket vehicle parts to government and commercial clients.
- Our Federal and Defense segment revenues result from providing professional and technical services primarily to U.S government customers on a contract basis. The three primary types of contracts used are cost-type, fixed-price, and time and materials.

**Customers**

Our customers include various commercial entities and government clients. In 2021, our commercial customers represented 43% of our consolidated revenues, up from 31% and 32% in 2020 and 2019, respectively. Our USPS work and FMS Program comprised approximately 20% and 13% of our 2021 consolidated revenues, respectively. None of our other customers comprise a significant amount of our 2021 consolidated revenues.

Customer	Revenues by Customer (dollars in thousands) Years ended December 31,					
	2021	%	2020	%	2019	%
Commercial	322,318	43	208,305	31	242,518	32
DoD	\$ 233,422	31	\$ 236,397	36	\$ 304,334	41
Other government <sup>(a)</sup>	195,113	26	216,957	33	205,775	27
Total	\$ 750,853	100	\$ 661,659	100	\$ 752,627	100

(a) USPS is part of Other government

**Backlog**

Our funded backlog represents the estimated remaining value of work to be performed under firm contracts under our Federal and Defense segment. Bookings for our Aviation and Fleet segments occur at the time of sale, and therefore, these segments do not generally have funded contract backlog and backlog is not an indicator of their potential future revenues. Our funded backlog for our Federal and Defense segment as of December 31, 2021, 2020 and 2019 was approximately \$185 million, \$183 million and \$213 million, respectively. For a complete description of our backlog, see "Bookings and Funded Backlog" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II of this report.

**Marketing**

Our marketing activities are conducted by each of our businesses by industry-specific sales representatives and professional marketing and business development staff. New customer contacts and information concerning new programs, requirements and opportunities become available through sales calls and client visits, negotiation with key business partners, and formal and informal briefings. We participate in various professional organizations and trade association, and also attend industry trade shows and events in order to increase our brand awareness and strengthen our service offerings.

**Human Capital Resources***Workforce Demographics*

Our employees have a variety of specialized experience, training and skills that provide the expertise required to service our customers. As of December 31, 2021, we had approximately 2,500 employees. Principal employee categories include (a) mechanics and vehicle, aircraft and equipment technicians, (b) logisticians, (c) warehouse and sales personnel, (d) engineers and technicians in mechanical, electronic, industrial, energy services, and (e) information technology professionals in computer systems, applications and data management disciplines. As of December 31, 2021, approximately 17% of our employees, all within our Federal and Defense segment, were unionized.

*Employee Health and Safety*

We are committed to providing a safe working environment for our employees. Supported by our Health, Environmental and Safety Program, we strive to minimize the risk of injury or illness to workers. We provide our employees with upfront and ongoing safety trainings to ensure that safety policies and procedures are effectively communicated and implemented. We also provide our employees with any additional information, leadership, support and equipment needed to safely perform their job function.

*Talent Acquisition, Retention and Development*

We strive to attract and retain top talent at all levels of the company. To support this objective we seek to provide opportunities for professional development and career growth, and recognize and reward our employees for their contributions and accomplishments.

We encourage employees to provide feedback about their experience and we regularly conduct employee engagement surveys to gauge employee satisfaction and to understand the effectiveness of engaging our employees on all levels. These surveys provide valuable information on drivers of engagement and areas of improvement to ensure that we maintain an employee-focused experience and culture. We also host quarterly town hall meetings to provide an open and frequent line of communication for all employees.

We offer competitive pay and comprehensive benefits to attract, reward and retain a qualified and diverse workforce to achieve our vision and mission and meet the dynamic needs of employees and their families. In addition to competitive base pay, we offer annual bonus opportunities, a Company matched 401(k) plan, an employee stock purchase plan, healthcare and insurance benefits, health savings and flexible spending accounts, paid time off, holiday pay, flexible work schedules, and employee assistance programs.

#### *Diversity and Inclusion*

We embrace and encourage inclusion in order to achieve a culture and company environment supporting diversity. Our inclusion and diversity initiatives include our practices and policies on employee recruitment and hiring, professional training and development, employee engagement and the development of a work environment built on the premise of diversity and equity. In 2020, we formed the VSE Inclusion & Diversity Council ("I&D Council"), an employee led group focused on creating a framework and action plan for inclusion and diversity related initiatives across the organization. Our I&D Council regularly hosts roundtable discussions aimed at increasing cultural awareness and promoting dialogue to encourage a culture that values inclusive behavior in our workplace. We also support employee resource groups, which are voluntary, employee-led groups that are open to all employees and provide a forum for diverse employees and allies from a variety of different backgrounds to share experiences and support our company's diversity initiatives. These groups help foster a diverse and inclusive workplace, build awareness and drive change within our organization. Additionally, we actively seek initiatives and participate in outreach programs to assist individuals who served in the U.S. Armed Forces. These efforts include an emphasis on hiring military veterans to enhance the quality of our workforce.

#### *Code of Business Conduct and Ethics*

We are committed to the highest ethical standards and we expect all of our directors, officers and employees to comply with our standards and applicable laws and regulations in the conduct of our business. Our Code of Business Conduct and Ethics (the "Code") sets forth our policies and expectations on what is appropriate behavior and guides ethical business decisions that maintain a commitment to integrity. In addition, we require annual ethics and compliance training for all of our employees to provide them with the knowledge necessary to maintain our standards of ethics and compliance.

#### **Government Regulation and Supervision**

Our businesses are subject to extensive regulation in the markets we serve. We work with numerous U.S. government agencies and entities, including but not limited to, all branches of the DoD and the Federal Aviation Administration ("FAA"). Similar government authorities and regulations exist in the other countries in which we do business.

#### *Commercial Aircraft*

The FAA regulates the manufacture, repair and operation of all aircraft and aircraft parts operated in the United States. Its regulations are designed to ensure that all aircraft and aviation equipment are continuously maintained in proper condition to ensure safe operation of the aircraft. The inspection, maintenance and repair procedures for various types of aircraft and equipment are prescribed by these regulatory authorities and can be performed only by certified repair facilities utilizing certified technicians. Certification and conformance is required prior to installation of a part on an aircraft. The FAA requires that various maintenance routines be performed on aircraft components, and we currently satisfy these maintenance standards in our repair and overhaul services.

#### *Government Contracts*

We must comply with and are affected by a variety of laws and regulations relating to the award, administration, and performance of U.S. Government contracts. We are routinely audited and reviewed by the U.S. Government and its agencies, including the Defense Contract Audit Agency, and the Defense Contract Management Agency. These agencies evaluate our contract performance, cost structures, and compliance with applicable laws, regulations, and standards, as well as review the adequacy of our business systems and processes relative to U.S. Government requirements. The U.S. Government generally has



the ability to terminate contracts, in whole or in part, with little or no prior notice, for convenience or for default based on our failure to meet specified performance requirements. In the event of termination of a contract for convenience, we would generally be able to recover costs already incurred on the contract and receive profit on those costs up to the amount authorized under the contract, but not the anticipated profit that would have been earned had the contract been completed. Such a termination could also result in the cancellation of future work on the related program. Termination resulting from our default could expose us to various liabilities, including excess re-procurement costs, and could have a material effect on our ability to compete for future contracts.

For additional information on regulations and risks affecting our business, refer to Item 1A., "Risk Factors".

### **Competition**

All of our businesses operate in highly competitive industries that include numerous competitors, many of which are larger in size and have greater name recognition, financial resources and larger technical staff than we do. We also compete against smaller, more specialized competitors that concentrate their resources on narrower service offerings.

Government agencies emphasize awarding contracts on a competitive basis, as opposed to a sole source or other noncompetitive basis. Most of the significant contracts under which our Federal and Defense segment currently perform services were either initially awarded on a competitive basis or have been renewed at least once on a competitive basis. These contracts may be indefinite delivery/indefinite quantity type contracts for which the government makes awards for work among several other eligible contract holders, or they may be single award contracts with multiple option years that may or may not be exercised. Accordingly, there can be no assurance regarding the level of work we may obtain under some of these contracts. Government budgets, and in particular the budgets of certain government agencies, can also affect competition in our business. A reallocation of government spending priorities or reallocation of work for small business set-aside programs that results in lower levels of potential business in the markets we serve or the services we offer can cause increased competition.

The extent of competition that we will encounter as a result of changing economic or competitive conditions, customer requirements or technological developments is unpredictable. We believe the principal competitive factors for our business are customer knowledge, technical and financial qualifications, past performance, government budgetary priorities, sales force initiatives and price.

### **Available Information**

We maintain an internet website at [www.vsecorp.com](http://www.vsecorp.com). We make available free of charge through our website, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed with or otherwise furnished to the SEC pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after the reports are electronically filed with the SEC. The information on or obtainable through our website is not intended to be incorporated into this Annual Report on Form 10-K. The SEC also maintains an internet website (<http://www.sec.gov>) that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC.

## ITEM 1A. Risk Factors

*Our future results may differ materially from past results and from those projected in the forward-looking statements contained in this Form 10-K due to various uncertainties and risks, including those risks set forth below, nonrecurring events and other important factors disclosed previously and from time to time in our other reports filed with the SEC.*

### Operational Risks

***The COVID-19 outbreak has adversely affected and could in the future continue to adversely affect our business.***

The ongoing COVID-19 pandemic is adversely affecting, and is expected to continue to adversely affect, our operations, supply chains and distribution systems, and we have experienced and expect to continue to experience varying levels of reductions in demand for our products and services, particularly in the aviation aftermarket as compared to pre-pandemic levels. The global aviation market experienced a significant decline, specifically in global commercial air travel, which had a significant impact on the parts distribution and maintenance, repair and overhaul services markets supporting general aviation and commercial aircraft. Our Aviation segment experienced the most impactful reduction in demand for our products and services during fiscal 2021 and fiscal 2020 compared to fiscal 2019, as a decline in commercial aircraft revenue passenger miles contributed to a reduction in demand for aftermarket parts and MRO services. This reduction in demand moderated to some extent but otherwise continued throughout 2021 and may continue into 2022, subject to the duration and severity of the pandemic. This decrease in demand may continue to adversely impact our operating results for 2022. We cannot estimate with certainty the severity of this impact, but we expect it to be consistent with overall aviation industry trends.

Due to the impact of COVID-19 and decisions by our customers to delay the use of, or permanently retire, certain aircraft, demand levels for aviation disruption inventory could decrease in the near term or midterm, which could result in a write-down of existing inventory to adjust to current market trends and adversely affect our results of operations. Furthermore, as a result of COVID-19, some of our commercial customers in the Aviation segment have been and could continue to be negatively impacted as a result of disruption in demand, which has led to delays and could lead to defaults on collections of receivables from them. Such continued delays could further negatively impact our business, results of operations and financial condition. We are unable to predict the extent, nature or duration of these impacts at this time.

***Supply chain delays, disruptions, and potential geopolitical uncertainty could adversely affect our business operations and expenses***

Due to the ongoing pandemic, supply chain disruptions, and geopolitical uncertainty our business could be adversely impacted by delays or the inability to source products and services for our customers. If our suppliers experience increased disruptions to their operations as a result of these dynamics, they may be unable to fill our supply needs in a timely, compliant and cost-effective manner. We have incurred and may in the future incur additional costs and delays in our business, including higher prices, schedule delays or the costs associated with identifying alternative suppliers. In instances where we may not be able to mitigate these consequences, our ability to perform on our contracts may be impacted, which could result in reduced revenues and profits.

We continue to monitor these dynamics and assess potential implications to our business, supply chain and customers, and take certain actions in an effort to mitigate potential adverse impacts. Given the uncertainties, we are unable to predict the extent, nature or duration of these impacts at this time.

***Certain programs comprise a material portion of our revenue. Our work on large government programs presents a risk to revenue growth and sustainability and profit margins.***

The eventual expiration of large government programs or the loss of or disruption of revenues on a single contract may reduce our revenues and profits. Such revenue losses could also erode profits on our remaining programs that would have to absorb a larger portion of the fixed corporate costs previously allocated to the expiring programs or discontinued contract work. Our USPS managed inventory program and our FMS Program each constitute a material portion of our revenues and profits. This concentration of our revenue subjects us to the risk of material adverse revenue disruptions if customer operational decisions, government contractual or other issues prevent or delay the fulfillment of work requirements associated with these key programs. In recent years, revenue levels for our FMS Program have fluctuated widely enough to cause material changes in our overall revenue levels and affect our profit margins. Similarly, variations in volume and types of parts purchased by the USPS in recent years have caused changes in our profit margins.

The USPS has initiated a fleet replacement program for a next generation of the delivery vehicle fleet. The timing of both the roll out of a new fleet and the retirement of the current vehicles and their decision on how many of such vehicles will remain in the fleet could potentially have a significant impact on our future revenues and profits.

***Acquisitions, which are a part of our business strategy, present certain risks.***

A key element of our business strategy is growth through the acquisition of additional companies. VSE is focused on acquiring complementary assets that add new products, new customers, and new capabilities or new geographic and/or operational competitive advantages in both new and existing markets within our core competencies. Our acquisition strategy is affected by, and poses a number of challenges and risks, including availability of suitable acquisition candidates, availability of capital, diversion of management's attention, effective integration of the operations and personnel of acquired companies, potential write downs of acquired intangible assets, potential loss of key employees of acquired companies, use of a significant portion of our available cash, compliance with debt covenants and consummation of acquisitions on satisfactory terms.

We may not be able to successfully execute our acquisition strategy, and the failure to do so could have a material adverse effect on our business, financial condition and results of operations.

***Changes in future business conditions could cause business investments, recorded goodwill, and/or purchased intangible assets to become impaired, resulting in substantial losses and write-downs that would reduce our operating income.***

As part of our business strategy, we make acquisitions and investments following careful analysis and due diligence processes designed to achieve a desired return or strategic objective. Business acquisitions involve estimates, assumptions, and judgments to determine acquisition prices, which are allocated among acquired assets, including goodwill, based upon fair market values. Notwithstanding our analyses, due diligence processes, and business integration efforts, actual operating results of acquired businesses may vary significantly from initial estimates. In such events, we may be required to write down our carrying value of the related goodwill and/or purchased intangible assets. In addition, declines in the trading price of our common stock or the market as a whole can result in goodwill and/or purchased intangible asset impairment charges associated with our existing businesses.

As of December 31, 2021, goodwill and intangible assets, net of amortization, accounted for 27% and 12%, respectively, of our total assets. We test our goodwill for impairment annually in the fourth quarter or when evidence of potential impairment exists. We test acquired intangible assets for impairment whenever events or changes in circumstances indicate their carrying value may be impaired. The impairment tests are based on several factors requiring judgments. As a general matter, a significant decrease in expected cash flows or changes in market conditions may indicate potential impairment of recorded goodwill or intangible assets.

Adverse equity market conditions that result in a decline in market multiples and the trading price of our common stock, or other events, such as reductions in future contract awards or significant adverse changes in our operating margins or the operating results of acquired businesses that vary significantly from projected results on which purchase prices are based, could result in an impairment of goodwill or other intangible assets. Any such impairments that result in us recording additional goodwill or intangible asset impairment charges could have a material adverse effect on our financial position or results of operations.

***Intense competition from existing and new competitors may harm our business.***

The aviation and vehicle parts industries are highly fragmented, have several highly visible leading companies, and are characterized by intense competition. Some of our OEM competitors have greater name recognition than VSE or our subsidiaries, as well as complementary lines of business and financial, marketing and other resources that we do not have. In addition, OEMs, aircraft maintenance providers, leasing companies and U.S. Federal Aviation Administration ("FAA") certificated repair facilities may attempt to bundle their services and product offerings in the supply industry, thereby significantly increasing industry competition.

Pressure on government budgets may adversely affect the flow of work to federal contractors, particularly new programs. Competitor contractors that experience a loss of government work have tended to redirect their marketing efforts toward the types of work that we perform. This increase in competition for our service offerings may adversely affect our ability to win new work or successor contracts to continue work that is currently performed by us under expiring contracts. Unsuccessful bidders frequently protest contract awards, which can delay or reverse the contract awards. Additionally, the government has

frequently used contract award criteria that emphasizes lowest price, technically acceptable bids, which further intensifies competition in our government markets.

***Our success is highly dependent on the performance of the aviation aftermarket, which could be impacted by lower demand for business aviation and commercial air travel or airline fleet changes causing lower demand for our goods and services.***

General global industry and economic conditions that affect the aviation industry may also affect our business. We are subject to macroeconomic cycles, and when recessions occur, we may experience reduced orders, payment delays, supply chain disruptions or other factors as a result of the economic challenges faced by our customers, prospective customers and suppliers. Further, the aviation industry has historically, from time to time, been subject to downward cycles which reduce the overall demand for jet engine and aircraft component replacement parts and repair and overhaul services, and such downward cycles result in lower sales and greater credit risk. Demand for commercial air travel can be influenced by airline industry profitability, world trade policies, government-to-government relations, terrorism, disease outbreaks, environmental constraints imposed upon aircraft operations, technological changes, price and other competitive factors. These global industry and economic conditions may have a material adverse effect on our business, financial condition and results of operations.

The COVID-19 pandemic has resulted in travel disruption has had an adverse impact on airline spending and demand that has caused a reduction in demand for our aviation products and services for most of 2020 and into 2021. At this point, the extent or duration of the impact that the COVID-19 pandemic may have on our future results remains uncertain, and the reduction in demand could extend into 2022.

***Global economic conditions and political factors could adversely affect our revenues.***

Revenues for work performed in or products delivered to foreign countries are subject to economic conditions in these countries and to political risks posed by ongoing foreign conflicts and potential terrorist activity. Significant domestic and political unrest in client countries can constrain our ability to maintain consistent staffing levels, resulting in a fluctuating level of services performed by our employees. We cannot predict when these conditions will occur or the effect it will have on our revenues. Regime changes in these countries can result in government restrictions upon the continuation of ongoing work. Economic conditions in both the United States and foreign countries, and global prices and availability of oil and other commodities could potentially have an adverse effect on the demand for some of our services, including our aviation services.

***Prolonged periods of inflation where we do not have adequate inflation protections in our customer contracts may adversely affect us by increasing costs beyond what we can recover through price increases.***

Recently, inflation has increased throughout the U.S. economy. Inflation can adversely affect us by increasing the costs of labor, material and other costs. In addition, inflation is often accompanied by higher interest rates, which could increase the cost of our outstanding debt obligations. In an inflationary environment, depending on economic conditions, we may be unable to raise prices enough to keep up with the rate of inflation, which would reduce our profit margins. Although we have minimized the effect of inflation on our business through contractual protections, the presence of longer pricing periods within our contracts increases the likelihood that there will be sustained or higher than anticipated increases in costs of labor or material. We have experienced, and continue to experience, increases in the prices of labor, materials and other costs of providing service. Continued inflationary pressures could impact our profitability.

***The nature of our operations and work performed by our employees present certain challenges related to work force management.***

Our financial performance is heavily dependent on the abilities of our operating and administrative staff with respect to technical skills, operating performance, pricing, cost management, safety, and administrative and compliance efforts. A wide diversity of contract types, nature of work, work locations, and legal and regulatory complexities challenges our administrative staff and skill sets. We also face challenges associated with our quality of workforce, quality of work, safety, and labor relations compliance. Our current and projected work in foreign countries exposes us to challenges associated with export and ethics compliance, local laws and customs, workforce issues, extended supply chain, political unrest and war zone threats. Failure to attract or retain an adequately skilled workforce, lack of knowledge or training in critical functions, or inadequate staffing levels can result in lost work, reduced profit margins, losses from cost overruns, performance deficiencies, workplace accidents, and regulatory noncompliance.

***Our business could be adversely affected by incidents that could cause an interruption in our operations or impose a significant financial liability on us.***

Disruption of our operations due to internal or external system or service failures, accidents or incidents involving employees or third parties working in high-risk locations, or natural disasters, health crisis, epidemics or pandemics, including the COVID-19 pandemic, or other crises could adversely affect our financial performance and condition. The COVID-19 pandemic could potentially impact our global supply chain network for any of our segments. A fire, flood, earthquake, or other natural disaster, health crises, epidemic, pandemic or other crisis at or affecting physical facilities that support key revenue generating operations, or a procurement system or contractual delay could potentially interrupt the revenues from our operations.

***Investments in inventory and facilities could cause losses if certain work is disrupted or discontinued.***

We have made investments in inventory, facilities and lease commitments to support specific business programs, work requirements, and service offerings. A slowing or disruption of these business programs, work requirements, or service offerings that results in operating below intended levels could cause us to suffer financial losses.

***We are dependent on access to and the performance of third-party package delivery companies.***

Our ability to provide efficient distribution of the products we sell to our customers is an integral component of our overall business strategy, both domestic and international. We do not maintain our own delivery networks, and instead rely on third-party package delivery companies. We cannot assure that we will always be able to ensure access to preferred shipping and delivery companies or that these companies will continue to meet our needs or provide reasonable pricing terms. In addition, if the package delivery companies on which we rely on experience delays resulting from inclement weather or other disruptions, we may be unable to maintain products in inventory and deliver products to our customers on a timely basis, which may adversely affect our results of operations and financial condition.

***Uncertain government budgets and shifting government priorities could delay contract awards and funding and adversely affect our ability to continue work under our government contracts. Additionally, federal procurement directives could result in our loss of work on current programs to small business set-asides and large multiple award contracts.***

Our government business is subject to funding delays, terminations (including at the government's convenience), reductions, in-sourcing, extensions and moratoriums associated with the government's budgeting and contracting process. The federal procurement environment is unpredictable and could adversely affect our ability to perform work under new and existing contracts. We have experienced delays in contract awards and funding on our contracts in recent years that have adversely affected our ability to continue existing work and to replace expiring work. Additionally, our government business is subject to the risk that one or more of our potential contracts or contract extensions may be diverted by the contracting agency to a small or disadvantaged or minority-owned business pursuant to set-aside programs administered by the U.S. Small Business Administration, or may be bundled into large multiple award contracts for very large businesses. These risks can potentially have an adverse effect on our revenue growth and profit margins.

***Changes to DoD business practices could have a material effect on DoD's procurement process and adversely impact our current programs and potential new awards.***

The defense industry has experienced, and we expect will continue to experience, significant changes to business practices resulting from greater DoD focus on affordability, efficiencies, business systems, recovery of costs, and a re-prioritization of available defense funds to key areas for future defense spending. The DoD continues to adjust its procurement practices, requirements criteria, and source selection methodology in an ongoing effort to reduce costs, gain efficiencies, and enhance program management and control. We expect the DoD's focus on business practices to impact the contracting environment in which we operate as we and others in the industry adjust our practices to address the DoD's initiatives and the reduced level of spending by the DoD. Depending on how these initiatives are implemented, they could have an impact on our current programs, as well as new business opportunities with the DoD. As a result of certain of these initiatives, we experienced, and may continue to experience, a higher number of audits and/or lengthened periods of time required to close open audits. Such additional or lengthier audits could have a material adverse effect on our business, financial condition and results of operations.

## Legal and Regulatory Risks

### *Our business could be adversely affected by government audits or investigations.*

Government agencies, including the Defense Contract Audit Agency, the Defense Contract Management Agency and the Department of Labor, routinely audit and investigate government contractors. These agencies review a contractor's performance under its contracts, cost structure and compliance with applicable laws, regulations and standards. The government also may review the adequacy of, and a contractor's compliance with, its internal control systems and policies, including the contractor's purchasing, property, estimating, compensation and management information systems. Any costs found to be improperly allocated to a specific contract will not be reimbursed and any such costs already reimbursed must be refunded.

The scope and rigor of government agency audits and investigations have increased in recent years, resulting in a greater likelihood that an audit or investigation may result in an adverse outcome. We have been subject to unfavorable findings and recommendations from various government agencies from time to time. We expect that government agencies will continue to rigorously audit and investigate us and there may be adverse or disputed findings, resulting in corrective action plans and/or settlements.

If an audit or investigation uncovers improper or illegal activities, we may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines and suspension or debarment from doing business with the government. In addition, we could suffer serious harm to our reputation if allegations of impropriety were made. Performance of international work can expose us to risks associated with the Foreign Corrupt Practices Act and Export Control Act compliance.

### *We are subject to numerous government rules and regulations that could expose us to potential liabilities or work loss.*

We must comply with and are affected by laws and regulations relating to the award, administration and performance of government contracts. A violation of laws or regulations could result in the imposition of fines and penalties or the termination of contracts or debarment from working or bidding on government contracts.

