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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 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: 000-03676

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.)
6348 Walker Lane Alexandria, Virginia	22310
(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:

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

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 definitions of "large 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 transaction 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 is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ☐ No ☒

Number of shares of Common Stock outstanding as of April 22, 2021: 12,704,165

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Forward Looking Statements

This quarterly report on Form 10-Q ("Form 10-Q") 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 includes this statement for purposes of such safe harbor provisions.

"Forward-looking" statements, as such term is defined by the Securities 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, the impact of widespread health developments, such as the ongoing COVID-19 outbreak, the health and economic impact thereof and the governmental, commercial, consumer and other responses thereto, 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 elsewhere in this document, including in Item 1A, Risk Factors, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Item 3, Quantitative and Qualitative Disclosures About Market Risk, as well as with respect to the risks described in Item 1A, Risk Factors, to our Annual Report on Form 10-K for the fiscal year ended December 31, 2020 filed with the SEC on March 5, 2021 ("2020 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. Financial Information

Item 1. Financial Statements

VSE Corporation and Subsidiaries

Unaudited Consolidated Balance Sheets
(in thousands except share and per share amounts)

	March 31, 2021	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 347	$ 378
Receivables, net	63,552	55,471
Unbilled receivables, net	43,694	22,358
Inventories, net	282,771	253,422
Other current assets	29,169	23,328
Total current assets	419,533	354,957
Property and equipment, net	38,318	36,363
Intangible assets, net	105,914	103,595
Goodwill	238,126	238,126
Operating lease - right-of-use assets	22,181	20,515
Other assets	29,016	26,525
Total assets	$ 853,088	$ 780,081
Liabilities and Stockholders' equity		
Current liabilities:		
Current portion of long-term debt	$ 21,316	$ 20,379
Accounts payable	73,816	72,682
Accrued expenses and other current liabilities	50,882	45,172
Dividends payable	1,142	995
Total current liabilities	147,156	139,228
Long-term debt, less current portion	232,247	230,714
Deferred compensation	17,186	16,027
Long-term operating lease obligations	23,673	22,815
Deferred tax liabilities	16,523	14,897
Other long-term liabilities	2,000	83
Total liabilities	438,785	423,764
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Common stock, par value $0.05 per share, authorized 15,000,000 shares; issued and outstanding 12,691,570 and 11,055,037, respectively	635	553
Additional paid-in capital	85,296	31,870
Retained earnings	329,064	325,097
Accumulated other comprehensive loss	(692)	(1,203)
Total stockholders' equity	414,303	356,317
Total liabilities and stockholders' equity	$ 853,088	$ 780,081

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

VSE Corporation and Subsidiaries

Unaudited Consolidated Statements of Income
(in thousands except share and per share amounts)

	For the three months ended March 31,	
	2021	2020
Revenues:		
Products	$ 78,580	$ 76,342
Services	86,401	101,076
Total revenues	164,981	177,418
Costs and operating expenses:		
Products	70,712	65,527
Services	80,340	90,758
Selling, general and administrative expenses	38	248
Amortization of intangible assets	4,288	4,723
Total costs and operating expenses	155,378	161,256
	9,603	16,162
Loss on sale of a business entity and certain assets	—	(7,536)
Gain on sale of property	—	1,108
Operating income	9,603	9,734
Interest expense, net	3,030	3,486
Income before income taxes	6,573	6,248
Provision for income taxes	1,462	2,916
Net income	$ 5,111	$ 3,332
Basic earnings per share	$ 0.42	$ 0.30
Basic weighted average shares outstanding	12,076,509	11,000,204
Diluted earnings per share	$ 0.42	$ 0.30
Diluted weighted average shares outstanding	12,171,828	11,100,506
Dividends declared per share	$ 0.09	$ 0.09

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

VSE Corporation and Subsidiaries

Unaudited Consolidated Statements of Comprehensive Income
(in thousands)

	For the three months ended March 31,	
	2021	2020
Net income	$ 5,111	$ 3,332
Change in fair value of interest rate swap agreements, net of tax	511	(873)
Other comprehensive income (loss), net of tax	511	(873)
Comprehensive income	$ 5,622	$ 2,459

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

VSE Corporation and Subsidiaries

Unaudited Consolidated Statements of Stockholders' Equity
(in thousands except per share data)

	Three months ended March 31, 2021					
	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount				
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	—	—	—	5,111	—	5,111
Stock-based compensation	37	2	1,489	—	—	1,491
Other comprehensive gain, net of tax	—	—	—	—	511	511
Dividends declared ($0.09 per share)	—	—	—	(1,144)	—	(1,144)
Balance at March 31, 2021	12,691	$ 635	$ 85,296	$ 329,064	$ (692)	$ 414,303

	Three months ended March 31, 2020					
	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount				
Balance at December 31, 2019	10,970	$ 549	$ 29,411	$ 334,246	$ (1,105)	$ 363,101
Net income	—	—	—	3,332	—	3,332
Stock-based compensation	59	2	1,833	—	—	1,835
Other comprehensive loss, net of tax	—	—	—	—	(873)	(873)
Dividends declared ($0.09 per share)	—	—	—	(994)	—	(994)
Balance at March 31, 2020	11,029	$ 551	$ 31,244	$ 336,584	$ (1,978)	$ 366,401

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

VSE Corporation and Subsidiaries

Unaudited Consolidated Statements of Cash Flows
(in thousands)

	For the three months ended March 31,	
	2021	2020
Cash flows from operating activities:		
Net income	$ 5,111	$ 3,332
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,944	6,475
Deferred taxes	1,457	1,592
Stock-based compensation	1,415	897
Loss on sale of a business entity and certain assets	—	7,536
Gain on sale of property and equipment	—	(1,127)
Earn-out obligation fair value adjustment	—	301
Changes in operating assets and liabilities, net of impact of acquisitions:		
Receivables	(2,787)	(163)
Unbilled receivables	(17,341)	(2,041)
Inventories	(28,910)	(8,255)
Other current assets and noncurrent assets	(10,306)	2,777
Accounts payable and deferred compensation	1,051	395
Accrued expenses and other current and noncurrent liabilities	7,999	(4,961)
Net cash (used in) provided by operating activities	(36,367)	6,758
Cash flows from investing activities:		
Purchases of property and equipment	(2,109)	(724)
Proceeds from the sale of property and equipment	14	2,424
Proceeds from payments on notes receivable	412	427
Proceeds from the sale of a business entity and certain assets	—	20,700
Cash paid for acquisitions, net of cash acquired	(14,785)	—
Net cash (used in) provided by investing activities	(16,468)	22,827
Cash flows from financing activities:		
Borrowings on loan agreement	146,431	131,148
Repayments on loan agreement	(144,257)	(127,692)
Proceeds from issuance of common stock, net of underwriters' discounts and issuance costs	52,017	—
Earn-out obligation payments	—	(31,701)
Payments of taxes for equity transactions	(390)	(543)
Dividends paid	(997)	(988)
Net cash provided by (used in) financing activities	52,804	(29,776)
Net decrease in cash and cash equivalents	(31)	(191)
Cash and cash equivalents at beginning of period	378	734
Cash and cash equivalents at end of period	$ 347	$ 543
Supplemental disclosure of noncash investing and financing activities:		
Notes receivable from the sale of a business entity and certain assets	$ 12,496	$ 7,461

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

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(1) Basis of Presentation

Our accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information and in accordance with the instructions to SEC Form 10-Q and Article 10 of SEC Regulation S-X. Therefore, such financial statements do not include all of the information and footnotes required by U.S. GAAP for complete financial statements and should be read in conjunction with the consolidated financial statements and footnotes thereto included in our 2020 Form 10-K. In our opinion, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2021 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2021.

The preparation of financial statements in conformity with 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 accruals for contract disallowance reserves, award fee revenues, costs to complete on fixed price contracts, and recoverability of goodwill and intangible assets.

Coronavirus (COVID-19) Pandemic

On March 11, 2020, the World Health Organization declared the outbreak of the novel coronavirus disease, known as COVID-19, as a global pandemic. The pandemic and the containment and mitigation efforts by governments to attempt to control its spread created uncertainties and disruptions in the economic and financial markets. The pandemic triggered a decline in demand for our Aviation segment products and services beginning with the second quarter of 2020 and continuing through the end of the first quarter of 2021. Our results of operations for the first quarter of 2021 continue to reflect the adverse impact from the COVID-19 pandemic. Although demand has improved since the onset of the pandemic, it remains below demand during the first quarter of 2020. The extent to which the impact of COVID-19 may continue to have an adverse effect on our future business and results of operations is highly uncertain and unpredictable. However, we believe that with the global vaccination effort underway, that may generate an increase in commercial air travel and result in a gradual recovery in demand for our Aviation segment products and services commencing toward the second half of 2021. We are closely monitoring the effects and risks of COVID-19 to assess its impact on our business, financial condition and results of operations. We maintain a robust continuity plan to adequately respond to situations such as the COVID-19 pandemic, including a framework for remote work arrangements, in order to effectively maintain operations, including financial reporting systems, internal controls over financial reporting and disclosure controls and procedures.

Underwritten Public Offering

On January 29, 2021, we entered into an underwriting agreement relating to the issuance and sale of1,428,600 shares of the Company's common stock, at the public offering price of $35.00 per share. The underwriters exercised their option to purchase an additional170,497 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.

(2) Acquisition and Divestitures

Acquisition

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, subject to post-closing and working capital adjustments. HSS is a leading provider of fully integrated maintenance, repair and overhaul ("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 Department of Defense ("DoD") contract specifically for the sustainment of the U.S. Air Force ("USAF") KC-10 fleet. The acquisition was not significant to our consolidated financial statements. HSS operating results are included in our Federal and Defense segment in the accompanying unaudited 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 preliminary until we obtain final information regarding their fair values. Based on preliminary estimates, we allocated approximately $8.2 million to the fair value of net tangible assets (including $9.2 million of accounts receivable) and $6.6 million to customer relationship intangible asset, which is being amortized over approximately 4 years from the acquisition date.

