

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended December 31, 2000 Commission File Number: 0-3676

VSE CORPORATION

(Exact Name of Registrant as Specified in its Charter)

DELAWARE 54-0649263
(State or Other Jurisdiction of (I.R.S. Employer
Incorporation or Organization) Identification No.)

2550 Huntington Avenue
Alexandria, Virginia 22303-1499
(Address of Principal Executive Offices) (Zip Code)

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

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

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

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

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

Aggregate market value of voting stock held by nonaffiliates of the registrant as of March 7, 2001, was approximately \$6.9 Million.

Number of shares of Common Stock outstanding as of March 7, 2001: 2,125,863.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for the Annual Meeting of Stockholders expected to be held on May 2, 2001, are incorporated by reference into Part III of this report.

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Forward Looking Statements

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

Part I

ITEM 1. Business

(a) General Development of Business

VSE was established and incorporated in Delaware in January 1959. The company's business operations consist of the operations of the parent company, operations of the company's wholly owned subsidiaries and operations of the company's divisions. Wholly owned subsidiaries include Energetics Incorporated ("Energetics"), Human Resource Systems, Inc. ("HRSI"), Ship Remediation and Recycling, Inc. ("SRR") and VSE Services International, Inc. ("VSI"). Unincorporated divisions include BAV Division ("BAV"), Fleet Maintenance Division ("Fleet Maintenance"), Ordnance Division ("Ordnance"), GSA Services Division ("GSA Services"), Telecommunications Technologies Division ("TTD"), and Value Systems Services Division ("VSS"). The term "VSE" or "company" means VSE and its subsidiaries and divisions unless the context indicates operations of the parent company only.

TTD was established in 2000, and GSA Services, SRR and VSI were established in 1999. VSE also acquired certain assets from a TTD strategic partner in 2000. The Health Care Services division of HRSI was sold in 2000 and CMstat Corporation ("CMstat") was sold in 1999 (see Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" for a discussion of the sale of CMstat).

The company's business operations consist primarily of diversified

engineering, technical, and management services, performed on a contract basis. Substantially all of the company's contracts are with agencies of the United States Government (the "government") and other government prime contractors. The company's customers also include non-government organizations and commercial entities.

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VSE seeks to provide its customers with competitive, cost effective solutions to specific problems. These problems generally require a detailed technical knowledge of materials, processes, functional characteristics, information systems, technology and products, and an in-depth understanding of the basic requirements for effective systems and equipment. Customers are generally billed for a specified level-of-effort incurred in performing a project or providing a service or, less frequently, for installed products, systems and maintenance charges.

(b) Financial Information

VSE operations are conducted within a single industry and financial information is presented on a company-wide basis. Financial information for the three years ended December 31, 2000 appears in the "Consolidated Statements of Operations" contained in this Form 10-K.

(c) Narrative Description of Business

Services and Products

VSE engineering, technical, management and information technology services include a broad array of capabilities and resources used in program planning; design and engineering, including prototype development; ship reactivation and transfer support; logistics management; ship maintenance, repair, overhaul planning and follow-on technical support; ship dismantlement and recycling services; the design and installation of intelligent conference rooms; office automation systems and support; training; technology research, development and demonstration programs involving energy conservation and efficiency, advanced technology transfers, and feasibility, assessment and development programs.

Typical engineering and technical services projects include sustaining engineering support for military vehicles and combat trailers; depot repair operations; logistics management support; machinery condition analysis; specification preparation for ship alterations and repairs; ship force crew training; ship dismantlement and ship sales; energy conservation and advanced technology demonstration projects; technical data package preparation; multimedia, computer LAN, and telecommunications systems; cross-platform technical data, product data and technical manual support; bar coding and inventory application; and database management and control.

Contracts

Depending on solicitation requirements and other factors, VSE offers its professional and technical services and products through various competitive contract arrangements and business units which are responsive to customer requirements and which may also provide an opportunity for diversification. Such arrangements include prime contracts, subcontracts, cooperative arrangements, joint ventures, dedicated ventures, dedicated cost centers (divisions) and subsidiaries.

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Substantially all of the company's revenues are derived from contract services performed for the government. The U.S. Navy is VSE's largest single customer. Other significant customers include: the U.S. Army, the U.S. Postal Service, and the Department of Energy. The company's customers also include various other government agencies, non-government organizations, and commercial entities.

<TABLE>

VSE Revenues by Customer
(Dollars in Thousands)

<CAPTION>

Customer	2000		1999		1998	
	Revenues	%	Revenues	%	Revenues	%
<S>	<C>	<C>	<C>	<C>	<C>	<C>
U.S. Navy	\$ 87,828	71.8	\$109,993	69.9	\$128,773	72.7
U.S. Army	9,497	7.8	19,468	12.4	19,577	11.1
All other government	23,457	19.2	27,558	17.5	27,991	15.8
Commercial	1,487	1.2	335	0.2	733	0.4
Total	\$122,269	100.0	\$157,354	100.0	\$177,074	100.0

</TABLE>

The government's procurement practices in recent years have tended toward the bundling of various work efforts under large comprehensive ("omnibus") management contracts. As a result, the growth opportunities available to the company will probably continue to occur in large unpredictable increments. The company has elected to pursue these larger efforts by assembling teams of subcontractors and forming joint venture partnerships to offer the range of technical competencies required by these omnibus contracts. The company has also elected to pursue more of its contract work through its operating divisions and subsidiaries to focus on particular lines of work or specific customer bases.

As a result of the bundling trend described above, the company has several divisions for which revenues are derived predominantly from one major contract effort. During 2000, the company's four largest contracts accounted for approximately 75% of total revenues. The company's largest contract, performed by BAV, is with the U.S. Navy and accounted for approximately 41% and 50% of consolidated revenues in 2000 and 1999, respectively. This contract is a ten year contract awarded in 1995, and it has the potential to generate total revenues of over one billion dollars from 1995 through 2005. Other major contracts include U.S. Navy contracts performed by VSE (parent company) and Ordnance, and a U.S. Army contract performed by VSE (parent company).

The company's contracts with the government are typically performed under cost plus fee, time and materials, or fixed price contracts. Under cost plus fee contracts, the customer reimburses the company for its allowable costs and pays a fee as determined by the contract terms. Under time and materials contracts, the customer pays the company contract specific hourly rates for labor services and reimburses the company for the cost of materials. Under fixed price contracts, the customer pays a contract specific price for services or products. Some of the contracts permit the contracting agency to issue delivery orders or task orders in an expeditious manner to satisfy relatively short-term requirements for engineering and technical services. The services ordered pursuant to such arrangements are normally performed and completed within one year. During 2000, the company provided services to the government and other customers under approximately 200 contracts and approximately 800 delivery orders or task orders.

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Backlog

During 2000 and 1999, VSE was awarded contracts and delivery orders having potential ceiling values of approximately \$119 million and \$115 million, respectively.

VSE's funded backlog of contract work as of December 31, 2000, 1999 and 1998 was approximately \$81 million, \$108 million and \$122 million, respectively. Funded backlog is defined as orders for services that have not been fully rendered and for which funding has been provided either at the time of award or thereafter. Substantially all the funded backlog is expected to be completed within one year.

The excess of unfulfilled contract estimates over the incremental funding authorized represents an unfunded backlog. Based on the total estimated value of contracts actually awarded, the company's potential revenues for work remaining to be performed under existing contracts (both funded and unfunded backlog) was approximately \$804 million, \$946 million and \$1 billion, as of December 31, 2000, 1999 and 1998, respectively. The company has no reasonable basis on which to determine when or if such unfunded backlog will be funded. Because of uncertainties associated with changing program requirements and the ultimate availability of funds, VSE believes that measurements of unfunded backlog are of

limited use in evaluating future workload.

As of December 31, 2000, VSE had proposals pending for engineering services contracts covering approximately \$300 million in services for the Department of Defense or other government agencies or prime contractors. If these contracts are awarded to VSE, resulting ordering periods could extend through 2006. There is no assurance that VSE will be the successful bidder for any of these contracts. Additionally, there can be no assurance that contracts awarded will result in revenues to VSE because (a) contract awards may be rescinded as a result of the government's bid protest procedures, (b) contracts may not be funded at the nominal amounts cited in competitive bid announcements and (c) contracts when funded may be terminated at the convenience of the government.

Marketing

VSE marketing activities are conducted by its professional staff of engineers, analysts, program managers, contract administrators and other personnel, with these activities centrally coordinated through the company's Strategic Planning and Business Development Department. Information concerning new programs and requirements becomes available in the course of contract performance, through formal and informal briefings, from participation in professional organizations, and from literature published by the government, trade associations, professional organizations and commercial entities.

Personnel

VSE services are provided by a staff of professional, scientific, and technical personnel having high levels of education, experience, training and skills. As of February 2001, VSE employed approximately 600 employees, including approximately 150 part-time personnel.

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Principal categories of VSE personnel include (a) engineers, scientists and technicians in mechanical, electrical, electronic, chemical, industrial, energy and environmental services, marine and ocean engineering disciplines, (b) information technology professionals in computer systems, applications and products, configuration, change and data management disciplines, (c) technical editors and writers, (d) multimedia and computer design engineers, and (e) graphic designers and technicians. The expertise required by VSE customers also frequently includes knowledge of government administrative procedures. Many VSE employees have had experience as government employees or have served in the U.S. armed forces. The company considers its relationships with employees to be excellent.

Competition and Risks

Competition. The professional and technical services industry in which VSE is engaged is very competitive. There are a substantial number of other organizations, including large, diversified firms with greater financial resources and larger technical staffs, which are capable of providing essentially the same services as those offered by VSE. Such companies may be publicly owned or privately held and may be divisions of much larger organizations including large manufacturing corporations. Competition in the government contract business has intensified in recent years due to declining government budgets.

Government agencies have placed an increased emphasis on awarding contracts of the types performed by VSE on a competitive basis as opposed to a non-competitive basis. All significant contracts currently being performed by VSE were either initially awarded on a competitive basis or have been renewed at least once on a competitive basis. Government agencies also order work through contracts awarded by the General Services Administration ("GSA") which provides a schedule of services at fixed prices which may be ordered outside of the solicitation process. The company has been awarded four separate GSA schedule contracts for various classes of services, but there is no assurance regarding the level of work under these contract arrangements.

It is not possible to predict the extent and range of competition that VSE will encounter as a result of changing economic or competitive conditions, customer requirements, or technological developments. VSE believes the principal

competitive factors for the professional and technical services business in which it is engaged are technical and financial qualifications, quality and innovation of services and products, past performance and low price.

Risks. In recent years, the government has initiated a series of changes designed to improve and streamline its acquisition policies and procedures. Such changes include an emphasis on very large contracts, which may make it more difficult for VSE to qualify as a potential bidder; past performance, which may be used to exclude entrance into new government markets; and multiple-award schedules, which may result in unequal contract awards between successful contractors.

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VSE's business with the government is subject to the risk that one or more of its potential contracts or contract extensions may be awarded by the contracting agency to a "small and disadvantaged" or minority-owned business pursuant to "set-aside" programs administered by the Small Business Administration or may be bundled into omnibus contracts for very large businesses. In addition, government contract business is subject to funding delays, extensions, and moratoriums caused by political and administrative disagreements. To date, the effect of such negotiations and disagreements on the company has not been material; however, no assurances can be given about such risks with respect to future years.