In some instances, these government contract laws and regulations impose terms or rights that are significantly more favorable to the government than those typically available to commercial parties in negotiated transactions. For example, the government may terminate any government contract or subcontract at its convenience, as well as for performance default.

A termination for default could expose us to liability and have a material adverse effect on our ability to compete for future contracts and orders. A termination for default could also impact our past performance and ability to obtain new or additional work. In addition, the government could terminate a prime contract under which we are a subcontractor, irrespective of the quality of services provided by us as a subcontractor.

Additionally, our contract work that is performed by our subcontractors is subject to government compliance, performance requirements and financial risks. If any of our subcontractors fail to timely meet their contractual obligations or have regulatory compliance or other problems, our ability to fulfill our obligations as a prime contractor may be jeopardized.

The aviation industry is highly regulated by the FAA and similar regulatory agencies in other countries. Aviation engines, engine accessories and components that we sell must meet certain airworthiness standards established by the FAA or the equivalent agencies in certain other countries. We also operate repair facilities that are licensed by the FAA and equivalent agencies of certain other countries to perform such services. New and more stringent regulations may be adopted in the future that could have an adverse effect on us.

Lastly, border tariffs and new trade deals could have significant effects on our customers and, in turn, on our suppliers, which may impact our business.

### *Due to the nature of our work, we could potentially be exposed to legal actions arising from our operations.*

Our work includes many manual tasks, including warehousing, shipping and packing of truck parts inventory, maintaining and repairing military and non-military vehicles, aircraft and equipment, and maintaining and overhauling U.S. Navy ships. Some of our work efforts involve the handling of hazardous materials. These services may pose certain challenges that could cause us to be exposed to legal and other liabilities arising from performance issues, work related incidents or employee misconduct that result in damages, injury or death to third parties. Such events could cause us to suffer financial losses and adversely affect our financial condition. See Item 3, "Legal Proceedings" below.

***Environmental and pollution risks could potentially impact our financial results.***

Our operations are subject to and affected by a variety of existing federal, state, and local environmental protection laws and regulations. In addition, we could be affected by future laws or regulations, including those imposed in response to concerns over climate change, other aspects of the environment, or natural resources. We expect to incur future capital and operating costs to comply with current and future environmental laws and regulations, and such costs could be substantial, depending on the future proliferation of environmental rules and regulations and the extent to which we discover currently unknown environmental conditions.

Some of our contract work includes the use of chemical solvents and the handling of hazardous materials to maintain, repair, and refurbish vehicles, aircraft engines, and equipment. This exposes us to certain environmental and pollution risks. Various federal, state, and local environmental laws and regulations impose restrictions on the discharge of pollutants into the environment and establish standards for the transportation, storage, and disposal of toxic and hazardous wastes. Substantial fines, penalties, and criminal sanctions may be imposed for noncompliance, and certain environmental laws impose joint and several "strict liability" for remediation of spills and releases of oil and hazardous substances. Such laws and regulations impose liability upon a party for environmental cleanup and remediation costs and damage without regard to negligence or fault on the part of such party and could expose us to liability for the conduct of or conditions caused by third parties.

Costs associated with compliance with Federal, State and local provisions regulating the discharge of materials or that otherwise relate to the protection of the environment have not had a material adverse effect on our capital expenditures, earnings, or competitive position. However, we cannot predict the likelihood of such a material adverse effect should we experience the occurrence of a future environmental or pollution event.

The adoption of new environmental laws and regulations, stricter enforcement of existing laws and regulations, imposition of new cleanup requirements, discovery of previously unknown or more extensive contamination, litigation involving environmental impacts, our inability to recover related costs under our government contracts, or the financial insolvency of other responsible parties could cause us to incur costs that could have a material adverse effect on our financial position, results of operations, or cash flows.

**Technology Risks**

***Technology security and cyber-attack risks could potentially impact our financial results.***

We face the threat to our computer systems of unauthorized access, computer hackers, computer viruses, malicious code, organized cyber-attacks and other security problems and system disruptions, including possible unauthorized access to our and our clients' proprietary or classified information.

Some of our contract work includes data management and technology services associated with Social Security Administration and military medical and health records. This exposes us to certain information and technology security risks. If there is a security breach of sensitive data in our custody or for which we provide services, we could possibly be held liable for damages to third parties related to such security breach and incur costs to prevent future incidents. We also provide refurbishment, maintenance and training services support to international clients directly and through the DoD. Foreign nations with interests that conflict with the international clients we support could be motivated to conduct a cyber-attack to access information on these programs.

We maintain a cybersecurity risk management program to monitor and mitigate cybersecurity threats and an incident response plan for emerging threats. Costs associated with preventing or remediating information management security breaches or complying with related laws and regulations have not had a material adverse effect on our capital expenditures, earnings or competitive position. Additionally, we have obtained insurance that provides coverage for certain cybersecurity incidents. However, the occurrence of a future security breach event could potentially have such an adverse effect.

**Financial Risks**

***There can be no assurance we will continue to pay dividends at current levels or in the future.***

The payment of cash dividends and repurchases of our common stock are subject to limitations under applicable law and our bank loan agreement, and to the discretion of our board of directors, considered in the context of then current conditions, including our earnings, other operating results, and capital requirements. Declines in asset values or increases in liabilities,

including liabilities associated with benefit plans and assets and liabilities associated with taxes, can reduce stockholders' equity. A deficit in stockholders' equity could limit our ability under Delaware law to pay dividends.

***Our debt exposes us to certain risks.***

As of December 31, 2021, we had \$285 million of total debt outstanding (net of unamortized debt issuance costs). The amount of our existing debt, combined with our ability to incur significant amounts of debt in the future, could have important consequences, including:

- Increasing our vulnerability to adverse economic or industry conditions;
- Requiring us to dedicate a portion of our cash flow from operations to payments on our debt, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, strategic initiatives, and general corporate purposes;
- Increasing our vulnerability to, and limiting our flexibility in planning for, or reacting to, changes in our business or the industries in which we operate;
- Exposing us to the risk of higher interest rates on borrowings under our Credit Facility, which are subject to variable rates of interest;
- Placing us at a competitive disadvantage compared to our competitors that have less debt; and
- Limiting our ability to borrow additional funds.

***Market volatility and adverse capital market conditions may affect our ability to access cost-effective sources of funding and may expose us to risks associated with the financial viability of suppliers and subcontractors.***

The financial markets can experience high levels of volatility and disruption, reducing the availability of credit for certain issuers. We may access these markets from time to time to support certain business activities, including funding acquisitions and refinancing existing indebtedness. We may also access these markets to acquire credit support for our letters of credit. A number of factors could cause us to incur higher borrowing costs and experience greater difficulty accessing public and private markets for debt. These factors include disruptions or declines in the global capital markets and/or a decline in our financial performance, outlook, or credit ratings. The occurrence of any or all of these events may adversely affect our ability to fund our operations, meet contractual commitments, make future investments or desirable acquisitions, or respond to competitive challenges.

**ITEM 1B. Unresolved Staff Comments**

None.

**ITEM 2. Properties**

Our executive and administrative headquarters are located in a five-story building in Alexandria, Virginia, with approximately 95,000 square feet of office space leased by us through April 2027.

We own facilities located in an industrial park in Somerset, Pennsylvania where we conduct our Fleet segment operations. These properties consist of approximately 30 acres of land and buildings totaling approximately 271,000 square feet of office, engineering and warehouse space.

We own two properties that we use to conduct our Aviation segment operations. The first property consists of a building with approximately 30,500 square feet of warehouse and office space in Independence, Kansas that is located on leased municipal airport land. The second property consists of approximately nine acres of land and a building with approximately 60,000 square feet of warehouse and office space in Hebron, Kentucky, acquired in 2019.

We own and operate two facilities in Ladysmith, Virginia. One of these properties consists of approximately 44 acres of land and multiple storage and vehicle maintenance buildings totaling approximately 56,000 square feet of space. The other property consists of 30 acres of land and buildings totaling approximately 13,500 square feet of space. We also own and operate a property in Texarkana, Arkansas consisting of approximately 10 acres of land and a building totaling approximately 79,000 square feet. We use these properties primarily to provide refurbishment services for military equipment, storage and maintenance.



We also provide services and products from facilities generally occupied under leases primarily located near customer sites to facilitate communications and enhance program performance. As of December 31, 2021, we leased approximately 19 facilities with a total of approximately 779,000 square feet of office, shop and warehouse space. Our employees often provide services at customer facilities, limiting our requirement for additional space. We also provide services from locations outside of the United States, generally at foreign shipyards, U.S. military installations and aircraft parts distribution facilities.

**ITEM 3. Legal Proceedings**

We may have certain claims in the normal course of business, including legal proceedings against us and against other parties. In our opinion, the resolution of these other claims will not have a material adverse effect on our results of operations, financial position or cash flows. However, because the results of any legal proceedings cannot be predicted with certainty, the amount of loss, if any, cannot be reasonably estimated.

Further, from time-to-time, government agencies investigate whether our operations are being conducted in accordance with applicable contractual and regulatory requirements. Government investigations of us, whether relating to government contracts or conducted for other reasons, could result in administrative, civil or criminal liabilities, including repayments, fines or penalties being imposed upon us, or could lead to suspension or debarment from future government contracting. Government investigations often take years to complete and many result in no adverse action against us. We believe, based upon current information, that the outcome of any such government disputes and investigations will not have a material adverse effect on our results of operations, financial condition or cash flows.

**ITEM 4. Mine Safety Disclosures**

Not applicable.

**PART II****ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

VSE common stock, par value \$0.05 per share, is traded on the NASDAQ Global Select Market ("NASDAQ"), trading symbol, "VSEC."

**Common Stock - Dividend Paid Per Share**

Quarter Ended	Dividend Paid Per Share			
	2021		2020	
March 31	\$	0.09	\$	0.09
June 30		0.09		0.09
September 30		0.09		0.09
December 31		0.10		0.09
For the Year	\$	0.37	\$	0.36

 **Holders**

As of February 1, 2022, VSE common stock, par value \$0.05 per share, was held by approximately 220 stockholders of record. The number of stockholders of record is not representative of the number of beneficial holders because many of VSE's shares are held by depositories, brokers or nominees.

 **Dividends**

Pursuant to our bank loan agreement, as discussed in Note (8) "Debt" to our Consolidated Financial Statements included in Item 8 of this annual report on Form 10-K, the payment of cash dividends is subject to annual restrictions. We have paid cash dividends each year since 1973.

 **Certain Sales and Repurchases of VSE Common Stock**

During the fiscal year covered by this Form 10-K, VSE did not sell any of its equity securities that were not registered under the Securities Act. During the fourth quarter of the fiscal year covered by this Form 10-K, no purchases of equity securities of VSE were made by or on behalf of VSE or any "affiliated purchaser" (as defined in Rule 10b-18 (a) (3) under the Exchange Act) other than 16,084 shares of our common stock that were voluntarily forfeited to VSE by participants in its 2006 Restricted Stock Plan (the "2006 Plan") to cover their personal tax liability for vesting stock awards under the 2006 Plan.

**Equity Compensation Plan Information**

We have two compensation plans approved by our stockholders under which our equity securities are authorized for issuance to employees and directors: the 2006 Plan and the VSE Corporation 2021 Employee Stock Purchase Plan ("ESPP"). The following table sets forth the amounts of securities authorized for issuance under the 2006 Plan and the ESPP as of December 31, 2021.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	—	\$ —	1,152,647
Equity compensation plans not approved by security holders	—	\$ —	—
<b>Total</b>	<b>—</b>	<b>\$ —</b>	<b>1,152,647</b>

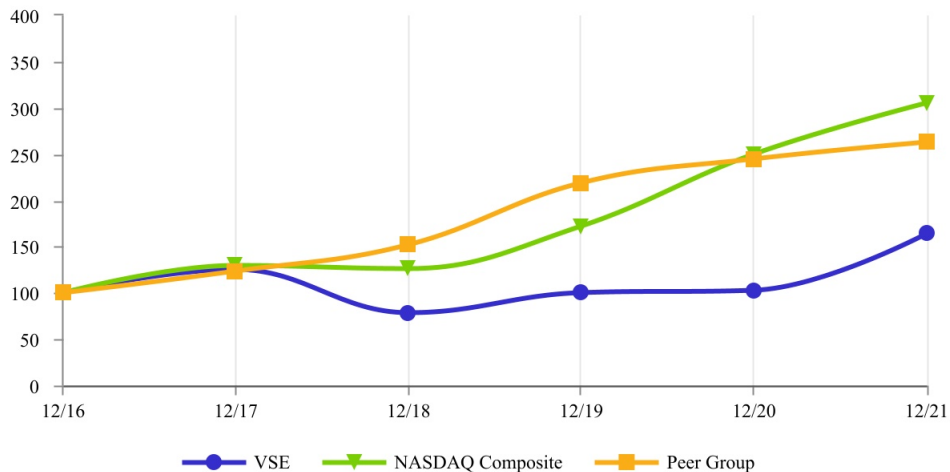
See Note (10) "Stock-Based Compensation Plans" to our Consolidated Financial Statements included in Item 8 of this annual report on Form 10-K for additional information regarding the 2006 Plan and the ESPP.

**Performance Graph**

Set forth below is a line graph comparing the cumulative total return of VSE common stock with (a) a performance index for the broad market, the NASDAQ Global Select Market, on which VSE common stock is traded and (b) the Company's peer group which is comprised of other public companies that operate in industries or lines of businesses similar to ours. These companies include Heico Corporation, Dorman Products, Inc., Vectrus, Inc., ManTech International Corporation, and CACI International Inc.

The companies in the Peer Group have been weighted based on their relative market capitalization each year. The graph assumes that \$100 was invested in our then outstanding common stock, the NASDAQ and the Peer Group index at the beginning of the five-year period and that all dividends were reinvested. The comparisons are not intended to be indicative of future performance of our common stock.

**COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\***  
**Among VSE Corporation, The NASDAQ Composite Index, and Peer Groups**



\*\$100 invested on 12/31/16 in stock or index, including reinvestment of dividends.  
 Fiscal year ending December 31.

**Performance Graph Table**

	2016	2017	2018	2019	2020	2021
VSE	100	125.46	78.03	100.33	102.87	164.12
NASDAQ Composite	100	129.64	125.96	172.17	249.51	304.85
Peer Group	100	123.42	151.53	219.02	244.42	262.73

ITEM 6. [Reserved]

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

### General Overview

#### Our Business

We are a diversified aftermarket products and services company providing repair services, parts distribution, logistics, supply chain management and consulting services for land, sea and air transportation assets to government and commercial markets. We provide logistics and distribution services for legacy systems and equipment and professional and technical services to commercial customers and to the government, including federal civilian agencies and the Department of Defense ("DoD"). Our operations include supply chain management solutions, parts supply and distribution, and maintenance, repair and overhaul ("MRO") services for vehicle fleet, aviation, and other customers. We also provide vehicle and equipment maintenance and refurbishment, logistics, engineering support, energy services, IT and health care IT solutions, and consulting services. See Item 1, "Business-Customers" above for revenues by customer.

The following discussion should be read along with our Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

#### *Acquisition and Divestitures*

In July 2021, we acquired Global Parts Group, Inc. ("Global Parts"), a privately owned company with operations in Augusta, Kansas. Global Parts provides distribution and MRO services for business and general aviation ("B&GA") aircraft families. The acquisition expands our existing B&GA focus and further diversifies our product and platform offerings to include additional airframe components, while expanding our customer base of regional and global B&GA customers. Global Parts is a subsidiary of VSE Aviation, Inc. under our Aviation segment.

In March 2021, we acquired HAECO Special Services, LLC ("HSS"), in an all-cash transaction. HSS is a leading provider of fully integrated MRO support solutions for military and government aircraft. HSS offers scheduled depot maintenance, contract field deployment and unscheduled drop-in maintenance for the DoD primarily for the sustainment of the U.S. Air Force ("USAF") KC-10 fleet. The experienced workforce of HSS operates from two hangar locations in Greensboro, North Carolina. HSS is a subsidiary of VSE Corporation under our Federal & Defense Services segment.

In January 2019, we acquired 1st Choice Aerospace Inc. ("1st Choice Aerospace"), with operations in Florida and Kentucky. 1st Choice Aerospace provides component MRO services and products for new generation and legacy commercial aircraft families. 1st Choice Aerospace is a subsidiary of VSE Aviation, Inc. under our Aviation segment.

In February 2020, we sold our subsidiary Prime Turbines, LLC ("Prime Turbines") and certain related inventory assets for \$20.0 million in cash and a \$8.3 million note receivable to be paid over a period from 2020 through 2024. Our Aviation segment discontinued turboprop engine MRO services and will concentrate on higher growth potential component/accessory repair and parts distribution while further expanding our presence within the global commercial and general aviation markets. Prime Turbines' revenues totaled less than 1% and approximately 4% of our revenue for 2020 and 2019, respectively.

In June 2020, we sold all of the inventory of our subsidiary CT Aerospace, LLC ("CT Aerospace") for a \$6.9 million note receivable to be paid to us over a period from 2020 through 2025. Our Aviation segment discontinued sales and leasing of engines and supply of used serviceable engine parts. CT Aerospace's revenues totaled less than 1% and less than 2% of our revenue for 2020 and 2019, respectively.

See Note (2) "Acquisition and Divestitures" to our Consolidated Financial Statements included in Item 8 of this annual report on Form 10-K for additional information regarding our acquisition and divestitures.

#### *Public Common Stock Offering*

In February 2021, we completed an underwritten public offering of 1,599,097 shares of common stock, inclusive of 170,497 shares pursuant to the underwriters' exercise of their option to purchase additional shares, at a public offering price of \$35.00 per share. We received net proceeds of approximately \$52 million, after deducting underwriting discounts and other offering expenses of approximately \$4 million. The net proceeds were used for general corporate purposes, including financing strategic acquisitions and working capital requirements for new program launches.

*Organization and Segments*

Our operations are conducted within three reportable segments aligned with our operating segments: (1) Aviation; (2) Fleet; and (3) Federal and Defense. We provide more information about each of these reportable segments under Item 1, "Business-History and Organization."

*Concentration of Revenues*

Source of Revenues	(in thousands)					
	Years ended December 31,					
	2021	%	2020	%	2019	%
Commercial	322,318	43	208,305	31	242,518	32
DoD	\$ 233,422	31	\$ 236,397	36	\$ 304,334	41
Other government	195,113	26	216,957	33	205,775	27
Total Revenues	\$ 750,853	100	\$ 661,659	100	\$ 752,627	100

**COVID-19 Discussion**

Our results of operations in fiscal 2021 continued to reflect the adverse impact from the COVID-19 global pandemic. Despite the challenges faced by the ongoing pandemic, all of our businesses have remained operational through the end of 2021, and we continue to operate with limited disruption. Our business operations are deemed critical and essential by Federal and State governments. All of our repair, distribution and base operations facilities remain open and operational, and we continue to deliver products and services to customers without interruption.

We continue to closely monitor and address the pandemic and related developments, including the impact to our business, our employees, our customers, and our suppliers. We have been focused and continue to remain focused on protecting the health and safety of our employees, continuing to serve our customers with the highest quality product and repair services, and on positioning the company for long-term success. Our actions taken to lessen the potential adverse impacts, both health and economic, have varied depending on the spread of COVID-19 and applicable government requirements, the needs of our employees, the needs of our customers and the needs of our business. We will continue to evaluate the nature and extent of future impacts of the COVID-19 pandemic on our business.

The ultimate impact of the continued spread of COVID-19 on our operations and financial performance in future periods remains uncertain and will depend on future pandemic-related developments, which are uncertain and cannot be predicted. We have not experienced a material adverse change in our financial condition at this time as a result of the COVID-19 pandemic; however, a prolonged disruption in the demand for our products and services could have an adverse impact on our operating results and cause a material adverse change in our financial condition.

Refer to the discussion under Item 1A, "Risk Factors" of this annual report on Form 10-K with respect to our discussion of trends or uncertainties arising from or impacted by the COVID-19 pandemic. Additionally, a discussion of the impact of COVID-19 on our operations can also be found in the "Business Trends" and "Results of Operations" sections below.

**Business Trends**

The following discussion provides a brief description of some of the key business factors impacting our results of operations detailed by segment.

*Aviation Segment*

Our Aviation segment was significantly impacted by the COVID-19 pandemic as reduced global demand for air travel and decreased revenue passenger miles had an adverse impact on demand for our Aviation products and services. Despite the challenges faced during the COVID-19 pandemic, we have sustained six consecutive quarters of revenue increases due to the recovery in demand since the peak of the negative COVID-19 pandemic impact during the second quarter of 2020. Our 2021 results reflect changes in our revenue profile as new distribution programs in our Aviation segment and our acquisition of Global Parts have increased and broadened our revenue base. Our growth initiatives have resulted in a 108% year over year distribution revenue increase in 2021 compared to the prior year, demonstrating the current momentum in the aftermarket recovery.

Our July 2021 acquisition of Global Parts expands our existing B&GA focus and further diversifies our product and platform offerings to include additional airframe components, while expanding our customer base of regional and global B&GA customers.

During the second quarter of 2021, we reviewed the assumptions and calculations utilized in the valuation of excess and obsolete inventory and recorded an additional reserve of \$23.7 million primarily due to excess and slow-moving quantities of certain Aviation segment inventory, including inventory supporting specific international region distribution programs entered into prior to 2019 at levels higher than our updated forecasts of future demand. The increase in our inventory valuation reserves in the second quarter takes into consideration slower than anticipated air travel recovery in certain regions, primarily in the Asia Pacific region, impacted by the COVID-19 pandemic. While some countries have removed or eased travel restrictions, others have maintained international testing requirements and travel restrictions due to recent rebounds in the number of cases and low vaccination rates within those countries, which has lowered demand for our products. While the COVID-19 pandemic has slowed demand for certain aviation products in international regions, we do not expect any additional material adverse impact to the carrying value of our inventory. Additionally, we do not anticipate the lower international demand to materially impact the recovery of our Aviation segment, where our distribution business continues to operate with revenues in excess of pre-pandemic levels in 2021.

In the first quarter of 2020, we divested our Prime Turbines subsidiary, a business offering turboprop engine MRO services. In the second quarter of 2020, we sold all the inventory assets of our CT Aerospace subsidiary, a business offering turboprop engine and engine parts sales. We no longer offer these services, focusing instead on higher-growth component and accessory repair and parts distribution.

Our Aviation segment pursued multiple opportunities prioritizing strong, efficient future revenue growth and expanding our geographic footprint. We extended our worldwide exclusivity as the distributor of new fuel control systems and associated spare parts to the B&GA market for a leading global manufacturer. We continue to enhance key strategic relationships through extensions to our existing distribution agreements. We remained focused on accelerating business transformation as a well-established leader in engine accessory repair and proprietary parts distribution through our new engine accessories distribution agreement with a global aircraft engine manufacturer. Our new development initiatives allow us to expand our repair capabilities to service additional engine accessory exchange units.

We expect that the current disruption in market conditions will result in strategic opportunities for near-and long-term growth for our Aviation segment, given its offerings and value-added services. As we continue to experience growth in our distribution business and see recovery in some commercial markets, our long-term focus continues to emphasize investing in businesses and programs that will expand or complement our current portfolio and allow access to new customers.

#### ***Fleet Segment***

Our Fleet segment continues to focus on parts supply and inventory management support for the USPS delivery vehicle fleet while expanding presence to new commercial customers in both new and existing markets, including e-commerce solutions, private brand product sales, traditional parts supply, supply chain services, and just-in-time inventory programs. Commercial customer revenue continues to see a strong growth trend, increasing 72% in 2021 compared to the prior year. We anticipate continued growth of this service offering going forward as we continue to expand to support further commercial market demand. In 2021, commercial revenues were 32% of total Fleet segment revenue compared to 10% in 2019, demonstrating the continued success of our revenue diversification strategy.

In an effort to support the continued commercial focus for the Fleet segment, we opened a new leased facility of approximately 58,000 square feet to allow for continued process improvements and efficiencies as commercial market demand continues to drive a shift in segment growth.

We believe the COVID-19 pandemic is likely to continue to have a limited adverse impact on revenues for this segment of our business, as demand from our commercial truck fleet customers and our e-commerce platforms continue to grow.