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 the first quarter of 2020 which was reflected within loss on sale of a business entity and certain assets in the consolidated statements of income. As of March 31, 2021 and December 31, 2020, the total outstanding balance of the note receivable from PTB was $5.8 million and $6.1 million, respectively, which represent 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 March 31, 2021 and December 31, 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 $678 thousand loss in the second quarter of 2020. As of March 31, 2021 and December 31, 2020, the total outstanding balance of the note receivable from Legacy Turbines was $6.4 million, net of a variable discount of $275 thousand, of which $1.3 million was current as of March 31, 2021 and December 31, 2020. The note receivable balance is included in other assets and other current assets in our consolidated balance sheet.

(3) Revenue

Disaggregated Revenue

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

A summary of revenues for our operating segments by customer for the three months ended March 31, 2021 are as follows (in thousands):

	Three months ended March 31, 2021			
	Aviation	Fleet	Federal and Defense	Total
Commercial	$ 44,346	$ 14,437	$ 318	$ 59,101
DoD	—	3,102	42,786	45,888
Other government	25	37,208	22,759	59,992
	$ 44,371	$ 54,747	$ 65,863	$ 164,981

A summary of revenues for our operating segments by customer for the three months ended March 31, 2020 are as follows (in thousands):

	Three months ended March 31, 2020			
	Aviation	Fleet	Federal and Defense	Total
Commercial	$ 58,050	$ 8,822	$ 422	$ 67,294
DoD	—	4,567	59,567	64,134
Other government	30	39,815	6,145	45,990
	$ 58,080	$ 53,204	$ 66,134	$ 177,418

A summary of revenues for our operating segments by type for the three months ended March 31, 2021 is as follows (in thousands):

	Three months ended March 31, 2021			
	Aviation	Fleet	Federal and Defense	Total
Repair	$ 18,316	$ —	$ —	$ 18,316
Distribution	26,055	54,747	—	80,802
Cost Plus Contract	—	—	16,551	16,551
Fixed Price Contract	—	—	23,931	23,931
T&M Contract	—	—	25,381	25,381
Total	$ 44,371	$ 54,747	$ 65,863	$ 164,981

A summary of revenues for our operating segments by type for the three months ended March 31, 2020 is as follows (in thousands):

	Three months ended March 31, 2020			
	Aviation	Fleet	Federal and Defense	Total
Repair	$ 32,808	$ —	$ —	$ 32,808
Distribution	25,272	53,204	—	78,476
Cost Plus Contract	—	—	19,681	19,681
Fixed Price Contract	—	—	38,916	38,916
T&M Contract	—	—	7,537	7,537
Total	$ 58,080	$ 53,204	$ 66,134	$ 177,418

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 related 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 from $22.4 million at December 31, 2020 to $43.7 million at March 31, 2021, primarily due to revenue recognized on a U.S. Department of Justice contract for the first quarter of 2021 which was subsequently billed in the second quarter of 2021. Contract liabilities, which are included in accrued expenses and other current liabilities in our consolidated balance sheet, increased from $10.1 million at December 31, 2020 to

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$16.0 million at March 31, 2021, primarily due to advance payments received in excess of revenue recognized. For the three months ended March 31, 2021 and March 31, 2020, we recognized revenue that was previously included in the beginning balance of contract liabilities of $860 thousand and $700 thousand, respectively.

Performance Obligations

Our performance obligations are satisfied either at a point in time or over time as work progresses. 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 at a point in time accounted for approximately 49% of our revenues for the three months ended March 31, 2021 and 43% of our revenues for the three months ended March 31, 2020. Revenues from products and services transferred to customers over time accounted for approximately 51% of our revenues for the three months ended March 31, 2021 and57% of our revenues for the three months ended March 31, 2020, primarily related to revenues in our Federal and Defense segment and MRO services in our Aviation segment.

As of March 31, 2021, the aggregate amount of transaction prices allocated to unsatisfied or partially unsatisfied performance obligations was $188 million. Performance obligations expected to be satisfied within one year and greater than one year are 90% and 10%, 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 three months ended March 31, 2021 and March 31, 2020, revenue recognized from performance obligations satisfied in prior periods was not material.

(4) Debt

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

	March 31, 2021	December 31, 2020
Bank credit facility - term loan	$ 73,300	$ 77,988
Bank credit facility - revolver loans	182,335	175,473
Principal amount of long-term debt	255,635	253,461
Less debt issuance costs	(2,072)	(2,368)
Total long-term debt	253,563	251,093
Less current portion	(21,316)	(20,379)
Long-term debt, less current portion	$ 232,247	$ 230,714

We have a loan agreement with a group of banks that expires in January 2023. 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. The fair value of outstanding debt as of March 31, 2021 under our bank loan facilities approximates its carrying value using Level 2 inputs based on market data on companies with a corporate rating similar to ours that have recently priced credit facilities.

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

2021	16,875
2022	22,500
2023*	216,260
Total	$ 255,635

*Includes the revolver loan required payment of $182.3 million.

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The maximum amount of credit available under the loan agreement for revolving loans and letters of credit as of March 31, 2021 was $350 million. We pay an unused commitment fee and fees on letters of credit that are issued. We had $803 thousand letters of credit outstanding as of March 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.

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. As of March 31, 2021, the LIBOR base margin was 3.00% and the base rate base margin was 1.75%. 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. The amount of our debt with interest rate swap agreements was $75 million and $145 million as of March 31, 2021 and December 31, 2020, respectively.

After taking into account the impact of interest rate swap agreements, as of March 31, 2021, interest rates on portions of our outstanding debt ranged from 3.75% to 6.36%, and the effective interest rate on our aggregate outstanding debt was 4.13%.

Interest expense incurred on bank loan borrowings and interest rate hedges was approximately $2.7 million and $3.4 million for the three months ended March 31, 2021 and 2020, 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/EBITDA Ratio and a minimum Fixed Charge Coverage Ratio. We were in compliance with required ratios and other terms and conditions as of March 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.

(5) 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 an assumed vesting of restricted stock awards.

	Three months ended March 31,	
	2021	2020
Basic weighted average common shares outstanding	12,076,509	11,000,204
Effect of dilutive shares	95,319	100,302
Diluted weighted average common shares outstanding	12,171,828	11,100,506

(6) Commitments and Contingencies

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

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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.

(7) Business Segments and Customer Information

Business Segments

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

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

Fleet – Distribution and Fleet Services
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 – Logistics and Sustainment Services
Our Federal and Defense segment provides aftermarket MRO and logistics 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.

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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 intersegment sales as these activities are eliminated in consolidation. Corporate expenses are primarily selling, general and administrative expenses not allocated to segments. Our segment information is as follows (in thousands):

	Three months ended March 31, 2021	Three months ended March 31, 2020
Revenues:		
Aviation	$ 44,371	$ 58,080
Fleet	54,747	53,204
Federal and Defense	65,863	66,134
Total revenues	$ 164,981	$ 177,418
Operating income (loss):		
Aviation	$ (332)	$ (1,880)
Fleet	5,741	6,906
Federal and Defense	5,025	4,924
Corporate/unallocated expenses	(831)	(216)
Operating income	$ 9,603	$ 9,734

Customer Information

The USPS, U.S. Army and Army Reserve, and U.S. Navy are our largest customers. Our customers also include various other government agencies and commercial entities. Our revenue by customer is as follows (in thousands):

	Three months ended March 31,			
Customer	2021	%	2020	%
Commercial	$ 59,101	36	$ 67,294	38
DoD	45,888	28	64,134	36
Other government	59,992	36	45,990	26
Total	$ 164,981	100	$ 177,418	100

(8) Goodwill and Intangible Assets

There were no changes in goodwill for the three months ended March 31, 2021. The goodwill balance consisted of the following (in thousands):

	Fleet	Federal and Defense	Aviation	Total
Balance as of December 31, 2020	$ 63,190	$ 30,883	$ 144,053	$ 238,126
Balance as of March 31, 2021	$ 63,190	$ 30,883	$ 144,053	$ 238,126

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.

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Intangible assets, net comprised the following (in thousands):

	Cost	Accumulated Amortization	Accumulated Impairment Loss	Net Intangible Assets
March 31, 2021				
Contract and customer-related	$ 219,801	$ (114,635)	$ (3,814)	$ 101,352
Acquired technologies	12,400	(11,069)	—	1,331
Trade names	18,770	(15,539)	—	3,231
Total	$ 250,971	$ (141,243)	$ (3,814)	$ 105,914
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	$ 244,364	$ (136,955)	$ (3,814)	$ 103,595

The increase in the gross carrying amount of contract and customer-related intangibles during the first quarter of 2021 is related to customer relationship intangible recognized in connection with the acquisition of HSS during the quarter. See Note (2) "Acquisition and Divestitures" for additional details regarding the acquisition.

Amortization expense related to intangible assets was approximately $4.3 million and $4.7 million for the three months ended March 31, 2021 and 2020, respectively.

(9) Fair Value Measurements

The accounting standard for fair value measurements defines fair value, and establishes a market-based framework or hierarchy for measuring fair value. The standard is applicable whenever assets and liabilities are measured at fair value.

The fair value hierarchy established in the standard prioritizes the inputs used in valuation techniques into three levels as follows:

Level 1–Observable inputs – quoted prices in active markets for identical assets and liabilities;

Level 2–Observable inputs other than the quoted prices in active markets for identical assets and liabilities – includes quoted prices for similar instruments, quoted prices for identical or similar instruments in inactive markets and amounts derived from valuation models where all significant inputs are observable in active markets; and

Level 3–Unobservable inputs – includes amounts derived from valuation models where one or more significant inputs are unobservable and require us to develop relevant assumptions.

The following table summarizes the financial assets and liabilities measured at fair value on a recurring basis as of March 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 March 31, 2021	Fair Value December 31, 2020
Non-COLI assets held in Deferred Supplemental Compensation Plan	Other assets	Level 1	$ 1,142	$ 1,120
Interest rate swap agreements	Accrued expenses	Level 2	$ 923	$ 1,603

Non-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 March 31, 2021 and December 31, 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, was approximately $923 thousand and $1.6 million at March 31, 2021 and December 31, 2020, respectively. The offset, net of an income tax effect of approximately $230 thousand and $400 thousand, was included in accumulated other comprehensive income in the accompanying balance sheets as of March 31, 2021 and December 31, 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.

