SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the Quarter Ended September 30, 2004 Commission File Number: 0-3676

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

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

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

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

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

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes [ ] No [x]

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

Number of shares of Common Stock outstanding as of October 29, 2004: 2,250,761.

VSE Corporation and Subsidiaries

Forward Looking Statements

This filing contains statements which, to the extent they are not recitations of historical fact, constitute "forward looking statements" under federal securities laws. All such statements are intended to be subject to the safe harbor protection provided by applicable securities laws. For discussions identifying some important factors that could cause actual VSE Corporation ("VSE" or the "Company") results to differ materially from those anticipated in the forward looking statements contained in this filing, see VSE's "Narrative Description of Business", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Notes to Consolidated Financial Statements" contained in VSE's Annual Report and Form 10-K for the fiscal year ended December 31, 2003 (Form 10-K) filed with the Securities and Exchange Commission. Readers are cautioned not to place undue reliance on these forward looking statements, which reflect management's analysis only as of the date hereof. The Company undertakes no obligation to publicly revise these forward looking statements to reflect events or circumstances that arise after the date hereof. Readers should carefully review the risk factors described in other documents the Company files from time to time with the Securities and Exchange Commission, including this and other Quarterly Reports on Form 10-Q to be filed by the Company subsequent to its Annual Report on Form 10-K and any Current Reports on Form 8-K filed by the Company.

PART I. Financial Information

Item 1. Financial Statements

VSE Corporation and Subsidiaries
Consolidated Financial Statements

<TABLE>
Consolidated Balance Sheets

(in thousands except share and per share amounts)
<CAPTION>

<S>	September 30, 2004 (Unaudited) <C>	December 31, 2003 <C>
Assets		
Current assets:		
Cash and cash equivalents	$ 6,174	$ 9,843
Accounts receivable, principally U.S. Government, net	48,578	21,835
Deferred tax assets	1,093	819
Other current assets	1,844	1,379
Total current assets	57,689	33,876
Property and equipment, net	4,326	3,038
Deferred tax assets	288	297
Goodwill	1,054	1,054
Other assets	2,582	2,511
Total assets	$ 65,939	$ 40,776
Liabilities and Stockholders' Investment		
Current liabilities:		
Accounts payable	$ 36,196	$ 14,634
Accrued expenses	6,639	5,760
Dividends payable	111	88
Total current liabilities	42,946	20,482
Deferred compensation	1,228	1,236
Total liabilities	44,174	21,718
Commitments and contingencies		
Stockholders' investment:		
Common stock, par value $.05 per share, authorized 5,000,000 shares; issued 2,250,761 in 2004 and 2,214,136 shares in 2003	112	110
Paid-in surplus	4,488	3,928
Deferred stock-based compensation	(7)	(17)
Retained earnings	17,172	15,037
Total stockholders' investment	21,765	19,058
Total liabilities and stockholders'		

investment	$ 65,939	$ 40,776
	========	========

</TABLE>

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

<TABLE>

Consolidated Statements of Income (Unaudited)

(in thousands except share and per share amounts)

<CAPTION>

<S>	For the three months ended September 30, 2004 <C>	2003 <C>	For the nine months ended September 30, 2004 <C>	2003 <C>
Revenues, principally from contracts	$ 62,223	$ 36,339	$ 158,869	$ 90,874
Costs and expenses of contracts	60,620	35,403	154,505	88,384
Gross profit.	1,603	936	4,364	2,490
Selling, general and administrative expenses	192	84	450	158
Interest income, net.	(31)	(18)	(76)	(49)
Income before income taxes. . . .	1,442	870	3,990	2,381
Provision for income taxes. . . .	557	340	1,542	912
Income from continuing operations	885	530	2,448	1,469
Discontinued operations:				
Loss from operations, before income taxes	-	(11)	(2)	(124)
Benefit for income taxes. . . .	-	(4)	(1)	(46)
Loss from discontinued operations	-	(7)	(1)	(78)
Net income.	$ 885	$ 523	$ 2,447	$ 1,391
Basic earnings per share:				
Income from continuing operations	$ 0.40	$ 0.24	$ 1.10	$ 0.67
Loss from discontinued operations	0.00	0.00	0.00	(0.03)
Net income	$ 0.40	$ 0.24	$ 1.10	$ 0.64
Basic weighted average shares outstanding	2,225,307	2,188,635	2,221,043	2,188,108
Diluted earnings per share:				
Income from continuing operations	$ 0.38	$ 0.23	$ 1.06	$ 0.65
Loss from discontinued operations	0.00	0.00	0.00	(0.03)
Net income	$ 0.38	$ 0.23	$ 1.06	$ 0.62
Diluted weighted average shares outstanding	2,301,040	2,235,779	2,297,866	2,227,026