#### ***Federal and Defense Segment***

Our Federal and Defense segment continues to focus on redefining VSE in the federal marketplace and investing in business development to build our contract backlog in current and new markets. Strong revenue performance in our U.S. Department of Justice program and new revenues from the U.S. Air Force work performed by our HSS acquisition enabled us to successfully grow our 2021 revenue for this segment despite anticipated declines in our U.S. Army work due to program completions. We continuously strive to strengthen our portfolio of services to meet the current and future needs of our customers. We are well

positioned in our pursuit of opportunities to expand our services supporting our traditional government clients, and to capture new work to expand or complement our current portfolio.

We expect the COVID-19 pandemic to continue to have a limited adverse impact on revenues for this segment, as the U.S. government is expected to maintain critical DoD preparedness programs.

### **Financial Statement Presentation**

The following discussion provides a brief description of certain key items that appear in our consolidated financial statements:

#### ***Revenues***

Revenues are derived from the delivery of products and from professional and technical services performed through various ordering agreements and contract agreements. Revenues from our Aviation and Fleet segment are derived from repair and distribution services primarily through shorter term purchase orders from customers. Our Federal and Defense segment's revenue results from services provided on longer term contracts, including cost-type, fixed-price, and time and materials. Revenues from these contract types result from work performed on these contracts and from costs for materials and other work-related contract allowable costs.

#### ***Costs and Operating Expenses***

Costs and operating expenses consist primarily of cost of inventory and material associated with the delivery of products and labor and other indirect costs associated with services rendered for customers. Costs and operating expense also include other sales, general and administrative expenses associated with segment and corporate management and certain other costs and charges arising from events outside the ordinary course of business. These costs will generally increase or decrease in conjunction with our level of products sold or services performed. Costs and operating expenses also include expense for amortization of intangible assets acquired through our acquisitions. Expense for amortization of acquisition related intangible assets is included in the segment results in which the acquisition is included. Segment results also include expense for an allocation of corporate management costs.

#### ***Bookings and Funded Backlog***

Our funded backlog represents the estimated remaining value of work to be performed under firm contracts. Bookings for our Aviation and Fleet segments occur at the time of sale. Accordingly, our Aviation and Fleet segments do not generally have funded contract backlog and backlog is not an indicator of their potential future revenues. Revenues for federal government contract work performed by our Federal and Defense segment depend on contract funding ("bookings"), and bookings generally occur when contract funding documentation is received. Funded contract backlog is an indicator of potential future revenue. While bookings and funded contract backlog generally result in revenue, we may occasionally have funded contract backlog that expires or is de-obligated upon contract completion and does not generate revenue.

Changes in funded backlog on contracts are sometimes unpredictable due to uncertainties associated with changing government program priorities and availability of funds, which is heavily dependent upon the congressional authorization and appropriation process. Delays in this process may temporarily diminish the availability of funds for ongoing and planned work.

In addition to funded backlog levels, we have contract ceiling amounts available for use on multiple award, indefinite delivery, indefinite quantity contracts (IDIQ) with DoD and federal civilian agencies. While these contracts increase the opportunities available for us to pursue future work, the actual amount of future work is indeterminate until task orders are placed on the contracts. Frequently, these task orders are competitively awarded. Additionally, these task orders must be funded by the procuring agencies before we can perform work and begin generating revenues. We do not include in backlog estimates of revenues to be derived from IDIQ contracts, but rather record backlog and bookings when task orders are awarded and funded on these contracts.



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A summary of our bookings and revenues for our Federal and Defense segment for the years ended December 31, 2021, 2020 and 2019, and funded contract backlog for this segment as of December 31, 2021, 2020 and 2019 is as follows (in millions):

	2021		2020		2019	
Bookings	\$	314	\$	270	\$	228
Revenues	\$	269	\$	254	\$	314
Funded Backlog	\$	185	\$	183	\$	213

For the year ended December 31, 2021, Federal and Defense segment bookings increased 16% year-over-year to \$314 million, while total funded backlog increased 1% year-over-year to \$185 million. In the fourth quarter of fiscal 2021, we included a valuation adjustment for open unfulfilled contracts that, in our judgment, may not be converted to future sales, but which have not been closed or de-obligated by the customer. The effect of this reduced backlog by \$36 million as of December 31, 2021.

### Critical Accounting Policies, Estimates and Judgments

Our consolidated financial statements are prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP"), which require us to make estimates and assumptions. Certain critical accounting policies affect the more significant accounts, particularly those that involve judgments, estimates and assumptions used in the preparation of our consolidated financial statements. The development and selection of these critical accounting policies have been determined by our management. Due to the significant judgment involved in selecting certain of the assumptions used in these policies, it is possible that different parties could choose different assumptions and reach different conclusions. We consider our policies relating to the following matters to be critical accounting policies.

#### Revenue Recognition

We account for revenue in accordance with ASC 606. The unit of account in ASC 606 is a performance obligation. At the inception of each contract with a customer, we determine our performance obligations under the contract and the contract's transaction price. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is defined as the unit of account. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when the performance obligation is satisfied. The majority of our contracts have a single performance obligation as the promise to transfer the respective goods or services is not separately identifiable from other promises in the contracts and is, therefore, not distinct. For product sales, each product sold to a customer typically represents a distinct performance obligation. Our performance obligations are satisfied over time as work progresses or at a point in time based on transfer of control of products and services to our customers.

Contract modifications are routine in the performance of our contracts. Contracts are often modified to account for changes in contract specifications or requirements. In most instances, contract modifications are for goods or services that are not distinct, and therefore are accounted for as part of the existing contract.

Substantially all Fleet segment revenues from the sale of vehicle parts to customers are recognized at the point in time of the transfer of control to the customer. Sales returns and allowances for vehicle parts are not significant.

Our Aviation segment revenues result from the sale of aircraft parts and performance of MRO services. Our Aviation segment recognizes revenues for the sale of aircraft parts at a point in time when control is transferred to the customer, which usually occurs when the parts are shipped. Our Aviation segment recognizes revenues for MRO services over time as the services are transferred to the customer. MRO services revenue recognized is measured based on the cost-to-cost input method, as costs incurred reflect the work completed, and therefore the services transferred to date. Sales returns and allowances are not significant.

Our Federal and Defense segment revenues result from professional and technical services, which we perform for customers on a contract basis. Revenue is recognized for performance obligations over time as we transfer the services to the customer. The three primary types of contracts used are cost-type, fixed-price and time and materials. Revenues result from work performed on these contracts by our employees and our subcontractors and from costs for materials and other work-related costs allowed under our contracts.

Revenues on cost-type contracts are recorded as contract allowable costs are incurred and fees are earned. Variable consideration is included in the estimated transaction price, to the extent that it is probable that a significant reversal will not

occur, when there is a basis to reasonably estimate the amount of the fee. These estimates are based on historical award experience, anticipated performance and our best judgment based on current facts and circumstances.

Revenues on fixed-price contracts are recorded as work is performed over the period. Revenue is recognized over time using costs incurred to date relative to total estimated costs at completion to measure progress toward satisfying our performance obligations. Incurred cost represents work performed, which corresponds with the transfer of control to the customer. For such contracts, we estimate total costs at the inception of the contract based on our assumptions of the cost elements required to complete the associated tasks of the contract and assess the effects of the risks on our estimates of total costs to complete the contract. Our cost estimates are based on assumptions that include the complexity of the work, our employee labor costs, the cost of materials and the performance of our subcontractors. These cost estimates are subject to change as we perform under the contract and as a result, the timing of revenues and amount of profit on a contract may change as there are changes in estimated costs to complete the contract. Such adjustments are recognized on a cumulative catch-up basis in the period we identify the changes.

Revenues for time and materials contracts are recorded based on the amount for which we have the right to invoice our customers, because the amount directly reflects the value of our work performed for the customer. Revenues are recorded on the basis of contract allowable labor hours worked multiplied by the contract defined billing rates, plus the direct costs and indirect cost burdens associated with materials and subcontract work used in performance on the contract. Generally, 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.

Revenues related to work performed on government contracts at risk, which is work performed at the customer's request prior to the government formalizing funding, is not recognized until it can be reliably estimated, and its realization is probable.

Most of the Federal and Defense segment contract revenues and administrative costs are subject to audit by the Defense Contract Audit Agency. Our indirect cost rates have been audited and approved for 2019 and prior years with no material adjustments to our results of operations or financial position. While we maintain reserves to cover the risk of potential future audit adjustments based primarily on the results of prior audits, we do not believe any future audits will have a material adverse effect on our results of operations, financial position, or cash flows.

#### ***Inventory Valuation***

Inventories are stated at the lower of cost or net realizable value using the first-in, first-out ("FIFO") method. Inventories for our Fleet segment consist primarily of vehicle replacement parts, and also include related purchasing, storage and handling costs. Inventories for our Aviation segment consist primarily of aftermarket parts for distribution, and general aviation engine accessories and parts, and also include related purchasing, overhaul labor, storage and handling costs. We periodically evaluate the carrying value of inventory, giving consideration to factors such as its physical condition, sales patterns and expected future demand in order to estimate the amount necessary to write down any slow moving, obsolete or damaged inventory. These estimates could vary significantly from actual amounts based upon future economic conditions, customer inventory levels or competitive factors that were not foreseen or did not exist when the estimated write-downs were made.

#### ***Business Combinations***

We account for business combinations under the acquisition method of accounting. The purchase price of each business acquired is allocated to the tangible and intangible assets acquired and the liabilities assumed based on information regarding their respective fair values on the date of acquisition. Any excess of the purchase price over the fair value of the separately identifiable assets acquired and liabilities assumed is allocated to goodwill. Determining the fair value of assets acquired and liabilities assumed requires management's judgment and often involves the use of significant estimates and assumptions, including assumptions with respect to future cash inflows and outflows, discount rates, and market multiples, among other items. We determine the fair values of intangible assets acquired generally in consultation with third-party valuation advisors. The valuation of assets acquired and liabilities assumed requires a number of judgments and is subject to revision as additional information about the fair values becomes available. We will recognize any adjustments to provisional amounts that are identified during the period not to exceed twelve months from the acquisition date (the "measurement period") in which the adjustments are determined. Acquisition costs are expensed as incurred. The results of operations of businesses acquired are included in the consolidated financial statements from their dates of acquisition.

As part of the agreement to acquire certain subsidiaries, we may be obligated to pay contingent consideration should the acquired entity meet certain earnings objectives subsequent to the date of acquisition. As of the acquisition date, contingent consideration is recorded at fair value as determined through the use of a probability-based scenario analysis approach. Under

this approach, a set of potential future subsidiary earnings is estimated based on various revenue growth rate assumptions for each scenario. A probability of likelihood is then assigned to each potential future earnings estimate and the resultant contingent consideration is calculated and discounted using a weighted average discount rate. The fair value is measured each reporting period subsequent to the acquisition date and any changes are recorded within cost and operating expenses within our consolidated statement of income. Changes in either the revenue growth rates, related earnings or the discount rate could result in a material change to the amount of the contingent consideration accrued.

#### ***Goodwill and Intangible Assets***

Goodwill is subject to a review for impairment at least annually. We perform an annual review of goodwill for impairment during the fourth quarter and whenever events or other changes in circumstances indicate that the carrying value may not be fully recoverable. The goodwill impairment test is performed at the reporting unit level. We estimate and compare the fair value of each reporting unit to its respective carrying value including goodwill. If the fair value is less than the carrying value, the amount of impairment expense is equal to the difference between the reporting unit's fair value and the reporting unit's carrying value. Determining the fair value of a reporting unit requires the exercise of significant management judgments and the use of estimates and assumptions. We estimate the fair value of our reporting units using a weighting of fair values derived from the income approach and market approach. Under the income approach, we calculate the fair value of a reporting unit based on the present value of estimated future cash flows. Cash flow projections are based on our estimates of revenue growth rates and operating margins, taking into consideration industry and market conditions. The discount rate used is based on a weighted average cost of capital adjusted for the relevant risk associated with the characteristics of the business and the projected cash flows. Under the market approach, we estimate the fair value of a reporting unit based on multiples of earnings derived from observable market data of comparable public companies. We evaluate companies within our industry that have operations with observable and comparable economic characteristics and are similar in nature, scope and size to the reporting unit being compared. We analyze historical acquisitions in our industry to estimate a control premium that we incorporate into the fair value estimate of a reporting unit under the market approach. The carrying value of each reporting unit includes the assets and liabilities employed in its operations and goodwill. There are no significant allocations of amounts held at the Corporate level to the reporting units.

In the fourth quarter of 2021, we performed our annual goodwill test for each of our reporting units. Based on our impairment test, we determined there was no impairment of our goodwill. The fair value of each of our reporting units as of December 31, 2021, exceeded its carrying value.

In the second quarter of 2020, due to the significant decline in our market capitalization as well as an overall stock market decline amid market volatility as a result of the COVID-19 pandemic, we performed an interim impairment test utilizing a quantitative assessment approach. Based on the assessment, our VSE Aviation reporting unit was determined to be impaired and a \$30.9 million impairment charge was recognized. Based on our annual goodwill impairment test performed in the fourth quarter of 2020, for which a qualitative assessment approach was utilized, it was determined that it was more likely than not that the fair value of our reporting units exceeded their carrying value, and no additional impairment was recognized.

Intangible assets with finite lives are amortized using the method that best reflects how their economic benefits are utilized or, if a pattern of economic benefits cannot be reliably determined, on a straight-line basis over their estimated useful lives. Intangible assets with finite lives are assessed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

#### ***Income Taxes***

Income taxes are accounted for under the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. This method also requires the recognition of future tax benefits, such as net operating loss and capital loss carryforwards, to the extent that realization of such benefits is more likely than not. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The carrying value of net deferred tax assets is based on assumptions regarding our ability to generate sufficient future taxable income to utilize these deferred tax assets.

**Recently Issued Accounting Pronouncements**

For a description of recently announced accounting standards, including the expected dates of adoption and estimated effects, if any, on our consolidated financial statements, see "Nature of Business and Significant Accounting Policies-Recently Issued Accounting Pronouncements" in Note (1) to our Consolidated Financial Statements included below in Item 8.

**Results of Operations**

The following discussion of our Results of Operations and Liquidity and Capital Resources includes a comparison of fiscal 2021 to fiscal 2020. For a similar discussion that compares fiscal 2020 to fiscal 2019, refer to Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," of our Form 10-K for the fiscal year ended December 31, 2020.

	Consolidated Statements of Income (in thousands)					
	Years ended December 31,					
	2021	%	2020	%	2019	%
Revenues	\$ 750,853	100.0	\$ 661,659	100.0	\$ 752,627	100.0
Costs and operating expenses	729,333	97.1	606,896	91.7	692,370	92.0
Loss on sale of business entity and certain assets	—	—	(8,214)	(1.2)	—	—
Gain on sale of property	—	—	1,108	0.2	—	—
Goodwill and intangible asset impairment	—	—	(33,734)	(5.1)	—	—
Operating income	21,520	2.9	13,923	2.2	60,257	8.0
Interest expense, net	12,069	1.6	13,496	2.0	13,830	1.8
Income before income taxes	9,451	1.3	427	0.2	46,427	6.2
Provision for income taxes	1,485	0.2	5,598	0.8	9,403	1.3
Net income (loss)	\$ 7,966	1.1	\$ (5,171)	(0.6)	\$ 37,024	4.9

**Year Ended 2021 Compared to Year Ended 2020***Revenues*

Our revenues increased \$89.2 million or 13.5% for the year ended December 31, 2021 as compared to the prior year. The increase in revenues resulted from an increase in our Aviation segment of \$82.8 million, an increase in our Federal and Defense segment of \$15.1 million, and was partially offset by a decrease in our Fleet segment of \$8.6 million. See "Segment Operating Results" for a breakdown of our results of operations by segment.

*Costs and Operating Expenses*

Our costs and operating expenses increased \$122 million or 20% in 2021 as compared to the prior year. Costs and operating expenses for our operating segments increase and decrease in conjunction with the level of business activity and revenues generated by each segment. See "Segment Operating Results" for a breakdown of our results of operations by segment. The increase includes the effects of COVID-19 on the valuation of inventory reserves which increased costs and operating expenses by \$24.4 million in the second quarter of 2021. The inventory reserve increase was primarily due excess quantities of inventory at levels higher than our updated forecasts of future demand. Costs and operating expenses for 2020 included an expense reduction of approximately \$5.0 million for an adjustment to our earn-out obligation, offset by an expense of approximately \$1.0 million for executive transition costs and an expense of approximately \$700 thousand for severance pay related to a reduction in workforce associated with the COVID-19 pandemic induced reduction in demand.

*Operating Income*

Our operating income increased \$7.6 million or 54.6% in 2021 as compared to the prior year. Operating income increased approximately \$21.1 million for our Aviation segment and was partially offset by a decrease of \$6.2 million for our Fleet segment and a decrease of \$6.4 million for our Federal and Defense segment.

In 2020, the business recorded the following related to our Aviation segment (1) a loss on the sale of a business entity and certain assets of \$8.2 million, (2) a gain on sale of property of \$1.1 million, and (3) a goodwill and intangible asset impairment charge of \$33.7 million.

See "Segment Operating Results" for a breakdown of our results of operations by segment.

#### *Interest Expense*

Interest expense decreased approximately \$1.4 million or 10.6% in 2021 as compared to the prior year primarily due to a lower average interest rate on borrowings outstanding.

#### *Provision for Income Taxes*

Our effective tax rate was 15.7% for 2021 and 1,311.0% for 2020. The lower effective tax rate for 2021 compared to 2020 primarily resulted from: (1) significantly lower pre-tax book income in 2020, (2) goodwill impairment loss recognized in 2020, of which \$16.4 million was non-deductible for income tax purposes, and (3) a full valuation allowance established in 2020 to offset the capital loss benefit in connection with our divestiture of Prime Turbines due to a lack of anticipated capital gain income in the carryforward period.

Our tax rate is also affected by discrete items that may occur in any given year but may not be consistent from year to year. In addition to state income taxes, certain federal and state tax credits and permanent book-tax differences such as foreign derived intangible income ("FDII") deduction and unrealized investment income or loss from our COLI plan caused differences between the statutory U.S. federal income tax rate and our effective tax rate.

#### ***Segment Operating Results***

##### *Aviation Segment Results*

The results of operations for our Aviation segment are as follows (in thousands):

	Years ended December 31,					
	2021	%	2020	%	2019	%
Revenues	\$ 247,852	100.0	\$ 165,070	100.0	\$ 224,546	100.0
Costs and operating expenses	262,225	105.8	159,743	96.8	206,645	92.0
Loss on sale of business entity and certain assets	—	—	(8,214)	(5.0)	—	—
Gain on sale of property	—	—	1,108	0.7	—	—
Goodwill and intangible asset impairment	—	—	(33,734)	(20.4)	—	—
Operating (loss) income	\$ (14,373)	(5.8)	\$ (35,513)	(21.5)	\$ 17,901	8.0

Revenues for our Aviation segment increased \$83 million or 50% in 2021 as compared to the prior year. The revenue growth is primarily attributable to revenue contributions from recently initiated distribution contract wins, contributions from the acquisition of Global Parts, and improved demand in end markets. The increases in revenue were partially offset by the divestiture of Prime Turbines in February of 2020 and the sale of all of CT Aerospace inventory in June 2020. We did not have revenue for these two divested businesses in 2021 compared to combined revenues for these divested businesses of \$8.9 million in 2020.

Costs and operating expenses increased approximately \$102 million or 64% in 2021 compared to the prior year primarily due to improved demand for our products and services and a \$23.7 million inventory valuation reserve recognized in the second quarter of 2021. Costs and operating expenses for this segment include expenses for amortization of intangible assets associated with acquisitions, allocated corporate costs, and charges to expense for valuation adjustments to accrued earn-out obligations associated with acquisitions. Expense for amortization of intangible assets was approximately \$8.7 million and \$8.8 million for 2021 and 2020, respectively. Expense for allocated corporate costs was approximately \$8.8 million and \$5.8 million for 2021 and 2020, respectively. There was no expense for earn-out obligation valuation adjustments in 2021 compared to a reduction in expense of \$5.0 million in 2020.

In 2020, a loss on sale of a business entity and certain assets of \$8.2 million was recognized, which comprised of (1) the difference between the carrying value on our books for our Prime Turbines business and the sale price upon divestiture, plus the difference between the carrying value on our books of inventory sold that is used to support the operations of our divested Prime Turbines business and the sale price of the inventory upon divestiture, and (2) the difference between the carrying value on our books of our CT Aerospace subsidiary's inventory and the sale price of the inventory upon sale.

In 2020, a gain on sale of property of \$1.1 million was recognized associated with the sale of a Miami, Florida real estate holding.

In 2020, a goodwill and intangible asset impairment of \$33.7 million was recognized, which comprised of a charge to write down the goodwill carrying value of our Aviation businesses due to an anticipated decline in demand for these services caused by the global aviation industry downturn associated with the COVID-19 pandemic and a charge to write down the carrying value of CT Aerospace related intangible assets that were determined to have no residual value or ongoing future cash flows due to the sale of all the subsidiary's inventory.

Operating loss decreased \$21.1 million or 59.5% in 2021 compared to the prior year, which primarily reflects the previously mentioned revenue growth, partially offset by the increase in costs as a result of the additional inventory valuation reserve. The decrease was also attributable to nonrecurring expenses recognized in 2020 related to the loss on sale of Prime Turbines business and CT Aerospace inventory and the goodwill impairment charge.

#### *Fleet Segment Results*

The results of operations for our Fleet segment are as follows (in thousands):

	Years ended December 31,					
	2021	%	2020	%	2019	%
Revenues	\$ 233,532	100.0	\$ 242,170	100.0	\$ 214,520	100.0
Costs and operating expenses	213,106	91.3	215,511	89.0	184,701	86.1
Operating income	\$ 20,426	8.7	\$ 26,659	11.0	\$ 29,819	13.9

Revenues for our Fleet segment decreased \$8.6 million or 3.6% in 2021 as compared to the prior year. Revenues from sales to DoD customers decreased \$8 million or 39%, and revenues from sales to other government customers decreased \$31 million or 18% primarily due to a non-recurring \$26.6 million order for COVID-19 related supplies in 2020. These decreases in revenue were partially offset by increased revenues from commercial customers of \$31 million or 72%, driven by growth in our e-commerce fulfillment business.

Costs and operating expenses decreased \$2.4 million or 1.1%, primarily due to decreased revenues. Costs and operating expenses for this segment include expense for amortization of intangible assets associated with acquisitions and allocated corporate costs. Expense for amortization of intangible assets was \$7.1 million for 2021 and \$7.4 million for 2020. Expense for allocated corporate costs was \$8.5 million for 2021 and \$8.0 million for 2020.

Operating income decreased \$6.2 million or 23% in 2021 as compared to the prior year, primarily due to a change in the mix of products sold, including increased commercial customer revenues, an increase in allocated corporate costs, and a \$0.7 million inventory valuation reserve recognized in the second quarter of 2021.

#### *Federal and Defense Segment Results*

The results of operations for our Federal and Defense segment are as follows (in thousands):

	Years ended December 31,					
	2021	%	2020	%	2019	%
Revenues	\$ 269,469	100.0	\$ 254,419	100.0	\$ 313,561	100.0
Costs and operating expenses	249,572	92.6	228,110	89.7	295,417	94.2
Operating income	\$ 19,897	7.4	\$ 26,309	10.3	\$ 18,144	5.8

Revenues for our Federal and Defense segment increased \$15 million or 5.9% and costs and operating expenses increased approximately \$21 million or 9% for 2021, as compared to the prior year primarily due to revenue performance on our U.S.

Department of Justice program and new revenues from the U.S. Air Force work performed by our HSS acquisition. These increases were partially offset by declines in our U.S. Army work due to program completions and a decline in our U.S. Navy work.

Operating income decreased approximately \$6.4 million or 24% for 2021 compared to the prior year primarily due to a unfavorable mix of fixed priced awards in 2021 compared to 2020.