(10) Income Taxes

Income tax expense during interim periods is based on our estimated annual effective income tax rate plus any discrete items that are recorded in the period in which they occur. Our tax rate is affected by discrete items that may occur in any given year, but may not be consistent from year to year.

Our effective tax rate was 22.2% and 46.7% for three months ended March 31, 2021 and 2020, respectively. The difference in the effective tax rate for the three months ended March 31, 2021 compared to the same period of prior year primarily results from 1) a full valuation allowance established in 2020 to offset the capital loss benefit in connection with our sale of Prime Turbines due to a lack of anticipated capital gain income in the carryforward period, 2) higher estimated Foreign Derived Intangible Income ("FDII") deduction in 2021, and 3) a favorable deduction in 2021 in connection with the fair value increase in our COLI assets..

(11) 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. We are currently evaluating our contracts and the optional expedients provided by the new standard.

Item 2. 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 the government, including the Department of Defense ("DoD"), federal civilian agencies, and to commercial and other customers. 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.

Acquisition and Divestitures

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 includes approximately 250 employees operating from two hangar locations in Greensboro, North Carolina. HSS is a subsidiary of VSE Corporation under our Federal & Defense Services 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% of our revenue for 2020.

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% of our revenue for 2020.

See Note (2) "Acquisition and Divestitures" to our Consolidated Financial Statements included in Item 1 of this filing for additional information regarding our acquisition and divestitures.

Public Offering of Common Stock

In February 2021, we completed an underwritten public offering of common stock through the issuance of 1,599,097 shares of common stock, including an additional 170,497 shares that were issued pursuant to the underwriters' exercise of their option to purchase additional shares, at an 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 will be 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" of our Annual Report on Form 10-K for the fiscal year ended December 31, 2020 ("2020 Form 10-K").

Concentration of Revenues

	(in thousands) Three months ended March 31,			
Source of Revenues	2021	%	2020	%
Commercial	$ 59,101	36	$ 67,294	38
DoD	45,888	28	64,134	36
Other government	59,992	36	45,990	26
Total	$ 164,981	100	$ 177,418	100

COVID-19 Discussion

Forward Looking Information

Disclosures that address business and operating considerations associated with the COVID-19 pandemic are made under highly uncertain conditions and may involve forward looking information that is based on assumptions and expectations regarding future events. For additional discussion on the uncertainties and business risks associated with the COVID-19 pandemic, refer to Item 1A, "Risk Factors" of our 2020 Form 10-K.

Demand for Products and Services, Operating Results, and Financial Condition

All of our businesses have remained operational since the onset of the COVID-19 pandemic through the end of the first quarter of 2021, and we continue to operate with limited disruption. We have experienced varying levels of reduction in demand for our services and products, and have adjusted our cost structure to support the current and near-term forecasted demand environment. The majority of the cost reductions occurred within our Aviation segment, as a decline in commercial aircraft revenue passenger miles contributed to a reduction in demand for aftermarket parts and MRO services. We currently anticipate demand levels within the Aviation segment will remain at decreased levels through the first half of 2021, pending a recovery in the broader market. This decrease in demand adversely impacted our operating results for 2020 and the first quarter of 2021, and we expect it will adversely impact our operating results for the first half of 2021.

While current conditions raise the potential for a decline in performance for our Fleet segment and our Federal and Defense segment, we anticipate limited disruption in demand for the products and services they offer, as compared to other industries, due to the nature of their government, defense and e-commerce customer bases. Our parts supply for truck fleets, including the United States Postal Service ("USPS") delivery vehicles and our DoD program services, provide support for the essential services conducted by our customers.

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. We will continue to evaluate the nature and extent of future impacts of the COVID-19 pandemic on our business.

Capital, Financial Resources, Credit Losses, and Liquidity

Our debt capital and liquidity position have not experienced a material adverse change resulting from the COVID-19 pandemic at this time, and we are meeting our obligations in a timely manner. We currently have sufficient cash flows and unused loan commitments to meet our obligations in the near term. Weakness in our Aviation segment customer markets has caused a delay in receivables collections and an increase in bad debt expense. This trend may continue in future periods. We do not anticipate receivables collections to negatively impact our Fleet or Federal and Defense segments.

We have a loan agreement with a bank group comprised of ten banks, including multiple large banks and multiple regional banks. Our revolving credit facility under this loan agreement provides $350 million in loan commitments, of which we have currently borrowed approximately 52%. The potential for additional declines in our earnings may impact our financial covenant ratios in future periods. Accordingly, in the second quarter of 2020 we amended the loan agreement to provide increased financial covenant flexibility through the end of 2021.

Material Impairments, Restructuring Charges

Due to the continued market volatility caused by the COVID-19 pandemic, we performed an interim impairment analysis of our goodwill during the second quarter of 2020. Our interim analysis indicated that our reporting units in our Fleet and Federal and Defense segments had fair values substantially in excess of their carrying values, and we believe the COVID-19 pandemic induced economic crisis is not likely to have a material adverse impact on customer demand for products and services provided by these two segments. Accordingly, at this time we do not anticipate any impairments in these two business segments.

Our interim impairment analysis indicated that our VSE Aviation reporting unit, within our Aviation segment, had a fair value less than its carrying value and had incurred an impairment. We recognized a goodwill impairment charge of $30.9 million for our VSE Aviation reporting unit in the second quarter of 2020. Prior to the onset of the COVID-19 pandemic, our Aviation segment was performing strongly. Our VSE Aviation reporting unit experienced lower customer demand in 2020 and the first quarter of 2021 as compared to 2019, and we expect it will continue to experience lower customer demand during the first half of 2021, but we believe market opportunities will increase for us in the longer term. Accordingly, at this time we do not anticipate any further material impairments in our Aviation segment. However, should the magnitude and duration of the downturn be greater than we anticipated in our analysis, there could be further impairment.

Balance Sheet Asset Valuation

Our goodwill and intangible assets could be impacted by changes in economic conditions affecting our revenue projections and the market valuation of public companies. See "Material Impairments" above for further details. We do not believe that there are or will be significant changes in judgments in determining the fair value of other assets on our balance sheet or that our ability to timely account for them will be negatively impacted. While the COVID-19 pandemic may cause some delays in collecting some of our accounts receivable and potentially give rise to some bad debt write offs, we do not expect this to have a material impact on our accounts receivable. We have made opportunistic purchases of aviation parts, resulting in an increase in our inventory levels. While the COVID-19 pandemic has slowed demand for our products, we do not expect a material adverse impact to the carrying value of our inventory. If we experience further slowness in demand or if the lower level of demand lasts significantly longer than we anticipate, our inventory may be subject to valuation adjustments.

Administrative Continuity and Reporting Systems

We have modified our workforce policies, procedures and capabilities for most of our administrative personnel to work remotely, including our financial reporting personnel. This remote work arrangement is working as intended and has not had any adverse effect on our ability to maintain financial operations, including financial reporting systems, internal control over financial reporting, and disclosure controls and procedures.

Business Continuity Plans

As the COVID-19 pandemic continues to drive global uncertainty, we remain focused on protecting the safety of our employees, continuing to serve our customers with the highest quality product and repair services, and on upholding the strength of the business.

Our business operations are deemed critical and essential by the 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 implemented virus prevention protocols consistent with guidelines issued by the U.S. Centers for Disease Control and Prevention, and mandated remote working where practicable.

We do not anticipate any material expenditures or resource constraints in supporting our operations at this time.

Impact on Supply Chain

Major customers and suppliers of our Fleet, Federal and Defense, and Aviation segments remain open and continue to operate. Our Fleet segment customers provide essential services, and we, along with our suppliers, play a key role in keeping truck fleets operable. Our Federal and Defense segment customers continue their mission critical essential services. Our Aviation segment customers continue to operate, albeit at lower rates. While the overall economic downturn may cause some slowness in every industry, we do not anticipate any parts availability concerns, disruptions in our supply of materials or resources, or an adverse impact on our procurement capabilities or product costs.

Health and Safety

The health and safety of our employees, customers and communities are of primary concern. We have taken significant steps to protect our workforce including but not limited to, working remotely. For our locations with an active on-site workforce, we implemented virus prevention protocols consistent with guidelines issued by the U.S. Centers for Disease Control and Prevention and are following local ordinances and guidance. We have taken steps at our facilities to ensure additional employee safety, including implementing separate operational shifts, strict social distancing requirements, providing personal protective equipment and stringent requirements for cleaning and sanitizing at our work sites. Our operations have not been materially impacted by any constraints or other impacts on our human capital resources and productivity and we do not expect any such material impact.

Travel Restrictions

Travel restrictions and border closures may limit the manner in which our sales and support staff service our customers. We do not anticipate this will have a material impact on our ability to continue to operate.

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

The COVID-19 pandemic caused a reduction in global demand for air travel and decreased revenue passenger miles, which had an adverse impact on demand for our Aviation products and services. This caused a steep decline in our Aviation revenues in the second quarter of 2020. While decreased demand resulted in year over year revenue declines for subsequent quarters, we have seen sustained sequential quarterly revenue increases since the second quarter of 2020, including through the first quarter of 2021. We believe that this trend will continue into the second half of 2021. We have initiated several new distribution growth initiatives that have resulted in a 18% first quarter year over year distribution revenue increase, excluding prior year period revenue from divested business.

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 of the inventory assets of our CT Aerospace subsidiary, a business offering turboprop engine and engine parts sales. We will no longer offer these services, focusing instead on higher-growth component/accessory repair and parts distribution.

We expect that the current disruption in market conditions will result in strategic opportunities for near and long-term growth. We intend to continue pursuing these opportunities, which may require future investment.

Fleet Segment

Our Fleet segment continues to focus on both its core USPS and DoD customer base and commercial customer diversification. We are expanding our presence 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 to new commercial customers. Commercial customer revenue continues to see a strong growth trend, increasing approximately 64% during the first quarter of 2021 compared to the same period in 2020, driven by a 115% increase in e-commerce fulfillment revenues.

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 has continued to see growth.