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

VSE Corporation and Subsidiaries
Consolidated Financial Statements

<TABLE>
Consolidated Statements of Stockholders' Investment (Unaudited)

(in thousands except per share data)
<CAPTION>

	Common Stock Shares	Common Stock Amount	Paid-In Surplus	Deferred Stock-based Compensation	Retained Earnings	Total Stockholders' Investment
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at December 31, 2003	2,214	$110	$3,928	$(17)	$15,037	$19,058
Net income for the period	-	-	-	-	2,447	2,447
Exercised stock options	37	2	297	-	-	299
Tax benefit of options exercised	-	-	261	-	-	261
Deferred stock-based compensation	-	-	2	(2)	-	-
Amortization of deferred stock-based compensation	-	-	-	12	-	12
Dividends declared ($.14)	-	-	-	-	(312)	(312)
Balance at September 30, 2004	2,251	$112	$4,488	$ (7)	$17,172	$21,765

</TABLE>

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

VSE Corporation and Subsidiaries
Consolidated Financial Statements

<TABLE>
Consolidated Statements of Cash Flows (Unaudited)

(in thousands)
<CAPTION>

	For the nine months ended September 30, 2004	2003
<S>	<C>	<C>
Cash flows from operating activities:		
Net income	$ 2,447	$ 1,391
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	977	866
Loss on sale of property and equipment	-	5
Deferred taxes	(265)	184
Tax benefit of options exercised	261	2
Amortization of deferred stock-based compensation . .	12	-
Changes in operating assets and liabilities:		
(Increase) in:		
Accounts receivable, net	(26,743)	(2,560)
Other current assets and noncurrent assets	(536)	(344)

Increase in:		
Accounts payable and deferred compensation	21,554	4,730
Accrued expenses	879	340
Net cash (used in) provided by operating activities	(1,414)	4,614
Cash flows from investing activities:		
Purchase of property and equipment	(2,265)	(530)
Net cash used in investing activities	(2,265)	(530)
Cash flows from financing activities:		
Dividends paid	(289)	(262)
Proceeds from issuance of common stock	299	30
Net cash provided by (used in) financing activities	10	(232)
Net (decrease) increase in cash and cash equivalents	(3,669)	3,852
Cash and cash equivalents at beginning of period	9,843	4,210
Cash and cash equivalents at end of period	$ 6,174	$ 8,062

</TABLE>

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

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

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004. For further information refer to the consolidated financial statements and footnotes thereto included in the VSE Corporation Annual Report on Form 10-K for the year ended December 31, 2003. The Company operates within one reportable segment.

Use of Estimates in the Preparation of Financial Statements

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

Debt

VSE has a revolving loan agreement with a bank under which the Company can borrow up to $15 million, subject to certain conditions, including a borrowing formula based on billed receivables. Under the loan agreement, the Company pays a fixed annual commitment fee and interest on any borrowings at a prime-based rate or an optional LIBOR-based rate. The expiration date of the revolving loan is May 31, 2005. The loan agreement contains collateral requirements by which Company assets secure amounts outstanding, restrictive covenants that include minimum tangible net worth and profitability requirements, a limit on annual dividends, and other affirmative and negative covenants. There were no amounts borrowed under this loan agreement as of September 30, 2004 or December 31, 2003. There was no interest expense incurred on this loan in 2004 and 2003.