Government contracts are subject to termination at the government's convenience, which means that the government may terminate the contract at any time, without cause. If a government contract is terminated for convenience, the contractor is generally reimbursed for its allowable costs to the date of termination and is paid a proportionate amount of the stipulated profit or fee for the work actually performed. VSE has not suffered any material losses or disruptions of its business due to government terminations for convenience.

VSE's business is subject to the risks arising from global economic conditions associated with potential foreign customers served through the company's contracts with the U.S. Government. For example, economic slowdowns in certain countries served under the BAV contract could potentially affect BAV sales. In addition, the company's subsidiary VSI is also expected to serve foreign customers on a direct sales basis and may be subject to such economic slowdowns.

ITEM 2. Properties

VSE's principal executive and administrative offices are located in a five story building in Alexandria, Virginia, leased by VSE through April 30, 2003. This building contains approximately 108,000 square feet of engineering, shop, and administrative space. VSE also provides services and products from approximately 11 U.S. branch offices located at or near customer sites to facilitate communications and enhance project performance. Branch offices are generally occupied under short term leases and currently include an aggregate of approximately 195,000 square feet of office and warehouse space. VSE employees often provide services at customer facilities, limiting VSE's requirement for additional space. BAV provides services from several locations outside of the United States (generally at foreign shipyards); these services are often of short duration based on "tiger team" or "as-ordered" requirements.

VSE owns and operates an engineering test center in Ladysmith, Virginia, consisting of approximately 44 acres of land and an improved storage and vehicle maintenance facility. This facility has been used by VSE to test military and commercial equipment for which VSE provides system technical support or other engineering services and to supplement Alexandria, Virginia, office and shop facilities.

ITEM 3. Legal Proceedings

None.

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ITEM 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of stockholders, through the solicitation of proxies or otherwise, during the three month period ended

EXECUTIVE OFFICERS OF THE REGISTRANT

The following table sets forth information concerning the executive officers of the Registrant as of March 7, 2001. Each person named has served as an executive officer of VSE, or has served in a similar executive capacity in VSE, for more than the past five years, except for Mr. Todd.

The executive officers are chosen annually to serve until the first meeting of the Board of Directors following the next annual meeting of stockholders and until their successors are elected and have qualified, or until death, resignation or removal, whichever is sooner.

Name	Age	Position with Registrant
Byron S. Bartholomew	73	Executive Vice President, Business Development
Donald M. Ervine	64	Chairman and Chief Executive Officer
Michael E. Hamerly anager	55	Senior Vice President and General Manager, Fleet Maintenance and Ordnance Divisions
James M. Knowlton	58	Executive Vice President and President, BAV Division, President, Ship Remediation and Recycling, Inc., President, VSE Services International, Inc., General Manager, Telecommunications Technologies Division
Thomas R. Loftus	45	Senior Vice President and Comptroller
James M. Todd*	54	President and Chief Operating Officer
Jayne M. Tuohig	54	Senior Vice President and General Manager, VSS and Postal Divisions
John J. Werbowski	51	Senior Vice President, Strategic Planning and New Business Development
Craig S. Weber	56	Executive Vice President, Chief Financial Officer and Secretary

* Prior to joining VSE in November 2000, Mr. Todd served as Vice President of the Industrial Consulting and Systems Group of American Management Systems, Inc., where he worked as a program manager since 1993. He has worked as a program manager in industry since 1991 and, before that, as a program manager for the U.S. Navy during a distinguished career from 1969 to his retirement as a Captain in 1991.

PART II

ITEM 5. Market for Registrant's Common Stock and Related Stockholder Matters

(a) Market Information

The company's common stock (\$.05 par value) is traded in the Nasdaq National Market System, trading symbol: VSEC, Newspaper listing: VSE.

The following table sets forth the range of high and low sales price information on VSE common stock for each quarter and annually during the last two years based on information reported by the Nasdaq National Market System.

<TABLE>
<CAPTION>

Quarter Ended	High	Low	Dividends
<S>	<C>	<C>	<C>
2000:			
March 31	\$ 9.00	\$6.25	\$.04
June 30	8.125	5.50	.04
September 30	7.188	5.75	.04
December 31	8.00	5.125	.04
For the Year	\$ 9.00	\$5.125	\$.16
1999:			
March 31	\$11.75	\$8.25	\$.036
June 30	11.00	6.75	.036
September 30	10.50	8.125	.036
December 31	9.875	7.125	.036
For the Year	\$11.75	\$6.75	\$.144

</TABLE>

(b) Holders

There were about 1,400 stockholders of VSE common stock as of March 7, 2001, consisting of approximately 300 stockholders of record plus the number of beneficial owner proxy sets provided in connection with VSE's 2001 Annual Meeting of Stockholders to (a) brokers, banks, and nominees and (b) participants in the VSE Corporation Employee ESOP/401(k) Plan.

(c) Dividends

Cash dividends were declared at the rate of \$.16 per share during 2000 and \$.144 per share during 1999. Pursuant to its bank loan agreement (see Note 4 of "Notes to Consolidated Financial Statements"), the payment of cash dividends by VSE is subject to annual rate restrictions. VSE has paid cash dividends each year since 1973.

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<TABLE>

ITEM 6. Selected Financial Data

(In thousands, except per share data)

<CAPTION>

	2000	1999	1998	1997	1996
<S>	<C>	<C>	<C>	<C>	<C>
Revenues, principally from contracts	\$122,269	\$157,354	\$177,074	\$152,522	\$115,592
Income from continuing operations	\$ 1,385	\$ 2,364	\$ 3,015	\$ 2,566	\$ 1,942
Loss from discontinued operations	-	(256)	(1,420)	(4,013)	(21)
Loss on disposal of discontinued operations	(417)	(574)	-	-	(179)
Net income (loss)	\$ 968	\$ 1,534	\$ 1,595	\$ (1,447)	\$ 1,742
Basic earnings per common share:					
Income from continuing operations	\$.65	\$ 1.12	\$ 1.42	\$ 1.21	\$.89
Loss from discontinued operations	(.19)	(.39)	(.67)	(1.89)	(.09)
Net income (loss)	\$.46	\$.73	\$.75	\$(.68)	\$.80
Diluted earnings per common share:					

Diluted earnings per common share:

Income from continuing operations	\$.65	\$ 1.12	\$ 1.42	\$ 1.21	\$.88
Loss from discontinued operations	(.19)	(.39)	(.67)	(1.89)	(.09)
Net income (loss)46	\$.73	\$.75	\$(.68)	\$.79
Working Capital	\$ 8,364	\$ 7,078	\$ 5,801	\$ 6,258	\$ 9,839
Total assets	\$ 31,523	\$ 31,250	\$ 47,248	\$ 43,413	\$ 49,353
Long-term debt	\$ -	\$ -	\$ 1,503	\$ 3,444	\$ 5,384
Stockholders' investment	\$ 15,793	\$ 15,145	\$ 13,852	\$ 12,481	\$ 14,595
Cash dividends per common share	\$.16	\$.144	\$.144	\$.144	\$.138

</TABLE>

Per share amounts have been adjusted to reflect stock splits effected in 1996 and 1997.

This consolidated summary of selected financial data should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this Form 10-K.

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

The term "VSE" or "company" means VSE and its subsidiaries and divisions unless the context indicates operations of the parent company only. VSE's business operations consist of the operations of the parent company, operations of the company's wholly owned subsidiaries and operations of the company's divisions. Wholly owned subsidiaries include Energetics Incorporated ("Energetics"), Human Resource Systems, Inc. ("HRSI"), Ship Remediation and Recycling, Inc. ("SRR") and VSE Services International, Inc. ("VSI"). Unincorporated divisions include BAV Division ("BAV"), Ordnance Division ("Ordnance"), Value Systems Services Division ("VSS"), Fleet Maintenance Division ("Fleet Maintenance"), Telecommunications Technologies Division ("TTD") formed in September 2000, and GSA Services Division ("GSA Services").

The company is engaged principally in providing engineering, logistics, management and technical services to the U.S. Government (the "government") and other government prime contractors. All significant intercompany transactions have been eliminated in consolidation. Certain prior year balances have been reclassified for comparative purposes.

Results of Operations

Revenues

The following table shows the revenues from operations of VSE, its subsidiaries and divisions, and such revenues as a percent of total revenues:

<TABLE>

Revenues from Operations
(dollars in thousands)

<CAPTION>

Company or Business Unit	2000	1999	1998			
	Revenues	%	Revenues	%	Revenues	%
VSE (parent company)	\$ 39,165	32.0	\$ 44,337	28.1	\$ 51,972	29.3
BAV	49,801	40.7	78,791	50.1	93,564	52.8
Ordnance	11,170	9.2	6,116	3.9	1,531	0.9
Energetics	10,546	8.6	11,683	7.4	11,984	6.8
VSS	4,233	3.5	10,271	6.5	10,182	5.8
HRSI	3,947	3.2	5,770	3.7	7,841	4.4

Fleet Maintenance	1,224	1.0	273	0.2	-	0.0
SRR	1,104	0.9	-	0.0	-	0.0
TTD	813	0.7	-	0.0	-	0.0
GSA Services	265	0.2	107	0.1	-	0.0
VSI	1	0.0	6	0.0	-	0.0
	-----	-----	-----	-----	-----	-----
	\$122,269	100.0	\$157,354	100.0	\$177,074	100.0
	=====	=====	=====	=====	=====	=====

</TABLE>

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

Substantially all of the company's revenues depend on the ability of the company to win new contracts and on the amount of work ordered by the government under the company's existing contracts. The company's ability to win new contracts is affected by government acquisition policies and procedures, including government procurement practices that in recent years have tended toward bundling work efforts under large comprehensive ("omnibus") management contracts. This emphasis on large contracts presents challenges to winning new contract work, including making it more difficult for the company to qualify as a bidder, increases in the level of competition due to the award of fewer contracts, and forcing the company into competition with larger organizations that have greater financial resources and larger technical staffs. Other government procurement practices that can affect the company's revenues are the use of past performance criteria that may preclude entrance into new government markets and government social programs that limit contract work to small, woman, or minority owned businesses. Additional risk factors that could potentially affect the company's revenues are the government's right to terminate contracts for convenience, the government's right to not exercise all of the option periods on a contract, and funding delays caused by government political or administrative actions. In 2000, 1999, and 1998, the company did not experience any terminations of contracts for the convenience of the government nor any non-exercise of option periods on current contracts which were material to the company's results of operations or financial position.

Several of the company's operating divisions were formed in recent years to bid on and perform contract work that had been traditionally performed by VSE (parent company). The formation of these divisions has enabled the company to use an operating structure that is better suited to perform certain types of contract work. The company anticipates that it will continue using its operating divisions to bid and perform new contract work to better serve the needs of customers. As the use of operating divisions for new contracts increases, the company expects that the revenue of VSE (the parent company) will be reduced in the future as parent company contracts are replaced by operating division contracts. Management believes that the use of operating divisions to perform future work and the associated improvements in servicing customers will better position the consolidated entity for future revenue growth.

BAV Contract. VSE's BAV Division has a contract with the U.S. Navy to provide engineering, technical and logistical support services associated with the sale, lease, or transfer of Navy ships to foreign governments. The contract accounted for approximately 41% and 50% of consolidated revenues from operations during 2000 and 1999, respectively. The level of revenues generated by this contract varies depending on a number of factors including the timing of ship transfers and associated support services ordered by foreign governments and economic conditions of potential customers worldwide. The decline in the company's revenues during 2000 as compared to 1999 and in 1999 as compared to 1998 is primarily due to the decline in services ordered through this contract. The company has experienced significant quarterly and annual revenue fluctuations and anticipates that future quarterly and annual revenues will be subject to significant variations primarily due to changes in the level of activity on this contract.