Federal and Defense Segment

Our growth efforts for this segment have focused on redefining VSE in the federal marketplace, expanding our capability and product offerings and broadening our markets and offerings to capture new business, 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 keep first quarter revenue for this segment consistent with the same period of the prior year despite anticipated declines in our U.S. Army work due to program completions and a decline in our U.S. Navy work.

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. 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. Revenues from our Aviation and Fleet segment are derived from repair and distribution services primarily through shorter term purchase orders from customers.

Costs and Operating Expenses

Costs and operating expenses consist primarily of cost of inventory and delivery of our products sold; direct costs, including labor, material, and supplies used in the performance of our contract work; indirect costs associated with our direct contract costs; sales, general, and administrative expenses associated with our operating segments and corporate management; and certain costs and charges arising from nonrecurring events outside the ordinary course of business. These costs will generally increase or decrease in conjunction with our level of products sold or contract work 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. We reduced controllable costs during 2020 in line with the anticipated decrease in demand resulting from the COVID-19 pandemic.

Bookings and Funded Backlog

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.

For the first quarter of 2021, Federal and Defense segment bookings decreased 6% year-over-year to $63 million, while total funded backlog declined 6% year-over-year to $188 million. The decline in funded backlog was primarily attributable to the completion of certain DoD contracts in 2020. The current management team is focused on revitalizing this business, with an emphasis on growing backlog to promote future revenue growth.

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

	2021	2020
Bookings	$ 63	$ 67
Revenues	$ 66	$ 66
Funded Contract Backlog	$ 188	$ 201

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. We have reviewed our critical accounting policies and estimates with the audit committee of our board of directors. 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 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, typically in the form of award fees, 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.

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 2017 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.

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. 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.

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. This impairment charge resulted from changes to estimates and assumptions of the expected future cash flows for the reporting unit, which were adversely impacted by reduced global air travel and decreased passenger miles caused by the COVID-19 pandemic. As of the most recent annual goodwill impairment testing date in the fourth quarter of 2020, for which a qualitative assessment approach was utilized, it was determined that it is more likely than not that the fair value of our reporting units exceeded their carrying value. As described in our 2020 Form 10-K, there was uncertainty surrounding the macroeconomic factors impacting the VSE Aviation reporting unit and a downturn in these factors or a change in the long-term revenue growth or profitability for this reporting unit could increase the likelihood of a future impairment.

Our VSE Aviation reporting unit had approximately $144 million of goodwill as of March 31, 2021. The goodwill balance of this reporting unit continues to be at risk for future impairment for the reasons discussed above.

We performed a quarterly assessment to identify potential indicators of impairment for each of our reporting units during the first quarter of 2021. Based on our assessment performed, we did not identify any impairment indicators for any reporting unit during the first quarter of 2021 and determined that it was not more likely than not that the carrying value of any of the reporting units exceeded their respective fair values. We will continue to closely monitor the operational performance of these reporting units and the impacts of COVID-19 on the fair value of goodwill.

We also review our long-lived assets with finite lives for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be fully recoverable. During the first quarter of 2021, we performed a quarterly assessment to identify potential indicators of impairment of the long-lived assets with finite lives. Based on our assessment, we did not identify any impairment indicators during the first quarter of 2021 that may indicate that the carrying amount of long-lived assets may not be recoverable.

As of March 31, 2021, we had no intangible assets with indefinite lives and we had an aggregate of approximately $238 million of goodwill associated with our acquisitions.

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 "Recently Issued Accounting Pronouncements" in Note (11) of the Notes to our Unaudited Consolidated Financial Statements in Item 1 of this report.

Results of Operations

The following discussion of our Results of Operations and Liquidity and Capital Resources includes a comparison of the first quarter of 2021 to the first quarter of 2020.

	Three months ended March 31,		Change
	2021	2020	Three Months
Revenues	$ 164,981	$ 177,418	$ (12,437)
Costs and operating expenses	155,378	161,256	(5,878)
Loss on sale of a business entity and certain assets	—	(7,536)	7,536
Gain on sale of property	—	1,108	(1,108)
Operating income	9,603	9,734	(131)
Interest expense, net	3,030	3,486	(456)
Income before income taxes	6,573	6,248	325
Provision for income taxes	1,462	2,916	(1,454)
Net income	$ 5,111	$ 3,332	$ 1,779

Quarter Ended March 31, 2021 Compared to Quarter Ended March 31, 2020

Revenues

Our revenues decreased approximately $12.4 million or 7.0%for the first quarter of 2021 compared to the same period for the prior year. The decrease in revenues resulted from a decrease in our Aviation segment of approximately $13.7 million and an increase in our Fleet segment of approximately $1.5 million. Our Federal and Defense segment revenue was substantially unchanged from the same period in the prior year. See "Segment Operating Results" for a breakdown of our results of operations by segment.

Costs and Operating Expenses

Our costs and operating expenses decreased approximately $5.9 million or 3.6% for the first quarter of 2021 compared to the same period for 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. Costs and operating expenses for 2020 included approximately $300 thousand of earn-out adjustment expense.

Loss on Sale of a Business Entity and Certain Assets

Loss on sale of a business entity and certain assets of $7.5 million in 2020 is comprised of the difference between the carrying value on our books for our Prime Turbines, LLC 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, LLC business and the sale price of the inventory upon divestiture.

Gain on Sale of Property

Gain on sale of property in 2020 is comprised of $1.1 million associated with the sale of a Miami, Florida real estate holding.

Operating Income

Our operating income decreased approximately $0.1 million or 1% for the first quarter of 2021 compared to the same period for the prior year. Operating income for 2020 was decreased by $7.5 million due to the loss on the sale of Prime Turbines LLC and certain assets and increased by approximately $1.1 million related to the gain on the sale of the real estate holding in Miami, Florida. Operating income increased approximately $1.5 million for our Aviation segment, decreased approximately $1.2 million for our Fleet segment, and increased approximately $101 thousand for our Federal and Defense segment.

Interest Expense

Interest expense decreased approximately $456 thousand for the first quarter of 2021 compared to the same period for the prior year due to a decrease in our average amounts borrowed.

Provision for Income Taxes

Our effective tax rate was 22.2% for the first quarter of 2021 and 46.7%for the same period of 2020. Our tax rate is affected by discrete items that may occur in any given year but may not be consistent from year to year. Capital gains tax treatment, state income taxes, certain tax credits and other items caused differences between our statutory U.S. Federal income tax rate and our effective tax rate. Other permanent differences and federal and state tax credits such as foreign derived intangible income ("FDII") deduction, the work opportunity tax credit, and educational improvement tax credits provide benefit to our tax rates. The higher effective tax rate for the first quarter of 2020 primarily resulted from a full valuation allowance established to offset the capital loss benefit in connection with our sale of Prime Turbines due to a lack of anticipated capital gain income in the carryforward period.

Segment Operating Results

Aviation Segment Results

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

	Three months ended March 31, 2021	Three months ended March 31, 2020	Change Three Months
Revenues	$ 44,371	$ 58,080	$ (13,709)
Costs and operating expenses	44,703	53,532	(8,829)
Loss on sale of a business entity and certain assets	—	(7,536)	7,536
Gain on sale of property	—	1,108	(1,108)
Operating loss	$ (332)	$ (1,880)	$ 1,548
Loss percentage	(0.7)%	(3.2)%	

Revenues for our Aviation segment decreased approximately $13.7 million or 24% compared to the same period of the prior year. Repair revenues decreased approximately $14.5 million, partially offset by an increase in distribution revenues of approximately $783 thousand. The revenue declines are primarily attributable to 1) the impact of the COVID-19 pandemic on the broader aviation markets that has lowered demand from our Aviation customers, 2) the divestiture of Prime Turbines in February 2020 and 3) the sale of all of CT Aerospace inventory in June 2020. We did not have revenue for these two divested businesses for the first quarter of 2021 compared to combined revenues for these businesses of approximately $7.9 million for the first quarter of 2020. Revenues for our Aviation segment non-divested businesses decreased approximately $5.8 million or 12% for the first quarter of 2021 compared to the same period of the prior year.

Costs and operating expenses decreased approximately $8.8 million or 16% for the first quarter due to the decreased demand for our products and services, cost reduction actions implemented in response to the reduction in demand, and the elimination of costs and expenses associated with our divested businesses. Costs and operating expenses for this segment included expenses for amortization of intangible assets associated with acquisitions, allocated corporate costs, and a reduction in expense for valuation adjustments to accrued earn-out obligations associated with acquisitions. Expense for amortization of intangible assets was approximately $2.1 million for the first quarter of 2021 compared to approximately $2.5 million for the first quarter of 2020. Allocated corporate costs were approximately $2.0 million for the first quarter of 2021 compared to approximately $2.1 million for the first quarter of 2020. There was no expense for earn-out valuation adjustments for the first quarter of 2021 compared to earn-out valuation adjustment expense of approximately $300 thousand in the first quarter of 2020.

Loss on sale of a business entity and certain assets of$7.5 million for the first quarter of 2020 is comprised of the difference between the carrying value on our books for our Prime Turbines business and certain associated assets and the sale price upon divestiture in the first quarter of 2020.

Gain on sale of property for the first quarter of 2020 is comprised of approximately $1.1 million associated with the sale of a Miami, Florida real estate holding.

Operating loss decreased approximately $1.5 million or 82% for the first quarter of 2021 compared to the same period for the prior year. Components of the change in operating loss included the elimination of profits from our divested businesses in 2020 of approximately $1.2 million, a decline in profits for our continuing businesses in 2021 due to a decrease in demand for products and services associated with the COVID-19 pandemic, a $7.5 million loss on the divestiture of Prime Turbines and associated assets in 2020 and a $1.1 million gain on the sale of a real estate property in 2020.

Fleet Segment Results

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

	Three months ended March 31,		Change
	2021	2020	Three Months
Revenues	$ 54,747	$ 53,204	$ 1,543
Costs and operating expenses	49,006	46,298	2,708
Operating income	$ 5,741	$ 6,906	$ (1,165)
Profit percentage	10.5 %	13.0 %	

Revenues for our Fleet segment increased approximately $1.5 million or 3% for the first quarter of 2021 compared to the first quarter of 2020. Revenues from commercial customers increased approximately $5.6 million or 64%, driven by growth in our e-commerce fulfillment business. Revenues from sales to DoD customers decreased approximately $1.5 million or 32%, and revenues from sales to other government customers decreased approximately $2.6 million or 7% primarily due to decreased demand from these customers.