Accounting for Stock-Based Compensation

The Company accounts for stock-based employee compensation using the intrinsic value method prescribed in APB Opinion No. 25 and related interpretations. If compensation costs for the Company's stock options had been determined based on SFAS No. 123, "Accounting for Stock-Based Compensation," the Company's net income and earnings per share would have been as follows (in thousands, except per share amounts):

	Three Months Ended September 30, 2004	Three Months Ended September 30, 2003	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
Net income, as reported	$ 885	$ 523	$2,447	$1,391
Add: Total stock-based employee compensation expense as reported under intrinsic value method (APB No. 25) for all awards, net of related tax effects	2	--	7	--
Deduct: Total stock-based compensation expense determined under fair value based method (SFAS No. 123) for all awards, net of related tax effects	(19)	(21)	(57)	(62)
Pro forma net income	$ 868	$ 502	$2,397	$1,329
Earnings per share:				
Basic - as reported	$ 0.40	$ 0.24	$ 1.10	$ 0.64
Diluted - as reported	$ 0.38	$ 0.23	$ 1.06	$ 0.62
Basic - pro forma	$ 0.39	$ 0.23	$ 1.08	$ 0.61
Diluted - pro forma	$ 0.38	$ 0.22	$ 1.04	$ 0.60

Earnings Per Share

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

Three Months Ended September 30,	Nine Months Ended September 30,

	2004	2003	2004	2003
Basic weighted average common shares outstanding	2,225,307	2,188,635	2,221,043	2,188,108
Diluted effect of options	75,733	47,144	76,823	38,918
Diluted weighted average common shares outstanding	2,301,040	2,235,779	2,297,866	2,227,026

Discontinued Operations

The Company ceased business operations in its Telecommunications Technology Division ("TTD") during the three months ended September 30, 2004, as all contract activity was completed in this component. Revenues and costs from TTD operations, together with the related tax benefits, have been reclassified as a loss from discontinued operations in the current and prior periods on the Company's consolidated statements of income. Approximately $4 thousand net current assets related to TTD were included in the September 30, 2004 balance sheet, comprised primarily of receivables.

Litigation

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

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

Executive Overview

VSE Organization

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

Energetics Incorporated ("Energetics") is currently VSE's only active subsidiary. VSE's Human Resource Systems, Inc. ("HRSI") subsidiary was active in 2003, but not in 2004. The sole HRSI contract expired on May 31, 2003, and this work was continued on a new contract in a VSE division. Active divisions include BAV Division ("BAV"), Coast Guard Division ("VCG"), Communications and Engineering Division ("CED") beginning in February 2003, Fleet Maintenance Division ("FMD"), Management Sciences Division ("MSD"), Systems Engineering Division ("SED,"), and Value Systems Services Division ("VSS").

TTD Discontinued Operations

In February 2003, VSE decided to terminate operations of TTD due to declining revenues and significant losses sustained by this division. TTD continued work on uncompleted contracts during 2003 and 2004 to satisfy its contractual obligations and upon finishing work in July 2004 TTD was classified as a discontinued operation. Some of TTD's technical capabilities were transferred to other VSE divisions. The loss of revenue associated with the termination of TTD operations is not significant compared to total VSE revenue, while the elimination of TTD losses will improve VSE profits.

VSE Customers and Services

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

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

outsourcing decision assistance. VCG provides services to the U.S. Coast Guard that are similar to the work performed by BAV for the Navy.