### **Financial Condition**

There has been no material adverse change in our financial condition in 2021. Our bank debt increased \$33 million, and we had \$122 million of unused bank loan commitments as of December 31, 2021. In February 2021, we completed an underwritten public offering of 1,599,097 shares of common stock, inclusive of 170,497 shares pursuant to the underwriters' exercise of their option to purchase additional shares, generating gross proceeds of approximately \$56 million and net proceeds of approximately \$52 million. Changes to other asset and liability accounts were primarily due to our earnings; our level of business activity; the timing and level of inventory purchases to support new distribution programs, contract delivery schedules, and subcontractor and vendor payments required to perform our contract work; the timing of government contract funding awarded; collections from our customers; and our acquisition of HSS and Global Parts.

### **Liquidity and Capital Resources**

#### ***Cash Flows***

Cash and cash equivalents increased by approximately \$140 thousand during 2021.

Cash used in operating activities was \$17.6 million for 2021 compared to cash provided by operating activities of \$35.8 million for the prior year. The change was comprised of a decrease of \$13.5 million in other non-cash operating activities and a decrease of \$53 million due to changes in the levels of operating assets and liabilities, partially offset by a reduction of \$13.1 million in net loss. The net decrease in the level of operating assets and liabilities was primarily due to \$80 million used for investments in new inventory to support recent distribution program wins and program launches within our Aviation segment and \$15 million increase in billed and unbilled receivables primarily due to the timing of collections and customer billings, partially offset by \$33.2 million increase in accounts payable and deferred compensation primarily resulting from timing of payments. Our levels of accounts receivable and accounts payable may fluctuate depending on the timing of material and inventory purchases, services ordered, product sales, government funding delays, the timing of billings received from subcontractors and materials vendors, and the timing of payments received for services. Such timing differences have the potential to cause significant increases and decreases in our inventory, accounts receivable, and accounts payable in short time periods, and accordingly, can cause increases or decreases in our cash provided by operations. We have recently experienced and expect to continue to experience delays in some of our Aviation segment receivables as a result of the COVID-19 pandemic.

Cash used in investing activities was \$61.6 million for 2021 compared to cash provided by investing activities of \$20.2 million for the prior year. Net cash used in investing activities in 2021 related primarily to acquisitions of \$53.3 million. In 2020, net cash provided in investing activities related primarily to proceeds from the divestitures of our Prime Turbines business and CT Aerospace inventory, the sale of a Miami, Florida real estate holding, and the sale of other property and equipment of \$22.8 million. Other investing activities consisted of purchases of property and equipment and proceeds from payments on notes receivable in connection with the divestiture of Prime Turbines and sale of CT Aerospace inventory.

Cash provided by financing activities was \$79.4 million for 2021 as compared to cash used in financing activities of \$56.3 million for the prior year. In 2021, we received \$52.0 million in proceeds from the public underwritten offering of our common stock in February 2021, which is net of underwriters' discounts and issuance costs. In 2020, \$31.7 million was used for the payment of an earn-out obligation in connection with the 2019 acquisition of our 1st Choice Aerospace subsidiary. Other financing activities consisted primarily of borrowing and repayment of debt and payment of dividends.

We paid cash dividends totaling approximately \$4.4 million or \$0.37 per share in 2021. Pursuant to our bank loan agreement, our payment of cash dividends is subject to annual restrictions. We have paid cash dividends each year since 1973.

#### ***Liquidity***

Our internal sources of liquidity are primarily from operating activities, specifically from changes in our level of revenues and associated inventory, accounts receivable and accounts payable, and from profitability. Significant increases or decreases in

revenues and inventory, accounts receivable and accounts payable can affect our liquidity. Our inventory and accounts payable levels can be affected by the timing of large opportunistic inventory purchases and by distributor agreement requirements. Our accounts receivable and accounts payable levels can be affected by changes in the level of contract work we perform, by the timing of large materials purchases and subcontractor efforts used in our contracts, and by delays in the award of contractual coverage and funding and payments. Government funding delays can cause delays in our ability to invoice for revenues earned, presenting a potential negative impact on our days sales outstanding.

We also purchase property and equipment; invest in expansion, improvement, and maintenance of our operational and administrative facilities; and invest in the acquisition of other companies.

Our external financing consists of a loan agreement with a bank group that we amended in July 2021 and that expires in July 2024. The loan agreement includes a term loan facility and a revolving loan facility. The revolving loan facility provides for revolving loans and letters of credit.

The term loan requires quarterly installment payments. Our required term loan payments after December 31, 2021 are approximately \$15.0 million in 2022, \$15.0 million in 2023, and \$30.2 million in 2024. The amount of term loan borrowings outstanding as of December 31, 2021 was \$60.2 million.

The maximum amount of credit available to us under the loan agreement for revolving loans and letters of credit as of December 31, 2021 was \$350 million. We pay an unused commitment fee and fees on letters of credit that are issued. We had approximately \$226.6 million in revolving loan amounts outstanding and \$1.0 million of letters of credit outstanding as of December 31, 2021.

Under the loan agreement we may elect to increase the maximum availability of the term loan facility, the revolving loan facility, or a combination of both facilities, subject to customary lender commitment approvals. The aggregate limit of incremental increases is \$100 million.

We pay interest on the term loan borrowings and revolving loan borrowings at LIBOR plus a base margin or at a base rate (typically the prime rate) plus a base margin. The applicable LIBOR rate has a floor of 0.50%. As of December 31, 2021, the LIBOR margin was 3.25% and the base margin was 2.25%. The amendment to the loan agreement in July 2021 provides procedures for determining a replacement or alternative rate in the event that LIBOR is unavailable. The base margins increase or decrease in increments as our Total Funded Debt/EBITDA Ratio increases or decreases.

We use interest rate hedges on a portion of our debt. As of December 31, 2021, interest rates on portions of our outstanding debt ranged from 4.00% to 6.66%, and the effective interest rate on our aggregate outstanding debt was 4.39%.

The loan agreement contains collateral requirements to secure our loan agreement obligations, restrictive covenants, a limit on annual dividends, and other affirmative and negative covenants, conditions and limitations. The restrictive covenants require that we maintain a Fixed Charge Coverage Ratio of not less than 1.20 to 1.00 and a maximum Total Funded Debt to EBITDA Ratio that varies over future periods as indicated in the table below.

Testing Period	Maximum Total Funded Debt to EBITDA Ratio
From July 23, 2021 through and including December 31, 2021	4.50 to 1.00
From January 1, 2022 through and including June 30, 2022	4.25 to 1.00
From July 1, 2022 through and including September 30, 2022	4.00 to 1.00
From October 1, 2022 through and including December 31, 2022	3.75 to 1.00
From January 1, 2023 through and including March 31, 2023	3.50 to 1.00
From April 1, 2023 and thereafter	3.25 to 1.00

We were in compliance with required ratios and other terms and conditions as of December 31, 2021. We continue to monitor the impacts of COVID-19 on our results of operations and liquidity relative to compliance with financial covenants; at this time, we expect that we will remain in compliance with such covenants over the next twelve months.



***Other Obligations and Commitments***

See Note (8) "Debt" to our Consolidated Financial Statements for information regarding our long-term debt obligations. We estimate cash requirements for interest payments on our bank loan debt to be approximately \$2.2 million for 2022, \$1.5 million for 2023 and \$500 thousand for 2024. The estimates included variable rate interest obligations estimated based on rates as of December 31, 2021. The interest payments are estimated through the maturity date of our term loan. Interest payments under our revolver loans have been excluded because a reasonable estimate of timing and amount of cash out flows cannot be determined.

See Note (12) "Commitments and Contingencies" to our Consolidated Financial Statements for information pertaining to future minimum lease payments relating to our operating and lease obligations.

See Note (16) "Fair Value Measurements" to our Consolidated Financial Statements for information pertaining to contingent consideration obligations.

**Inflation and Pricing**

Our Aviation and Fleet segments have experienced broad-based inflationary impacts consistent with overall trends in the aerospace and industrial distribution market, due primarily to increased materials, labor and services costs. The effect of these increased costs on total company net income has been mitigated with improved efficiency in our underlying business through productivity improvements and pass-through price increases. Our Federal and Defense segment has limited inflation risk as most of our contracts provide for estimates of future labor costs to be escalated for any option periods, while the non-labor costs in our contracts are typically reimbursable at cost. Given broader inflation in the economy, we are monitoring the risk inflation presents to active and future contracts.

**Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our financial condition, changes in financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources.

**ITEM 7A. Quantitative and Qualitative Disclosures About Market Risks**

***Interest Rates***

Our bank loan agreement provides available borrowing to us at variable interest rates. Accordingly, future interest rate changes could potentially put us at risk for a material adverse impact on future earnings and cash flows. To mitigate the risks associated with future interest rate movements we have employed interest rate hedges to fix the rate on a portion of our outstanding borrowings for various periods.

In February 2019, we entered into a LIBOR based interest rate swap on our revolving loan for a term of three years with a notional amount of \$75 million. This swap amount decreases in increments on an annual basis to \$45 million for the second year and to \$25 million for the third year. We pay an effective interest rate of 2.805% plus our base margin on the debt matched to it.

In March 2020, we entered into a LIBOR based interest rate swap on our revolving loan for a term of two years with a notional amount of \$50 million. We pay an effective interest rate of 0.73% plus our base margin on the debt matched to this swap.

A hypothetical 1% increase to interest rates would have increased interest expense by approximately \$2.9 million, and would have decreased our net income and operating cash flows by a comparable amount.

For additional information related to our debt and interest rate swap agreements, see Note (8) and Note (16), respectively, to our Consolidated Financial Statements contained in this report.

LIBOR is used as a reference rate for borrowings under our loan agreement and related interest rate swap agreements. The LIBOR benchmark has been the subject of regulatory guidance and proposals for reform and replacement, with most LIBOR tenors, including those that we most commonly use, expected to no longer be available under our loan agreement after June 30, 2023. In connection with our loan amendment in July 2021, language was added to the agreement to provide procedures for determining a replacement or alternative rate in the event that LIBOR becomes unavailable. At this time, there is no definitive information regarding the future transition of LIBOR to a replacement rate; however, we continue to monitor the developments with respect to the potential discontinuance of LIBOR and intend to work with our bank group to minimize the impact of such discontinuance on our financial condition and results of operations. The consequences of the discontinuance of LIBOR cannot be entirely predicted but could result in an increase in our variable rate debt.

**ITEM 8. Financial Statements and Supplementary Data**

**Index to Consolidated Financial Statements**

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## Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders  
VSE Corporation

### Opinion on the financial statements

We have audited the accompanying consolidated balance sheets of VSE Corporation (a Delaware corporation) and subsidiaries (the “Company”) as of December 31, 2021 and 2020, the related consolidated statements of income (loss), comprehensive income (loss), stockholders’ equity, and cash flows for each of the three years in the period ended December 31, 2021, and the related notes and financial statement schedule included under Item 15.2 (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2021, based on criteria established in the 2013 Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”), and our report dated March 10, 2022 expressed an unqualified opinion.

### Basis for opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

### Critical audit matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

#### *Assessment of the write-down of Aviation inventories*

As described further in Note 1 to the consolidated financial statements, the Company’s inventory balance as of December 31, 2021 was \$322.7 million. The Company records inventory within its Aviation Segment at the lower of cost or net realizable value. The write-down of slow moving inventory is recorded for excess or obsolete inventory based on certain inputs and assumptions used to determine the net realizable value. These assumptions include the number of days transpiring from the date the inventory was originally received and the historical sales of the inventory to determine recovery rates. Other inputs include current and expected future aviation usage trends, replacement values, expected future demand, and historical scrap recovery rates.

The principal considerations for our determination that the assessment of the write-down of inventories within the Aviation Segment is a critical audit matter are that the inputs and assumptions used in determining the write-down are subject to significant management judgement. The inputs and assumptions used in determining the write-down of slow moving inventory include the historical recovery rates, which are based on the number of dates transpiring from the date the inventory was originally received, the historical sales of inventory, the identification of specific inventories associated with aircraft with declining usage trends and the impact of recently executed distribution agreements. The assessment of these inputs required a high degree of auditor judgement in evaluating the future customer demand for slow moving inventory.

Our audit procedures related to the write-down of inventory included the following procedures, among others:

- We tested the design and operating effectiveness of controls relating to the Company's inventory process, including controls over the Company's evaluation of the impact on the estimate of net realizable value based on the number of days transpiring from the date the inventory was original received, historical sales of the inventory, specific inventories identified to relate to aircraft with declining usage and the approval and evaluation of new distribution agreements.
- We assessed that the recovery rates applied to slow moving inventory were consistent with forecasted demand.
- We assessed the completeness of management's identification of specific inventory with declining usage trends by evaluating external industry information.

/s/ GRANT THORNTON LLP

We have served as the Company's auditor since 2019.

Arlington, Virginia  
March 10, 2022

**VSE Corporation and Subsidiaries**  
**Consolidated Balance Sheets**

(in thousands, except share and per share amounts)

	As of December 31,	
	2021	2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 518	\$ 378
Receivables, net	76,587	55,471
Unbilled receivables, net	31,882	22,358
Inventories	322,702	253,422
Other current assets	32,304	23,328
Total current assets	463,993	354,957
Property and equipment, net	42,486	36,363
Intangible assets, net	108,263	103,595
Goodwill	248,753	238,126
Operating lease - right-of-use assets	27,327	20,515
Other assets	27,736	26,525
Total assets	\$ 918,558	\$ 780,081
Liabilities and Stockholders' equity		
Current liabilities:		
Current portion of long-term debt	\$ 14,162	\$ 20,379
Accounts payable	115,064	72,682
Accrued expenses and other current liabilities	49,465	45,172
Dividends payable	1,273	995
Total current liabilities	179,964	139,228
Long-term debt, less current portion	270,407	230,714
Deferred compensation	14,328	16,027
Long-term operating lease obligations	27,168	22,815
Deferred tax liabilities	9,108	14,897
Other long-term liabilities	250	83
Total liabilities	501,225	423,764
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Common stock, par value \$0.05 per share, authorized 15,000,000 shares; issued and outstanding 12,726,659 and 11,055,037 respectively	636	553
Additional paid-in capital	88,515	31,870
Retained earnings	328,358	325,097
Accumulated other comprehensive loss	(176)	(1,203)
Total stockholders' equity	417,333	356,317
Total liabilities and stockholders' equity	\$ 918,558	\$ 780,081

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

**VSE Corporation and Subsidiaries**  
**Consolidated Statements of Income (Loss)**

(in thousands, except share and per share amounts)

	For the years ended December 31,		
	2021	2020	2019
Revenues:			
Products	\$ 400,935	\$ 318,324	\$ 311,617
Services	349,918	343,335	441,010
Total revenues	750,853	661,659	752,627
Costs and operating expenses:			
Products	385,065	283,814	266,443
Services	322,161	302,458	402,418
Selling, general and administrative expenses	3,625	3,120	4,192
Amortization of intangible assets	18,482	17,504	19,317
Total costs and operating expenses	729,333	606,896	692,370
	21,520	54,763	60,257
Loss on sale of a business entity and certain assets	—	(8,214)	—
Gain on sale of property	—	1,108	—
Goodwill and intangible asset impairment	—	(33,734)	—
Operating income	21,520	13,923	60,257
Interest expense, net	12,069	13,496	13,830
Income before income taxes	9,451	427	46,427
Provision for income taxes	1,485	5,598	9,403
Net income (loss)	\$ 7,966	\$ (5,171)	\$ 37,024
Basic earnings (loss) per share	\$ 0.63	\$ (0.47)	\$ 3.38
Basic weighted average shares outstanding	12,551,459	11,034,256	10,957,750
Diluted earnings (loss) per share	\$ 0.63	\$ (0.47)	\$ 3.35
Diluted weighted average shares outstanding	12,632,874	11,034,256	11,044,731

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

**VSE Corporation and Subsidiaries**  
**Consolidated Statements of Comprehensive Income (Loss)**

(in thousands)

	For the years ended December 31,		
	2021	2020	2019
Net income (loss)	\$ 7,966	\$ (5,171)	\$ 37,024
Change in fair value of interest rate swap agreements, net of tax	1,027	(98)	(1,251)
Other comprehensive income (loss), net of tax	1,027	(98)	(1,251)
Comprehensive income (loss)	<u>\$ 8,993</u>	<u>\$ (5,269)</u>	<u>\$ 35,773</u>

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



**VSE Corporation and Subsidiaries**  
**Consolidated Statements of Stockholders' Equity**

(in thousands except per share data)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount				
Balance at December 31, 2018	10,886	\$ 544	\$ 26,632	\$ 301,073	\$ 146	\$ 328,395
Cumulative effect of adoption of ASU 2016-02, net of tax	—	—	—	(9)	—	(9)
Net income	—	—	—	37,024	—	37,024
Stock-based compensation	84	5	2,779	—	—	2,784
Change in fair value of interest rate swap agreements, net of tax	—	—	—	—	(1,251)	(1,251)
Dividends declared (\$0.35 per share)	—	—	—	(3,842)	—	(3,842)
Balance at December 31, 2019	10,970	549	29,411	334,246	(1,105)	363,101
Net loss	—	—	—	(5,171)	—	(5,171)
Stock-based compensation	85	4	2,459	—	—	2,463
Change in fair value of interest rate swap agreements, net of tax	—	—	—	—	(98)	(98)
Dividends declared (\$0.36 per share)	—	—	—	(3,978)	—	(3,978)
Balance at December 31, 2020	11,055	553	31,870	325,097	(1,203)	356,317
Issuance of common stock	1,599	80	51,937	—	—	52,017
Net income	—	—	—	7,966	—	7,966
Stock-based compensation	73	3	4,708	—	—	4,711
Change in fair value of interest rate swap agreements, net of tax	—	—	—	—	1,027	1,027
Dividends declared (\$0.37 per share)	—	—	—	(4,705)	—	(4,705)
Balance at December 31, 2021	12,727	\$ 636	\$ 88,515	\$ 328,358	\$ (176)	\$ 417,333

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

**VSE Corporation and Subsidiaries**  
**Consolidated Statements of Cash Flows**

(in thousands)

	For the years ended December 31,		
	2021	2020	2019
<b>Cash flows from operating activities:</b>			
Net income (loss)	\$ 7,966	\$ (5,171)	\$ 37,024
<b>Adjustments to reconcile net income (loss) to net cash provided by operating activities:</b>			
Depreciation and amortization	25,600	24,135	26,927
Deferred taxes	(4,356)	106	(505)
Stock-based compensation	3,932	2,858	3,264
Provision for inventory	24,420	—	—
Loss on sale of a business entity and certain assets	—	8,214	—
Gain on sale of property and equipment	(64)	(1,051)	—
Goodwill and intangible asset impairment	—	33,734	—
Earn-out obligation fair value adjustment	—	(4,999)	1,900
<b>Changes in operating assets and liabilities, net of impact of acquisitions:</b>			
Receivables	(9,413)	7,732	(3,331)
Unbilled receivables	(5,542)	19,694	(4,593)
Inventories	(80,021)	(50,172)	(44,219)
Other current assets and noncurrent assets	(14,247)	(1,722)	(7,405)
Accounts payable and deferred compensation	33,210	3,503	7,725
Accrued expenses and other current and noncurrent liabilities	913	(1,100)	1,207
<b>Net cash (used in) provided by operating activities</b>	<b>(17,602)</b>	<b>35,761</b>	<b>17,994</b>
<b>Cash flows from investing activities:</b>			
Purchases of property and equipment	(10,520)	(4,427)	(9,630)
Proceeds from the sale of property and equipment	68	2,875	4
Proceeds from payments on notes receivable	2,906	1,856	—
Proceeds from sale of a business entity and certain assets	—	19,915	—
Earn-out obligation payments	(750)	—	—
Cash paid for acquisitions, net of cash acquired	(53,336)	—	(113,181)
<b>Net cash (used in) provided by investing activities</b>	<b>(61,632)</b>	<b>20,219</b>	<b>(122,807)</b>
<b>Cash flows from financing activities:</b>			
Borrowings on loan agreement	491,567	432,999	752,259
Repayments on loan agreement	(458,294)	(452,338)	(642,193)
Proceeds from issuance of common stock, net of underwriters' discounts and issuance costs	52,017	—	—
Earn-out obligation payments	—	(31,701)	—
Payment of debt financing costs	(808)	(636)	—
Payment of taxes for equity transactions	(681)	(690)	(955)
Dividends paid	(4,427)	(3,970)	(3,726)
<b>Net cash provided by (used in) financing activities</b>	<b>79,374</b>	<b>(56,336)</b>	<b>105,385</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>140</b>	<b>(356)</b>	<b>572</b>
Cash and cash equivalents at beginning of year	378	734	162
<b>Cash and cash equivalents at end of year</b>	<b>\$ 518</b>	<b>\$ 378</b>	<b>\$ 734</b>

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

Supplemental cash flow disclosures:						
Cash paid for interest	\$	12,146	\$	13,936	\$	13,468
Cash paid for income taxes	\$	7,536	\$	4,759	\$	11,645
Supplemental disclosure of noncash investing and financing activities:						
Notes receivable from the sale of a business entity and certain assets	\$	—	\$	12,852	\$	—
Earn-out obligation in connection with acquisitions	\$	1,250	\$	—	\$	36,700

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

**VSE Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2021**

**(1) Nature of Business and Summary of Significant Accounting Policies****Nature of Business**

The term "VSE," the "Company," "us," "we," or "our" means VSE and its subsidiaries and divisions unless the context indicates operations of only VSE as the parent company.

Our operations include aftermarket supply chain management solutions and parts supply for vehicle fleets; maintenance, repair, and overhaul ("MRO") services and parts supply for aviation clients; vehicle and equipment maintenance and refurbishment; logistics; engineering; energy services; IT and health care IT solutions; and consulting services. We serve the United States Government (the "government"), including the United States Department of Defense ("DoD"), federal civilian agencies, and commercial and other customers.

**Principles of Consolidation and Basis of Presentation**

The consolidated financial statements consist of the operations of our parent company, our wholly owned subsidiaries, VSE Aviation, Inc., a Delaware corporation ("VSE Aviation"), Energetics Incorporated, Akimeka, LLC, Wheeler Fleet Solutions, Co., and our unincorporated divisions. All intercompany transactions have been eliminated in consolidation. Certain reclassifications have been made to the prior periods' financial information in order to conform to the current period's presentation.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles in the United States ("U.S. GAAP") requires us 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 fair value measurements, inventory provisions, estimated profitability of long-term contracts, valuation allowances on deferred tax assets, fair value of goodwill and other intangible assets and contingencies.

**Stock-Based Compensation**

We issue stock-based awards as compensation to employees and directors. Stock-based awards include stock-settled bonus awards, vesting stock awards and performance share awards. We recognize stock-based compensation expense on a straight-line basis over the underlying award's requisite service period, as measured using the award's grant date fair value. Our policy is to recognize forfeitures as they occur. For performance share awards, we assess the probability of achieving the performance conditions at each reporting period end and adjust compensation expense based on the number of shares we expect to ultimately issue.

**Earnings Per Share**

Basic earnings per share ("EPS") is computed by dividing net income by the weighted average number of shares of common stock outstanding during each period. Shares issued during the period are weighted for the portion of the period that they were outstanding. Our calculation of diluted earnings per common share includes the dilutive effects for the assumed vesting of outstanding stock-based awards. As a result of incurring a net loss for the year ended December 31, 2020, potential dilutive shares were excluded from diluted loss per share as the effect would have been anti-dilutive. The antidilutive common stock equivalents excluded from the diluted per share calculation were not material.

	Years Ended December 31,		
	2021	2020	2019
Basic weighted average common shares outstanding	12,551,459	11,034,256	10,957,750
Effect of dilutive shares	81,415	—	86,981
Diluted weighted average common shares outstanding	12,632,874	11,034,256	11,044,731

## **Cash and Cash Equivalents**

We consider all highly liquid investments with an original maturity of three months or less to be cash equivalents. Due to the short maturity of these instruments, the carrying values on our consolidated balance sheets approximate fair value.

## **Property and Equipment**

Property and equipment is recorded at cost, net of accumulated depreciation and amortization. Depreciation and amortization is generally provided on the straight-line method over the estimated useful lives of the various assets. Property and equipment is generally depreciated over the following estimated useful lives: computer equipment, furniture, other equipment from three to 15 years; and buildings and land improvements from 15 to 20 years. Amortization of leasehold improvements is provided by the straight-line method over the lesser of their useful life or the remaining term of the lease.