VSS Contract. VSE's VSS Division had a U.S. Navy contract to provide data management and documentation, logistics support services and configuration management services to the Naval Air Systems command. VSS began work on this

contract in 1994 and the last option year was scheduled to end in 1999. The government extended the contract through April 28, 2000. VSS was not awarded the successor contract and work on this contract effort terminated as of April 28, 2000. The contract accounted for a majority of the work in the VSS Division during the period from 1995 through 1999, but represented less than 10% of the company's revenues during this time. The loss of revenues associated with the expiration of this contract contributed to the decline in revenues in 2000 as compared to prior years.

Income from Continuing Operations Before Income Taxes

The following table shows consolidated revenues and income from continuing operations before income taxes of VSE, other items of income and expense, and such amounts as a percent of revenues.

<TABLE>

Income from Continuing Operations Before Income Taxes (dollars in thousands)

<CAPTION>

Description	2000	%	1999	%	1998	%
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Revenues	\$122,269	100.0	\$157,354	100.0	\$177,074	100.0
Costs and expenses	119,937	98.1	152,684	97.0	171,510	96.9
Gross profit	2,332	1.9	4,670	3.0	5,564	3.1
Selling, general and administrative expenses	239	0.2	684	0.4	592	0.3
Interest (income) expense	(98)	(0.1)	87	0.1	24	0.0
Income from continuing operations before income taxes	\$ 2,191	1.8	\$ 3,899	2.5	\$ 4,948	2.8

</TABLE>

Costs and expenses of operations, as a percentage of revenues, increased slightly in 2000 as compared to 1999 and 1998. This increase on a percentage basis is primarily attributable to the decrease in revenues while a portion of the costs and expenses of operating the company remain fixed. Other factors that affect the percentage of costs and expenses to revenues include (a) differences between costs incurred and costs billable (whether they may be billed based on contract provisions), (b) the effects of increases or decreases in facility and equipment lease renewals, fringe benefit programs and similar period expenses, (c) costs associated with contract start-up and termination phases, (d) narrower profit margins on new work due to increased competition, (e) increased labor costs reflecting a more competitive marketplace for attracting and retaining our employees, (f) the amount of work performed on certain contracts as a percentage of total revenues, (g) the timing of contract award fees and (h) effective project and cost management.

Selling, general and administrative expenses as a percentage of revenues decreased slightly in 2000 as compared to 1999 and increased slightly in 1999 as compared to 1998. Selling, general and administrative expenses will vary from year to year due to various types of nonreimbursable costs.

The application of earnings to reduce average bank borrowings and invest short term cash surpluses, reduced receivables financing requirements due to the reduction in revenues, and improved cash collection cycles on government

contracts resulted in interest income in 2000 as compared to interest expense in 1999. Interest expense as a percentage of revenues increased slightly in 1999 as compared to 1998 due to an increase in average levels of bank debt resulting from the fluctuation in activity among various different contracts.

Discontinued Operations

On May 21, 1999, the company sold all of its interests in the SPS segment. This entailed selling its CMstat subsidiary for an \$800 thousand promissory note. While the sale was a divestiture for legal and tax purposes, for accounting purposes, the sale was not originally provided discontinued operations treatment under Staff Accounting Bulletin No. 30 "Accounting for Divestiture of a Subsidiary or Other Business Operation" ("SAB No. 30") since the sale did not transfer the risks of ownership because the sales price was primarily dependent on the buyer's ability to repay the promissory note.

As of December 31, 2000, the company has determined that the promissory note acquired from the sale of its CMstat subsidiary is not collectible and has written off the remaining balance. Accordingly, the consolidated financial statements have been restated to reflect the disposition of its CMstat subsidiary as discontinued operations. The revenues, costs and expenses, assets and liabilities and cash flows from the CMstat subsidiary have been excluded from the respective captions in the Consolidated Statement of Operations, Balance Sheets, Cash Flows and related footnotes.

Financial Condition

VSE's financial condition did not change materially during 2000. The company's largest asset is its accounts receivable and its largest liabilities are its accounts payable and accrued expenses. These assets and liabilities remained substantially unchanged at December 31, 2000 as compared to December 31, 1999. The increase in total stockholder's investment in 2000 resulted from earnings and dividend activity.

Liquidity and Capital Resources

A net increase in cash and cash equivalents of \$585 thousand during 2000 resulted from approximately \$1.8 million provided by continuing operations, approximately \$1.1 million used in investing activities, \$311 thousand used in financing activities, and \$248 thousand provided by discontinued operations. Significant investing activities included \$700 thousand associated with the acquisition of certain contract and marketing rights and \$424 thousand used to purchase property and equipment. Financing activities consisted primarily of \$331 thousand used to pay cash dividends. Cash flows provided by continuing operations decreased in 2000 as compared to 1999 due primarily to the changes in the levels of accounts receivable and accounts payable on the BAV contract in 2000 as compared to 1999, as well as a decrease in the company's net income.

The company's level of net cash and cash equivalents did not change significantly during 1999. Approximately \$12.2 million in net cash was provided by continuing operations. Discontinued operations used approximately \$8 million, financing activities used approximately \$3.1 million, and

investing activities used approximately \$1.1 million. Significant financing activities included decreases in long-term bank loans and the current portion of long-term bank debt of approximately \$1.5 million and \$1.3 million, respectively. Significant investing activities included approximately \$1.1 million associated with the purchase of property and equipment, primarily computer equipment. Cash flows provided by continuing operations increased in 1999 as compared to 1998 due primarily to changes in the levels of accounts receivable and accounts payable in 1999 resulting from a decrease in revenues on the BAV contract as compared with the previous year.

A net increase in cash and cash equivalents of \$34 thousand during 1998 resulted from approximately \$3 million provided by operations, approximately \$1.5 million used in investing activities and approximately \$1.4 million used in financing activities. Significant financing activities included a decrease in long-term bank loans of approximately \$1.9 million. Significant investing activities included approximately \$1.5 million associated with the purchase of property and equipment, primarily computer equipment.

The company's internal sources of liquidity result primarily from operating activities, specifically from changes in the level of revenues and associated accounts receivable from period to period and from profitability. Significant

increases or decreases in revenue and accounts receivable can cause significant increases or decreases in internal liquidity. The decrease in revenues and associated accounts receivable in the current year has resulted in an increase in internally generated cash flows. Accounts receivable arise primarily from billings made by the company to the government or other government prime contractors for services rendered and generally do not present collection problems. The company has made use of recent electronic billing and payment initiatives implemented by the government to decrease the time to collect billed accounts receivable, thereby improving internal liquidity. Accounts receivable levels can also be affected by contract retainages, start-up and termination costs associated with new or completed contracts, and differences between the provisional billing rates authorized by the government compared to the costs actually incurred by the company. Internal liquidity is also affected by the acquisition of capital assets for office and computer support and by the payment of cash dividends. Purchases of capital assets for office and computer support have not varied significantly in recent years.

VSE's external sources of liquidity consist of a revolving bank loan agreement that provides loan financing based on the company's accounts receivable. (See Note 4 of "Notes to Consolidated Financial Statements".) The bank financing complements the internal sources of liquidity by providing increasing levels of borrowing capacity as accounts receivable levels increase. The bank loan agreement provided loan financing up to a maximum commitment of \$15 million dollars as of December 31, 2000. This loan agreement replaced the previous loan agreement that had a maximum commitment of \$30 million dollars. The company determined that the new loan agreement was adequate to cover current and future liquidity requirements.

Performance of work under the BAV contract has the potential to cause substantial requirements for cash; however, management believes that the cash flows from future operations and the bank loan commitment are adequate to meet current operating cash requirements.

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Cash dividends were declared at the rate of \$.16 per share during 2000 and \$.144 per share during 1999 and 1998. Pursuant to its bank loan agreement (see Note 4 of "Notes to Consolidated Financial Statements"), the payment of cash dividends by VSE is subject to annual rate restrictions. VSE has paid cash dividends each year since 1973.

Inflation and Pricing

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

Forward-Looking Disclosures

U. S. Postal Service Contract

VSE had a contract to provide engineering support services to the U.S. Postal Service. The last option year on this contract was scheduled to end December 31, 2000. The contract was extended through January 2001. VSE was not awarded the successor contract, and work on this contract effort terminated as of January 31, 2001. Revenues on this contract represented approximately 8% of the company's revenues during 2000. The company's future revenues will be reduced by the loss of revenues associated with the expiration of this contract.

New Business

VSE has begun several new business initiatives during 2000 and 1999. The company expects each of these new business initiatives to contribute to future revenue growth.

In August 2000, VSE formed TTD to continue a strategy to support customers with effective knowledge management and information technology solutions. In

December 2000, VSE invested \$960 thousand in the acquisition of certain contract and marketing rights to enhance TTD's growth opportunities. TTD markets the company's growing capability to provide customers with the latest products, services, and support in network, multimedia, and audio-visual technology. TTD specializes in maintaining and staffing products and services to create state of the art, network and multimedia technology systems. This includes "turnkey" design, installation, management and support for a wide variety of voice, data, multimedia and related projects.

In August 1999, VSE formed VSI to expand VSE's international presence and perform services for foreign governments and commercial customers similar to the services it has traditionally provided in the United States.

In June 1999, VSE formed SRR to pursue business opportunities associated with dismantling ships that are no longer usable. SRR is a partner in a joint venture that was awarded a contract associated with a new government program to

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dismantle and recycle inactive U.S. Navy ships. The contract requires the joint venture to dismantle U.S. Navy ships and recover costs by selling salvageable materials and parts. Work on this contract began in February 2000.

In January 1999, VSE formed GSA Services to bid on and perform work issued through the government's Federal Supply Schedule Program. Services are performed under these schedules primarily by other VSE divisions and subsidiaries. VSE's divisions and subsidiaries performed approximately \$1.6 million and \$161 thousand of services for GSA Services in 2000 and 1999, respectively. These amounts are included in the revenues of the divisions or subsidiaries that performed the services.

Quantitative and Qualitative Disclosures about Market Risk

Global Economic Conditions

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

Derivative Instruments

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives), and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. In June 1999, the effective date of SFAS No. 133 was amended to be effective for all fiscal quarters of all fiscal years beginning after June 15, 2000 by Statement of Financial Accounting Standards No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of Effective Date of FASB Statement No. 133". The Company does not use derivative instruments. The aggregate fair value of the company's financial instruments approximates the carrying value at December 31, 2000.