Costs and operating expenses increased approximately $2.7 million or 6%, primarily due to increased 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 approximately $1.8 million for the first quarter of 2021 and approximately $2.0 million for the first quarter of 2020. Expense for allocated corporate costs was approximately $2.3 million for the first quarter of 2021 and approximately $1.8 million for the first quarter of 2020.

Operating income decreased approximately $1.2 million or 17% for the first quarter of 2021, primarily due to a change in the mix of products sold, including increased commercial customer revenues and an increase in allocated corporate costs.

Federal and Defense Segment Results

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

	Three months ended March 31,		Change
	2021	2020	Three Months
Revenues	$ 65,863	$ 66,134	$ (271)
Costs and operating expenses	60,838	61,210	(372)
Operating income	$ 5,025	$ 4,924	$ 101
Profit percentage	7.6 %	7.4 %	

Revenues and cost and operating expenses for our Federal and Defense segment were substantially unchanged from the same period in the prior year. 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 keep first quarter revenue for this segment consistent with the same period of the prior year despite anticipated declines in our U.S. Army work due to program completions and a decline in our U.S. Navy work.

Operating income was substantially unchanged compared to the first quarter of 2020. We anticipate continued margin improvements driven by higher margins in our new work.

Financial Condition

There has been no material adverse change in our financial condition in the first quarter of 2021. Our bank debt increased approximately $2.2 million and we had $167 million of unused bank loan commitments as of March 31, 2021. In February 2021, we completed an underwritten public offering of common stock, generating gross proceeds of approximately $56 million and net proceeds of approximately $52 million through the issuance of 1,599,097 shares of common stock. 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; and collections from our customers.

Liquidity and Capital Resources

Cash Flows

Cash and cash equivalents decreased approximately $31 thousand during the first three months of 2021.

Cash used in operating activities was approximately $36.4 million in the first three months of 2021 compared to cash provided by operating activities of approximately $6.8 million in the same period of the prior year. The change was comprised of an increase of approximately $1.8 million in cash provided by net income, a decrease of approximately $6.9 million in other non-cash operating activities and a decrease of approximately $38.0 million due to changes in the levels of operating assets and liabilities.

Inventories and accounts receivable represent a significant amount of our assets, and accounts payable represent a significant amount of our operating liabilities. Cash used related to increases in inventory was approximately $28.9 million, cash used related to increases in receivables and unbilled receivables was approximately $20.1 million, and cash used by increases in accounts payable and deferred compensation was approximately $1.1 million for the first quarter of 2021. The increased cash outflow related to increases in inventory levels over the prior year were primarily due to a required investment in new inventory in order to support recent distribution program wins and program launches within our Aviation segment. A significant portion of accounts receivable and accounts payable result from the use of subcontractors to perform work on our contracts and from the purchase of materials and inventory to fulfill contract obligations and distribution agreements. Accordingly, 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 economic down-turn.

Cash used in investing activities was approximately $16.5 million in the first quarter of 2021 compared to cash provided by investing activities of approximately $22.8 million in the same period of the prior year. In 2021 approximately $14.8 million was used for the acquisition of HSS. In 2020 approximately $23.6 million was provided by proceeds from the divestiture of our Prime Turbines business and CT Aerospace inventory and the sale of a Miami, Florida real estate holding. Other cash used in investing activities consisted primarily of purchases of property and equipment.

Cash provided by financing activities was approximately $52.8 million in the first quarter of 2021 compared to cash used in financing activities of approximately $29.8 million in the same period of 2020. In 2021, we received approximately $52.0 million in proceeds from the February 2021 public offering of our common stock, net of underwriters' discounts and issuance costs. In 2020, approximately $31.7 million was used for the payment of an earn-out obligation in connection with the acquisition of our 1st Choice Aerospace subsidiary in 2019. Other financing activities consisted primarily of borrowing and repayment of debt and payment of dividends.

We paid cash dividends totaling approximately $1.0 million or $0.09 per share in the first quarter of 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.

We have considered the effects of the COVID-19 pandemic on our liquidity and capital resources, and we currently do not expect a material adverse impact on our ability to meet future liquidity needs. See “COVID-19 Discussion-Capital, Financial Resources, Credit Losses, and Liquidity” and Item 1A, "Risk Factors" of our 2020 Form 10-K for additional details regarding risks related to the impact of COVID-19 on our liquidity and capital resources. As discussed in greater detail below, under the terms of our existing loan agreement, we are required to maintain certain financial covenants. The COVID-19 pandemic has disrupted the demand for our Aviation segment products and services and further disruption is possible. Accordingly, we amended our existing loan agreement with our banks in the second quarter of 2020 to provide increased financial covenant flexibility.

Our external financing consists of a loan agreement with a bank group that expires in January 2023. 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 March 31, 2021 are approximately $16.9 million in 2021, $22.5 million in 2022, and $33.9 million in 2023. The amount of term loan borrowings outstanding as of March 31, 2021 was $73.3 million.

The maximum amount of credit available to us under our loan agreement for revolving loans and letters of credit as of March 31, 2021 was $350 million. We pay an unused commitment fee and fees on letters of credit that are issued. We had approximately $182.3 million in revolving loan amounts outstanding and $803 thousand of letters of credit outstanding as of March 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 0.75%. As of March 31, 2021, the LIBOR base margin was 3.00% and the base rate base margin was 1.75%. The base margins increase or decrease in steps as our Total Funded Debt/EBITDA Ratio increases or decreases.

We use interest rate hedges on a portion of our debt. As of March 31, 2021, interest rates on portions of our outstanding debt ranged from 3.75% to 6.36%, and the effective interest rate on our aggregate outstanding debt was 4.13%.

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. We were in compliance with required ratios and other terms and conditions as of March 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.

Testing Period	Maximum Total Funded Debt to EBITDA Ratio
First Amendment Effective Date (November 26, 2019) through and including March 31, 2020	3.50 to 1.00
From April 1, 2020 through and including September 30, 2020	4.00 to 1.00
From October 1, 2020 through and including March 31, 2021	4.25 to 1.00
From April 1, 2021 through and including June 30, 2021	4.00 to 1.00
From July 1, 2021 through and including September 30, 2021	3.75 to 1.00
From October 1, 2021 through and including December 31, 2021	3.50 to 1.00
From January 1, 2022 and thereafter	3.25 to 1.00

We currently do not use public debt security financing.

Inflation and Pricing

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 normally considered reimbursable at cost. Our property and equipment consist principally of land, buildings and improvements, shop and warehouse equipment, computer systems equipment, and furniture and fixtures. We do not expect the overall impact of inflation on replacement costs of our property and equipment to be material to our future results of operations or financial condition.

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.

Disclosures About Market Risk

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 this swap.

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.

LIBOR is used as a reference rate for borrowings under our loan agreement and related interest rate swap agreements. LIBOR is expected to be phased out in the future, and the option to select some LIBOR tenors may no longer be available under our loan agreement after December 31, 2021. Other LIBOR tenors, including those that we most commonly use, may no longer be available under our loan agreement after June 30, 2023. 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.

VSE CORPORATIONS AND SUBSIDIARIES

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

As of the end of the period covered by this report, based on management's evaluation, with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective in ensuring that information required to be disclosed by us in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

There have been no changes in our internal control over financial reporting during the first quarter of fiscal 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. Other Information

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

There have been no material changes to the previously disclosed risk factors in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020 ("2020 Form 10-K"). The risk factors disclosed in our 2020 Form 10-K should be considered together with information included in this Quarterly Report on Form 10-Q for the quarter ended March 31, 2021 and should not be considered the only risks to which we are exposed.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

We did not purchase any of our equity securities during the period covered by this report.

VSE's loan agreement prohibits VSE from paying cash dividends, except that if there is no event of default, no act, event or condition that would constitute an event of default with the giving of notice or the passage of time, or both, and no covenant breach would occur giving effect to the payment of the dividend, VSE may pay cash dividends that do not exceed $6 million in the aggregate in any fiscal year.

Item 5. Other Information

On April 26, 2021, VSE Corporation (the “Company”) and Thomas M. Kiernan, the Company’s Vice President, General Counsel and Secretary, entered into a Separation and Release Agreement (the “Separation Agreement”). Under the terms of the Separation Agreement, Mr. Kiernan will step down from his position as the Company’s Vice President, General Counsel and Secretary, effective July 2, 2021. Under the Separation Agreement, in addition to certain accrued compensation, the Company will pay Mr. Kiernan a lump sum cash payment equal to $663,305, contingent upon his execution of a customary release of claims. Mr. Kiernan has also agreed to certain customary confidentiality and non-competition obligations.

The foregoing description of the Separation Agreement is not complete and is qualified by reference to the full text of the Separation Agreement, a copy of which is filed herewith as Exhibit 10.1.

Item 6. Exhibits

(a) Exhibits	
Exhibit 10.1	Separation and Release Agreement dated as of April 26, 2021, by and between VSE Corporation and Thomas M. Kiernan
Exhibit 31.1	Section 302 CEO Certification
Exhibit 31.2	Section 302 CFO and PAO Certification
Exhibit 32.1	Section 906 CEO Certification
Exhibit 32.2	Section 906 CFO and PAO Certification
Exhibit 101.INS	XBRL Instance Document
Exhibit 101.SCH	XBRL Taxonomy Extension Schema Document
Exhibit 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
Exhibit 101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
Exhibit 101.LAB	XBRL Taxonomy Extension Label Linkbase Document
Exhibit 101.PRE	XBRL Taxonomy Extension Presentation Document
Exhibit 104	The cover page from this Quarterly Report on Form 10-Q, formatted in inline XBRL.

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

VSE CORPORATION AND SUBSIDIARIES

SIGNATURES

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

VSE CORPORATION

Date:	April 29, 2021	By:	/s/ John A. Cuomo
			John A. Cuomo Director, Chief Executive Officer and President (Principal Executive Officer)
Date:	April 29, 2021	By:	/s/ Stephen D. Griffin
			Stephen D. Griffin Senior Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

SEPARATION AND RELEASE AGREEMENT

This Separation and Release Agreement ("***Agreement***") is dated April 26, 2021, and is between Thomas M. Kiernan, ("***You***" or similar terms), and VSE Corporation, a Delaware corporation (the "***Company***"), with headquarters located at 6348 Walker Lane, Alexandria, VA 22310.