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

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

Management Outlook

VSE is experiencing a record setting year for revenues and profits in 2004, and based on projected revenue growth under existing contracts, is expecting this trend to continue into 2005. The Taiwan ship transfer work on the BAV contract (see "BAV Contract" below) is the primary reason for higher revenues in 2004 and is expected to continue to contribute significantly to near term revenue growth. Revenues in several of VSE's other divisions continue to grow. Funded contract backlog is an indicator of near term revenue performance. VSE's funded contract backlog began to increase in late 2003 and increased further in early 2004. The higher backlog levels have been maintained through September 30, 2004. VSE's company wide funded contract backlog at September 30, 2004, was approximately $161 million, as compared to approximately $83 million at December 31, 2003. Contract funding, and the revenue that results from it, is dependent on having contract ceiling availability. VSE has increased its contract ceiling availability significantly in 2003 and 2004 with the award of two large multiple award contracts. (See "Significant Multiple-Award Contracts" below.) Profit contributions in most of VSE's divisions have increased in recent quarters and are expected to improve further as the Company's revenue base grows.

Two areas of concern to management earlier in the year have improved. CED incurred losses in 2003 on the Rapid Response Support contract during its first year of operation and during the first nine months of 2004, due primarily to low revenue levels and to costs associated with the start-up of the division. CED's losses have decreased as the division has moved beyond the start-up phase and revenue levels have increased for both this division and on a company-wide basis. The Company expects CED to begin contributing to overall profitability in late 2004; however, the potential exists for future losses in CED if revenue expectations are not met. VSE has accrued liabilities of approximately $205 thousand for probable future losses associated with

contract operations in this division as of September 30, 2004. The second concern involves the utilization of the Company's primary office facility. VSE does not always occupy all of the space in its primary leased office facility and has from time to time subleased parts of this facility to other tenants. During 2003, some of the Company's larger subtenants did not renew their subleases with VSE, which has resulted in some losses to the Company in 2003 and 2004 during the time that the space has been vacant. VSE has subleased some of the vacant office space to new tenants in 2004 and believes that the majority of the available space will be subleased in the near future, but a portion of the facility remains underutilized as of September 30, 2004. VSE has accrued liabilities of approximately $51 thousand for estimated future losses associated with this underutilization. The potential exists for continued underutilization of the facility that could have a further negative impact on earnings.

The longer term outlook for VSE centers on the uncertainty associated with the renewal of the BAV contract. (See discussion in "BAV Contract" below.) The U.S. Navy has issued a solicitation for bids on a new follow-on contract in 2004 and BAV is aggressively pursuing the award of the new contract. BAV is confident in its ability to win this award and continue work on the ship transfer program; however, the size of this effort will entice other companies to offer strong competition. Accordingly, there can be no assurance that BAV will win the new contract. If BAV fails to win the new contract, VSE will suffer a significant loss of future revenue and profits. To mitigate this risk, VSE is exploring potential acquisition opportunities. The Company intends to continue these efforts in 2004 and 2005.

BAV Contract

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

During its life, this contract has been the Company's single largest revenue producer, and revenues generated by this contract accounted for approximately 54% and 48% of consolidated revenues during the nine month periods ended September 30, 2004 and 2003, respectively. The U.S. Navy has approved the transfer of four U.S. Navy ships to Taiwan, with work related to this transfer to be performed under the BAV contract. This transfer has resulted in an increase in the revenues of BAV of approximately 96% during the first nine months of 2004 as compared to the same period in 2003. The Taiwan ship transfer effort is expected to continue to provide BAV with elevated revenue levels in 2005 and into 2006. Funded backlog on the BAV contract was

approximately $72 million as of September 30, 2004, as compared to approximately $48 million as of December 31, 2003.

Contract terms specify award fee payments to BAV that are determined by performance and level of contract activity. A contract modification authorizing the award fee payment is issued subsequent to the period in which the work is performed. The Company does not recognize award fee income until the contract modification authorizing the award fee is certain. Award fees are made three times during the year. Accordingly, the Company typically has three quarterly reporting periods during a year that include the recognition of BAV award fee income and one quarterly reporting period that does not include BAV award fee income. Due to such timing, and to fluctuations in the level of revenues, profits as a percentage of revenues will fluctuate from period to period. The three month periods ended September 30, 2004 and 2003 do not include BAV award fee income.