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Report of Independent Public Accountants

To the Stockholders of VSE Corporation:

We have audited the accompanying consolidated balance sheets of VSE Corporation (a Delaware corporation) and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of operations, stockholders' investment and cash flows for the three years ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of VSE Corporation as of December 31, 2000 and 1999, and the results of its operations and its cash flows for the three years ended December 31, 2000 in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP

Vienna, Virginia
February 23, 2001

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<TABLE>
VSE Corporation and Subsidiaries
Consolidated Balance Sheets As of December 31,

(in thousands, except share amounts)

<CAPTION>

2000 1999

	----	----
<S>	<C>	<C>
Assets		
Current assets:		
Cash and cash equivalents	\$ 647	\$ 62
Accounts receivable, principally		
U.S. Government, net	19,215	19,361
Deferred tax assets	853	927
Other current assets	1,533	974
	-----	-----
Total current assets	22,248	21,324
Property and equipment, net	3,336	4,377
Deferred tax assets	847	728
Intangible assets, net	2,134	1,267
Note receivable from discontinued operations	-	665
Other assets	2,958	2,889
	-----	-----
Total assets	\$31,523	\$31,250
	=====	=====
Liabilities and Stockholders' Investment		
Current liabilities:		
Accounts payable	\$ 8,678	\$ 8,193
Accrued expenses	5,121	5,977
Dividends payable	85	76
	-----	-----
Total current liabilities	13,884	14,246
Deferred compensation	1,846	1,859
	-----	-----
Total liabilities	15,730	16,105
	-----	-----
Commitments and contingencies		
Stockholders' investment:		
Common stock, par value \$.05 per share, authorized		
5,000,000 shares; issued 2,197,863 in 2000 and		
2,194,289 in 1999	110	110
Paid-in surplus	3,914	3,894
Retained earnings	12,561	11,933
Treasury stock, at cost (72,000 shares)	(792)	(792)
	-----	-----
Total stockholders' investment	15,793	15,145
	-----	-----
Total liabilities and stockholders' investment	\$31,523	\$31,250
	=====	=====

</TABLE>

See accompanying notes

<TABLE>

VSE Corporation and Subsidiaries
Consolidated Statements of Operations For the years ended December 31,

(in thousands, except share amounts)

<CAPTION>

	2000	1999	1998
<S>	----	----	----
<S>	<C>	<C>	<C>
Revenues, principally from contracts	\$ 122,269	\$ 157,354	\$ 177,074
Costs and expenses of contracts	119,937	152,684	171,510
	-----	-----	-----
Gross profit	2,332	4,670	5,564
Selling, general and administrative expenses	239	684	592
Interest (income) expense	(98)	87	24
	-----	-----	-----
Income from continuing operations before			
income taxes	2,191	3,899	4,948
Provision for income taxes	806	1,535	1,933

Income from continuing operations.	1,385	2,364	3,015
Discontinued operations, net of tax:			
Loss from operations (net of tax benefit of \$145 in 1999 and \$842 in 1998) . . .	-	(256)	(1,420)
Loss on disposal (net of tax benefit of \$271 in 2000 and \$524 in 1999) . . .	(417)	(574)	-
Net income	\$ 968	\$ 1,534	\$ 1,595
Basic earnings per share:			
Income from continuing operations	\$ 0.65	\$ 1.12	\$ 1.42
Loss from discontinued operations	(0.19)	(0.39)	(0.67)
Net income	\$ 0.46	\$ 0.73	\$ 0.75
Basic weighted average shares outstanding 2,122,564 2,115,569 2,126,151			
Diluted earnings per share:			
Income from continuing operations	\$ 0.65	\$ 1.12	\$ 1.42
Loss from discontinued operations	(0.19)	(0.39)	(0.67)
Net income	\$ 0.46	\$ 0.73	\$ 0.75
Diluted weighted average shares outstanding 2,122,564 2,115,569 2,126,151			

</TABLE>

See accompanying notes

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<TABLE>

VSE Corporation and Subsidiaries
Consolidated Statements of Stockholders' Investment

(in thousands)

<CAPTION>

	Common Stock Shares	Paid-In Amount	Retained Surplus	Retained Earnings	Treasury Stock	ESOP Obligation
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at						
December 31, 1997	2,165	\$ 108	\$ 3,631	\$ 9,422	\$ -	\$ (680)
Net income for						
the year	-	-	1,595	-	-	-
ESOP Obligation	-	-	-	-	-	(112)
Purchase of Treasury						
Stock	-	-	-	(792)	792	-
Issuance of stock	22	1	201	-	-	-
Dividends						
declared (\$.144)	-	-	-	(314)	-	-
Balance at						
December 31, 1998	2,187	109	3,832	10,703	(792)	-
Net income for						
the year	-	-	1,534	-	-	-
Issuance of stock	7	1	62	-	-	-
Dividends						
declared (\$.144)	-	-	-	(304)	-	-
Balance at						
December 31, 1999	2,194	110	3,894	11,933	(792)	-
Net income for						
the year	-	-	968	-	-	-
Issuance of stock	4	-	20	-	-	-
Dividends						
declared (\$.16)	-	-	-	(340)	-	-

Balance at
December 31, 2000 2,198 \$ 110 \$ 3,914 \$ 12,561 \$ (792) \$ -

</TABLE>

See accompanying notes

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<TABLE>

VSE Corporation and Subsidiaries
Consolidated Statements of Cash Flows For the years ended December 31,

(in thousands)

<CAPTION>

	2000	1999	1998
	<C>	<C>	<C>
Cash flows from operating activities:			
Net income	\$ 968	\$ 1,534	\$ 1,595
Loss from discontinued operations	-	256	1,420
Loss on disposal of discontinued operations	-	417	574
Income from continuing operations	1,385	2,364	3,015
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	1,563	1,829	1,603
Loss (gain) on sale of property and equipment	17	(124)	5
Deferred compensation plan expense	117	29	140
Net (payments of) proceeds from deferred compensation	(168)	(45)	188
Change in deferred taxes	(45)	(549)	317
Change in operating assets and liabilities:			
(Increase) decrease in:			
Accounts receivable	146	14,835	(3,817)
Other current assets and noncurrent assets	(650)	1,569	(509)
Increase (decrease) in:			
Accounts payable	523	(7,733)	1,999
Accrued expenses	(1,116)	42	9
Net cash provided by operating activities of continuing operations	1,772	12,217	2,950
Cash flows from investing activities:			
Purchase of property and equipment, (net of proceeds from dispositions)	(424)	(1,081)	(1,530)
Purchase of intangible assets	(700)	-	-
Net cash used in investing activities of continuing operations	(1,124)	(1,081)	(1,530)
Cash flows from financing activities:			
Net payments on long-term bank loans	-	(1,503)	(1,941)
Current borrowings under long-term bank debt	-	-	778
Payment of current portion of long-term bank debt	-	(1,333)	-
Cash dividends paid	(331)	(304)	(314)
Repayment from ESOP	-	-	680
Purchase of Treasury stock	-	-	(792)
Issuance of common stock	20	63	202
Net cash used in financing activities of continuing operations	(311)	(3,077)	(1,387)
Net cash provided by (used in) discontinued operations	248	(8,046)	1
Net increase in cash and cash equivalents	585	13	34
Cash and cash equivalents at beginning of year	62	49	15
Cash and cash equivalents at end of year	\$ 647	\$ 62	\$ 49

</TABLE>

<TABLE>

Supplemental cash flow disclosures (in thousands):

<CAPTION>

	2000	1999	1998
	----	----	----
<S>	<C>	<C>	<C>
Cash paid during the year for:			
Interest	\$ 127	\$ 321	\$ 537
Income taxes	\$ 1,026	\$ 1,261	\$ 903
Noncash investing and financing activities:			
Note receivable from discontinued operations	\$ -	\$ 800	\$ -
Write off of note receivable from discontinued operations ..	\$ 688	\$ -	\$ -
Payable related to purchase of intangible assets	\$ 260	\$ -	\$ -

</TABLE>

See accompanying notes

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VSE Corporation and Subsidiaries
Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements consist of the operations of the parent company, operations of the company's wholly owned subsidiaries, and operations of the company's divisions. Wholly owned subsidiaries include Energetics Incorporated ("Energetics"), Human Resource Systems, Inc. ("HRSI"), Ship Remediation and Recycling, Inc. ("SRR"), and VSE Services International, Inc. ("VSI"). Unincorporated divisions include BAV Division ("BAV"), Ordnance Division ("Ordnance"), Value Systems Services Division ("VSS"), Fleet Maintenance Division ("Fleet Maintenance"), Telecommunications Technologies Division ("TTD"), and GSA Services Division ("GSA Services"). The company is engaged principally in providing engineering, testing, management and information technology services to the U.S. Government (the "government") and other government prime contractors.

The term "VSE" or "company" means VSE and its subsidiaries and divisions unless the context indicates operations of the parent company only. Inter-company sales are principally at cost. All significant intercompany transactions have been eliminated in consolidation. Certain prior year balances have been reclassified for comparative purposes.

Segment Information

The company operates within one reportable segment. Prior to May 21, 1999, VSE had two reportable segments: the engineering, logistics, management, and technical services segment ("ELMTS"), which provides diversified engineering, technical and management services principally to agencies of the United States Government and to other government prime contractors, and the software products and services segment ("SPS"), which provided application software and services related to the installation of the software to primarily commercial customers. The SPS segment was sold on May 21, 1999, and is reflected as a discontinued operation (see note 10).

Use of Estimates in the Preparation of Financial Statements

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

Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments

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and Hedging Activities" ("SFAS No. 133"). SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives), and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. In June 1999 the effective date of SFAS No. 133 was amended to be effective for all fiscal quarters of all fiscal years beginning after June 15, 2000 by Statement of Financial Accounting Standards No. 137, "Accounting for Derivative Instruments and Hedging Activities Deferral of Effective Date of FASB Statement No. 133". The Company does not use derivative instruments.

In December 1999, the Securities and Exchange Commission released Staff Accounting Bulletin No. 101, "Revenue Recognition In Financial Statements" ("SAB No. 101"). SAB No. 101 establishes guidelines in applying generally accepted accounting principles to the recognition of revenue in financial statements based on the following four criteria; persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the seller's price to the buyer is fixed or determinable, and collectibility is reasonably assured. In the opinion of management, the adoption of SAB No. 101 will not have a material effect, if any, on the company's financial position or results of operations.

Stockholders' Investment and Earnings Per Share

At December 31, 2000, options to purchase 144,330 shares, 32,500 shares, 37,125 shares, 53,000 shares, 66,500 shares and 10,000 shares of common stock at \$10.91, \$13.04, \$9.42, \$10.93, \$8.03 and \$6.94 per share, respectively, were outstanding. There was no dilutive impact on reported earnings per share for 2000, 1999 and 1998, due to the market value of VSE stock.

Cash and Cash Equivalents

Cash and cash equivalents reported by the company consist of cash balances in the company's bank accounts and short term temporary invested balances connected to the bank accounts with sweep arrangements, netted by checks issued on the company's bank accounts that have not yet been presented to the bank for collection. The company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

The company has classified all debt and equity securities as available-for-sale. Available-for-sale securities are carried at fair value with unrealized gains and losses, net of tax, reported as a component of stockholders' investment. Realized gains and losses are included in other income. Available-for-sale debt securities as of December 31, 2000 and December 31, 1999 consisted of overnight money market accounts of \$853 thousand and \$1.7 million, respectively, secured by Government agency securities. The estimated fair value of these securities approximated cost, and the amount of gross unrealized gains and losses was not significant.

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Concentration of Credit Risk/Fair Value of Financial Instruments

Financial instruments that potentially subject the company to concentration of credit risk consist primarily of cash, cash equivalents and trade accounts receivable. The company believes that concentrations of credit risk with respect to trade accounts receivable are limited as they are primarily Government receivables. The company believes that the fair market value of all financial instruments approximates book value.

Contract Revenues

Substantially all of the company's revenues result from contract services performed for the Government or for contractors engaged in work for the

Government under a variety of contracts. Revenues on cost-type contracts are recorded on the basis of recoverable costs incurred and fees earned.

Revenues on fixed price contracts are recorded as services are performed, using the percentage-of-completion method of accounting, primarily based on contract costs incurred to date compared with total estimated costs at completion. Revenues on time and material contracts are recorded on the basis of billable rates times hours delivered plus material and other reimbursable costs incurred.