You and the Company intend to be legally bound by the Agreement and are entering into this Agreement in reliance on the promises made to each other in this Agreement to settle all issues concerning your employment and termination of employment.

1. **Separation Date.** You agree that you will cease serving as Vice President, General Counsel and Corporate Secretary, and as an employee, effective **July 2, 2021** (the "***Separation Date***"), and that your last day in the office will be June 18, 2021. You also agree that, as of the June 18, 2021, you will terminate from all other positions you hold (if any) as an officer, employee or director of the Company and the Company's subsidiaries, joint ventures and affiliates, and that you will promptly execute any documents and take any actions as may be necessary or reasonably requested by the Company to effectuate or memorialize your termination from all positions with the Company and its subsidiaries and affiliates.

2. **Promises to the Company.**

   a. By signing this agreement, you reaffirm that you will continue to abide by the covenants set forth in the VSE Corporation Proprietary Rights Agreement ("PRA"), dated on or about April 10, 2020 and in this Section 2. Solely for purposes of this Section 2, references to the "***Company***" shall refer to, collectively, VSE Corporation and its subsidiaries and affiliates.

   b. The Company is in the business of providing, directly and indirectly, goods and services to agencies, departments and other units of the United States Government as well as commercial and business and general aviation customers and commercial truck fleet customers, including as a contractor, subcontractor, vendor and supplier. The federal agencies, departments and other units and commercial customers with which the Company has contracted or to which the Company has provided goods and services at any time during the 24 months prior to the Separation Date are referred to herein as "***Customers***."

   c. During the remainder of your employment with the Company, you (1) shall devote full and best efforts and abilities to the Company on a full-time basis, (2) shall not directly or indirectly engage in any activity, whether or not for profit, gain or other pecuniary advantage, that creates a conflict of interest with your duties to the Company or otherwise materially interferes with your employment obligations to the Company, and (3) shall not be employed by, hold any directorship or other office in, hold any equity interest in, or have any other interest in any corporation, limited liability company, partnership, company, firm or other business entity that contracts with, provides, or seeks to contract with or provide, goods or services to federal agencies, departments or other units of the United States Government. During the remainder of your employment with the Company, you shall faithfully perform in accordance with your duty of loyalty to the Company.

   d. During the period commencing on the Separation Date and ending on the second anniversary thereof (the "***Restricted Period***"), you shall not engage, directly or indirectly, in any capacity, including as an owner, equity holder, stockholder, proprietor, partner, member, lender or investor in any business or enterprise that provides, directly or indirectly, or seeks to provide goods or services to any Customer for which Company employees worked or functions were performed under your management or supervision if such goods or services are are in competition with the Company without prior written consent of the VSE Chief Executive Officer.

e. During the Restricted Period, without prior written consent, you shall not, directly or indirectly, as an employee, officer, manager, director, independent contractor, agent, consultant or in any other capacity:

(1) solicit, encourage or induce any Customer to terminate or limit the Customer's business relationship with the Company;

(2) provide any services for a competitor of the Company that are the same as or similar to the services you performed as general counsel while employed by the Company; or

(3) solicit, induce, recruit or encourage any of the Company's employees or contractors to leave the Company, cease providing services to the Company or otherwise diminish their relationship with the Company. Such provision will not prohibit assisting with the hiring of Company's employee(s) if such employee(s) respond to a public job posting, provided Employee does not direct Company's employee(s) to the existence of such job posting.

f. You have and will have access to trade secrets, confidential documents, and proprietary information including, but not limited to, research or development activities, inventions, discoveries, processes, methods, procedures, software, codes or data, computer programs, names of suppliers and customer contacts; bids and proposals; financial information; legal opinions; information concerning the business and affairs of the Company (which includes financial statements, financial projections and budgets, rates, historical and projected sales, capital spending budgets and plans, the names and backgrounds of key personnel, personnel training and techniques and materials); notes, analysis, compilations, studies, summaries and other material prepared by or for the Company containing or based, in whole or in part, on information included in the foregoing records and specifications that are owned, developed, used, or retained by the Company and which have not been publicly disclosed (excluding limited disclosures for business purposes) by the Company; and information belonging to customers and other third parties that the Company is under an obligation to keep confidential (collectively, "***Confidential Information***"). During the remainder of your employment with the Company, and continuing thereafter, you shall not disclose any Confidential Information, nor use it in any way other than as required to perform employment duties to the Company.

g. Notwithstanding anything to the contrary in this Agreement, the PRA or the Severance and Mutual Protection Agreement, dated as of November 7, 2008, between you and the Company (the "***Severance Agreement***"), nothing in this Agreement, the PRA or the Severance Agreement prevents you from providing, without prior notice to the Company, information to governmental authorities regarding possible legal violations or otherwise testifying or participating in any investigation or proceeding by any governmental authorities regarding possible legal violations, and for purpose of clarity you are not prohibited from providing information voluntarily to the Securities and Exchange Commission pursuant to Section 21F of the Securities Exchange Act of 1934, as amended. The Company nonetheless asserts and does not waive its attorney-client privilege over any information appropriately protected by privilege.

h. You agree that the time periods and scope set forth in this Agreement in which competition and non-solicitation are prohibited are reasonable and appropriate and necessary to protect the Company from unfair competition. If a court, however, holds that the restrictions stated in this Agreement are unreasonable or otherwise unenforceable, you and the Company agree that the maximum period or scope determined to be reasonable by such court will be substituted for the stated period or scope.

i. You and the Company agree that if a breach or threatened breach of this Agreement by you occurs, you acknowledge that the Company would be irreparably harmed and shall be entitled to injunctive relief, both preliminary and permanent, without bond. In addition, the Company shall be entitled to any other legal or equitable remedies as may be available under law, together with all reasonable attorneys' fees and costs necessary to enforce this Agreement.

j. The restrictions in this Section 2 do not supersede, and are in addition to, restrictive covenants contained in any other form of agreement between the Company and you, to the extent enforceable pursuant to the terms of the other agreement.

3. **Company Property**. You affirm that you will return to the Company, no later than the Separation Date, any Company property that you now have (for example: identification card; access card; office keys; computer;; and company manuals, office equipment, records and files, including any copies, notes or compilations made therefrom, whether such documents are embodied in "hard copies" or contained on computer disk or any other medium). You may retain your cellular phone number and the mobile telephone provided by the company and transfer the account to your personal phone account on or before your Separation Date.

4. **Compensation and Benefits.**

a. **Accrued Benefits.** In connection with your termination of employment on the Separation Date, you will be entitled to the following accrued payments and benefits (the "***Accrued Benefits***"):

(1) *Unpaid Salary and Vacation.* You will be entitled to receive your accrued but unpaid base salary through the Separation Date and the applicable value for your days of earned but unused vacation as of the Separation Date, which amounts will be paid to you by the next payroll date following the Separation Date.

(2) *Reimbursements.* To the extent not paid by the Separation Date, you will be entitled to receive reimbursement for Company business and travel expenses that are reimbursable pursuant to the Company expense reimbursement policy, which amounts will be paid to you in accordance with such policy.

(3) *Medical Benefits.* You will not be eligible for any Company paid medical benefits beyond the the final day of the month of your Separation Date. However, you may elect (on a timely basis) to participate in group health care coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA), if applicable.

(4) *Accrued Benefits.* You will be entitled to accrued vested benefits under the Company's qualified and nonqualified retirement plans (including the VSE Corporation Deferred Supplemental Compensation Plan (the "***DSC Plan***")) subject to the terms of such plans. For the avoidance of doubt, you will not be entitled to any DSC Plan contribution for 2021.

b. **Severance Benefit.** Contingent upon you (a) signing and not revoking this Agreement, and (b) signing, no earlier than the Separation Date and no later than 21 days following the Separation Date, a general waiver and release of claims, substantially in the form attached hereto as Exhibit A (the "***Second Release***"),[1] and letting the Second Release become effective as set forth in the Second Release, you will receive a lump sum cash payment equal to $663,305.00

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less applicable tax withholding, payable within 30 days after your Separation Date (the ***"Severance Benefit"***).

c. <u>**No Other Benefits or Compensation**</u>. The Severance Benefit and the Accrued Benefits will be in full satisfaction of (and, as applicable, in lieu of) any amounts due under the Severance Agreement, the VSE Corporation 2006 Restricted Stock Plan, as amended or amended and restated from time to time (the "***Restricted Stock Plan***"), and all other compensation arrangements of the Company. Notwithstanding, You will be entitled to retain all previously vested stock that has been awarded to You, which is subject to two-year trading restrictions under the Restricted Stock Plan from previous plan year awards. For clarity, you will not be entitled to unvested stock related to any plan year under the Restricted Stock Plan. You acknowledge and agree that the Severance Benefit would not be due unless you sign the Second Release, and that the Severance Benefit constitutes fair and adequate consideration for your promises and covenants set forth in this Agreement and the Second Release.

5. **Future Cooperation.** You agree that you shall respond to reasonable requests for information from the Company regarding matters that may arise in the Company's business, with the first fourty (40) hours of work performed without any additional compensation. You further agree to fully and completely cooperate with the Company, its advisors and its legal counsel with respect to any litigation that is pending against the Company and any claim or action that may be filed against the Company in the future. Such cooperation shall include making yourself available at reasonable times and places for interviews, reviewing documents, testifying in a deposition or a legal or administrative proceeding, and providing advice to the Company in preparing defenses to any pending or potential future claims against the Company. The Company agrees to (or to cause one of its affiliates to) pay/reimburse you for any approved travel expenses reasonably incurred as a result of your cooperation with the Company, with any such payments/reimbursements to be made in accordance with the Company's expense reimbursement policy as in effect from time to time.