## **Leases**

We determine at inception whether an arrangement that provides us control over the use of an asset is a lease. Substantially all of our leases are long-term operating leases for facilities with fixed payment terms between two and 15 years. We recognize a right-of-use ("ROU") asset and a lease liability upon commencement of our operating leases. The initial lease liability is equal to the future fixed minimum lease payments discounted using our incremental borrowing rate, on a secured basis. The lease term includes option renewal periods and early termination payments when it is reasonably certain that we will exercise those rights. The initial measurement of the ROU asset is equal to the initial lease liability plus any initial indirect costs and prepayments, less any lease incentives.

We recognize lease costs on a straight-line basis over the remaining lease term, except for variable lease payments that are expensed in the period in which the obligation for those payments is incurred.

Leases with an initial term of 12 months or less with purchase options or extension options that are not reasonably certain to be exercised are not recorded on the balance sheet. Operating lease cost is included in costs and operating expenses on our consolidated statement of income.

## **Concentration of Credit Risk**

Financial instruments that potentially subject us to concentration of credit risk consist primarily of our trade receivables. Our trade receivables consist of amounts due from various commercial entities and government clients. We believe that concentrations of credit risk with respect to trade receivables are limited due to the large number of customers comprising the customer base and their dispersion across many different geographic regions. Contracts with the government, either as a prime or subcontractor, accounted for approximately 57%, 69%, and 68% of revenues for the years ended December 31, 2021, 2020 and 2019, respectively. The credit risk, with respect to contracts with the government, is limited due to the creditworthiness of the respective governmental entity. We perform ongoing credit evaluations and monitoring of the financial condition of all our customers. We maintain an allowance for credit losses based upon several factors, including historical collection experience, current aging status of the customer accounts and financial condition of our customers.

## **Revenue Recognition**

We account for revenue in accordance with ASC 606. The unit of account in ASC 606 is a performance obligation. At the inception of each contract with a customer, we determine our performance obligations under the contract and the contract's transaction price. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is defined as the unit of account. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when the performance obligation is satisfied. The majority of our contracts have a single performance obligation as the promise to transfer the respective goods or services is not separately identifiable from other promises in the contracts and is, therefore, not distinct. For product sales, each product sold to a customer typically represents a distinct performance obligation. Our performance obligations are satisfied over time as work progresses or at a point in time based on transfer of control of products and services to our customers.

Contract modifications are routine in the performance of our contracts. Contracts are often modified to account for changes in contract specifications or requirements. In most instances, contract modifications are for goods or services that are not distinct, and therefore are accounted for as part of the existing contract.

Substantially all our Fleet segment revenues from the sale of vehicle parts to customers are recognized at the point in time of the transfer of control to the customer. Sales returns and allowances for vehicle parts are not significant.

Our Aviation segment revenues result from the sale of aircraft parts and performance of MRO services for private and commercial aircraft owners, other aviation MRO providers, and aviation original equipment manufacturers. Our Aviation segment recognizes revenues for the sale of aircraft parts at a point in time when control is transferred to the customer, which usually occurs when the parts are shipped. Our Aviation segment recognizes revenues for MRO services over time as the services are transferred to the customer. MRO services revenue recognized is measured based on the cost-to-cost input method, as costs incurred reflect the work completed, and therefore the services transferred to date. Sales returns and allowances are not significant.

Our Federal and Defense segment revenues result from professional and technical services, which we perform for customers on a contract basis. Revenue is recognized for performance obligations over time as we transfer the services to the customer. The three primary types of contracts used are cost-type, fixed-price and time and materials. Revenues result from work performed on these contracts by our employees and our subcontractors and from costs for materials and other work-related costs allowed under our contracts.

Revenues on cost-type contracts are recorded as contract allowable costs are incurred and fees are earned. Variable consideration is included in the estimated transaction price, to the extent that it is probable that a significant reversal will not occur, when there is a basis to reasonably estimate the amount of the fee. These estimates are based on historical award experience, anticipated performance and our best judgment based on current facts and circumstances.

Revenues on fixed-price contracts are recorded as work is performed over the period. Revenue is recognized over time using costs incurred to date relative to total estimated costs at completion to measure progress toward satisfying our performance obligations. Incurred cost represents work performed, which corresponds with the transfer of control to the customer. For such contracts, we estimate total costs at the inception of the contract based on our assumptions of the cost elements required to complete the associated tasks of the contract and assess the impact of the risks on our estimates of total costs to complete the contract. Our cost estimates are based on assumptions that include the complexity of the work, our employee labor costs, the cost of materials and the performance of our subcontractors. These cost estimates are subject to change as we perform under the contract and as a result, the timing of revenues and amount of profit on a contract may change as there are changes in estimated costs to complete the contract. Such adjustments are recognized on a cumulative catch-up basis in the period we identify the changes.

Revenues for time and materials ("T&M") contracts are recorded based on the amount for which we have the right to invoice our customers, because the amount directly reflects the value of our work performed for the customer. Revenues are recorded on the basis of contract allowable labor hours worked multiplied by the contract defined billing rates, plus the direct costs and indirect cost burdens associated with materials and subcontract work used in performance on the contract. Generally, 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.

Revenues related to work performed on government contracts at risk, which is work performed at the customer's request prior to the government formalizing funding, is not recognized until it can be reliably estimated, and its realization is probable.

A substantial portion of contract and administrative costs are subject to audit by the Defense Contract Audit Agency. Our indirect cost rates have been audited and approved for 2019 and prior years with no material adjustments to our results of operations or financial position. While we maintain reserves to cover the risk of potential future audit adjustments based primarily on the results of prior audits, we do not believe any future audits will have a material adverse effect on our results of operations, financial position, or cash flows.

#### **Receivables and Unbilled Receivables**

Receivables are recorded at amounts earned less an allowance. We review our receivables regularly to determine if there are any potentially uncollectible accounts. The majority of our receivables are from government agencies, where there is minimal credit risk.

Unbilled receivables include amounts typically resulting from sales under contracts when the cost-to-cost method of revenue recognition is utilized, and revenue recognized exceeds the amount billed to the customer. The amounts may not exceed their estimated net realizable value. Unbilled receivables are classified as current based on our contract operating cycle.

### **Allowance for Credit Losses**

We establish allowances for credit losses on our accounts receivable and unbilled receivables. To measure expected credit losses, we have disaggregated pools of receivable balances, where we have elected to pool our receivables by segment. Within each segment, receivables exhibit similar risk characteristics. In determining the amount of the allowance for credit losses, we consider historical collectability based on past due status. We also consider current market conditions and forecasts of future economic conditions to inform potential adjustments to historical loss data. In addition, we also record allowance for credit losses for specific receivables that are deemed to have a higher risk profile than the rest of the respective pool of receivables, such as concerns about a specific customer's inability to meet its financial obligation to us. The adequacy of these allowances are assessed quarterly through consideration of factors on a collective basis where similar characteristics exist and on an individual basis.

### **Inventories**

Inventories are stated at the lower of cost or net realizable value using the first-in, first-out ("FIFO") method. Inventories for our Fleet segment consist primarily of vehicle replacement parts, and also include related purchasing, storage and handling costs. Inventories for our Aviation segment consist primarily of aftermarket parts for distribution, and general aviation engine accessories and parts, and also include related purchasing, overhaul labor, storage and handling costs.

We periodically evaluate the carrying value of inventory, giving consideration to factors such as its physical condition, sales patterns and expected future demand in order to estimate the amount necessary to write down any slow moving, obsolete or damaged inventory. These estimates could vary significantly from actual amounts based upon future economic conditions, customer inventory levels or competitive factors that were not foreseen or did not exist when the estimated write-downs were made.

During 2021, we recorded a \$24.4 million provision for inventory within cost and operating expenses primarily related to slow moving and excess quantities of Aviation segment inventory supporting certain international region distribution programs entered into prior to 2019.

### **Deferred Compensation Plans**

We have a deferred compensation plan, the VSE Corporation Deferred Supplemental Compensation Plan ("DSC Plan"), to provide incentive and reward for certain key management employees based on overall corporate performance. We maintain the underlying assets of the DSC Plan in a Rabbi Trust and changes in asset values are included in costs and operating expenses on the accompanying consolidated statements of income. We recorded deferred compensation plan expenses of \$433 thousand, \$970 thousand and \$1.7 million for the years ended December 31, 2021, 2020 and 2019, respectively.

We invest the assets held by the Rabbi Trust in both corporate owned life insurance ("COLI") products and in mutual funds. The COLI investments are recorded at cash surrender value and the mutual fund investments are recorded at fair value. The DSC Plan assets are included in other assets and the obligation to the participants is included in deferred compensation on the accompanying consolidated balance sheets. Gains and losses recognized on the changes in fair value of the investments are recorded as selling, general and administrative expenses on the accompanying consolidated statements of income. We recorded net losses of \$626 thousand, \$863 thousand, and \$1.0 million for the years ended December 31, 2021, 2020 and 2019, respectively.

### **Income Taxes**

Income taxes are accounted for under the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. This method also requires the recognition of future tax benefits, such as net operating loss carryforwards, to the extent that realization of such benefits is more likely than not. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The carrying value of net deferred tax assets is based on assumptions regarding our ability to generate sufficient future taxable income to utilize these deferred tax assets.

## **Business Combinations**

We allocate the purchase price of acquired entities to the underlying tangible and identifiable intangible assets acquired and liabilities assumed based on their respective estimated fair values, with any excess recorded as goodwill. The operating results of acquired businesses are included in our results of operations beginning as of their effective acquisition dates. For contingent consideration arrangements, a liability is recognized at fair value as of the acquisition date with subsequent fair value adjustments recorded in operations.

## **Goodwill and Other Intangible Assets**

Goodwill represents the purchase price paid in excess of the fair value of net tangible and intangible assets acquired in a business combination. Goodwill is not amortized, but rather tested for potential impairment annually at the beginning of the fourth quarter, or whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Goodwill is tested for impairment at the reporting unit level. We estimate and compare the fair value of each reporting unit to its respective carrying value including goodwill. The fair value of our reporting units is determined using a combination of the income approach and the market approach, which involves the use of estimates and assumptions, including projected future operating results and cash flows, the cost of capital, and financial measures derived from observable market data of comparable public companies. If the fair value is less than the carrying value, the amount of impairment expense is equal to the difference between the reporting unit's fair value and the reporting unit's carrying value.

Intangible assets with finite lives are amortized using the method that best reflects how their economic benefits are utilized or, if a pattern of economic benefits cannot be reliably determined, on a straight-line basis over their estimated useful lives. Intangible assets with finite lives are assessed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

## **Impairment of Long-Lived Assets (Excluding Goodwill)**

We review our long-lived assets, including amortizable intangible assets and property and equipment, for impairment whenever events or changes in facts and circumstances indicate that their carrying values may not be fully recoverable. We assess impairment by comparing the estimated undiscounted future cash flows of the related asset to its carrying value. If an asset is determined to be impaired, we recognize an impairment charge in the current period for the difference between the fair value of the asset and its carrying value.

## **Recently Issued Accounting Pronouncements Not Yet Adopted**

In March 2020, the FASB issued ASU 2020-04, *"Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting."* The amendments provide optional guidance for a limited time to ease the potential burden in accounting for reference rate reform. The new guidance provides optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships and other transactions affected by reference rate reform if certain criteria are met. The amendments apply only to contracts and hedging relationships that reference LIBOR or another reference rate expected to be discontinued due to reference rate reform. These amendments are effective immediately and may be applied prospectively to contract modifications made and hedging relationships entered into or evaluated on or before December 31, 2022. Our credit facility contains provisions specifying alternative interest rate calculations to be employed when LIBOR ceases to be available as a benchmark. We will continue to monitor the impact of this transition until it is completed.

In October 2021, the FASB issued ASU 2021-08, *"Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers,"* which requires contract assets and contract liabilities acquired in a business combination to be recognized and measured by the acquirer on the acquisition date in accordance with ASC 606, "Revenue from Contracts with Customers," as if the acquirer had originated the contracts. The new standard is effective on a prospective basis for fiscal years and interim reporting periods within those fiscal years beginning after December 15, 2022, with early adoption permitted. We are currently evaluating the effect, if any, the adoption of this guidance will have on its consolidated results of operations, financial position and cash flows.



**(2) Acquisition and Divestitures**

**Acquisitions**

*Global Parts Group, Inc.*

On July 26, 2021, we acquired Global Parts Group, Inc. ("Global Parts"), a privately owned company with operations in Augusta, Kansas. Global Parts provides distribution and MRO services for business and general aviation ("B&GA") aircraft families. The acquisition expands our existing B&GA focus and further diversifies our existing product and platform offerings to include additional airframe components, while expanding our customer base of regional and global B&GA customers. Global Parts will operate as a subsidiary of VSE Aviation, Inc. under our Aviation segment.

The cash purchase price for Global Parts was approximately \$8 million, net of cash acquired, which was funded using our existing bank revolving loan. We may also be required to make earn-out payments of up to \$2 million should Global Parts meet certain revenue targets during the first twelve months following the acquisition and a certain milestone event on or before March 2023. See Note (16) "Fair Value Measurements," for additional information regarding the earn-out obligation.

The purchase price was allocated on a preliminary basis, among assets acquired and liabilities assumed at fair value on the acquisition date based on the best available information, with the excess purchase price recorded as goodwill. The fair values assigned to our Global Parts earn-out obligation, inventory and intangible assets acquired were based on preliminary estimates, assumptions, and other information compiled by management, including independent valuations that utilized established valuation techniques. We have not yet obtained all the information required to complete the purchase price allocation related to this acquisition. We are in the process of finalizing our valuation and the allocation of the total consideration for the acquisition to the tangible and identifiable intangible assets acquired and liabilities assumed is preliminary until we obtain final information regarding their fair values. We expect to have sufficient information available to resolve these items by the second quarter of 2022, which could potentially result in changes in assets or liabilities on Global Parts' opening balance sheet and an adjustment to goodwill.

During the fourth quarter of 2021, we adjusted the purchase price allocation as a result of certain measurement period adjustments to acquired assets and liabilities assumed due to updated valuation reports received from our external valuation specialist, as well as revisions to internal estimates. These measurement period adjustments included: a decrease in inventories of \$5.5 million; a decrease in customer relationship intangible asset of \$4.0 million; a decrease in long-term deferred tax liabilities of \$2.4 million; and \$200 thousand decrease to net working capital. These adjustments resulted in an increase to goodwill of \$7.3 million. The adjusted preliminary purchase price is as follows (in thousands):

<b>Description</b>	<b>Fair Value</b>
Accounts receivable	\$ 6,410
Inventories	13,240
Prepaid expenses and other current assets	620
Property and equipment	368
Intangibles - customer related	16,000
Goodwill	10,019
Operating lease right-of-use-assets	3,043
Long-term deferred tax assets	1,775
Accounts payable	(6,112)
Accrued expenses and other current liabilities	(1,936)
Long-term operating lease liabilities	(2,874)
Net assets acquired, excluding cash	<u>\$ 40,553</u>
Cash consideration, net of cash acquired	\$ 38,553
Acquisition date estimated fair value of earn-out obligation	2,000
Total consideration	<u>\$ 40,553</u>

The estimated value attributed to the customer relationship intangible asset is being amortized on a straight-line basis using a useful life of 5 years. None of the value attributed to goodwill and customer relationships is deductible for income tax purposes. The preliminary amount of goodwill recorded for our Global Parts acquisition reflects the strategic advantage of expanding our supply chain management capabilities through the diversification of our existing product and platform offerings to new customers.

We incurred approximately \$532 thousand of acquisition-related expenses associated with our Global Parts acquisition for the year ended December 31, 2021, which are included in selling, general and administrative expenses.

Global Parts' results of operations are included in our Aviation segment in the accompanying consolidated financial statements beginning on the acquisition date of July 26, 2021. Had the acquisition occurred as of January 1, 2020, revenue and net income (loss) from consolidated operations, and basic and diluted earnings (loss) per share on a pro forma basis for the year ended December 31, 2021 and 2020 would not have been materially different than our reported amounts.

#### *HAECO Special Services, LLC*

On March 1, 2021, we acquired HAECO Special Services, LLC ("HSS") from HAECO Airframe Services, LLC, a division of HAECO Americas ("HAECO") for the purchase price of \$14.8 million. HSS is a leading provider of fully integrated MRO support solutions for military and government aircraft. HSS provides scheduled depot maintenance, contract field deployment and unscheduled drop-in maintenance for a United States DoD contract specifically for the sustainment of the U.S. Air Force ("USAF") KC-10 fleet. The acquisition was not material to our consolidated financial statements. HSS operating results are included in our Federal and Defense segment in the accompanying consolidated financial statements beginning on the acquisition date of March 1, 2021.

The allocation of the total consideration for the acquisition to the tangible and identifiable intangible assets acquired and liabilities assumed is based on the best available information regarding their fair values. Based on estimates, we allocated approximately \$7.0 million to the fair value of net tangible assets (including \$9.2 million of accounts receivable), \$608 thousand to goodwill, and \$7.2 million to customer relationship intangible asset, which is being amortized over approximately 4 years from the acquisition date.

We incurred approximately \$333 thousand of acquisition-related expenses associated with our HSS acquisition for the year ended December 31, 2021, which are included in selling, general and administrative expenses.

#### *1st Choice Aerospace, Inc.*

In January 2019, our wholly owned subsidiary VSE Aviation, Inc. acquired 100% of the equity of 1st Choice Aerospace, Inc. ("1st Choice Aerospace"), a provider of MRO services and products for new generation and legacy commercial aircraft platforms with operations in Florida and Kentucky, for a purchase price of \$113 million. In connection with the acquisition, we were required to make earn-out payments of up to \$40 million if 1st Choice Aerospace met certain financial targets during 2019 and 2020. In 2020, we made a payment of approximately \$31.7 million to satisfy the earn-out payment for the 2019 performance year. During 2020 it was determined that the financial targets for the 2020 performance year were not met, and the remaining fair value of the earn-out obligation was reversed. Changes in the fair value of the earn-out obligations are recognized in earnings in the period of change through settlement. Refer to Note (16) "Fair Value Measurements" for additional information regarding earn-out obligation.

We incurred approximately \$408 thousand of acquisition-related expenses for the year ended December 31, 2019, which are included in selling, general and administrative expenses.

## **Divestitures**

#### *Prime Turbines Sale*

In January 2020, VSE's subsidiary VSE Aviation, Inc. entered into two definitive agreements to sell (1) Prime Turbines LLC ("Prime Turbines") and (2) certain related inventory assets to PTB Holdings USA, LLC ("PTB"). The transaction was completed on February 26, 2020 with cash proceeds of \$20.0 million, including final working capital adjustments, and a note receivable of \$8.3 million received as consideration. As a result of the sale of the business and inventory, we derecognized the assets and liabilities of Prime Turbines and recorded a \$7.5 million loss in 2020 which is reflected within loss on sale of a business entity and certain assets in the consolidated statements of income. As of December 31, 2021 and 2020, the total outstanding balance of the note receivable from PTB was \$4.7 million and \$6.1 million, respectively, which represents the

present value of the consideration to be received with an imputed interest rate discount, of which \$1.5 million and \$1.4 million were current as of December 31, 2021 and 2020, respectively. The note receivable balance is included in other assets and other current assets in our consolidated balance sheets.

#### *CT Aerospace Asset Sale*

In June 2020, VSE's subsidiary VSE Aviation, Inc. entered into an asset purchase agreement to sell CT Aerospace, LLC ("CT Aerospace") inventory and certain assets to Legacy Turbines, LLC ("Legacy Turbines") for \$6.9 million, with a note receivable received as consideration. As a result of the sale, we recorded a \$78 thousand loss in 2020, which is reflected within loss on sale of a business entity and certain assets in the consolidated statements of income. As of December 31, 2021 and 2020, the total outstanding balance of the note receivable from Legacy Turbines was \$5.2 million and \$6.4 million, respectively, net of a variable discount of \$275 thousand, of which \$1.3 million was current as of December 31, 2021 and 2020. The note receivable balance is included in other assets and other current assets in our consolidated balance sheets.

### **(3) Revenue Recognition**

#### *Disaggregated Revenue*

Our revenues are derived from the delivery of products to our customers and from services performed for commercial customers, various government agencies, the DoD or federal civilian agencies.

A summary of revenues by customer for our operating segments for the years ended December 31, 2021, 2020 and 2019 are as follows (in thousands):

Year Ended December 31, 2021	Fleet	Aviation	Federal and Defense	Total
Commercial	\$ 73,606	\$ 245,380	\$ 3,332	\$ 322,318
DoD	12,689	—	220,733	233,422
Other government	147,237	2,472	45,404	195,113
Total	<u>\$ 233,532</u>	<u>\$ 247,852</u>	<u>\$ 269,469</u>	<u>\$ 750,853</u>
Year Ended December 31, 2020				
Commercial	\$ 42,733	\$ 163,695	\$ 1,877	\$ 208,305
DoD	20,744	1,093	214,560	236,397
Other government	178,693	282	37,982	216,957
Total	<u>\$ 242,170</u>	<u>\$ 165,070</u>	<u>\$ 254,419</u>	<u>\$ 661,659</u>
Year Ended December 31, 2019				
Commercial	\$ 22,161	\$ 218,886	\$ 1,471	\$ 242,518
DoD	24,246	3,775	276,313	304,334
Other government	168,113	1,885	35,777	205,775
Total	<u>\$ 214,520</u>	<u>\$ 224,546</u>	<u>\$ 313,561</u>	<u>\$ 752,627</u>

A summary of revenues by type for our operating segments for the year ended December 31, 2021, 2020 and 2019 are as follows (in thousands):

Year Ended December 31, 2021	Fleet	Aviation	Federal and Defense	Total
Repair	\$ —	\$ 75,725	\$ —	\$ 75,725
Distribution	233,532	172,127	—	405,659
Cost Plus Contract	—	—	93,694	93,694
Fixed Price Contract	—	—	105,495	105,495
T&M Contract	—	—	70,280	70,280
Total	<u>\$ 233,532</u>	<u>\$ 247,852</u>	<u>\$ 269,469</u>	<u>\$ 750,853</u>
Year Ended December 31, 2020				
Repair	\$ —	\$ 82,445	\$ —	\$ 82,445
Distribution	242,170	82,625	—	324,795
Cost Plus Contract	—	—	79,064	79,064
Fixed Price Contract	—	—	138,406	138,406
T&M Contract	—	—	36,949	36,949
Total	<u>\$ 242,170</u>	<u>\$ 165,070</u>	<u>\$ 254,419</u>	<u>\$ 661,659</u>
Year Ended December 31, 2019 <sup>(a)</sup>				
Repair	\$ —	\$ 119,044	\$ —	\$ 119,044
Distribution	214,520	105,502	—	320,022
Cost Plus Contract	—	—	144,600	144,600
Fixed Price Contract	—	—	78,163	78,163
T&M Contract	—	—	90,798	90,798
Total	<u>\$ 214,520</u>	<u>\$ 224,546</u>	<u>\$ 313,561</u>	<u>\$ 752,627</u>

(a) Historical presentation has been realigned to conform to its current period presentation and did not affect the reported results of operations for each reported segment.

#### **Contract Balances**

Billed receivables, unbilled receivables (contract assets), and contract liabilities are the results of revenue recognition, customer billing, and timing of payment receipts. Billed receivables, net, represent unconditional rights to consideration under the terms of the contract and include amounts billed and currently due from our customers. Unbilled receivables represent our right to consideration in exchange for goods or services that we have transferred to the customer prior to us having the right to payment for such goods or services. Contract liabilities are recorded when customers remit contractual cash payments in advance of us satisfying performance obligations under contractual arrangements, including those with performance obligations to be satisfied over a period of time.

We present our unbilled receivables and contract liabilities on a contract-by-contract basis. If a contract liability exists, it is netted against the unbilled receivables balance for that contract. Unbilled receivables increased to \$31.9 million as of December 31, 2021 from \$22.4 million as of December 31, 2020, primarily due to performance obligations satisfied in excess of billings and unbilled receivables acquired as part of the HSS acquisition. Contract liabilities, which are included in accrued expenses and other current liabilities in our consolidated balance sheet, were \$7.1 million as of December 31, 2021 and \$10.1 million as of December 31, 2020. For the year ended December 31, 2021 and 2020, we recognized revenue of \$5.1 million and \$2.2 million, respectively, that was previously included in the beginning balance of contract liabilities.