Potential revenue related to work performed at risk is not recognized either as income or as an offset against a potential loss until it can be reliably estimated and its realization is probable. The company provides for anticipated losses on contracts by a charge to income during the period in which losses are first identified.

A substantial portion of the contract and administrative costs is subject to audit by the Defense Contract Audit Agency. The company's indirect cost rates have been audited and approved for 1998 and prior years. In the opinion of management, the audits of the indirect cost rates for 2000 and 1999 will not result in material adjustments, if any, to the company's results of operations or financial position.

Property and Equipment

<TABLE>

Property and equipment (valued at cost) consisted of the following (in thousands):

<CAPTION>

	2000	1999
	----	----
<S>	<C>	<C>
Computer systems equipment	\$ 6,083	\$ 7,916
Furniture, fixtures, equipment and other	3,791	4,736
Leasehold improvements	1,585	1,608
Buildings	302	302
Land and land improvements	385	385
	-----	-----
	12,146	14,947
Less accumulated depreciation	(8,810)	(10,570)
	-----	-----
	\$ 3,336	\$ 4,377
	=====	=====

</TABLE>

Depreciation and amortization expense for property and equipment was approximately \$1.4 million for 2000, \$1.6 million for 1999 and \$1.3 million for 1998. Depreciation of computer systems equipment is provided principally by the double-declining method over periods of four to six years. Depreciation of furniture and fixtures is provided principally by the straight-line method over approximately nine years. Depreciation of all other property and equipment is provided principally by the double-declining method over periods of three to twenty years. Depreciation of buildings and land improvements is provided principally by the straight-line method over approximately thirty years.

Deferred Compensation Plans

Deferred compensation plan expense for the years ended December 31, 2000, 1999 and 1998 was \$117 thousand, \$29 thousand and \$140 thousand, respectively.

Included in other assets are assets of the deferred compensation plans which include equity securities recorded at fair value. The fair value of these securities was approximately \$1.8 million as of December 31, 2000 and 1999. Because plan participants are at risk for market value changes in these assets, the liability to plan participants fluctuates with the asset values.

Impairment Review

The company performs a periodic review of certain assets to determine if impairment has occurred. If impaired, the company writes down the asset to

its fair market value.

(2) Goodwill and Intangible Assets

As part of the August 29, 1995, acquisition of Energetics, the company recorded approximately \$1.7 million of goodwill in connection with this acquisition, including approximately \$200 thousand of additional goodwill due to contingency requirements established in the purchase agreement. Goodwill is being amortized by the straight-line method over fifteen years, and approximately \$1.2 million of unamortized goodwill remains on the books as of December 31, 2000.

On December 28, 2000, VSE invested \$960 thousand in the acquisition of certain contract and marketing rights. The company will amortize this intangible asset over a period not to exceed five years.

Amortization expense for goodwill and intangible assets was \$115 thousand, \$180 thousand and \$337 thousand for 2000, 1999, and 1998, respectively.

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(3) Accounts Receivable

<TABLE>

The components of accounts receivable as of December 31, 2000 and 1999, were as follows (in thousands):

<CAPTION>

	2000	1999
	----	----
<S>	<C>	<C>
Billed	\$ 7,192	\$ 7,967
Unbilled:		
Retainages	71	71
Other (principally December work billed in January)	12,012	11,400
Less-Allowance for doubtful accounts	(60)	(77)
	-----	-----
Total accounts receivable	\$19,215	\$19,361
	=====	=====

</TABLE>

The "Unbilled: Other" included in accounts receivable are reported net of an allowance for contract disallowances of \$201 thousand as of December 31, 2000 and \$422 thousand as of December 31, 1999. "Unbilled: Other" also includes certain costs for work performed at risk which are not reimbursable under current contracts, but which the company believes will be reimbursable on execution of contract documentation or amendments increasing funding. Amounts not presently reimbursable included in "Unbilled: Other" were \$307 thousand and \$287 thousand as of December 31, 2000, and 1999, respectively.

Contracts with the Government, primarily with the U.S. Department of Defense, accounted for more than 95% of revenues in all years presented. These contracts were primarily for engineering services. A contract awarded in 1995 with the U.S. Navy accounted for approximately 40%, 50% and 52% of such revenues in 2000, 1999 and 1998, respectively.

The company generally expects to collect all accounts receivable other than retainages within one year.

(4) Debt

VSE has a revolving loan agreement with a bank on which the company can borrow up to \$15 million, subject to a borrowing formula based on billed receivables. Under terms of the agreement, the company pays a fixed amount annual commitment fee and interest on any borrowings at a prime-based rate or an optional LIBOR-based rate. The expiration date of the revolving loan is May 31, 2002. The loan agreement contains collateral requirements by which company assets secure amounts outstanding, restrictive covenants that include minimum tangible net worth and profitability requirements, a limit on annual dividends, and other affirmative and negative covenants. There were no outstanding amounts borrowed on the loan as of December 31, 2000. The company had a similar predecessor revolving loan agreement with the same bank as of

December 31, 1999. There were no outstanding amounts borrowed under this loan agreement as of December 31, 1999.

Due to losses incurred by VSE's CMstat subsidiary, the disposal of CMstat, and the write off of the CMstat note receivable (see Note 10 "Discontinued Operations"), the company was not in compliance with certain original loan covenants during 2000 and 1999. The company's bank amended the loan agreements in these years to restate certain terms and conditions of the loans, including the covenants with which the company was not compliant. The

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company was in compliance during 2000 and 1999 with all covenants of the loan agreements as amended.

(5) Accrued Expenses

<TABLE>

The components of accrued expenses as of December 31, 2000 and 1999, were as follows (in thousands):

<CAPTION>

	2000	1999
	----	----
<S>	<C>	<C>
Accrued salaries	\$1,490	\$1,766
Accrued vacation	1,518	1,619
Estimated future losses on fixed-price and time and material contracts	293	583
Other accrued expenses	1,820	2,009
	-----	-----
Total accrued expenses	\$5,121	\$5,977
	=====	=====

</TABLE>

(6) ESOP/401(k) Plan and Profit Sharing Plan

VSE established an ESOP/401(k) plan in 1984. Under the provisions of the ESOP, VSE and certain of its operating entities made contributions into a trust which purchased VSE stock on behalf of employees who met certain age and service requirements and were employed at the end of the plan year. Contributions at the rate of up to 2% of eligible employee compensation were permitted at the discretion of the VSE board of directors and were allocated, subject to a vesting schedule, on a pro rata basis on eligible employee compensation. The 401(k) segment of the plan allows employees meeting certain age and service requirements to contribute a portion of their salary to certain investment trusts. As of April 1, 1999, the ESOP portion was discontinued and replaced by a plan provision whereby employer 401(k) contributions are made on behalf of the eligible employee participants based on the employees' 401(k) payroll deferrals. The employer contribution is equal to 50% of the employee deferral on the first 5% of the employee pay deferred. The company expense associated with this plan for 2000, 1999, and 1998 was \$245 thousand, \$333 thousand, and \$359 thousand, respectively.

The ESOP/401(k) plan held 521,014 shares and 582,761 shares of VSE stock as of December 31, 2000 and 1999, respectively. Such shares receive dividend payments and are included in the weighted average shares for earnings per share calculations.

Energetics maintains a profit sharing plan for employees. All employees who have completed two years of service are members of the profit sharing plan. At its discretion, Energetics may make contributions to the plan. The plan expense for 2000, 1999, and 1998 was \$400 thousand, \$312 thousand, and \$443 thousand, respectively.

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(7) Stock Option Plans

1996 and 1998 Stock Option Plans

<TABLE>

The company accounts for the VSE Corporation 1996 Stock Option Plan (the "1996 Plan") and the 1998 Stock Option Plan (the "1998 Plan") pursuant to APB

Opinion No. 25, "Accounting for Stock Issued to Employees," under which no compensation cost has been recognized because the exercise price of the stock options equals the market price of the underlying stock on the date of grant. Had compensation costs for the 1996 Plan and 1998 Plan been determined based on SFAS No. 123, "Accounting for Stock-Based Compensation," the company's net income and earnings per share would have been as follows (in thousands, except per share amounts):

<CAPTION>

	2000	1999	1998
	----	----	----
<S>	<C>	<C>	<C>
Net income:	As reported	\$ 968	\$1,534
	=====	=====	=====
	Pro forma	\$ 874	\$1,463
	=====	=====	=====
Earnings per share:	As reported	\$ 0.46	\$ 0.73
	=====	=====	=====
	Pro forma	\$ 0.41	\$ 0.69
	=====	=====	=====

</TABLE>

Under the 1996 Plan, the company may grant options for and sell up to an aggregate of 273,698 shares of the common stock of the company. Through December 31, 2000 the company has granted options for 223,955 shares of common stock priced at 100% of the fair value of the stock at the time of the grant of the option. The maximum term of the options granted is five years. The vesting period is three years and allows for 25% vesting immediately upon date of the grant and an additional 25% on each successive anniversary date thereafter. Vesting may be accelerated for shares granted to certain individuals as determined by the Board of Directors. The 1996 Plan will terminate on the earliest of February 5, 2006, or the date on which all options under the 1996 plan have been exercised or terminated.

Under the 1998 Plan, the company may grant options for and sell up to an aggregate of 343,750 shares of common stock. Of the shares available for grant, 15,625 shares may be granted to non-employee directors of VSE, and 328,125 shares may be granted to executive officers and key employees. Through December 31, 2000 the company has granted options for 119,500 shares of common stock priced at 100% of the fair value of the stock at the time of the grant of the option. The vesting period is three years and allows for 25% vesting immediately upon date of the grant and an additional 25% on each successive anniversary date thereafter. The 1998 Plan will terminate on the earliest of May 6, 2008, or the date on which all options under the 1998 Plan have been exercised or terminated.