The original BAV contract ending date was in 2005. The Navy recently modified the original contract for the purpose of ensuring continuity of work with respect to the transfer of four ships to Taiwan. The modification provided contractual coverage for this specific work effort into 2007. The Navy has issued a solicitation for bids on a new contract for the overall ship transfer program through a competitive bidding process. The bid submission date is in the fourth quarter of 2004 and award will be made after a period of evaluation by the Navy. BAV is preparing to submit a bid and is confident in its ability to win the award of the new contract, but there is a risk that the award could be made to another bidder.

Significant Multiple-Award Contracts

In January 2003, VSE formed its Communications and Engineering Division (CED) upon the award of a multi-year Rapid Response support contract by the U.S. Army Communications-Electronics Command (CECOM). The contract enhances the Company's revenue producing capabilities by allowing it to provide services through any of VSE's operating entities or through third party subcontractors for various end user government customers. If all options are exercised, this contract has a potential total ceiling of $2.9 billion over an eight-year period. This is a multiple award, indefinite delivery, indefinite quantity contract, and VSE is one of several awardees eligible to share in the potential contract ceiling amount. This contract has generated revenue of approximately $18.7 million and $6.6 million during the nine month periods ended September 30, 2004 and 2003, respectively.

In September 2004, FMD was awarded a contract by the U.S. Navy to provide engineering and technical services to support Naval Sea Systems Command maintenance, overhaul, repair, and alteration of systems aboard ships. This is a multiple award, indefinite delivery, indefinite quantity, cost-plus-fixed-fee contract with a total contract ceiling amount of $1.022 billion over a five-year period if all option periods are exercised. VSE is one of seven awardees eligible to share in the potential total contract ceiling amount.

While future VSE revenue from these two contracts cannot be predicted with certainty, the award of these contracts provides the Company with the opportunity to compete for work that is expected to contribute to future revenue growth.

Government Procurement Policies and Practices

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

The revenues of the Company depend on its ability to win new contracts and on the amount of work ordered by the government under the Company's existing contracts. The Company's ability to win new contracts is affected by government acquisition policies and procedures, including government procurement practices that in some years have tended toward bundling work efforts under large comprehensive ("omnibus") management contracts. This emphasis on large contracts presents challenges to winning new contract work, including making it more difficult for the Company to qualify as a bidder, increasing the level of competition due to the award of fewer contracts, and forcing the Company into competition with larger organizations that have greater financial resources and larger technical staffs. Competing for these contracts requires the Company to use teams of subcontractors to be able to offer the range of technical competencies needed to do the work. While the use of subcontractors on a large scale basis allows the Company to compete for this work, profit margins on subcontract work are lower than on work performed by Company personnel, thereby reducing the Company's overall profit margins. The use of subcontractors on government contracts also raises certain performance and financial risks to VSE in that government prime contractors are usually obligated to ensure compliance with U.S. Government regulations relative to the performance by subcontractors.

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

Beginning in 2004, Section 843 of the Defense Authorization Act will limit the length of contracts awarded by the Defense Department to five years total. The Company is unable to predict what impact this will have on future contract awards and revenues.

Global Economic Conditions and Political Factors

VSE's business is subject to the risks arising from global economic conditions and political factors associated with current and potential customers served through VSE's contracts with the U.S. Government. An economic slowdown in countries served under the BAV contract or failure by the government of a potential foreign customer to approve and fund acquisition of U.S. Navy ships

serviced under the BAV contract could adversely affect sales. In any one year, a significant amount of the Company's revenues may result from sales on the BAV contract to a single foreign government. Revenues in 2004 are expected to include large amounts of BAV contract sales to both Egypt and Taiwan. In addition to the effect on BAV contract work, international tensions can also affect work by FMD on U.S. Navy ships when they are deployed outside of U.S. Navy facilities and are unavailable for maintenance work during this time period. Adverse results arising from these global economic and political risks could potentially have a material adverse impact on the Company's results of operations.