6. **Release of Liability**. Except for the obligations of the Company contained in this Agreement as indicated in Section 7 below, You, for yourself and on behalf of anyone claiming through you including each and all of your legal representatives, administrators, executors, heirs, successors and assigns (collectively, the "***Releasors***") knowingly and voluntarily release and forever discharge the Company, its affiliates, subsidiaries, divisions, predecessors, fiduciaries insurers, re-insurers, successors and assigns, and each of the foregoing's respective current, former and future principals, partners, shareholders, owners, employees, consultants, trustees, administrators, executors, representatives, attorneys, officers, presidents, directors and agents, both individually and in their business capacities (collectively referred to throughout the remainder of this Agreement as "***Releasees***"), of, from and for any and all claims, causes of action, lawsuits, controversies, liabilities, losses, damages, costs, expenses and demands of any nature whatsoever, at law or in equity, whether known or unknown, asserted or unasserted, foreseen or unforeseen, that the Releasors now have, have ever had, or may have against Releasees (or any of them) based on, arising out of, concerning, relating to or resulting from any act, omission, matter, fact, occurrence, transaction, claim, contention, statement or event occurring or existing at any time in the past up to and including the date of execution of this Agreement, including, but not limited to: (a) all claims arising out of or in any way relating to your employment with or separation of employment from the Company or its affiliates; (b) all claims for compensation or benefits, including salary, commissions, bonuses, vacation pay, expense reimbursements, severance pay, fringe benefits, stock options, restricted stock units or any other ownership interests in the Releasees; (c) all claims for breach of contract, wrongful termination and breach of the implied covenant of good faith and fair dealing; (d) all tort claims, including claims for fraud, defamation, invasion of privacy and emotional distress; (e) all other common law claims; and (f) all claims (including claims for discrimination, harassment, retaliation, attorneys fees, expenses or otherwise) that were or could have been asserted by you or on your behalf in any federal, state, or local court, commission, or agency, or under any federal, state, local, employment, services or

other law, regulation, ordinance, constitutional provision, executive order or other source of law, including without limitation under any of the following laws, as amended from time to time:

- Title VII of the Civil Rights Act of 1964;
- 42 U.S.C. §§ 1981 & 1981a;
- Sections 1981 through 1988 of Title 42 of the United States Code;
- The Employee Retirement Income Security Act of 1974 ("***ERISA***");
- The Immigration Reform and Control Act;
- The Americans with Disabilities Act of 1990;
- The Age Discrimination in Employment Act of 1967 ("***ADEA***"), as amended by the Older Workers' Benefit Protection Act of 1990 (the "***OWBPA***");
- The Worker Adjustment and Retraining Notification Act;
- The Fair Credit Reporting Act;
- The Family and Medical Leave Act;
- The Equal Pay Act;
- The Lilly Ledbetter Fair Pay Act of 2009;
- The Genetic Information Nondiscrimination Act of 2008;
- Federal Executive Order 11246;
- The National Labor Relations Act;
- The Rehabilitation Act of 1973;
- The Uniformed Services Employment and Reemployment Rights Act;
- The False Claims Act;
- The Consolidated Omnibus Budget Reconciliation Act of 1985;
- The Sarbanes-Oxley Act of 2002; and
- Any Virginia or other state or local law.

7. **Scope of Release**. Notwithstanding the foregoing, nothing in this Agreement should be construed as a waiver of your rights or any claims arising under this Agreement as may arise pursuant to and after the date of this Agreement is executed or any claim that by law is non-waivable. Nothing in this Agreement (a) shall release the Company from any obligation to defend and/or indemnify you against any third party claims arising out of any action or inaction by you during the time of your employment and within the scope of your duties with the Company to the extent (1) you have any such defense or indemnification right (including under any indemnification agreement with the Company or to the extent the claims are covered by the Company's director & officer liability insurance), and (2) permitted by applicable law, or (b) shall affect your right to file a claim for workers' compensation or unemployment insurance benefits. You further acknowledge that by signing this Agreement, you do not waive the right to file a charge against the Company with, communicate with or participate in any investigation by the Equal Employment Opportunity Commission, the Securities and Exchange Commission or any comparable state or local agency. However, you waive and release, to the fullest extent legally permissible, all entitlement to any form of monetary relief arising from a charge you or others may file, including without limitation any costs, expenses or attorneys' fees. You understand that this waiver and release of monetary relief would not affect an enforcement agency's ability to investigate a charge or to pursue relief on behalf of others. Notwithstanding the foregoing, you will not give up your right to any benefits to which you are entitled under any retirement plan of the Company that is intended to be qualified under Section 401(a) of the Internal Revenue Code of 1986, as amended, or your rights, if any, under Part 6 of Subtitle B of Title I of the Employee Retirement Income Security Act of 1974, as amended (COBRA), or any monetary award offered by the Securities and Exchange Commission pursuant to Section 21F of the Securities Exchange Act of 1934, as amended. By executing this Agreement, you represent that, as of the date you sign this Agreement, no claims, lawsuits, grievances, or charges have been filed by you or on your behalf against the Releasees.

8. **Non-disparagement.** Each party also agrees that such party will not, acting alone or in concert with others, (a) publicly criticize or disparage the other party, or privately criticize or disparage the other party in a manner intended or reasonably calculated to result in public embarrassment to, or injury to the reputation of such party in any community in which such party is engaged in business; or (b) commit damage to the property of the other party or otherwise engage in any willful misconduct which is injurious to the business or reputation of the other party; *provided, however,* that nothing in this Agreement shall apply to or restrict in any way the communication of any information by either party, in whatever form, to (1) any person acting on behalf of the Company or any member(s) of its Board of Directors in connection with any internal investigation or review, (2) any state or federal law enforcement or regulatory authority; or (3) any other person if required by subpoena or other process of law related to the Company, including without limitation, pursuant to any administrative or judicial proceeding. If you respond or communicate with any party or entity described in clause (3), you shall notify the Company of such response or communication.

The parties expressly understand and agree that this Section 8 does not apply to truthful testimony or disclosure compelled or required by law or legal process.

9. **Neutral Reference.** The Company agrees that if asked to provide a reference to a prospective employer, it will provide a neutral reference consisting only of your former position, dates of employment, and that it is the Company's policy to provide only such information.

10. **Enforceability.** The parties intend to be bound by all provisions of this Agreement. If any provision is determined to be invalid by a competent court, the parties agree that only that specific provision shall be deemed invalid and the rest of the Agreement shall remain enforceable.

11. **No Third-Party Beneficiary.** You understand that this Agreement is intended to benefit you and the Company, and no other third party, including family members. This Agreement may not be challenged and shall not be enforceable in whole or in part by any third party.

12. **Section 409A; Tax Matters**. The parties intend that this Agreement and the payments provided hereunder be exempt from, or comply with, the requirements of Section 409A of the Internal Revenue Code of 1986, as amended ("***Section 409A***"), and this Agreement shall be interpreted consistent with such intent. Notwithstanding the foregoing, by signing this Agreement, you acknowledge that you will be solely responsible for any taxes which may be imposed on you as a result of the Severance Benefit or Accrued Benefits, all amounts payable to you under this Agreement will be subject to applicable tax withholding by the Company, and the Company has not made any representations or guarantees regarding the tax result for you with respect to any income recognized by you in connection with this Agreement, the Severance Benefit or the Accrued Benefits. To the extent that reimbursements or other in-kind benefits under this Agreement constitute deferred compensation under Section 409A, (a) all expenses or other reimbursements hereunder shall be made on or prior to the last day of the taxable year following the taxable year in which such expenses were incurred by you, (b) any right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit, and any right to reimbursement or in-kind benefits shall be limited to your lifetime, and (c) no such reimbursement, expenses eligible for reimbursement, or in-kind benefits provided in any taxable year shall in any way affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other taxable year.

13. **Governing Law.** This Agreement is subject to the laws of the Commonwealth of Virginia. Any disputes related to this agreement shall be litigated in the Federal or State courts with jurisdiction in Fairfax County, Virginia.

14. **Knowing and Voluntary ADEA Waiver.** By signing this Agreement, in compliance with the requirements of the OWBPA, you admit and agree by your signature below that, with respect to the rights and claims waived and released in this Agreement under the ADEA:

a. You have read and understood the terms of this Agreement and this Agreement is written in a manner to be understood by you;

b. You understand this Agreement is legally binding, and you have been advised and are hereby advised, and have had the opportunity, to review it with a lawyer of your choice and at your expense;

c. You realize and understand that the release in this Agreement covers certain claims, demands, and causes of action against the Company and any other Releasees relating to your employment or termination of employment, including those under ADEA;

d. The releases contained in this Agreement do not cover rights or claims that may arise after you sign this Agreement;

e. You will receive valuable consideration in exchange for the release in this Agreement other than amounts you would otherwise be entitled to receive;

f. You understand that the terms of this Agreement are not part of an exit incentive or other employment termination program being offered to a group or class of employees;

g. You are signing this Agreement knowingly, voluntarily and with the full understanding of its consequences, and you have not been forced or coerced in any way; and

h. You have been given the opportunity to take at least 21 calendar days to consider this Agreement and discuss it with a lawyer of your choice before or after signing it and, if you sign it before the end of that period, you do so of your own free will and with the full knowledge that you could have taken the full period.

If you wish to accept the terms described in this Agreement, **please signify your agreement by signing your name in the space provided on the bottom of the signature page and by initialing the previous pages.** Please return the signed and initialed document to Krista Stafford, Chief Human Resources Officer.

15. **Revocation Period.** YOU MAY REVOKE THIS AGREEMENT FOR A PERIOD OF SEVEN (7) CALENDAR DAYS FOLLOWING THE DAY YOU SIGN THIS AGREEMENT, AND THIS AGREEMENT WILL NOT BECOME EFFECTIVE AND ENFORCEABLE UNTIL THE SEVEN-DAY REVOCATION PERIOD HAS EXPIRED. ANY REVOCATION WITHIN THIS PERIOD MUST BE SUBMITTED, IN WRITING, TO KRISTA STAFFORD, VSE CORPORATION, 6348 WALKER LANE, ALEXANDRIA, VA 22310, AND STATE, "I HEREBY REVOKE OUR SEPARATION AND RELEASE AGREEMENT." THE REVOCATION MUST BE PERSONALLY DELIVERED OR MAILED TO KRISTA STAFFORD AND POSTMARKED WITHIN SEVEN (7) CALENDAR DAYS AFTER YOU SIGN THIS AGREEMENT. IF YOU REVOKE THIS AGREEMENT WITHIN SUCH SEVEN-DAY PERIOD, IT WILL BE NULL AND VOID.[2]

(Signature page to follow)

For good and valuable consideration, including mutual enforceable promises as described above, the parties accept the terms and conditions of this Agreement.