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<TABLE>

Information with respect to stock options is as follows:

<CAPTION>

	Weighted Average Exercise 2000	Price	Weighted Average Exercise 1999	Price	Weighted Average Exercise 1998	Price
	----	----	----	----	----	----
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Number of shares under stock options:						
Outstanding at beginning of year	279,085	\$11.01	234,273	\$10.95	205,283	\$11.38
Granted	79,000	7.89	69,750	10.93	47,000	9.42
Exercised	-	-	(313)	9.42	-	-
Forfeited	(14,630)	11.29	(24,625)	10.32	(18,010)	11.80
	=====	=====	=====	=====	=====	=====
Outstanding at end of year	343,455	\$10.28	279,085	\$11.01	234,273	\$10.95
	=====	=====	=====	=====	=====	=====
Exercisable at end of year	247,486	\$10.80	213,585	\$11.02	142,642	\$11.07
	=====	=====	=====	=====	=====	=====
Weighted average remaining contractual life	5 years		6 years		7 years	

Weighted average fair value of options granted \$3.32 \$2.36 \$2.14

</TABLE>

<TABLE>

The fair value of the options is estimated on the date of grant using the Black-Scholes option pricing model. The following assumptions were used in the pricing calculation for 2000, 1999 and 1998:

<CAPTION>

	2000	1999	1998
<S>	<C>	<C>	<C>
Risk free interest rate	6.42%	4.57%	5.47%
Dividend yield	2.00%	2.00%	2.00%
Expected life	3 years	3 years	3 years
Expected volatility	61.95%	29.00%	29.00%

</TABLE>

(8) Income Taxes

<TABLE>

The company files consolidated federal income tax returns with all of its subsidiaries. The components of the provision for income taxes for the years ended December 31, 2000, 1999 and 1998 are as follows (in thousands):

<CAPTION>

	2000	1999	1998
<S>	<C>	<C>	<C>
Current			
Federal	\$ 682	\$1,691	\$1,324
State	169	393	289
	851	2,084	1,613
Deferred			
Federal	(36)	(432)	249
State	(9)	(117)	71
	(45)	(549)	320
Provision for income taxes		\$ 806	\$1,535
			\$1,933

</TABLE>

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<TABLE>

The differences between the amount of tax computed at the federal statutory rate of 34% and the provision for income taxes for 2000, 1999 and 1998 are as follows (in thousands):

<CAPTION>

	2000	1999	1998
<S>	<C>	<C>	<C>
Tax at statutory federal income tax rate at 34%	\$ 744	\$1,326	\$1,682
Increases (decreases) in tax resulting from:			
State taxes, net of federal tax benefit	112	180	238
Permanent differences, net	-	9	30
Other, net	(50)	20	(17)
Provision for income taxes		\$ 806	\$1,535
			\$1,933

</TABLE>

<TABLE>

The company's deferred tax assets (liabilities) as of December 31, 2000 and 1999, which represent the tax effects of temporary differences between tax and financial accounting bases of assets and liabilities and are measured using presently enacted tax rates, are as follows (in thousands):

<CAPTION>

	2000	1999
<S>	<C>	<C>
Current deferred tax assets	\$1,035	\$1,334

Current deferred tax liabilities	(182)	(407)
Net current deferred tax assets	853	927
Noncurrent deferred tax assets	1,101	1,031
Noncurrent deferred tax liabilities	(254)	(253)
Valuation allowance	-	(50)
Net noncurrent deferred tax assets	847	728
Net deferred tax assets	\$1,700	\$1,655

</TABLE>

A valuation allowance is provided when it is more likely than not that some portion of the deferred tax asset will not be realized. The company had established such a valuation allowance for the deferred tax asset associated with certain real property because of the uncertainty that the deferred tax asset would be fully realized. It was determined that this valuation allowance was no longer necessary. As a result, the allowance was reversed as of December 31, 2000.

<TABLE>

The tax effect of temporary differences representing deferred tax assets and liabilities as of December 31, 2000 and 1999, are as follows (in thousands):

<CAPTION>

	2000	1999
<S>	<C>	<C>
Deferred compensation	\$1,317	\$1,377
Accrued expenses	205	263
Accelerated depreciation	84	6
Allowance for contract and other disallowances	68	163
Bad debt expense	25	32
Retainages not taxed until billed.	(61)	(68)
Deferred revenues	(90)	(338)
Intangible assets	37	41
Other	115	229
	1,700	1,705
Valuation allowance	-	(50)
Net deferred tax assets	\$1,700	\$1,655

</TABLE>

(9) Commitments and Contingencies

Leases

The principal facilities of the company and its subsidiaries are generally rented under noncancelable operating leases for periods of one to ten years. The company and its subsidiaries also lease furniture and equipment generally under noncancelable operating leases for periods of one to five years. Rent expense for 2000, 1999 and 1998 was approximately \$1.9 million, \$1.9 million, and \$2.1 million, respectively, which was net of sublease income of \$694 thousand, \$686 thousand and \$464 thousand, respectively. The future minimum annual rental required under leases having remaining noncancelable lease terms in excess of one year, net of noncancelable sublease income, will approximate \$1.7 million in 2001 and 2002 and \$1.3 million 2003, 2004 and 2005, and \$1.4 million thereafter.

Litigation

The company and its subsidiaries have, in the normal course of business, certain claims against them and against other parties. The company is not aware of any present claims which would have a material adverse effect on the company's financial condition or results of operations.

(10) Discontinued Operations

On May 21, 1999, the company sold all of its interests in the SPS segment. This entailed selling its CMstat subsidiary for an \$800 thousand promissory note. While the sale was a divestiture for legal and tax purposes, for accounting purposes, the sale was not originally provided discontinued operations treatment under Staff Accounting Bulletin No. 30 "Accounting for Divestiture of a Subsidiary or Other Business Operation" ("SAB No. 30") since the sale did not transfer the risks of ownership because the sales price was primarily dependent on the buyer's ability to repay the promissory note.

As of December 31, 2000, the company has determined that the promissory note acquired from the sale of its CMstat subsidiary is not collectible and has written off the remaining balance. Accordingly, the consolidated financial statements have been restated to reflect the disposition of its CMstat subsidiary as discontinued operations. The revenues, costs and expenses, assets and liabilities and cash flows from the CMstat subsidiary have been excluded from the respective captions in the Consolidated Statement of Operations, Balance Sheets, Cash Flows and related footnotes.

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

There have been no changes in the company's independent public accountants or disagreements with such accountants on accounting principles or practices or financial statement disclosures.

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PART III

ITEM 10. Directors and Executive Officers of the Registrant

Information with respect to Directors of the company is incorporated by reference from the registrant's definitive proxy statement for its annual meeting of stockholders to be filed not later than 120 days after December 31, 2000, with the Securities and Exchange Commission pursuant to Regulation 14A (the "Proxy Statement"). Certain information relating to Executive Officers of the company appears on page 10 of this Form 10-K Annual Report.

ITEM 11. Executive Compensation

Information with respect to this item is incorporated by reference from the Proxy Statement.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management

Information with respect to this item is incorporated by reference from the Proxy Statement.

ITEM 13. Certain Relationships and Related Transactions

Information with respect to this item is incorporated by reference from the Proxy Statement.

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PART IV

ITEM 14. Exhibits, Financial Statement Schedules and Reports

on Form 8-K

(a) Exhibits

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

(b) Supplemental Financial Statement Schedule

Schedules not included herein have been omitted because of the absence of conditions under which they are required or because the required information, where material, is shown in the consolidated financial statements, financial notes, or supplementary financial information.

(c) Reports on Form 8-K

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: March 7, 2001 By: /s/ C. S. Weber

C. S. Weber, Executive Vice
President and Chief Financial
Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on March 6, 2001, by the following persons on behalf of the Registrant and in the capacities indicated.

Principal Executive Officers:

/s/ D. M. Ervine

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

/s/ J. M. Todd

J. M. Todd, President and Chief Operating Officer

(b) Principal Financial Officer: (c) Principal Accounting Officer:

/s/ C. S. Weber

/s/ T. R. Loftus

----- -----
C. S. Weber, Executive Vice T. R. Loftus, Senior Vice
President and Chief Financial President and Comptroller
Officer

Directors:

/s/ D. M. Ervine

/s/ D. M. Osnos

----- -----

D. M. Ervine D. M. Osnos

/s/ R. J. Kelly /s/ J. D. Ross

R. J. Kelly J. D. Ross

/s/ B. K. Wachtel

C. M. Kendall B. K. Wachtel

/s/ C. S. Koonce

C. S. Koonce

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EXHIBIT INDEX

Reference No. per Item 601 of Regulation S-K	Description of Exhibit	Exhibit No. in this Form 10-K
2	Plan of acquisition, reorganization, arrangement, liquidation or succession Exchange Agreement dated as of March 25, 1992, amended as of September 1, 1992, by and between VSE Corporation and JBT Holding Corp., et al. (Exhibit A to Exhibit 1, Proxy Statement, filed on Form 8-K on November 2, 1992)	*
3	Articles of incorporation and by-laws Restated Certificate of Incorporation of VSE Corporation dated as of February 6, 1996 By-Laws of VSE Corporation as amended through May 16, 2000 (Exhibit 3.2 to Form 10-Q dated October 27, 2000)	*
4	Instruments defining the rights of security holders, including indentures Specimen Stock Certificate as of May 19, 1983 (Exhibit 4 to Registration Statement No. 2-83255 dated April 22, 1983 on Form S-2)	*
9	Voting trust agreement	Not Applicable
10	Material contracts Employment Agreement entered into as of December 10, 1997, by and between VSE Corporation and Byron S. Bartholomew Exhibit VI Employment Agreement entered into as of December 10, 1997, by and between VSE Corporation and Jayne M. Tuohig Exhibit VII Employment Agreement entered into as of December 10, 1997, by and between VSE Corporation and Craig S. Weber Exhibit VIII Employment Agreement entered into as of October 21, 1998, by and between VSE Corporation and Donald M. Ervine (Exhibit VI to Form 10-K dated March 18, 1999)	*
	Employment Agreement entered into as of January 15, 1999, by and between VSE Corporation and Energetics, Incorporated and Robert J. Kelly (Exhibit VII to Form 10-K dated March 18, 1999)	*
	Employment Agreement entered into as of June 3, 1999, by and between VSE Corporation and James M. Knowlton (Exhibit V to Form 10-K dated March 15, 2000)	*
	Employment Agreement dated as of November 1, 2000, by and between VSE Corporation and James M. Todd Exhibit V VSE Corporation Deferred Supplemental Compensation Plan effective January 1, 1994 (Exhibit III to Form 10-K dated March 23, 1995)	*

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EXHIBIT INDEX

Reference No. per Item 601 of Regulation S-K	Description of Exhibit	Exhibit No. in this Form 10-K
	Stock Purchase Agreement dated August 29, 1995 by and between VSE Corporation and the shareholders of Energetics Incorporated (Exhibit 2 to Form 8-K dated September 13, 1995 and Amendment 1 on Form 8-K/A dated November 9, 1995)	*
	VSE Corporation 1996 Stock Option Plan (Appendix A to Registrant's definitive proxy statement dated April 3, 1996)	
	VSE Corporation 1998 Stock Option Plan (Appendix A to Registrant's definitive proxy statement for the Annual Meeting of Stockholders held on May 6, 1998)	
	VSE Corporation 1998 Non-employee Directors Stock Plan (Appendix B to Registrant's definitive proxy statement for the Annual Meeting of Stockholders held on May 6, 1998)	
12	Statements re computation of ratios	Not Applicable
13	Annual report to security holders, Form 10-Q or quarterly report to security holders	Exhibit II
16	Letter re change in certifying accountant	Not Applicable
18	Letter re change in accounting principles	Not Applicable
21	Subsidiaries of the registrant	Exhibit I
22	Published report regarding matters submitted to vote of security holders	Not Applicable
23	Consents of independent public accountants and counsel	Exhibit IV
24	Power of attorney	Not Applicable
27	Financial Data Schedule	Exhibit III
99	Additional exhibits	Not Applicable

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

EXHIBIT I

SUBSIDIARIES OF THE REGISTRANT

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

	Jurisdiction of Organization -----
Energetics Incorporated	Maryland
Human Resource Systems, Inc.	Delaware
Ship Remediation and Recycling, Inc.	Delaware
VSE Services International, Inc.	Delaware

EXHIBIT II

<TABLE>

Selected Quarterly Data (Unaudited)

(in thousands, except earnings per share)