Concentration of Continuing Revenues
(in thousands)
For the nine months ended September 30,

Source of Revenue	2004 Revenues	%	2003 Revenues	%
BAV Egypt	$ 37,406	23%	$ 31,879	35%
BAV Taiwan	43,774	28%	5,635	6%
BAV Other	5,306	3%	6,754	7%
Total BAV	$ 86,486	54%	$ 44,268	48%
VSE Other	72,383	46%	46,606	52%
Total Revenues	$158,869	100%	$ 90,874	100%

Critical Accounting Policies

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

Revenue Recognition

Substantially all of the Company's services are performed for its customers on a contract basis. The three primary types of contracts used are cost-type contracts (approximately 74% of revenues), time and materials contracts (approximately 12% of revenues), and fixed-price contracts (approximately 14% of revenues). Revenues result from work performed on these contracts by the Company's employees and from pass-through of costs for material and work performed by subcontractors.

Revenues on cost-type contracts are recorded as contract allowable costs are incurred and fees earned. Profits on cost-type contracts are equal to the fees that are earned. The BAV contract terms specify award fee payments that are determined by performance and level of contract activity. Award fees are made three times during the year and a contract modification authorizing the award fee payment is issued subsequent to the period in which the work is

performed. The Company does not recognize award fee income until the contract modification authorizing the award fee is certain. Due to such timing, and to fluctuations in the level of revenues, profits as a percentage of revenues on this contract will fluctuate from period to period.

Revenues for time and materials contracts are recorded on the basis of contract allowable labor hours worked times the contract defined billing rates, plus the cost of materials used in performance on the contract. Profits on time and material contracts result from the difference between the cost of services performed and the contract defined billing rates for these services. Revenues on fixed-price service contracts are recorded as services are provided. Revenues on certain other fixed-price contracts are recorded as costs are incurred, using the percentage-of-completion method of accounting, since these contracts require design, engineering, or manufacturing services performed to the customer's specifications. Profits on fixed-price contracts result from the difference between the incurred costs and the revenue earned.

The Company will occasionally perform work at risk, which is work that is performed prior to the government formalizing funding for such work. Revenue related to work performed at risk is not recognized until it can be reliably estimated and its realization is probable. VSE recognizes this "risk funding" as revenue when the associated costs are incurred or the work is performed. As of September 30, 2004, VSE has recognized approximately $145 thousand in risk funding. VSE believes that it will receive funding for all of this risk funding revenue. VSE is at risk of loss for any risk funding not received. The Company provides for anticipated losses on contracts by a charge to income during the period in which losses are first identified.

Long-Lived Assets

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

Goodwill

Goodwill and intangible assets with indefinite lives are subject to a review for impairment at least annually. The Company performs its annual impairment test on September 30. As of September 30, 2004, the Company had approximately $1.1 million of goodwill associated with its acquisition of Energetics in 1995. The Company has not recognized any reduction to the goodwill due to the impairment rules. If at some time in the future it is determined that impairment has occurred, such impairment could potentially have a material adverse impact on the Company's results of operations or financial condition.

Contingencies

From time to time VSE is subject to proceedings, lawsuits and other claims related to environmental, labor and other matters. VSE is required to assess the likelihood of any adverse judgments or outcomes to these contingencies as well as potential ranges of probable losses and establish reserves accordingly.