AGREED:

Tom M. Kiernan 4/26/21
Thomas M. Kiernan Date

For the Company:

Krista Stafford 4/26/21
Krista Stafford Date
Chief Human Resources Officer

Exhibit A
Release

This Release is between VSE Corporation (the "***Company***") and Thomas M. Kiernan ("***you***" and similar words), in consideration of the benefits provided to you and to be received by you from the Company as described in the Separation and Release Agreement between the Company and you dated as of the applicable date referenced therein (the "***Separation Agreement***"). Capitalized terms used herein without definition have the meanings ascribed to such terms in the Separation Agreement.

By signing this Release, you and the Company hereby agree as follows:

1. **RELEASE OF LIABILITY**

Except for the obligations of the Company contained in the Separation Agreement, You, for yourself and on behalf of anyone claiming through you including each and all of your legal representatives, administrators, executors, heirs, successors and assigns (collectively, the "***Releasors***") knowingly and voluntarily release and forever discharge the Company, its affiliates, subsidiaries, divisions, predecessors, fiduciaries insurers, re-insurers, successors and assigns, and each of the foregoing's respective current, former and future principals, partners, shareholders, owners, employees, consultants, trustees, administrators, executors, representatives, attorneys, officers, presidents, directors and agents, both individually and in their business capacities (collectively referred to throughout the remainder of this Release as "***Releasees***"), of, from and for any and all claims, causes of action, lawsuits, controversies, liabilities, losses, damages, costs, expenses and demands of any nature whatsoever, at law or in equity, whether known or unknown, asserted or unasserted, foreseen or unforeseen, that the Releasors now have, have ever had, or may have against Releasees (or any of them) based on, arising out of, concerning, relating to or resulting from any act, omission, matter, fact, occurrence, transaction, claim, contention, statement or event occurring or existing at any time in the past up to and including the date of execution of this Release, including, but not limited to: (a) all claims arising out of or in any way relating to your employment with or separation of employment from the Company or its affiliates; (b) all claims for compensation or benefits, including salary, commissions, bonuses, vacation pay, expense reimbursements, severance pay, fringe benefits, stock options, restricted stock units or any other ownership interests in the Releasees; (c) all claims for breach of contract, wrongful termination and breach of the implied covenant of good faith and fair dealing; (d) all tort claims, including claims for fraud, defamation, invasion of privacy and emotional distress; (e) all other common law claims; and (f) all claims (including claims for discrimination, harassment, retaliation, attorneys fees, expenses or otherwise) that were or could have been asserted by you or on your behalf in any federal, state, or local court, commission, or agency, or under any federal, state, local, employment, services or other law, regulation, ordinance, constitutional provision, executive order or other source of law, including without limitation under any of the following laws, as amended from time to time:

- Title VII of the Civil Rights Act of 1964;
- 42 U.S.C. §§ 1981 & 1981a;
- Sections 1981 through 1988 of Title 42 of the United States Code;
- The Employee Retirement Income Security Act of 1974 ("***ERISA***");
- The Immigration Reform and Control Act;
- The Americans with Disabilities Act of 1990;
- The Age Discrimination in Employment Act of 1967 ("***ADEA***"), as amended by the Older Workers' Benefit Protection Act of 1990 (the "***OWBPA***");

- The Worker Adjustment and Retraining Notification Act;
- The Fair Credit Reporting Act;
- The Family and Medical Leave Act;
- The Equal Pay Act;
- The Lilly Ledbetter Fair Pay Act of 2009;
- The Genetic Information Nondiscrimination Act of 2008;
- Federal Executive Order 11246;
- The National Labor Relations Act;
- The Rehabilitation Act of 1973;
- The Uniformed Services Employment and Reemployment Rights Act;
- The False Claims Act;
- The Consolidated Omnibus Budget Reconciliation Act of 1985;
- The Sarbanes-Oxley Act of 2002; and
- Any Virginia or other state or local law.

2. SCOPE OF RELEASE

Notwithstanding the foregoing, nothing in this Release should be construed as a waiver of your rights or any claims arising under this Release as may arise pursuant to and after the date of this Release is executed or any claim that by law is non-waivable. Nothing in this Release (a) shall release the Company from any obligation to defend and/or indemnify you against any third party claims arising out of any action or inaction by you during the time of your employment and within the scope of your duties with the Company to the extent (1) you have any such defense or indemnification right (including under any indemnification agreement with the Company or to the extent the claims are covered by the Company's director & officer liability insurance), and (2) permitted by applicable law, or (b) shall affect your right to file a claim for workers' compensation or unemployment insurance benefits. You further acknowledge that by signing this Release, you do not waive the right to file a charge against the Company with, communicate with or participate in any investigation by the Equal Employment Opportunity Commission, the Securities and Exchange Commission or any comparable state or local agency. However, you waive and release, to the fullest extent legally permissible, all entitlement to any form of monetary relief arising from a charge you or others may file, including without limitation any costs, expenses or attorneys' fees. You understand that this waiver and release of monetary relief would not affect an enforcement agency's ability to investigate a charge or to pursue relief on behalf of others. Notwithstanding the foregoing, you will not give up your right to any benefits to which you are entitled under any retirement plan of the Company that is intended to be qualified under Section 401(a) of the Internal Revenue Code of 1986, as amended, or your rights, if any, under Part 6 of Subtitle B of Title I of the Employee Retirement Income Security Act of 1974, as amended (COBRA), or any monetary award offered by the Securities and Exchange Commission pursuant to Section 21F of the Securities Exchange Act of 1934, as amended. By executing this Release, you represent that, as of the date you sign this Release, no claims, lawsuits, grievances, or charges have been filed by you or on your behalf against the Releasees.

3. KNOWING AND VOLUNTARY ADEA WAIVER

By signing this Release, in compliance with the requirements of the OWBPA, you admit and agree by your signature below that, with respect to the rights and claims waived and released in this Release under the ADEA:

b. You have read and understood the terms of this Release and this Release is written in a manner to be understood by you;

c. You understand this Release is legally binding, and you have been advised and are hereby advised, and have had the opportunity, to review it with a lawyer of your choice and at your expense;

d. You realize and understand that this Release covers certain claims, demands, and causes of action against the Company and any other Releasees relating to your employment or termination of employment, including those under ADEA;

e. The releases contained in this Release do not cover rights or claims that may arise after you sign this Release;

f. You will receive valuable consideration in exchange for this Release other than amounts you would otherwise be entitled to receive;

g. You understand that the terms of this Release are not part of an exit incentive or other employment termination program being offered to a group or class of employees;

h. You are signing this Release knowingly, voluntarily and with the full understanding of its consequences, and you have not been forced or coerced in any way; and

i. You have been given the opportunity to take at least 21 calendar days to consider this Release and discuss it with a lawyer of your choice before or after signing it and, if you sign it before the end of that period, you do so of your own free will and with the full knowledge that you could have taken the full period.

If you wish to accept the terms described in this Release, **please signify your agreement by signing your name in the space provided on the bottom of the signature page and by initialing the previous pages.** Please return the signed and initialed document to Krista Stafford, Chief Human Resources Officer.

4. REVOCATION PERIOD

YOU MAY REVOKE THIS RELEASE FOR A PERIOD OF SEVEN (7) CALENDAR DAYS FOLLOWING THE DAY YOU SIGN THIS RELEASE, AND THIS RELEASE WILL NOT BECOME EFFECTIVE AND ENFORCEABLE UNTIL THE SEVEN-DAY REVOCATION PERIOD HAS EXPIRED. ANY REVOCATION WITHIN THIS PERIOD MUST BE SUBMITTED, IN WRITING, TO KRISTA STAFFORD, VSE CORPORATION, 6348 WALKER LANE, ALEXANDRIA, VA 22310, AND STATE, "I HEREBY REVOKE OUR RELEASE." THE REVOCATION MUST BE PERSONALLY DELIVERED OR MAILED TO KRISTA STAFFORD AND POSTMARKED WITHIN SEVEN (7) CALENDAR DAYS AFTER YOU SIGN THIS RELEASE. IF YOU REVOKE THIS RELEASE WITHIN SUCH SEVEN-DAY PERIOD, IT WILL BE NULL AND VOID

5. REAFFIRMATION OF RESTRICTIVE COVENANTS

You agree to and reaffirm your obligations as outlined in Section 2 of the Separation Agreement (the "***Restrictive Covenants***"), and acknowledge that the Restrictive Covenants remain in full force and effect.

6. ENTIRE AGREEMENT

This Release, the Separation Agreement, and the documents referenced therein contain the entire agreement between you and the Company, and take priority over any other written or oral understanding or agreement that may have existed in the past. You acknowledge that no oral understanding or agreement that may have existed in the past. You acknowledge that no other promises or agreements have been offered for this Release (other than those described above) and that no other promises or agreements will be binding unless they are in writing and signed by you and the Company.

(Signature page to follow)

I agree to the terms and conditions set forth in this Release.

THOMAS M. KIERNAN

____

Date: ______________________

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 report on Form 10-Q of VSE Corporation (the "Registrant");
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 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 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: April 29, 2021

/s/ John A. Cuomo
John A. Cuomo
Chief Executive Officer and President
(Principal Executive Officer)

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 report on Form 10-Q of VSE Corporation (the "Registrant");
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 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 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: April 29, 2021

/s/ Stephen D. Griffin
Stephen D. Griffin
Senior Vice President and Chief Financial Officer
(Principal Financial Officer and 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 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 ended March 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 the Company's Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 29, 2021

/s/ John A. Cuomo
John A. Cuomo
Chief Executive Officer and President
(Principal Executive 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 ended March 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 the Company's Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 29, 2021

/s/ Stephen D. Griffin
Stephen D. Griffin
Senior Vice President and Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)