<CAPTION>

	2000 Quarters			
	1st	2nd	3rd	4th
	---	---	---	---
<S>	<C>	<C>	<C>	<C>
Revenues	\$31,133	\$31,393	\$30,484	\$29,259
Gross profit (loss)	\$ 1,193	\$ 722	\$ 447	\$ (30)
Income from continuing operations . . .	\$ 618	\$ 402	\$ 308	\$ 57
Loss from discontinued operations . . .	\$ -	\$ -	\$ -	\$ 417
Net income (loss)	\$ 618	\$ 402	\$ 308	\$ (360)
Basic earnings per share:				
Income from continuing operations . . .	\$.29	\$.19	\$.15	\$.02
Loss from discontinued operations . . .	-	-	-	(.19)
Net income per share	\$.29	\$.19	\$.15	\$ (.17)
Weighted average shares outstanding . .	2,122	2,122	2,122	2,123
Diluted earnings per share:				
Income from continuing operations . . .	\$.29	\$.19	\$.15	\$.02
Loss from discontinued operations . . .	-	-	-	(.19)
Net income per share	\$.29	\$.19	\$.15	\$ (.17)
Weighted average shares outstanding . .	2,122	2,122	2,122	2,123
	1999 Quarters			
	1st	2nd	3rd	4th
	---	---	---	---
Revenues	\$40,182	\$46,050	\$36,587	\$34,535
Gross profit	\$ 789	\$ 1,464	\$ 1,202	\$ 1,215
Income from continuing operations . . .	\$ 407	\$ 652	\$ 675	\$ 630
Loss from discontinued operations . . .	\$ (201)	\$ (629)	\$ -	\$ -
Net income	\$ 206	\$ 23	\$ 675	\$ 630
Basic earnings per share:				
Income from continuing operations . . .	\$.19	\$.31	\$.32	\$.30
Loss from discontinued operations . . .	(.09)	(.30)	-	-
Net income per share	\$.10	\$.01	\$.32	\$.30
Weighted average shares outstanding . .	2,115	2,115	2,115	2,117
Diluted earnings per share:				
Income from continuing operations . . .	\$.19	\$.31	\$.32	\$.30
Loss from discontinued operations . . .	(.09)	(.30)	-	-
Net income per share	\$.10	\$.01	\$.32	\$.30

Weighted average shares outstanding	..	2,115	2,115	2,115	2,117
-------------------------------------	----	-------	-------	-------	-------

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EXHIBIT IV

VSE CORPORATION
CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation by reference in this Form 10-K of our report dated February 23, 2001 included in Registration Statement File Numbers 333-15307, 333-15309, 333-15311 and 333-92427.

ARTHUR ANDERSEN LLP

Vienna, Virginia
March 7, 2001

EXHIBIT V
EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT is made and entered into as of November 1, 2000, by and between VSE Corporation, a Delaware corporation ("Employer"), and James M. Todd ("Employee");

WHEREAS, Employer desires to retain the services of Employee as its president and chief operating officer; and

WHEREAS, Employer wishes to induce Employee to remain in Employer's employ to prevent the significant loss which Employer would incur if Employee were to leave and to enter the employment of a competitor; and

WHEREAS, in the current business climate of takeovers and acquisitions, Employee may be concerned about the continuation of his employment and his status and responsibilities if a Change in Control (as defined below) occurs, and Employer is concerned that Employee may be approached by others with employment opportunities;

WHEREAS, Employer desires to ensure that, if a Change in Control appears possible, Employee will be in a secure position from which to objectively engage in any potential deliberations or negotiations respecting such Change in Control without fear of any direct or implied threat to employment, status and responsibilities; and

WHEREAS, Employee desires to have the foregoing assurances;

NOW, THEREFORE, in consideration of the mutual promises contained herein, and for other good and valuable consideration, the adequacy of which is hereby acknowledged, Employer and Employee, each intending to be legally bound, agree as follows:

1. Term. The term of Employee's employment hereunder shall commence on November 1, 2000, and shall continue until December 31, 2003, except as otherwise provided in Section 7. If the term of Employee's employment hereunder shall have continued until December 31, 2003, thereafter, such term of Employee's employment hereunder shall be deemed to be renewed automatically, on the same terms and conditions contained herein, for successive periods of one year each, unless and until Employee, at least 90 days prior to the expiration of the original term or any such extended term, shall give written notice to the Employer of intent not to renew the term of Employee's employment hereunder. All references herein to the "Term" refer to the original term of Employee's employment hereunder and all extensions thereof.

2. Duties.

(a) Offices

During the Term, Employee shall serve as Employer's president and chief operating officer, and the Board shall reappoint Employee as Employer's president and chief operating officer, and Employee shall perform the duties of this position, as assigned to him by the chairman. Employer agrees that Employee will be assigned only duties of the type, nature and dignity normally assigned to the president and chief operating officer of a corporation of the size, stature and nature of Employer. During the Term, Employee shall have, at a minimum, the same prerequisites of office as he had on the date hereof, and he shall report to the chairman and chief executive officer.

(b) Full-Time Basis

During the Term, Employee shall devote, on a full-time basis, his services, skills and abilities to his employment hereunder, excepting periods of vacation, illness or Disability (as defined below), and excepting any pursuits which do not materially interfere with duties hereunder or present a conflict of interest with the interests of Employer or of any subsidiary thereof ("Subsidiary").

3. Compensation.

(a) Salary

During the Term, as compensation for services rendered by Employee hereunder, Employer shall pay to Employee a base salary at the rate of not less than \$170,040 per annum, payable in installments in accordance with Employer's policy governing salary payments to senior officers generally ("Base Salary"). Effective January 1 of every year during the Term, Employee's compensation, including Base Salary, will be subject to the Board's review, provided that, the Base Salary shall not be less than \$170,040 per annum.

(b) Performance Bonus

Except as otherwise provided in Section 7, in addition to the Base Salary, Employee shall be eligible for an annual performance bonus as determined by the Board or its Compensation Committee ("Performance Bonus"). Any Performance Bonus payable pursuant to this Section 3(b) shall be paid within 30 days after the end of the fiscal period to which such Performance Bonus relates.

(c) Other Compensation Plans or Arrangements

During the Term, Employee shall also be eligible to participate in all other currently existing or subsequently implemented compensation or benefit plans or arrangements available generally to other officers or senior officers of Employer, including Employer's "Deferred Supplemental Compensation Plan," ESOP/401(k) Plan, and any stock grant, stock option, stock purchase or similar stock plans or arrangements.

(d) Tax Withholdings

Employer shall withhold from Employee's compensation hereunder and pay over to the appropriate governmental agencies all payroll taxes, including income, social security, and unemployment compensation taxes, required by the federal, state and local governments with jurisdiction over Employer.

4. Benefits. During the Term, Employee shall be entitled to such comparable fringe benefits and perquisites as may be provided to any or all of Employer's senior officers pursuant to policies established from time to time by the Board. These fringe benefits and perquisites shall include holidays, group health insurance, short-term and long-term disability insurance, and life insurance, vehicle allowances, and supplemental executive health care benefits. Also, during the Term, Employee shall be entitled to 20 days paid leave per annum and to be reimbursed for the costs of physical examinations up to \$1,000 per annum.

5. Expenses and Other Perquisites. Employer shall reimburse Employee for all reasonable and proper business expenses incurred by him during the Term in the performance of his duties hereunder, in accordance with Employer's customary practices for senior officers, and provided such business expenses are reasonably documented. Also, during the Term, Employer shall continue to provide Employee with an office and suitable office fixtures, telephone services, and secretarial assistance of a nature appropriate to Employee's position and status.

6. Exclusive Services, Confidential Information, Business Opportunities and Non-Solicitation.

(a) Exclusive Services

(i) During the Term, Employee shall at all times devote his full-time attention, energies, efforts and skills to Employer's business and shall not, directly or indirectly, engage in any other business activity, whether or not for profit, gain or other pecuniary advantages, without the Board's written consent provided that such prior consent shall not be required with respect to (1) business interests that neither compete with Employer or any Subsidiaries nor interfere with Employee's duties and obligations hereunder, and (2) Employee's charitable, eleemosynary, philanthropic or professional association activities.

(ii) During the Term, Employee shall not, without the Board's prior written consent, directly or indirectly, either as an officer, director, employee, agent, advisor, consultant, principal, stockholder, partner, owner or in any other capacity, on Employee's own behalf or otherwise, in any way engage in, represent, be connected with or have a financial interest in, any business which is, or to his knowledge, is about to become, engaged in the business of providing engineering, management, energy or environmental services to the

United States Government or any department, agency, or instrumentality thereof or any state or local governmental agency or to any person, corporation or other entity (collectively a "Person") with which Employer or any Subsidiary is currently or has previously done business or any subsequent line of business developed by Employee or any Subsidiary during the term. Notwithstanding the foregoing, Employee shall be permitted to own passive investments in publicly held companies provided that such investments do not exceed five percent of any such company's outstanding equity.

(b) Confidential Information

During the Term and for the first 24 consecutive months after the termination of the Term, Employee shall not disclose or use, directly or indirectly, any Confidential Information (as defined below). For the purposes of this Agreement, "Confidential Information" shall mean all information disclosed to Employee, or known by him as a consequence of or through his employment with Employer or any Subsidiary, where such information is not generally known in the trade or industry or was regarded or treated as confidential by Employer or any Subsidiary, and where such information refers or relates in any manner whatsoever to the business activities, processes, services or products of Employer or its Subsidiaries. Confidential Information shall include business and development plans (whether contemplated, initiated or completed), information with respect to the development of technical and management services, business contacts, methods of operation, results of analysis, business forecasts, financial data, costs, revenues, and similar information. Upon termination of Term, Employee shall immediately return to Employer all of property of Employer or any Subsidiary and Confidential Information which is in tangible form, and all copies thereof.

(c) Business Opportunities

(i) During the Term, Employee shall promptly disclose to Employer each business opportunity of a type which, based upon its prospects and relationship to the existing businesses of Employer or any Subsidiary, Employer or any Subsidiary might reasonably consider pursuing. Upon termination of the Term, regardless of the circumstances thereof, Employer shall have the exclusive right to participate in or undertake any such opportunity on its own behalf without any involvement of Employee.

(ii) During the Term, Employee shall refrain from engaging in any activity, practice or act which conflicts with, or has the potential to conflict with, the interests of Employer or its Subsidiaries, and he shall avoid any acts or omissions which are disloyal to, or competitive with Employer or its Subsidiaries.

(d) Non-Solicitation of Employees

During the Term and for the first 24 consecutive months after termination of the Term, Employee shall not, except in the course of duties hereunder, directly or indirectly, induce or attempt to induce or otherwise counsel, advise, ask or encourage any person to leave the employ of Employer or any Subsidiary, or solicit or offer employment to any person who was employed by Employer or any Subsidiary at any time during the twelve-month period preceding the solicitation or offer.

(e) Covenant Not To Compete

(i) If Employee voluntarily terminates the Term, or if Employer terminates the Term for Cause (as defined below), Employee shall not, during the first 24 consecutive months following such termination, engage in competition with Employer or any Subsidiary, or solicit, from any person or entity who purchased any then existing product or service from Employer or any Subsidiary during his employment hereunder, the purchase of any then existing product or service in competition with then existing products or services of Employer or any Subsidiary.

(ii) For purposes of this Agreement, Employee shall be deemed to engage in competition with Employer if he shall directly or indirectly, either individually or as a stockholder, director, officer, partner, consultant, owner, employee, agent, or in any other capacity, consult with or otherwise assist any person or entity engaged in providing technical and management services to any person or entity which Employer or any Subsidiary, during the Term, has developed or is working to develop. Notwithstanding anything herein to the

contrary, if Employer is in material breach of this Agreement, the provisions of this Section 6 shall not apply.

(f) Employee Acknowledgment

Employee hereby agrees and acknowledges that the restrictions imposed upon by the provisions of this Section 6 are fair and reasonable considering the nature of Employer's business, and are reasonably required for Employer's protection.