Income Taxes

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

Results of Operations

The following table sets forth certain items, including consolidated revenues, pretax income and net income from continuing operations, and the changes in these items for the nine month periods ended September 30, 2004 and 2003 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,		2004 Compared to 2003	
	2004	2003	2004	2003	Three Months	Nine Months
Revenues	$62,223	$36,339	$158,869	$ 90,874	$25,884	$67,995
Income before income taxes	$ 1,442	$ 870	$ 3,990	$ 2,381	$ 572	$ 1,609
Provision for income taxes	557	340	1,542	912	217	630
Income from Continuing operations	$ 885	$ 530	$ 2,448	$ 1,469	$ 355	$ 979

Revenues increased by approximately 71% and 75% for the three month and nine month periods ended September 30, 2004, respectively, as compared to the same periods of 2003. The primary reasons for the increase in revenues were 1) an increase in work performed under the BAV contract, including increased revenues associated with the Taiwan ship transfer; 2) the CED Rapid Response contract received work orders that generated revenues throughout the full nine month period in 2004, as compared to the prior year when the contract was awarded in February of 2003 and did not begin to receive any significant amount of work until September; and 3) increased levels of work performed by FMD due in part to the Navy's elevated readiness requirements. Work requirements and revenues also increased in SED, MSD and VCG.

Income before income taxes increased by approximately 66% and 68% for the three month and nine month periods ended September 30, 2004, as compared to the same periods of 2003. The increases were primarily due to 1) profits earned on the increased revenues; 2) higher profit margins in SED, FMD, and Energetics attributable in part to the revenue growth and the Company's ability to spread corporate costs over a larger revenue base; and 3) a decrease in the losses incurred by CED in 2004 as compared to 2003 due to the increased CED and company-wide revenues and to improved CED margins as the

division matures beyond the start-up phase. The increase for the nine month period was partially offset by an increase in selling, general and administrative expenses primarily attributable to costs associated with vacant facilities.

Discontinued Operations

In July 2004, all business operations associated with the Company's TTD division ceased. Accordingly, prior period consolidated financial statements have been restated to reflect the financial results of TTD as discontinued operations. The revenues, costs and expenses of TTD have been excluded from the respective captions in the Consolidated Statement of Operations. The loss from discontinued operations associated with TTD, net of tax, in the nine month periods ended September 30, 2004 and 2003 was $1 thousand and $78 thousand, respectively.

Financial Condition

VSE's financial condition did not change materially during the nine months ended September 30, 2004. The Company's largest assets are its cash and cash equivalents and its accounts receivable. The largest liabilities are its accounts payable and accrued expenses. Cash and cash equivalents decreased approximately $3.7 million, accounts receivable increased approximately $26.7 million, and accounts payable increased approximately $21.6 million during the first nine months of 2004 due primarily to the increase in the level of business activity and the associated billings to customers and subcontractor payments required to perform this work. The change in total stockholders' investment in this period resulted primarily from earnings and dividend activity and from the exercise of stock options.

Liquidity and Capital Resources

Cash Flows

Cash and cash equivalents decreased by approximately $3.7 million during the nine months ended September 30, 2004. The decrease in cash and cash equivalents during this period resulted from cash used in investing activities of approximately $2.3 million, cash used in operating activities of approximately $1.4 million, and cash provided by financing activities of approximately $10 thousand. Investing activities consisted of expansion and improvement of facilities of approximately $755 thousand and purchases of property and equipment, net of dispositions, of approximately $1.5 million. Financing activities consisted of dividend payments and proceeds received from the issuance of common stock due to the exercise of stock options.

Cash and cash equivalents increased by approximately $3.9 million during the nine months ended September 30, 2003. The increase in cash and cash equivalents during this period resulted from cash provided by operating activities of approximately $4.6 million, cash used in investing activities of approximately $530 thousand, and cash used in financing activities of approximately $232 thousand. Investing activities consisted of purchases of property and equipment. Financing activities consisted of dividend payments

and proceeds received from the issuance of common stock due to the exercise of stock options.

The difference between cash used in operating activities of approximately $1.4 million in 2004 as compared to cash provided by operating activities of approximately $4.6 million in 2003 is primarily due to changes in the levels of accounts receivable and accounts payable resulting from increases in revenue and associated subcontractor activity.

Quarterly cash dividends were paid at the rate of $.04 per share during the six months ended June 30, 2004, and $.05 per share during the three months ended September 30, 2004. Under its bank loan agreement, VSE's payment of cash dividends is subject to a maximum annual rate. VSE has paid cash dividends each year since 1973.