#### **Performance Obligations**

Our performance obligations are satisfied over time as work progresses or at a point in time. Revenues from products and services transferred to customers at a point in time accounted for approximately 54% and 49% of our revenues for the year ended December 31, 2021 and 2020, respectively. The majority of our revenue recognized at a point in time is for the sale of vehicle and aircraft parts in our Fleet and Aviation segments. Revenues from products and services transferred to customers over time accounted for approximately 46% and 51% of our revenues for the year ended December 31, 2021 and 2020, respectively, primarily related to revenues in our Federal and Defense segment and for MRO services in our Aviation segment.

As of December 31, 2021, the aggregate amount of transaction prices allocated to unsatisfied or partially unsatisfied performance obligations was \$85 million. Performance obligations expected to be satisfied within one year and greater than one year are 86% and 14%, respectively. We have applied the practical expedient for certain parts sales and MRO services to exclude the amount of remaining performance obligations for (i) contracts with an original expected term of one year or less or (ii) contracts for which we recognize revenue in proportion to the amount we have the right to invoice for services performed.

During the year ended December 31, 2021, revenue recognized from performance obligations satisfied in prior periods was not material.

#### (4) Receivables and Unbilled Receivables

Receivables, net and unbilled receivables, net as of December 31, 2021 and 2020, respectively, were as follows (in thousands):

	2021	2020
Receivables, net	\$ 76,587	\$ 55,471
Unbilled receivables, net	31,882	22,358
Total	<u>\$ 108,469</u>	<u>\$ 77,829</u>

Receivables, net are recorded at face value less an allowance for credit losses of approximately \$1.7 million and \$1.5 million as of December 31, 2021 and 2020, respectively.

The unbilled receivables balance includes certain costs for work performed at risk but which we believe will be funded by the government totaling \$6.6 million and \$2.6 million as of December 31, 2021 and 2020, respectively. We expect to invoice substantially all unbilled receivables during 2022.

#### (5) Other Current Assets and Other Assets

Other current assets consisted of the following as of December 31, 2021 and 2020 (in thousands):

	2021	2020
Self insurance trust assets	\$ 5,993	\$ 9,535
Current portion of notes receivable	2,820	2,721
Deferred contract costs	6,148	3,514
Vendor advances	14,552	5,564
Other	2,791	1,994
Total	<u>\$ 32,304</u>	<u>\$ 23,328</u>

Other assets consisted of the following as of December 31, 2021 and 2020 (in thousands):

	2021	2020
Deferred compensation plan assets	\$ 14,840	\$ 14,370
Long-term portion of notes receivable	7,042	9,856
Other	5,854	2,299
Total	<u>\$ 27,736</u>	<u>\$ 26,525</u>

**(6) Property and Equipment**

Property and equipment, net consisted of the following as of December 31, 2021 and 2020 (in thousands):

	2021	2020
Buildings and building improvements	\$ 29,596	\$ 29,537
Computer equipment	28,084	26,492
Furniture, fixtures, equipment and other	39,377	33,322
Leasehold improvements	7,164	3,140
Land and land improvements	4,726	4,726
	108,947	97,217
Less accumulated depreciation and amortization	(66,461)	(60,854)
Total property and equipment, net	\$ 42,486	\$ 36,363

Depreciation and amortization expense for property and equipment for the years ended December 31, 2021, 2020 and 2019 was approximately \$0.1 million, \$5.6 million and \$7.0 million, respectively.

**(7) Goodwill and Intangible Assets**

Changes in goodwill for the years ended December 31, 2021 and 2020 are as follows (in thousands):

	Fleet	Federal and Defense	Aviation	Total
Balance as of December 31, 2019	\$ 63,190	\$ 30,883	\$ 182,377	\$ 276,450
Impairment charge	—	—	(30,945)	(30,945)
Decrease from divestiture	—	—	(7,379)	(7,379)
Balance as of December 31, 2020	\$ 63,190	\$ 30,883	\$ 144,053	\$ 238,126
Increase from acquisitions	—	608	10,019	10,627
Balance as of December 31, 2021	\$ 63,190	\$ 31,491	\$ 154,072	\$ 248,753

Goodwill increased during the year ended December 31, 2021 in connection with acquisitions completed during the year. See Note (2) "Acquisitions and Divestitures" for additional details regarding these acquisitions.

Based on our annual goodwill impairment test performed in the fourth quarter of 2021, it was determined there was no impairment of goodwill and the fair value of each of the reporting units exceeded their carrying value.

During the second quarter of 2020, due to the negative impact of the COVID-19 pandemic on our Aviation reporting unit, we recorded a \$0.9 million goodwill interim impairment charge within goodwill and intangible impairment in the consolidated statements of income. Our 2020 annual goodwill impairment test determined no incremental impairment.

In 2020, in connection with the sale of our Prime Turbines subsidiary within our Aviation segment, goodwill of \$7.4 million was allocated to the disposal group on a relative fair value basis and was written-off upon the completion of the sale.

Intangible assets consisted of the following (in thousands):

	Cost	Accumulated Amortization	Accumulated Impairment Loss	Net Intangible Assets
December 31, 2021				
Contract and customer-related	\$ 221,796	\$ (116,385)	\$ —	\$ 105,411
Acquired technologies	12,400	(11,915)	—	485
Trade names	8,670	(6,303)	—	2,367
Total	<u>\$ 242,866</u>	<u>\$ (134,603)</u>	<u>\$ —</u>	<u>\$ 108,263</u>
December 31, 2020				
Contract and customer-related	\$ 213,194	\$ (110,917)	\$ (3,814)	\$ 98,463
Acquired technologies	12,400	(10,787)	—	1,613
Trade names	18,770	(15,251)	—	3,519
Total	<u>\$ 244,364</u>	<u>\$ (136,955)</u>	<u>\$ (3,814)</u>	<u>\$ 103,595</u>

Intangible assets with a gross carrying value of \$20.8 million are no longer reflected in the gross carrying value and accumulated amortization as of December 31, 2021. The increase in the gross carrying amount of contract and customer-related intangibles during the year ended December 31, 2021 relates to customer relationship intangible assets recognized in connection with acquisitions completed during the year, partially offset by the removal of fully amortized assets of \$10.7 million. See Note (2) "Acquisitions and Divestitures" for additional details regarding these acquisitions. There were no impairment losses during 2021.

During 2020, we recorded an impairment charge of \$2.8 million in connection with the sale of all of the inventory of our CT Aerospace subsidiary, which was part of our Aviation segment. The impairment is presented within goodwill and intangible impairment in the consolidated statements of income.

Amortization expense for the years ended December 31, 2021, 2020 and 2019 was approximately \$8.5 million, \$17.5 million and \$19.3 million, respectively.

Future expected amortization of intangible assets is as follows for the years ending December 31, (in thousands):

2022	\$	17,639
2023		13,639
2024		10,059
2025		9,015
2026		8,190
Thereafter		49,721
Total	<u>\$</u>	<u>108,263</u>

**(8) Debt**

Long-term debt consisted of the following (in thousands):

	December 31,	
	2021	2020
Bank credit facility - term loan	\$ 60,175	\$ 77,988
Bank credit facility - revolver loans	226,559	175,473
Principal amount of long-term debt	286,734	253,461
Less debt issuance costs	(2,165)	(2,368)
Total long-term debt	284,569	251,093
Less current portion	(14,162)	(20,379)
Long-term debt, net of current portion	<u>\$ 270,407</u>	<u>\$ 230,714</u>

We have a loan agreement with a group of banks from which we borrow amounts under the loan agreement to provide working capital support, fund letters of credit, and finance acquisitions. The loan agreement includes term and revolving loan facilities. The revolving loan facility provides for revolving loans and letters of credit.

On July 23, 2021, we entered into a third amendment to our loan agreement which, among other things, extended the maturity dates with respect to the revolving credit facility and term loan facility to July 2024, lowered the applicable LIBOR rate floor, and modified the maximum Total Funded Debt to EBITDA Ratio. Except as described above, the amended loan agreement has substantially the same terms as the existing loan agreement, including covenants and events of default. Financing costs associated with the loan agreement amendment of approximately \$808 thousand were capitalized and are being amortized over the remaining term of the loan.

Our required term and revolver loan payments after December 31, 2021 are as follows (in thousands):

Year ending December 31,	
2022	\$ 15,000
2023	15,000
2024 <sup>(a)</sup>	256,734
Total	<u>\$ 286,734</u>

(a) Includes the revolver loan required payment of \$ 227 million.

The maximum amount of credit available under the loan agreement for revolving loans and letters of credit as of December 31, 2021 was \$350 million. We pay an unused commitment fee and fees on letters of credit that are issued. We had \$1.0 million letters of credit outstanding as of December 31, 2021 and no letters of credit outstanding as of December 31, 2020.

Under the loan agreement we may elect to increase the maximum availability of the term loan facility, the revolving loan facility, or both facilities up to an aggregate additional amount of \$100 million subject to lender approvals.

We pay interest on the term loan borrowings and revolving loan borrowings at LIBOR plus a margin or at a base rate (typically the prime rate) plus a base margin. As of December 31, 2021, the LIBOR margin was 3.25% and the base margin was 2.25%. The margins increase or decrease in increments as our Total Funded Debt/EBITDA Ratio increases or decreases.

We use interest rate hedges on a portion of our debt. The amount of our debt with interest rate swap agreements was \$5.0 million as of December 31, 2021. After taking into account the impact of hedging instruments, as of December 31, 2021 interest rates on portions of our outstanding debt ranged from 4.00% to 6.66%, and the effective interest rate on our aggregate outstanding debt was 4.39%.

Interest expense incurred on bank loan borrowings and interest rate hedges was approximately \$ 1.2 million, \$12.7 million and \$13.3 million for the years ended December 31, 2021, 2020 and 2019, respectively.

The loan agreement contains collateral requirements to secure our loan agreement obligations, restrictive covenants, a limit on annual dividends, and other affirmative and negative covenants, conditions, and limitations. Restrictive covenants include a



maximum Total Funded Debt to EBITDA Ratio and a minimum Fixed Charge Coverage Ratio. We were in compliance with required ratios and other terms and conditions as of December 31, 2021.

#### (9) Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following (in thousands):

	December 31,	
	2021	2020
Accrued compensation and benefits	\$ 24,395	\$ 21,525
Contract liabilities	7,147	9,858
Accrued customer rebates and royalties	4,514	2,756
Customer advances	1,087	1,080
Interest rate swap liability	234	1,603
Current portion of lease liabilities	5,991	4,012
Other	6,097	4,338
Total	\$ 49,465	\$ 45,172

#### (10) Stock-Based Compensation Plans

The VSE Corporation 2006 Restricted Stock Plan, as amended (the "2006 Plan"), provides VSE's employees and directors the opportunity to receive various types of stock-based compensation and cash awards. In May 2020, the stockholders approved amendments to the 2006 Plan extending its term until May 6, 2027 and authorizing an additional 500,000 shares of our common stock for issuance under the 2006 Plan. As of December 31, 2021, we are authorized to issue up to 1,500,000 shares of our common stock and 661,126 shares remained available for issuance. As of December 31, 2021, we have outstanding stock-settled bonus awards, vesting stock awards, and performance share awards under this plan.

Stock-settled bonus awards are a fixed dollar-denominated award that vests over a three-year service period in three equal tranches. As each tranche vests, the fixed dollar value of the vested portion of the award is converted into shares based on the closing market price of our stock at the date of conversion. On each vesting date, 100% of the vested award is paid in stock that are subject to a two-year stock sales restriction. Expense is recognized on a straight-line basis over the requisite service period for each tranche, which results in an accelerated pattern for an award.

Employee vesting stock awards generally vest over a three-year service period in equal installments on each anniversary of the grant date. Our directors receive a grant of vesting stock annually as part of their compensation and the stock vests immediately upon grant.

We grant performance share awards to certain employees under the 2006 Plan. Performance share awards are rights to receive shares of our stock on the satisfaction of service requirements and performance conditions. These awards vest ratably in equal installments over a three-year period on the anniversary of each grant date, subject to meeting the minimum service requirements and the achievement of certain annual or cumulative financial metrics of our performance, with the number of shares ultimately issued, if any, ranging up to 100% of the specified target shares. If performance is below the minimum threshold level of performance, no shares will be issued. For all performance share awards granted, the annual and cumulative financial metrics are based on our achievement of a return on equity.

During fiscal 2021, we established the Employee Stock Purchase Plan (ESPP) to allow eligible employees to purchase shares of our VSE common stock at a discount of up to 15% of the fair market value on specified dates. For ESPP offerings in the year ended December 31, 2021, the purchase price was 2% off the lesser of the fair market value on the date of the offering and the fair market value on the date of purchase, thereby resulting in stock compensation expense of \$55 thousand. As of December 31, 2021, 500,000 shares of VSE common stock are authorized for issuance under the ESPP.

**Expense and Related Tax Benefits Recognized**

Stock-based compensation expense and related tax benefits recognized under the 2006 Plan for the years ended December 31, are as follows (in thousands):

	2021	2020	2019
Stock-settled bonus awards	\$ 820	\$ 1,265	\$ 1,685
Vesting stock awards	2,273	1,593	1,579
Performance share awards	784	—	—
Total	<u>\$ 3,877</u>	<u>\$ 2,858</u>	<u>\$ 3,264</u>
Tax benefit recognized from stock-based compensation	<u>\$ 967</u>	<u>\$ 713</u>	<u>\$ 663</u>

**Stock-Settled Bonus Awards**

In March 2021, the employees eligible for the 2020 awards, 2019 awards and 2018 awards received a total of 21,336 shares of common stock. The grant-date fair value of these awards was \$41.42 per share. The total compensation cost related to non-vested stock-settled bonus awards not yet recognized was approximately \$649 thousand with a weighted average amortization period of 1.9 years as of December 31, 2021. The fair value of stock-settled bonus awards that vested in the years ended December 31, 2021, 2020 and 2019 was \$884 thousand, \$1.2 million and \$1.6 million, respectively.

**Vesting Stock Awards**

Vesting stock award activity for the year ended December 31, 2021 was:

	Number of Shares	Weighted Average Grant Date Fair Value
Unvested as of December 31, 2020	56,284	\$ 32.23
Granted	54,449	\$ 41.90
Vested	(49,382)	\$ 34.55
Forfeited	—	\$ —
Unvested as of December 31, 2021	<u>61,351</u>	<u>\$ 38.80</u>

The grant date fair value of vesting stock awards is based on the closing market price of our common stock on the grant date. The weighted average grant date fair value of the vesting stock awards granted for the years ended December 31, 2021, 2020 and 2019 was \$41.90, \$33.68 and \$32.16, respectively. As of December 31, 2021 there was \$1.4 million of unrecognized compensation cost related to vesting stock awards, which is expected to be recognized over a weighted-average period of 1.9 years. The weighted average fair value of vesting stock awards that vested in the years ended December 31, 2021, 2020 and 2019 was \$1.7 million, \$1.6 million and \$597 thousand, respectively.

**Performance Share Awards**

During the year ended December 31, 2021, we granted 42,000 performance share awards at target with a weighted average grant date fair value of \$42.01. The actual number of shares to be issued upon vesting range between 0-100% of the target number of shares granted. For those awards outstanding as of December 31, 2021, we expect to issue approximately 36,000 shares of our common stock in the future based on estimated target achievement of the performance goals. The grant date fair value of performance share awards is based on the closing market price of our common stock on the grant date. As of December 31, 2021, there was \$722 thousand of unrecognized compensation cost related to performance share awards, which is expected to be recognized over a weighted-average period of 2 years.

**(11) Income Taxes**

We are subject to U.S. federal income tax as well as income tax in multiple state and local jurisdictions. We have concluded all U.S. federal income tax matters as well as material state and local tax matters for years through 2016.

We file consolidated federal income tax returns that include all of our U.S. subsidiaries. The components of the provision for income taxes from continuing operations for the years ended December 31, 2021, 2020 and 2019 are as follows (in thousands):

	2021	2020	2019
Current:			
Federal	\$ 3,919	\$ 4,086	\$ 7,739
State	856	1,262	1,344
Foreign	1,066	144	825
	<u>5,841</u>	<u>5,492</u>	<u>9,908</u>
Deferred:			
Federal	(3,318)	(78)	(66)
State	(1,038)	163	(490)
Foreign	—	21	51
	<u>(4,356)</u>	<u>106</u>	<u>(505)</u>
Provision for income taxes	<u>\$ 1,485</u>	<u>\$ 5,598</u>	<u>\$ 9,403</u>

The differences between the amount of tax computed at the federal statutory rate of 21% in 2021, 2020 and 2019, and the provision for income taxes from continuing operations for the years ended December 31, 2021, 2020 and 2019 are as follows (in thousands):

	2021	2020	2019
Tax at statutory federal income tax rate	\$ 1,985	\$ 89	\$ 9,749
Increases (decreases) in tax resulting from:			
State taxes, net of federal tax benefit	383	(52)	1,805
Permanent differences, net	(839)	(1,406)	(195)
Tax credits	(434)	(195)	(612)
Prior year true-up adjustment	83	397	(1,274)
Valuation allowance	331	6,716	(137)
Other provision adjustments	(24)	49	67
Provision for income taxes	<u>\$ 1,485</u>	<u>\$ 5,598</u>	<u>\$ 9,403</u>

Certain amounts from prior years have been reclassified to conform to the current year presentation.

The tax effect of temporary differences representing deferred tax assets and liabilities as of December 31, 2021 and 2020 are as follows (in thousands):

	2021	2020
Gross deferred tax assets		
Deferred compensation and accrued paid leave	\$ 5,422	\$ 6,302
Inventory reserve	12,465	432
Operating lease liabilities	7,805	6,984
Stock-based compensation	775	605
Interest rate swaps	58	400
Reserve for contract disallowance	114	195
Capitalized inventory	900	573
US operating and capital loss carryforward	6,045	5,989
Tax credit carryforward	1,411	1,412
Foreign country operating loss carryforward	892	583
	35,887	23,475
Valuation allowance <sup>(a)</sup>	(8,257)	(7,926)
<b>Total gross deferred tax assets</b>	<b>27,630</b>	<b>15,549</b>
Gross deferred tax liabilities		
Depreciation	(3,895)	(3,061)
Deferred revenues	(1,358)	(1,816)
Goodwill and intangible assets	(24,836)	(19,470)
Operating lease right-of-use assets	(6,375)	(5,384)
Other	(274)	(715)
<b>Total gross deferred tax liabilities</b>	<b>(36,738)</b>	<b>(30,446)</b>
<b>Net deferred tax liabilities</b>	<b>\$ (9,108)</b>	<b>\$ (14,897)</b>

(a) A valuation allowance was provided against US capital loss in connection with the stock sale of Prime Turbines, certain state net operating loss, tax credit, and foreign tax loss deferred tax assets arising from carryforwards of unused tax benefits.

(b) Certain amounts from prior year have been reclassified to conform with current year presentation.

We file income tax returns in the U.S. federal jurisdiction and in various state and foreign jurisdictions. With few exceptions, the statute of limitations for these jurisdictions is no longer open for audit or examinations for the years before 2017.

As of December 31, 2021, we have various tax losses and tax credits that may be applied against future taxable income. The majority of such tax attributes will expire in 2026 through 2034; however, some may be carried forward indefinitely.

## (12) Commitments and Contingencies

### Leases and Other Commitments

Our operating lease cost included the following components for the year ended December 31, (in thousands):

	2021	2020	2019
Operating lease cost	\$ 5,868	\$ 5,032	\$ 6,106
Short-term lease cost	202	622	698
Less: sublease income	(152)	(666)	(1,022)
<b>Total lease cost, net</b>	<b>\$ 5,918</b>	<b>\$ 4,988</b>	<b>\$ 5,782</b>

Our lease arrangements do not contain any material residual guarantees, variable payment provisions, or restrictive covenants.

In 2020, we closed on a sale-leaseback agreement involving land and an office building utilized by our Aviation segment to conduct operations in Miami, Florida. Under the agreement, the land and building, with a net book value of \$1.3 million was

sold for a sale price of \$2.6 million and leased back under a 6-year term operating lease commencing upon the closing of the transaction. The lease provides us with an option to extend the lease upon the expiration of its term in April 2026 for two additional five-year periods. In connection with the sale and leaseback transaction, we recognized a gain of \$1.1 million after incurring \$200 thousand in selling expenses.

The table below summarizes future minimum lease payments under operating leases, recorded on the balance sheet, as of December 31, 2021 (in thousands):

Year ending December 31,		
2022	\$	7,428
2023		7,374
2024		7,228
2025		6,930
2026		5,585
Thereafter		3,236
Minimum lease payments		37,781
Less: imputed interest		(4,622)
Present value of minimum lease payments		33,159
Less: current maturities of lease liabilities		(5,991)
Long-term lease liabilities	\$	27,168

We made cash payments of approximately \$6.3 million, \$3.7 million and \$5.7 million for operating leases during the year ended December 31, 2021, 2020 and 2019, respectively, which are included in cash flows from operating activities in our consolidated statement of cash flows. As of December 31, 2021, the weighted average remaining lease term and discount rate for our operating leases were approximately 5.1 years and 4.8%, respectively.

### ***Contingencies***

We may have certain claims in the normal course of business, including legal proceedings, against us and against other parties. In our opinion, the resolution of these claims will not have a material adverse effect on our results of operations, financial position or cash flows. However, because the results of any legal proceedings cannot be predicted with certainty, the amount of loss, if any, cannot be reasonably estimated.

Further, from time-to-time, government agencies audit or investigate whether our operations are being conducted in accordance with applicable contractual and regulatory requirements. Government audits or investigations of us, whether relating to government contracts or conducted for other reasons, could result in administrative, civil or criminal liabilities, including repayments, fines or penalties being imposed upon us, or could lead to suspension or debarment from future government contracting. Government investigations often take years to complete and many result in no adverse action against us. We believe, based upon current information, that the outcome of any such government disputes, audits and investigations will not have a material adverse effect on our results of operations, financial condition or cash flows.

## **(13) Business Segments and Customer Information**

### ***Segment Information***

Management of our business operations is conducted under three reportable operating segments:

#### Aviation

Our Aviation segment provides aftermarket repair and distribution services to commercial, business and general aviation, cargo, military and defense, and rotorcraft customers globally. Core services include parts distribution, engine accessory maintenance, MRO services, rotatable exchange and supply chain services.

#### Fleet

Our Fleet segment provides parts, inventory management, e-commerce fulfillment, logistics, supply chain support and other services to support the commercial aftermarket medium- and heavy-duty truck market, the United States Postal Service ("USPS"), and the DoD. Core services include vehicle parts distribution, sourcing, IT solutions, customized fleet logistics,

warehousing, kitting, just-in-time supply chain management, alternative product sourcing, and engineering and technical support.

**Federal and Defense**

Our Federal and Defense segment provides aftermarket MRO and logistics and sustainment services to improve operational readiness and extend the life cycle of military vehicles, ships and aircraft for the DoD, federal agencies and international defense customers. Core services include base operations support; procurement; supply chain management; vehicle, maritime and aircraft sustainment services; IT services and energy consulting.

The operating segments reported below are our segments for which separate financial information is available and for which segment results are evaluated regularly by our Chief Executive Officer in deciding how to allocate resources and in assessing performance. We evaluate segment performance based on consolidated revenues and operating income. Net sales of our business segments exclude inter-segment sales as these activities are eliminated in consolidation. Corporate expenses are primarily selling, general and administrative expenses not allocated to segments. Corporate assets are primarily cash, property and equipment and investments held in separate trust.