Liquidity

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

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

Accounts payable levels can be affected by changes in the level of contract work performed by the Company and by the timing of large materials purchases and subcontractor efforts used in performance on the Company's contracts. Other cash requirements include the acquisition of capital assets for office and computer support, facilities improvements, and the payment of cash dividends.

The Company invested approximately $755 thousand related to expansion and improvement of facilities at two locations during the nine months ended September 30, 2004 and has plans to invest an additional amount of approximately $465 thousand during the remainder of 2004 or early 2005. These investments were for the expansion of its facility in Ladysmith, Virginia in support of the expected growth in its System Engineering Division and improvements at its primary office facility in Alexandria, Virginia.

VSE's external sources of liquidity consist of a revolving bank loan agreement that provides loan financing based on the Company's accounts receivable (see "Notes to Consolidated Financial Statements"). The bank financing complements the internal sources of liquidity by providing increasing levels of borrowing capacity as accounts receivable levels increase. The bank loan agreement, which expires May 31, 2005, provided loan financing up to a maximum commitment of $15 million as of September 30, 2004. The Company has determined that the $15 million commitment is adequate to cover current and future liquidity requirements. The Company has not borrowed against this loan in 2004 or 2003. Performance of work under the BAV contract and other contracts requiring large subcontract or material expenditures have the potential to cause substantial requirements for working capital; however, management believes that current cash surpluses, cash flows from future operations, and the bank loan commitment are adequate to meet current operating cash requirements.

Inflation and Pricing

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

Disclosures About Market Risk

Interest Rates

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

Foreign Currency

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

Item 3. Quantitative and Qualitative Disclosures About Market Risks

See "Disclosures About Market Risk" in Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Item 4. Controls and Procedures

Based on their most recent evaluation, which was completed as of September 30, 2004, the Company's Chief Executive Officer and Chief Financial Officer believe the Company's disclosure controls and procedures (as defined in Securities Exchange Act of 1934 Rules 13a-14 and 15d-14) are effective to ensure that information required to be disclosed by the Company's management, including its principal executive officer and principal financial officer, as appropriate, allows timely decisions regarding required disclosure. There were no significant changes in the Company's internal control over financial reporting or other factors that could significantly affect these controls subsequent to the date of their evaluation and there were no corrective actions with regard to significant deficiencies and material weaknesses.

PART II. Other Information

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits.

Exhibit No.	
31.1	Section 302 CEO Certification
31.2	Section 302 CFO and PAO Certification
32.1	Section 906 CEO Certification
32.2	Section 906 CFO and PAO Certification

(b) Reports on Form 8-K.

The Registrant filed a Current Report on Form 8-K on August 2, 2004, which included a press release announcing financial results for the second quarter of 2004 which ended June 30, 2004.

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

SIGNATURES

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

VSE CORPORATION

Date: October 29, 2004 /s/ D. M. Ervine

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

Exhibit 31.1

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

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

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

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

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

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

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

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

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

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

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

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

Dated: October 29, 2004 /s/ D. M. Ervine

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

Exhibit 31.2

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, T. R. Loftus, Senior Vice President and Chief Financial Officer of the Company, certify that:

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

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

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

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

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

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

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

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

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

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

Dated: October 29, 2004 /s/ T. R. Loftus

T. R. Loftus
Senior Vice President and
Chief Financial Officer
(Principal Accounting Officer)

Exhibit 32.1

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

1) the Company's Quarterly Report on Form 10-Q for the quarter ending September 30, 2004 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

Dated: October 29, 2004 /s/ D. M. Ervine

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

Exhibit 32.2

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) the Company's Quarterly Report on Form 10-Q for the quarter ending September 30, 2004 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

Dated: October 29, 2004 /s/ T. R. Loftus

T. R. Loftus
Senior Vice President and
Chief Financial Officer
(Principal Accounting Officer)