Our segment information is as follows (in thousands):

	For the years ended December 31,		
	2021	2020	2019
<b>Revenues</b>			
Aviation	\$ 247,852	\$ 165,070	\$ 224,546
Fleet	233,532	242,170	214,520
Federal and Defense	269,469	254,419	313,561
Total revenues	<u>\$ 750,853</u>	<u>\$ 661,659</u>	<u>\$ 752,627</u>
<b>Operating income (loss):</b>			
Aviation	\$ (14,373)	\$ (35,513)	\$ 17,901
Fleet	20,426	26,659	29,819
Federal and Defense	19,897	26,309	18,144
Corporate expenses	(4,430)	(3,532)	(5,607)
Operating income	<u>\$ 21,520</u>	<u>\$ 13,923</u>	<u>\$ 60,257</u>
<b>Depreciation and amortization expense:</b>			
Aviation	\$ 11,374	\$ 10,874	\$ 12,546
Fleet	9,679	10,260	11,085
Federal and Defense	4,547	3,001	3,296
Total depreciation and amortization	<u>\$ 25,600</u>	<u>\$ 24,135</u>	<u>\$ 26,927</u>
<b>Capital expenditures:</b>			
Aviation	\$ 7,468	\$ 3,445	\$ 8,396
Fleet	1,669	675	1,076
Federal and Defense	124	148	58
Corporate	1,259	159	130
Total capital expenditures	<u>\$ 10,520</u>	<u>\$ 4,427</u>	<u>\$ 9,660</u>
		December 31,	
		2021	2020
<b>Total assets:</b>			
Aviation		\$ 580,156	\$ 478,861
Fleet		182,089	161,088
Federal and Defense		92,571	66,808
Corporate		63,742	73,324
Total assets		<u>\$ 918,558</u>	<u>\$ 780,081</u>

**Customer Information**

Our revenues are derived from the delivery of products and services performed for commercial clients, DoD agencies or federal civilian agencies. The USPS and U.S. Navy are our largest customers. Our customers also include various other commercial entities and government agencies. Our revenue by customer is as follows (in thousands):

Source of Revenues	Years ended December 31,					
	2021	%	2020	%	2019	%
Commercial	\$ 322,318	43	\$ 208,305	31	\$ 242,518	32
DoD	233,422	31	236,397	36	304,334	41
Other government	195,113	26	216,957	33	205,775	27
Total Revenues	\$ 750,853	100	\$ 661,659	100	\$ 752,627	100

We do not measure revenue or profit by product or service lines, either for internal management or external financial reporting purposes, because it would be impractical to do so. Products offered and services performed are determined by contract requirements and the types of products and services provided for one contract bear no relation to similar products and services provided on another contract. Products and services provided vary when new contracts begin or current contracts expire. In many cases, more than one product or service is provided under a contract or contract task order. Accordingly, cost and revenue tracking are designed to best serve contract requirements and segregating costs and revenues by product or service lines in situations for which it is not required would be difficult and costly to both us and our customers.

**Geographical Information**

Revenue by geography is based on the billing address of the customer. Our revenue by geographic area is as follows (in thousands):

	Years ended December 31,		
	2021	2020	2019
United States	\$ 668,892	\$ 598,142	\$ 659,451
Other Countries <sup>(a)</sup>	81,961	63,517	93,176
Total revenue	\$ 750,853	\$ 661,659	\$ 752,627

(a) No individual country, other than disclosed above, exceeded 10% of our total revenue for any period presented.

**(14) Capital Stock****Common Stock**

Our common stock has a par value of \$0.05 per share. Proceeds from common stock issuances that are greater than \$0.05 per share are credited to additional paid in capital. Holders of common stock are entitled to one vote per common share held on all matters voted on by our stockholders. Stockholders of record are entitled to the amount of dividends declared per common share held.

On January 29, 2021, we completed the issuance and sale of 1,428,600 shares of the Company's common stock, in a public offering at a price of \$5.00 per share. The underwriters exercised their option to purchase an additional 170,497 shares. The transaction closed on February 2, 2021. We received net proceeds of approximately \$52 million after deducting underwriting discounts, commissions and offering related expenses.

**(15) 401(k) Plan**

We maintain a defined contribution plan under Section 401(k) of the Internal Revenue Code of 1986, as amended, that covers substantially all of our employees. Under the provisions of our 401(k) plan, employees' eligible contributions are matched at rates specified in the plan documents. Our expense associated with this plan was approximately \$6.6 million, \$5.9 million and \$5.5 million for the years ended December 31, 2021, 2020, and 2019, respectively.

**(16) Fair Value Measurements**

We utilize fair value measurement guidance prescribed by GAAP to value our financial instruments. The accounting standard for fair value measurements establishes a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value as follows: observable inputs such as quoted prices in active markets (Level 1); inputs other than the quoted prices in active markets that are observable either directly or indirectly (Level 2); and unobservable inputs in which there is little or no market data, which requires the Company to develop its own assumptions (Level 3).

The carrying amounts of cash and cash equivalents, receivables, accounts payable and amounts included in other current assets and accrued expenses and other current liabilities that meet the definition of a financial instrument approximate fair value due to their relatively short maturity. The carrying value of our outstanding debt obligations approximates its fair value. The fair value of long-term debt is calculated using Level 2 inputs based on interest rates available for debt with terms and maturities similar to our existing debt arrangements.

Non-financial assets acquired and liabilities assumed in business combinations were measured at fair value using income, market and cost valuation methodologies. See Note (2), "Acquisitions and Divestitures." The fair value measurements were estimated using significant inputs that are not observable in the market and thus represent a Level 3 measurement.

The following table summarizes the financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2021 and December 31, 2020 and the level they fall within the fair value hierarchy (in thousands):

Amounts Recorded at Fair Value	Financial Statement Classification	Fair Value Hierarchy	Fair Value December 31, 2021	Fair Value December 31, 2020
Non-COLI assets held in Deferred Supplemental Compensation Plan	Other assets	Level 1	\$ 598	\$ 1,120
Interest rate swaps	Accrued expenses	Level 2	\$ 234	\$ 1,603
Earn-out obligation-current	Accrued expenses	Level 3	\$ 1,000	\$ —
Earn-out obligation-long-term	Other long-term liabilities	Level 3	\$ 250	\$ —

COLI assets held in our deferred supplemental compensation plan consist of equity funds with fair value based on observable inputs such as quoted prices for identical assets in active markets and changes in fair value are recorded as selling, general and administrative expenses.

We account for our interest rate swap agreements under the provisions of ASC 815, *Derivatives and Hedging*, and have determined that our swap agreements qualify as highly effective cash flow hedges. We evaluate our hedges to determine their effectiveness and as of December 31, 2021 and 2020, the swaps were determined to be fully effective. Accordingly, the fair value of the swap agreements, which is a liability recorded in accrued expenses and other current liabilities in our consolidated balance sheets, of \$234 thousand and \$1.6 million as of December 31, 2021 and 2020, respectively. The offset, net of an income tax effect of \$58 thousand and \$400 thousand was included in accumulated other comprehensive income in the accompanying balance sheets as of December 31, 2021 and 2020, respectively. The amounts paid and received on the swap agreements are recorded in interest expense in the period during which the related floating-rate interest is incurred. We expect the hedges to remain fully effective during the remaining terms of the swap agreements. We determine the fair value of the swap agreements based on a valuation model using primarily observable market data inputs.

In connection with the acquisition of Global Parts in July 2021, we may be required to make earn-out obligation payments of up to \$2.0 million should Global Parts meet certain financial targets during the twelve months following the acquisition and meet a certain milestone event on or before March 2023. The preliminary fair value of the earn-out obligation was determined using a probability-based scenario analysis approach. Any change in the fair value of contingent consideration from events after the acquisition date will be recognized in earnings of the period when the event occurs. The probability-based approach used to fair value earn-out obligation is based on significant inputs not observed in the market and thus represents a Level 3 measurement. The significant unobservable inputs include projected revenues and percentage probability of occurrence. Changes in the revenue assumptions could result in a material change to the amount of the fair value measurement. Under the agreement, we were required to make an advanced payment of the earn-out obligation. The payment was made in August 2021.

In 2020, in connection with the 2019 acquisition of 1st Choice Aerospace, we made a payment of approximately \$1.7 million to satisfy the earn-out and the remaining fair value of the earn-out obligation of \$5 million was reversed and recognized in earnings.



Changes in earn-out obligation measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2021 and 2020 are as follows (in thousands):

	Current portion	Long-term portion	Total
Balance as of December 31, 2019	\$ 31,700	\$ 5,000	\$ 36,700
Earn-out payments	(31,700)	—	(31,700)
Reclassification from long-term to current	5,000	(5,000)	—
Fair value adjustment included in costs and operating expenses	(5,000)	—	(5,000)
Balance as of December 31, 2020	—	—	—
Acquisition date fair value of contingent consideration	1,750	250	2,000
Earn-out payments	(750)	—	(750)
Balance as of December 31, 2021	\$ 1,000	\$ 250	\$ 1,250

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

None.

### ITEM 9A. Controls and Procedures

#### Evaluation of Disclosure Controls and Procedures

Our management has evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15(d)-15(e) under the Exchange Act). Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2021, our disclosure controls and procedures were effective to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

#### Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Our management, with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our internal control over financial reporting as of December 31, 2021 based on the framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework). Based on its assessment, management concluded that our internal control over financial reporting was effective as of December 31, 2021. Grant Thornton LLP, an independent registered public accounting firm, audited our consolidated financial statements included in this report and our internal control over financial reporting, and the firm's report on our internal control over financial reporting are set forth below.

As permitted by the SEC rules, management's assessment and conclusion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2021, excludes an assessment of internal control over financial reporting of HSS and Global Parts, acquired in March 2021 and July 2021, respectively. HSS and Global Parts combined total assets, excluding goodwill and intangible assets, and revenues represented 5.6% and 7.8%, respectively, of our consolidated financial statement amounts as of and for the year ended December 31, 2021.

#### Change in Internal Controls

During the fourth quarter of fiscal year 2021, there were no changes in our internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, that have materially affected these controls or are reasonably likely to materially affect these controls subsequent to the evaluation of these controls.

**Report of Independent Registered Public Accounting Firm**

Board of Directors and Stockholders  
VSE Corporation

**Opinion on internal control over financial reporting**

We have audited the internal control over financial reporting of VSE Corporation (a Delaware corporation) and subsidiaries (the “Company”) as of December 31, 2021, based on criteria established in the 2013 Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on criteria established in the 2013 Internal Control—Integrated Framework issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the consolidated financial statements of the Company as of and for the year ended December 31, 2021, and our report dated March 10, 2022 expressed an unqualified opinion on those financial statements.

**Basis for opinion**

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting (“Management’s Report”). Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Our audit of, and opinion on, the Company’s internal control over financial reporting does not include the internal control over financial reporting of Global Parts Group, Inc. (“Global Parts”) and HAECO Special Services, LLC (“HSS”), wholly-owned subsidiaries, whose combined financial statements reflect total assets, excluding goodwill and identifiable intangible assets, and revenues constituting 5.6% and 7.8%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2021. As indicated in Management’s Report, Global Parts and HSS were acquired during 2021. Management’s assertion on the effectiveness of the Company’s internal control over financial reporting excluded internal control over financial reporting of Global Parts and HSS.

**Definition and limitations of internal control over financial reporting**

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ GRANT THORNTON LLP  
Arlington, Virginia  
March 10, 2022

**ITEM 9B. Other Information**

None.

**ITEM 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections**

None.

**PART III**

Except as otherwise indicated below, the information required by Items 10, 11, 12, 13 and 14 of Part III of Form 10-K has been omitted in reliance of General Instruction G(3) to Form 10-K and is incorporated herein by reference to our definitive proxy statement to be filed with the SEC not later than 120 days after December 31, 2021 in respect of the Annual Meeting of VSE's stockholders scheduled to be held on May 4, 2022 (the "Proxy Statement").

**ITEM 10. Directors, Executive Officers and Corporate Governance**

Information called on by Item 10 will be set forth in our Proxy Statement, which information is incorporated herein by reference.

**ITEM 11. Executive Compensation**

Information called on by Item 11 will be set forth in our Proxy Statement, which information is incorporated herein by reference.

**ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

Except for the "Equity Compensation Plan Information" disclosed in Item 5 above, the information called on by this Item 12 will be set forth in our Proxy Statement, which information is incorporated herein by reference.

**ITEM 13. Certain Relationships and Related Transactions, and Director Independence**

Information called on by Item 13 will be set forth in our Proxy Statement, which information is incorporated herein by reference.

**ITEM 14. Principal Accountant Fees and Services**

Information called on by Item 14 will be set forth in our Proxy Statement, which information is incorporated herein by reference.

**PART IV**

**ITEM 15. Exhibits and Financial Statement Schedules**

**1. Financial Statements**

The consolidated financial statements are listed under Item 8 of this Form 10-K.

**2. Supplemental Financial Statement Schedules**

The following financial statement schedule is included herein:

[Schedule II - Valuation and Qualifying Accounts](#)

All other schedules have been omitted because they are not applicable, not required, or the information has been otherwise supplied in the financial statements or notes to the financial statements.

**3. Exhibits**

See "Exhibit Index" hereinafter contained and incorporated by reference.

**ITEM 16. Form 10-K Summary**

None.

**VSE Corporation and Subsidiaries**  
**Schedule II - Valuation and Qualifying Accounts**

(in thousands)	Balance at Beginning of Year	Additions Charged to Statement of Income Accounts	Other <sup>(1)</sup>	Deductions	Balance at End of Year
<b>Allowance for credit losses on accounts receivable</b>					
Year ended December 31, 2021	1,493	572	—	388	1,677
Year ended December 31, 2020	396	1,767 <sup>(2)</sup>	—	670	1,493
Year ended December 31, 2019	79	244	148	75	396
<b>Valuation allowance for deferred tax assets</b>					
Year ended December 31, 2021	7,926	331	—	—	8,257
Year ended December 31, 2020	1,165	6,761 <sup>(3)</sup>	—	—	7,926
Year ended December 31, 2019	107	1,165	—	107	1,165

<sup>(1)</sup> Represents opening allowance balance related to acquisition made during the period indicated.

<sup>(2)</sup> Increase in 2020 primarily due to allowances booked as a result of the financial impact from the COVID-19 pandemic.

<sup>(3)</sup> Increase in 2020 primarily due to full valuation allowance established against capital loss DTA in connection with the Prime Turbines stock sale and full valuation allowance against foreign tax loss DTA.

EXHIBIT INDEX

Reference No. Per Item 601 of Regulation S-K	Description of Exhibit	Exhibit No. In this Form 10-K
3.1	<a href="#">Restated Certificate of Incorporation of VSE Corporation dated as of March 4, 1996 (filed herewith)</a>	*
3.2	<a href="#">Certificate of Amendment of the Restated Certificate of Incorporation of VSE Corporation dated as of May 2, 2006 (Exhibit 3.1 to Form 10-Q dated August 1, 2006)</a>	*
3.3	<a href="#">By-Laws of VSE Corporation as amended through July 31, 2013 (Exhibit 3.1 to Form 8-K dated August 23, 2013)</a>	*
4.1	Specimen Stock Certificate as of May 19, 1983 (Exhibit 4 to Registration Statement No. 2-83255 dated April 22, 1983 on Form S-2)	* + P
4.2	<a href="#">Description of VSE Corporation Securities Registered Pursuant to Section 12 of the Securities Act of 1934 (filed herewith)</a>	* +
10.1	<a href="#">Separation and Release Agreement dated as of April 26, 2021, by and between VSE Corporation and Thomas M. Kiernan (Exhibit 10.1 to Form 10-Q dated April 29, 2021)</a>	* +
10.2	<a href="#">Executive Employment Agreement dated as of September 24, 2019, by and between VSE Corporation and Robert Moore (Exhibit 10.1 to Form 8-K dated September 27, 2019)</a>	* +
10.3	<a href="#">Executive Employment Agreement dated as of July 28, 2021, by and between VSE Corporation and Farinaz S. Tehrani. (Exhibit 10.1 to Form 8-K dated July 30, 2021)</a>	* +
10.4	<a href="#">Amended &amp; Restated Executive Employment Agreement dated as of December 7, 2021, by and between VSE Corporation and John A. Cuomo (Exhibit 10.1 to Form 8-K dated December 9, 2021)</a>	* +
10.5	<a href="#">Amended &amp; Restated Executive Employment Agreement dated as of December 7, 2021, by and between VSE Corporation and Stephen D. Griffin (Exhibit 10.2 to Form 8-K dated December 9, 2021)</a>	* +
10.6	<a href="#">Amended &amp; Restated Executive Employment Agreement dated as of December 7, 2021, by and between VSE Corporation and Benjamin E. Thomas (Exhibit 10.3 to Form 8-K dated December 9, 2021)</a>	* +
10.7	<a href="#">Executive Employment Agreement dated as of December 7, 2021, by and between VSE Corporation and Chad Wheeler (Exhibit 10.4 to Form 8-K dated December 9, 2021)</a>	* +
10.8	<a href="#">Fourth Amended and Restated Business Loan and Security Agreement dated January 5, 2018 among VSE Corporation and its wholly owned subsidiaries, Citizens Bank N.A. and a syndicate of eight other banks (Exhibit 10.1 to Form 8-K dated January 8, 2018)</a>	*
10.9	<a href="#">First Amendment to Fourth Amended and Restated Business Loan and Security Agreement dated November 26, 2019 among VSE Corporation and its wholly owned subsidiaries, Citizens Bank N.A. and a syndicate of nine other banks (Exhibit 10.1 to Form 8-K dated December 2, 2019)</a>	*
10.10	<a href="#">Second Amendment to Fourth Amended and Restated Business Loan and Security Agreement dated June 29, 2020 among VSE Corporation and its wholly owned subsidiaries, Citizens Bank N.A. and certain other banks (Exhibit 10.1 to Form 10-Q dated July 31, 2020.)</a>	*

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10.11	<a href="#">Third Amended and Restated Business Loan and Security Agreement dated July 23, 2021 among VSE Corporation and its wholly owned subsidiaries, Citizens Bank N.A. and certain other banks (Exhibit 10.1 to Form 10-Q dated July 29, 2021)</a>	*
10.12	<a href="#">Lease Agreement by and between Metropark 7 LLC and VSE Corporation (Exhibit 10.2 to Form 8-K dated November 4, 2009)</a>	*
10.13	<a href="#">VSE Corporation Deferred Supplemental Compensation Plan effective January 1, 1994 as amended by the Board through March 9, 2004 (Exhibit 10.2 to Form 10-Q dated April 28, 2004)</a>	* +
10.14	<a href="#">VSE Corporation 2006 Restricted Stock Plan, as amended in February 2020</a>	Exhibit 10.1
10.15	<a href="#">VSE Corporation 2021 Employee Stock Purchase Plan (Appendix A to the Registrant's Proxy Statement on Schedule 14A (Commission File No. 000-03676) filed on April 2, 2021)</a>	* +
21.1	<a href="#">Subsidiaries of the Registrant</a>	Exhibit 21
23.1	<a href="#">Consent of Grant Thornton LLP, Independent Registered Public Accounting Firm</a>	Exhibit 23.1
31.1	<a href="#">Section 302 CEO Certification</a>	Exhibit 31.1
31.2	<a href="#">Section 302 CFO and PAO Certification</a>	Exhibit 31.2
32.1	<a href="#">Section 906 CEO Certification</a>	Exhibit 32.1
32.2	<a href="#">Section 906 CFO and PAO Certification</a>	Exhibit 32.2
99.1	<a href="#">Audit Committee Charter (as adopted by the Board Of Directors of VSE Corporation on March 9, 2004)(Appendix A to Registrant's definitive proxy statement for the Annual Meeting of Stockholders held on May 3, 2004)</a>	*
101.INS	XBRL Instance Document	
101.SCH	XBRL Taxonomy Extension Schema Document	
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	
104	The cover page from VSE Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2021 has been formatted in Inline XBRL.	

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

+ Indicates management contract or compensatory plan or arrangement.

P Indicates exhibit was submitted to the Securities and Exchange Commission as a paper filing prior to the time that electronic filing on EDGAR became mandatory.

**SIGNATURES**

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

**VSE CORPORATION**

Date: March 10, 2022

By: /s/ John A. Cuomo  
John A. Cuomo  
Chief Executive Officer and President

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

Name	Title	Date
<u>/s/ John A. Cuomo</u> John A. Cuomo	Director, Chief Executive Officer and President (Principal Executive Officer)	March 10, 2022
<u>/s/ Stephen D. Griffin</u> Stephen D. Griffin	Senior Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 10, 2022
<u>/s/ Ralph E. Eberhart</u> Ralph E. Eberhart	Chairman/Director	March 10, 2022
<u>/s/ Calvin S. Koonce</u> Calvin S. Koonce	Director	March 10, 2022
<u>/s/ James F. Lafond</u> James F. Lafond	Director	March 10, 2022
<u>/s/ Bonnie K. Wachtel</u> Bonnie K. Wachtel	Director	March 10, 2022
<u>/s/ Jack C. Stultz</u> Jack C. Stultz	Director	March 10, 2022
<u>/s/ John E. Potter</u> John E. Potter	Director	March 10, 2022
<u>/s/ Mark E. Ferguson III</u> Mark E. Ferguson III	Director	March 10, 2022



**VSE CORPORATION**  
**2006 RESTRICTED STOCK PLAN, AS AMENDED**

**1. Purpose**

The purpose of the VSE Corporation 2006 Restricted Stock Plan (the "Plan") is to promote the ability of VSE Corporation, a Delaware corporation (the "Company"), to recruit and retain employees and non-employee directors and enhance the growth and profitability of the Company by providing the incentive of long-term awards and Share issuances for continued employment and directorship and the attainment of performance objectives. On December 6, 2013, the Board approved and adopted certain amendments to the Plan and such amendments became effective on May 6, 2014 when they were approved by the Company's stockholders. On February 27, 2020, the Board approved and adopted certain additional amendments to the Plan, which have been incorporated into the Plan, as set forth herein. The Plan, as amended, is subject to the approval of the Company's stockholders, as set forth in Section 14.

**2. Definitions**

- (a) "*Affiliate*" means, with respect to any Person, any other person that, directly or indirectly, is in control of, is controlled by, or is under common control with, such Person. For purposes of this definition, the term "control," including its correlative terms "controlled by" and "under common control with," mean, with respect to any Person, the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.
  - (b) "*Award*" means an award of Restricted Stock or Restricted Stock Units granted under the Plan.
  - (c) "*Board*" means the Company's board of directors.
  - (d) "*Change of Control*" means any transaction or series of transactions as a result of which any Person who was a Third Party immediately before such transaction or series of transactions owns then outstanding securities of the Company such that such Person has the ability to direct the management of the Company, as determined by the Board in its discretion. The Board may also determine that a Change of Control shall occur upon the completion of one or more proposed transactions. The Board's determination shall be final and binding.
  - (e) "*Code*" means the Internal Revenue Code of 1986, as amended.
  - (f) "*VSE Plan*" means any restricted stock, restricted stock unit, stock bonus, stock option or other compensation plan, program or arrangement established or maintained by the Company or an Affiliate, including the Plan.
  - (g) "*Committee*" means the Compensation Committee of the Board.
  - (h) "*Common Stock*" means Common Stock, par value \$0.05 per share, of the Company.
  - (i) "*Company*" means VSE Corporation, a Delaware corporation, including any successor thereto by merger, consolidation, acquisition of all or substantially all the assets thereof, or otherwise.
  - (j) "*Date of Grant*" means the date on which an Award is granted.
  - (k) "*Eligible Employee*" means an employee of a Participating Company, as determined by the Committee.
  - (l) "*Fair Market Value*" means for all purposes:
-

- (i) If trades of Shares are reported on The Nasdaq Global Select Market or The Nasdaq National Market System, Fair Market Value shall be determined based on the last quoted sale price of a Share on The Nasdaq Global Select Market or, as the case may be, The Nasdaq National Market System, on the date of determination, or if such date is not a trading day, the next trading date in respect of all Awards granted under Section 7 and the preceding day on which Shares were traded in respect of elections under Section 8.
  - (ii) If trades of Shares are reported on neither The Nasdaq Global Select Market nor The Nasdaq National Market System but Shares are listed on a stock exchange, Fair Market Value shall be determined based on the last reported sale price of a Share on the principal exchange on which Shares are listed on the date of determination, or if such date is not a trading day, the next trading date in respect of all Awards granted under Section 7 and the preceding day on which Shares were traded in respect of elections under Section 8.
  - (iii) If Shares are not so listed nor trades of Shares so reported, Fair Market Value shall be determined in good faith by the Committee or, in respect of any matter under Section 8, by the Board.
- (m) “*Grantee*” means an Eligible Employee or Non-Employee Director who is granted an Award.
- (n) “*Non-Employee Director*” means an individual who is a Board member, and who is not an employee of the Company, including an individual who is a Board member and who previously was an employee of the Company.
- (o) “*Other Available Shares*” means, as of any date, the sum of:
- (i) The total number of Shares owned by a Grantee that were not acquired by such Grantee pursuant to a VSE Plan or otherwise in connection with the performance of services to the Company or an Affiliate thereof; plus
  - (ii) The excess, if any of:
    - (1) The total number of Shares owned by a Grantee other than the Shares described in Section 2(o) (i); over
    - (2) The sum of:
      - (A) The number of such Shares owned by such Grantee for less than six months; plus
      - (B) The number of such Shares owned by such Grantee that has, within the preceding six months, been the subject of a withholding certification pursuant to Section 9(c)(ii) or any similar withholding certification under any other VSE Plan; plus
- (p) “*Participating Company*” means the Company and each of the Subsidiary Companies.
- (q) “*Person*” means an individual, a corporation, a partnership, a limited liability company, an association, a trust or any other entity or organization.
- (r) “*Plan*” means the VSE Corporation 2006 Restricted Stock Plan, as set forth herein, and as amended from time to time.
- (s) “*Restricted Stock*” means Shares subject to restrictions as set forth in an Award.
- (t) “*Restricted Stock Unit*” means a unit that entitles the Grantee, upon the Vesting Date set forth in an Award, to receive one Share.

- (u) "Rule 16b-3" means Rule 16b-3 promulgated under the 1934 Act.
- (v) "Senior Executive" means an Eligible Employee whom the Committee has identified as a "covered employee" for purposes of Code Section 162(m).
- (w) "Share" or "Shares" means a share or shares of Common Stock.
- (x) "Subsidiary Companies" means all business entities that, at the time in question, are subsidiaries of the Company, within the meaning of Code Section 424(f).
- (y) "Successor-in-Interest" means the estate or beneficiary to whom the right to payment under the Plan shall have passed by will or the laws of descent and distribution.
- (z) "Terminating Event" means any of the following events:
  - (i) the liquidation of the Company; or
  - (ii) a Change of Control.
- (aa) "Third Party" means any Person, together with such Person's Affiliates, provided that the term "Third Party" shall not include the Company or an Affiliate of the Company.
- (bb) "Vesting Date" means, as applicable: (i) the date on which the restrictions imposed on a Share of Restricted Stock lapse or (ii) the date on which the Grantee vests in a Restricted Stock Unit.
- (cc) "1933 Act" means the Securities Act of 1933, as amended.
- (dd) "1934 Act" means the Securities Exchange Act of 1934, as amended.

### 3. **Rights to be Granted**

Rights that may be granted under the Plan, in addition to rights that may be granted under Section 8, are:

- (i) Rights to Restricted Stock which gives the Grantee ownership rights in the Shares pursuant to the Award, subject to a substantial risk of forfeiture, as set forth in Section 7, and
- (ii) Rights to Restricted Stock Units which give the Grantee a contractual right granted under Section 7 that is denominated in Shares, each of which represents a right to receive the value of Shares upon the terms and conditions set forth in the Plan and the applicable Award. It is intended that any Restricted Stock Units issued hereunder be exempt from the provisions of Code Section 409A by qualifying for the "short-term deferral" exemption described in Treasury Regulation Section 1.409A-1(b)(4). As such, all Restricted Stock Units shall be paid out in full as soon as practicable following their Vesting Date and, in all events, shall be paid out in full no later than two and one-half months following the end of the calendar year in which the Vesting Date occurs.

### 4. **Shares Subject to the Plan or Awards**

- (a) Not more than 1,000,000 Shares in the aggregate, including the Shares previously issued under the Plan and Shares currently available for issuance under the Plan, may be issued under the Plan pursuant to the grant of Awards or elections to receive Shares made under Section 8, subject to adjustment in accordance with Section 10. The Shares issued under the Plan may, at the Company's option, be either Shares held in treasury or Shares originally issued for such purpose.
- (b) If Restricted Stock or Restricted Stock Units are forfeited pursuant to the term of an Award, other Awards with respect to such Shares may be granted.

5. **Administration of the Plan**

- (a) *Administration.* The Plan shall be administered by the Committee, provided that with respect to Awards to Non-Employee Directors, the rules of this Section 5 shall apply so that all references in this Section 5 to the Committee shall be treated as references to either the Board or the Committee acting alone.
- (b) *Grants.* Subject to the express terms and conditions set forth in the Plan, the Committee shall have the power, from time to time, to:
  - (i) select those Employees and Non-Employee Directors to whom Awards shall be granted under the Plan, to determine the number of Shares or Restricted Stock Units, as applicable, to be granted pursuant to each Award, and, pursuant to the provisions of the Plan, to determine the terms and conditions of each Award, including the restrictions applicable to such Shares and the conditions upon which a Vesting Date shall occur; and
  - (ii) interpret the Plan's provisions, prescribe, amend and rescind rules and regulations for the Plan, and make all other determinations necessary or advisable for the administration of the Plan.

The determination of the Committee in all matters as stated above shall be final, binding and conclusive.

- (c) *Meetings.* The Committee shall hold meetings at such times and places as it may determine. Acts approved at a meeting by a majority of the members of the Committee or acts approved in writing by the unanimous consent of the members of the Committee shall be the valid acts of the Committee.
- (d) *Exculpation.* No Committee member shall be personally liable for monetary damages for any action taken or any failure to take any action in connection with the administration of the Plan or the granting of Awards hereunder unless (i) the Committee member has breached or failed to perform the duties of his office, and (ii) the breach or failure to perform constitutes self-dealing, willful misconduct or recklessness; provided, however, that the provisions of this Section 5(d) shall not apply to the responsibility or liability of a Committee member pursuant to any criminal statute.
- (e) *Indemnification.* Service on the Committee shall constitute service as a Board member. Each Committee member shall be entitled without further act on his part to indemnity from the Company to the fullest extent permitted by applicable law and the Company's certificate of incorporation and by-laws in connection with or arising out of any action, suit or proceeding with respect to the administration of the Plan or the granting of Awards thereunder in which he may be involved by reason of his being or having been a Committee member, whether or not he continues to be such Committee member at the time of the action, suit or proceeding.
- (f) *Delegation of Authority.* The Committee may delegate to an officer of the Company, or a committee of two or more officers of the Company, discretion under the Plan to grant Restricted Stock or Restricted Stock Units to any Grantee other than a Grantee who, at the time of the grant:
  - (i) has a base salary of \$100,000 or more;
  - (ii) is subject to the short-swing profit recapture rules of Section 16(b) of the 1934 Act; or
  - (iii) is a Senior Executive.
- (g) *Termination of Delegation of Authority.* Any delegation of authority described in Section 5(f) shall continue in effect until the earliest of:

- (i) such time as the Committee shall, in its discretion, revoke such delegation of authority;
- (ii) the delegate shall cease to be an employee of the Company for any reason; or
- (iii) the delegate shall notify the Committee that he declines to continue exercise such authority.

6. **Eligibility**

Awards may be granted only to Eligible Employees and Non-Employee Directors.

7. **Restricted Stock and Restricted Stock Unit Awards**

The Committee may grant Awards in accordance with the Plan, provided that the Board or the Committee may grant Awards to Non-Employee Directors, or otherwise. With respect to Awards to Non-Employee Directors, the rules of this Section 7 shall apply so that either the Board or the Committee acting alone shall have all of the authority otherwise reserved in this Section 7 to the Committee.

The terms and conditions of Awards shall be set forth in writing as determined from time to time by the Committee, consistent, however, with the following:

- (a) *Time of Grant.* No Awards shall be granted after the seventh anniversary of the Effective Date.
- (b) *Terms of Awards.* The provisions of Awards need not be the same with respect to each Grantee. No cash or other consideration shall be required to be paid by the Grantee in exchange for an Award.
- (c) *Awards and Agreements.* Each Grantee shall be provided with an agreement specifying the terms and conditions of an Award. In addition, a certificate shall be issued to each Grantee in respect of Restricted Stock subject to an Award. Such certificate shall be registered in the Grantee's name and shall bear an appropriate legend referring to the terms, conditions and restrictions applicable to such Award. The Company may require that the certificate evidencing such Restricted Stock be held by the Company until all restrictions on such Restricted Stock have lapsed.
- (d) *Restrictions.* Subject to the provisions of the Plan and the Award, the Committee may establish a period commencing with the Date of Grant during which the Grantee shall not be permitted to sell, transfer, pledge or assign Restricted Stock awarded under the Plan.
- (e) *Vesting / Lapse of Restrictions.* Subject to the provisions of the Plan and the Award, a Vesting Date for Restricted Stock or Restricted Stock Units subject to an Award shall occur at such time or times and on such terms and conditions as the Committee may determine and as are set forth in the Award; provided, however, that except as otherwise provided by the Committee, a Vesting Date shall occur only if the Grantee is an employee of a Participating Company as of such Vesting Date, and has been an employee of a Participating Company continuously from the Date of Grant. The Award may provide for Restricted Stock or Restricted Stock Units to vest in installments, as determined by the Committee. The Committee may, in its sole discretion, waive, in whole or in part, any remaining conditions to vesting with respect to such Grantee's Restricted Stock or Restricted Stock Units.
- (f) *Rights of the Grantee.* Grantees may have such rights with respect to Shares subject to an Award as may be determined by the Committee and set forth in the Award, including the right to vote such Shares, and the right to receive dividends paid with respect to such Shares. A Grantee whose Award consists of Restricted Stock Units shall not have the right to vote or to receive dividend equivalents with respect to such Restricted Stock Units.

- (g) *Termination of Grantee's Employment*. A transfer of an Eligible Employee between two employers, each of which is a Participating Company, shall not be deemed a termination of employment. If a Grantee terminates employment with all Participating Companies, all Restricted Shares or Restricted Stock Units as to which a Vesting Date has not occurred shall be forfeited by the Grantee and deemed canceled by the Company.
- (h) *Delivery of Shares*. When a Vesting Date occurs with respect to all or a portion of an Award of Restricted Stock or Restricted Stock Units, the Company shall notify the Grantee that a Vesting Date has occurred and, subject to the provisions of Section 9(c) regarding the withholding of Shares to satisfy tax liabilities, deliver to the Grantee (or the Grantee's Successor-in-Interest) a certificate for the number of Shares as to which a Vesting Date has occurred (or in the case of Restricted Stock Units, the number of Shares represented by such Restricted Stock Units) without any legend or restrictions (except those that may be imposed by the Committee, in its sole judgment, under Section 9(a)). All Awards shall be settled no later than the March 15<sup>th</sup> following the calendar year in which such Award is vested. The right to payment of any fractional Shares that may have accrued shall be satisfied in cash, measured by the product of the fractional amount times the Fair Market Value of a Share at the Vesting Date, as determined by the Committee.
- (i) *Death or Disability*. The Committee may, in its discretion, waive the Vesting Date or any restrictions imposed on an Award in the event of the death or disability of a Participant (each as determined by the Committee, in its discretion). Exercise of such discretion by the Committee in any individual case, however, shall not be deemed to require, or to establish a precedent suggesting such exercise in any other case.

8. **Non-Employee Directors Stock**

- (a) The Board shall administer the Plan in respect of participation by Non-Employee Directors under this Section 8. All questions of interpretation and application of the terms and conditions of the Plan in respect of this Section 8 are subject to the Board's sole discretion, which shall be binding on all Participants.
  - (b) All Non-Employee Directors are covered by this Plan ("Participants").
  - (c) Every Non-Employee Director shall automatically participate in the Plan until the earlier of his or her retirement, resignation, non-reelection, disability or death.
  - (d) Commencing as of the Effective Date, from and after the date of participation, each Participant may elect in respect of each year that all or a specified portion of his or her annual retainer fee as a director shall be allocated to and paid in Common Stock under the Plan ("Stock Portion"), with the balance of such annual retainer fee, if any, being payable in cash ("Cash Portion"). Such election shall be made in writing and provided to the Corporate Secretary by November 15 of each year or such other date as the Board may determine, provided such date is at least 15 days prior to the date on which the fair market value of the Common Stock is determined pursuant to Section 8(e). If any Participant fails to provide the above-mentioned written election by the date referenced in the preceding sentence, such Participant's annual retainer fee shall be paid fully in cash for the particular year. If not enough Shares are available to satisfy one or more Participant's Stock Portion elections in respect of a year, such elections shall be automatically adjusted, on a pro rata basis, to match the amount of Shares available hereunder, in proportion to the number of Shares each Participant would have received in respect of his or her election as if sufficient Shares were available for all elections.
- (e)
- (i) Common Stock shall be allocated to Participants at its Fair Market Value as of the date of allocation except that if no Shares were traded on such date, its Fair Market Value on the preceding day on which sales of Shares were traded.
  - (ii) No fractional Shares shall be allocated.

(iii) Any residual cash balance may be credited to Participants or distributed along with the Cash Portion in the Board's sole discretion.

(f) The Cash Portion shall be paid to Participants to cover the estimated taxes associated with the issuance of Shares under this Section 8. Notwithstanding the foregoing, each Participant will be solely responsible for calculation and payment of his or her tax liability in respect of the Plan, irrespective of whether or not such Participant's Cash Portion is sufficient to cover the entire amount of actual taxes associated with the Participant's Stock Portion.

(g)

(i) As soon as practicable, a stock certificate will be issued to each Participant for the number of Shares allocated to the Participant under the Plan.

(ii) By executing a copy of this Plan, the Participant represents and warrants to the Company that

(A) he or she will acquire and hold all the Shares issued to him or her hereunder for his or her own account for investment and not with the view toward resale or distribution except in accordance with Federal and state securities laws; and that

(B) he or she will not directly or indirectly distribute or otherwise transfer any interest in Shares acquired under this Plan except pursuant to (1) an effective and current registration statement under the 1933 Act covering the Shares, or (2) a specific exemption from registration under the 1933 Act.

(iii) The Company may require Participant to furnish an opinion of counsel reasonably acceptable to the Company that no registration under the 1933 Act is required.

(iv) By executing a copy of this Plan each Participant also acknowledges that (1) the Shares issued under the Plan will be issued pursuant to exemption from the registration under the 1933 Act; (2) such Shares must be held indefinitely unless it is registered or an exemption from registration becomes available under the 1933 Act and the applicable state laws; (3) the Company is under no obligation to facilitate resale of the Shares whether by registration, Rule 144 under the 1933 Act, or otherwise; (4) if Rule 144 under the 1933 Act is available for resale of Shares, such sales will or may be subject to specific holding periods, volume restrictions, and other provisions; and (5) the Participant will bear the economic risk of the investment in the Shares for an indefinite period of time.

(v) The Board may from time to time alter, amend, suspend, or discontinue any and all participation of Non-Employee Directors under this Section 8.

(vi)

(A) This Plan, including this Section 8, does not create any obligation of the Board to nominate any director for re-election by the Company's stockholders or the Board.

(B) Participants will have no stockholder rights with respect to the Shares subject to the Plan until they are allocated and issued to Participants under this Section 8.

(C) None of the benefits under the Plan are subject to the claims of creditors of Participants or their beneficiaries, nor are they subject to attachment, garnishment or other legal process. Neither Participant nor beneficiary may assign, sell, borrow on or otherwise encumber a beneficial interest in the Plan nor

shall any such benefits be in any manner subject to the deeds, contracts, liabilities, engagements or torts of any Participant or beneficiary.

9. **Securities Laws; Taxes**

- (a) *Securities Laws.* The Committee shall have the power to make each grant of Awards under the Plan subject to such conditions as it deems necessary or appropriate to comply with the then existing requirements of the 1933 Act and the 1934 Act, including Rule 16b-3 thereunder. Such conditions may include the delivery by the Grantee of an investment representation to the Company in connection with a Vesting Date occurring with respect to Shares subject to an Award, or the execution of an agreement by the Grantee to refrain from selling or otherwise disposing of the Shares acquired for a specified period of time or on specified terms.
- (b) *Taxes.* Subject to the rules of Section 9(c), the Company shall be entitled, if necessary or desirable, to withhold the amount of any tax, charge or assessment attributable to the grant of any Award or the occurrence of a Vesting Date with respect to any Award. The Company shall not be required to deliver Shares pursuant to any Award until it has been indemnified to its satisfaction for any such tax, charge or assessment.
- (c) *Payment of Tax Liabilities; Election to Withhold Shares or Pay Cash to Satisfy Tax Liability .*
  - (i) In connection with the grant of any Award or the occurrence of a Vesting Date under any Award, the Company shall have the right to (A) require the Grantee to remit to the Company an amount sufficient to satisfy any federal, state or local withholding tax requirements prior to the delivery or transfer of any certificate or certificates for Shares subject to such Award, or (B) take any action whatever that it deems necessary to protect its interests with respect to tax liabilities. The Company's obligation to make any delivery or transfer of Shares shall be conditioned on the Grantee's compliance, to the Company's satisfaction, with any withholding requirement.
  - (ii) Except as otherwise provided in this Section 9(c)(ii), any tax liabilities incurred in connection with grant of any Award or the occurrence of a Vesting Date under any Award under the Plan shall be satisfied by the Company's withholding a portion of the Shares subject to such Award having a Fair Market Value approximately equal to the minimum amount of taxes required to be withheld by the Company under applicable law, unless otherwise determined by the Committee with respect to any Grantee. Notwithstanding the foregoing, the Committee may permit a Grantee to elect one or both of the following: (A) to have taxes withheld in excess of the minimum amount required to be withheld by the Company under applicable law; provided that the Grantee certifies in writing to the Company at the time of such election that the Grantee owns Other Available Shares having a Fair Market Value that is at least equal to the Fair Market Value to be withheld by the Company in payment of withholding taxes in excess of such minimum amount; and (B) to pay to the Company in cash all or a portion of the taxes to be withheld in connection with such grant or Vesting Date. In all cases, the Shares so withheld by the Company shall have a Fair Market Value that does not exceed the amount of taxes to be withheld minus the cash payment, if any, made by the Grantee. Any election pursuant to this Section 9(c)(ii) must be in writing made prior to the date specified by the Committee, and in any event prior to the date the amount of tax to be withheld or paid is determined. An election pursuant to this Section 9(c)(ii) may be made only by a Grantee or, in the event of the Grantee's death, by the Grantee's legal representative. No Shares withheld pursuant to this Section 9(c)(ii) shall be available for subsequent grants under the Plan. The Committee may add such other requirements and limitations regarding elections pursuant to this Section 9(c)(ii) as it deems appropriate.

10. **Changes In Capitalization**

The aggregate number of Shares and class of Shares as to which Awards may be granted or elections made under Section 8 and the number of Shares covered by each outstanding Award or



election made under Section 8 shall be appropriately adjusted in the event of a stock dividend, stock split, recapitalization or other change in the number or class of issued and outstanding equity securities of the Company resulting from a subdivision or consolidation of the Shares or other outstanding equity security or a recapitalization or other capital adjustment (not including the issuance of Shares or other outstanding equity securities on the conversion of other securities of the Company which are convertible into Shares or other outstanding equity securities) affecting the Shares which is effected without receipt of consideration by the Company. The Committee shall have authority to determine the adjustments to be made under this Section 10 and any such determination by the Committee shall be final, binding and conclusive.

**11. Terminating Events**

The Committee shall give Grantees at least 10 days' notice (or, if not practicable, such shorter notice as may be reasonably practicable) prior to the anticipated date of the consummation of a Terminating Event. The Committee may, in its discretion, provide in such notice that upon the consummation of such Terminating Event, any conditions to the occurrence of a Vesting Date with respect to an Award of Restricted Stock or Restricted Stock Units (other than Restricted Stock or Restricted Stock Units that have previously been forfeited) shall be eliminated, in full or in part.

Claims for benefits under the Plan must be filed with the Committee at the following address:

VSE Corporation  
6348 Walker Lane  
Alexandria, VA 22310  
Attention: Corporate Secretary

**12. Amendment and Termination**

The Plan may be terminated by the Board at any time. The Plan may be amended by the Board or the Committee at any time. No Award shall be materially and adversely affected by any such termination or amendment without the written consent of the Grantee. No Awards shall be granted after May 6, 2027 and no elections by Non-Employee Directors shall be made after May 6, 2027 to receive Shares under Section 8.

**13. Construction and Certain Terms and Phrases**

- (a) Unless the context of the Plan otherwise requires, (i) words of any gender include each other gender; (ii) words using the singular or plural number also include the plural or singular number, respectively; (iii) the terms "hereof," "herein," "hereby" and derivative or similar words refer to the entire Plan and not to any particular provision of the Plan and (iv) the term "Section" without any reference to a specified document refer to the specified Section of the Plan.
- (b) The words "including," "include" and "includes" are not exclusive and shall be deemed to be followed by the words "without limitation"; if exclusion is intended, the word "comprising" is used instead.
- (c) The word "or" shall be construed to mean "and/or" unless the context clearly prohibits that construction.
- (d) Whenever the Plan refers to a number of days, such number shall refer to calendar days unless business days are specified.
- (e) All accounting terms used herein and not expressly defined herein shall have the meanings ascribed to them under United States generally accepted accounting principles.
- (f) Any reference to any federal, state, local or foreign statute or law, including the Code, 1933 Act and the 1934 Act, shall be deemed also to refer to all rules and regulations promulgated thereunder, unless the context requires otherwise.

14. **Effective Date**

The Plan was originally approved and adopted by the Board on February 9, 2006, and approved by the holders of majority of the Shares entitled to vote thereon on May 2, 2006. The Plan, as amended, was approved and adopted by the Board on March 2, 2011, and approved by the holders of a majority of the holders of the Shares entitled to vote thereon on May 3, 2011. The Plan, as further amended, was approved and adopted by the Board on December 6, 2013, and by the Company's stockholders on May 6, 2014. The Plan as further amended hereby was approved and adopted by the Board on February 27, 2020, subject to the approval of the holders of a majority of the Shares entitled to vote thereon at the stockholders meeting to be held on May 6, 2020. The effective date of the Plan shall be the date on which the Plan, as amended, is approved by VSE's stockholders as contemplated by the immediately preceding sentence (the "Effective Date").

14. **Governing Law**

The Plan and all determinations made and actions taken pursuant to the Plan shall be governed in accordance with the laws (excluding conflict of law rules and principles) of the State of Delaware.

Executed as of February 27, 2020

## SUBSIDIARIES OF THE REGISTRANT

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

	<u>Jurisdiction Organization</u>
Energetics Incorporated	Maryland
Akimeka, LLC	Hawaii
Wheeler Fleet Solutions, Co.	Pennsylvania
VSE Aviation, Inc.	Delaware
VSE Aviation Services, Inc.	Florida
VSE Aviation Services, LLC	Kansas
VSE Aviation, Inc.	Florida
Global Parts, Inc.	Kansas
Global Parts Aero Services, Inc.	Kansas
Global Parts Group, Inc.	Kansas

**Consent of Independent Registered Public Accounting Firm**

We have issued our reports dated March 10, 2022, with respect to the consolidated financial statements and internal control over financial reporting included in the Annual Report of VSE Corporation on Form 10-K for the year ended December 31, 2021. We consent to the incorporation by reference of said reports in the Registration Statements of VSE Corporation on Form S-3 (File No. 333-248139) and on Forms S-8 (File No. 333-195803, File No. 333-195802, and File No. 333-134285).

/s/ GRANT THORNTON LLP

Arlington, Virginia  
March 10, 2022

**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, John A. Cuomo, certify that:

1. I have reviewed this annual report on Form 10-K of VSE Corporation;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and 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 report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) 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 report based on such evaluation; and
  - (d) Disclosed in this 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 officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, 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: March 10, 2022

/s/ John A. Cuomo

John A. Cuomo

Chief Executive Officer and President

**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, Stephen D. Griffin, certify that:

1. I have reviewed this annual report on Form 10-K of VSE Corporation;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and 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 report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) 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 report based on such evaluation; and
  - (d) Disclosed in this 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 officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, 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.

Date: March 10, 2022

/s/ Stephen D. Griffin

Stephen D. Griffin  
Senior Vice President and  
Chief Financial Officer

**CERTIFICATION 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**

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 President and Chief Executive Officer of VSE Corporation (the "Company"), does hereby certify that to the best of the undersigned's knowledge:

1) our Annual Report on Form 10-K for the year ending December 31, 2021 (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 our Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 10, 2022

/s/ John A. Cuomo

\_\_\_\_\_  
John A. Cuomo

Chief Executive Officer and President

**CERTIFICATION 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**

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) our Annual Report on Form 10-K for the year ending December 31, 2021 (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 our Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 10, 2022

/s/ Stephen D. Griffin

Stephen D. Griffin  
Senior Vice President and  
Chief Financial Officer