(g) Invalidity

If a court of competent jurisdiction or an arbitrator shall declare any provision or restriction contained in this Section 6 as unenforceable or void, the provisions of this Section 6 shall remain in full force and effect to the extent not so declared to be unenforceable or void, and the court may modify the invalid provision to make it enforceable to the maximum extent permitted by law.

(h) Specific Performance

Employee agrees that if Employee breaches any of the provisions of this Section 6, the remedies available at law to Employer would be inadequate and in lieu thereof, or in addition thereto, Employer shall be entitled to appropriate equitable remedies, including specific performance and injunctive relief. Employee agrees not to enter into any agreement, either written or oral, which may conflict with this Agreement, and Employee authorizes Employer to make known the terms of Sections 6 and 7 hereof to any Person, including future employers of Employee.

7. Termination.

(a) By Employer

(i) Termination for Cause

Employer may for Cause (as defined below) terminate the Term at any time by written notice to Employee. For purposes of this Agreement, the term "Cause" shall mean any one or more of the following: (1) conduct by Employee which is materially illegal or fraudulent or contrary to Employer policy; (2) the breach or violation by Employee of any of the material provisions of this Agreement, provided that Employee must first be given notice by the Chairman or the Board of the alleged breach or violation and 30 days to cure said alleged breach or violation; (3) Employee's use of illegal drugs or abuse of alcohol or authorized drugs which impairs Employee's ability to perform duties hereunder, provided that Employee must be given notice by the Chairman or the Board of such impairment and 60 days to cure the impairment; (4) Employee's knowing and willful neglect of duties or negligence in the performance of duties which materially affects Employer's or any Subsidiary's business, provided that Employee must first be given notice by the Chairman or the Board of such alleged neglect or negligence and 30 days to cure said alleged neglect or negligence. If a termination occurs pursuant to clause (1) above, the date on which the Term is terminated (the "Termination Date") shall be the date Employee receives notice of termination and, if a termination occurs pursuant to clauses (2), (3) or (4) above, the Termination Date shall be the date on which the specified cure period expires. In any event, as of the Termination Date (in the absence of satisfying the alleged breach or violation within the applicable cure period), Employee shall be relieved of all duties hereunder and Employee shall not be entitled to the accrual or provision of any compensation or benefit, after the Termination Date but Employee shall be entitled to the provision of all compensation and other benefits that shall have accrued as of the Termination Date, including Base Salary, Performance Bonuses, paid leave benefits, Deferred Compensation Units, Deferred Supplemental Compensation to the extent permitted by the plans, and reimbursement of incurred business expenses.

(ii) Termination Without Cause

Employer may, in its sole discretion, without Cause, terminate the Term at any time by providing Employee with (a) 60 days' prior notice thereof and (b) on or prior to the Termination Date, a lump sum severance compensation payment equal to one (1) times the total amount of Employee's Base Salary payable hereunder, based upon the amount in effect as of the effective Termination Date. In such event, Employee shall not be entitled to the accrual or provision of any other compensation or benefit after the Termination Date

other than (a) the medical and hospitalization benefits for the first 18 months after the Termination Date or longer if permitted under Employer's policies and procedures; (b) the provision of all compensation and other benefits that shall have accrued as of the Termination Date, including Base Salary, Performance Bonus, paid leave benefits, Deferred Compensation Units, Deferred Supplemental Compensation and reimbursements of incurred expenses; and (c) all stock options or similar rights to acquire capital stock granted by Employer to Employee shall automatically become vested and exercisable in whole or in part.

(b) Death or Disability

The Term shall be terminated immediately and automatically upon Employee's death or "Disability." The term "Disability" shall mean Employee's inability to perform all of the essential functions of his position hereunder for a period of 26 consecutive weeks or for an aggregate of 150 work days during any 12-month period by reason of illness, accident or any other physical or mental incapacity, as may be permitted by applicable law. Employee's capability to continue performance of Employee's duties hereunder shall be determined by a panel composed of two independent medical doctors appointed by the Board and one appointed by the Employee or designated representative. If the panel is unable to reach a decision, the matter will be referred to arbitration in accordance with Section 8. In the event of Employee's death or Disability for any period of six consecutive months, Employee (or designated beneficiary) will be paid his Base Salary then in effect for one full year following the date of death or disability.

(c) By Employee

(i) Employee may, in his sole discretion, without cause, terminate the Term at any time upon 60 days' written notice to Employer. If Employee exercises such termination right, Employer may, at its option, at any time after receiving such notice from Employee, relieve Employee of all duties and terminate the Term at any time prior to the expiration of said notice period. If the Term is terminated by Employee or Employer pursuant to this Section 7(c)(i), Employee shall not be entitled to any further Base Salary or the accrual or provision of any compensation or benefits after the Termination Date, except standard medical and hospitalization benefits in accordance with Employer's policy.

(ii) If, during the Term, a Change of Control (as defined below) occurs, Employee may, in his sole discretion, terminate the Term upon 30 days' notice to Employer. If Employee exercises such termination right, Employer may, at its option, at any time after receiving such notice from Employee, relieve Employee of all duties hereunder and terminate the Term at any time prior to the expiration of said notice period. If this Agreement is terminated by Employee or Employer pursuant to this Section 7(c)(ii), Employee shall be entitled to (a) payment on or prior to the Termination Date of a lump sum severance compensation payment equal to two (2) times the total amount of Employee's Base Salary payable hereunder, based on the amount in effect as of the Termination Date; (b) continue the medical and hospitalization benefits in accordance with Employer's policy and to payment of all compensation and other benefits that shall have accrued as of the Termination Date, as described in Section 7(a)(ii) (I); and (c) to the automatic vesting and exercisability in whole or in part of all stock options or similar rights to acquire capital stock granted by Employer to Employee; provided that Employee shall not be entitled, after the Termination Date to the accrual or provision of any other compensation payable hereunder, including the Performance Bonus.

(d) Change of Control

For purposes of this Section 7, a "Change of Control" shall be deemed to have occurred upon the happening of any of the following events:

(i) any "person," including a "group," as such terms as defined in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended, and the rules promulgated thereunder (collectively the "Exchange Act"), other than a trustee or other fiduciary holding voting securities of Employer ("Voting Securities") under any Employer-sponsored benefit plan, becomes the beneficial owner, as defined under the Exchange Act, directly or indirectly, whether by purchase or acquisition or agreement to act in concert or otherwise, of 30% or more of the outstanding Voting Securities;

(ii) a cash tender or exchange offer is completed for such amount of

Voting Securities which, together with the Voting Securities then beneficially owned, directly or indirectly, by the offeror (and affiliates thereof) constitutes 40% or more of the outstanding Voting Securities;

(iii) except in the case of a merger or consolidation in which (a) Employer is the surviving corporation and (b) the holders of Voting Securities immediately prior to such merger or consolidation beneficially own, directly or indirectly, more than 50% of the outstanding Voting Securities immediately after such merger or consolidation (there being excluded from the number of Voting Securities held by such holders, but not from the outstanding Voting Securities, any Voting Securities received by affiliates of the other constituent corporation(s) in the merger or consolidation in exchange for stock of such other corporation), Employer's shareholders approve an agreement to merge, consolidate, liquidate, or sell all or substantially all of Employer's assets; or

(iv) two or more directors are elected to the Board without having previously been nominated and approved by the members of the Board incumbent on the day immediately preceding such election. For purposes of this Section 7, "affiliate" of a person or another entity shall mean a person or other entity that directly or indirectly controls, is controlled by, or is under common control with the person or other entity specified.

(e) No Duty to Mitigate

If Employee is entitled to the compensation and other benefits provided under Sections 7(a)(ii) or (c)(ii), Employee shall have no obligation to seek employment to mitigate damages hereunder.

8. Arbitration. Whenever a dispute arises between the parties concerning this Agreement or any of the obligations hereunder, or Employee's employment generally, Employer and Employee shall use their best efforts to resolve the dispute by mutual agreement. If any dispute cannot be resolved by Employer and Employee, it shall be submitted to arbitration to the exclusion of all other avenues of relief and adjudicated pursuant to the American Arbitration Association's Rules for Employment Dispute Resolution then in effect. The decision of the arbitrator must be in writing and shall be final and binding on the parties, and judgment may be entered on the arbitrator's award in any court having jurisdiction thereof. The arbitrator's authority in granting relief to Employee shall be limited to an award of compensation, benefits and unreimbursed expenses as described in Sections 3, 4, and 5 above, and to the release of Employee from the provisions of Section 6 and the arbitrator shall have no authority to award other types of damages or relief to Employee, including consequential or punitive damages. The arbitrator shall also have no authority to award consequential or punitive damages to Employer for violations of this Agreement by Employee. The expenses of the arbitration shall be borne by the losing party to the arbitration and the prevailing party shall be entitled to recover from the losing party all of its own costs and attorneys' fees with respect to the arbitration. Nothing in this Section 8 shall be construed to derogate Employer's rights to seek legal and equitable relief in a court of competent jurisdiction as contemplated by Section 6(h).

9. Non-Waiver. It is understood and agreed that one party's failure at any time to require the performance by the other party of any of the terms, provisions, covenants or conditions hereof shall in no way affect the first party's right thereafter to enforce the same, nor shall the waiver by either party of the breach of any term, provision, covenant or condition hereof be taken or held to be a waiver of any succeeding breach.

10. Severability. If any provision of this Agreement conflicts with the law under which this Agreement is to be construed, or if any such provision is held invalid or unenforceable by a court of competent jurisdiction or any arbitrator, such provision shall be deleted from this Agreement and the Agreement shall be construed to give full effect to the remaining provision thereof.

11. Survivability. Unless otherwise provided herein, upon termination of the Term, the provisions of Sections 6(b), (d) and (e) shall nevertheless remain in full force and effect.

12. Governing Law. This Agreement shall be interpreted, construed and governed according to the laws of the Commonwealth of Virginia, without regard to the conflict of law provisions thereof.

13. Construction. The paragraph headings and captions contained in this Agreement are for convenience only and shall not be construed to define, limit or affect the scope or meaning of the provisions hereof. All references herein to Sections shall be deemed to refer to Sections of this Agreement.

14. Entire Agreement. This Agreement contains and represents the entire agreement of Employer and Employee and supersedes all prior agreements, representations or understandings, oral or written, express or implied with respect to the subject matter hereof. This Agreement may not be modified or amended in any way unless in a writing signed by each of Employer and Employee. No representation, promise or inducement has been made by either Employer or Employee that is not embodied in this Agreement, and neither Employer nor Employee shall be bound by or liable for any alleged representation, promise or inducement not specifically set forth herein.

15. Assignability. Neither this Agreement nor any rights or obligations of Employer or Employee hereunder may be assigned by Employer or Employee without the other party's prior written consent. Subject to the foregoing, this Agreement shall be binding upon and inure to the benefit of Employer and Employee and their heirs, successors and assigns.

16. Notices. All notices required or permitted hereunder shall be in writing and shall be deemed properly given if delivered personally or sent by certified or registered mail, postage prepaid, return receipt requested, or sent by telegram, telex, telecopy or similar form of telecommunication, and shall be deemed to have been given when received. Any such notice or communication shall be addressed: (a) if to Employer, to Chief Executive Officer, c/o VSE Corporation, 2550 Huntington Avenue, Alexandria, Virginia 22303-1499 or (b) if to Employee, to the last known home address on file with Employer, or to such other address as Employer or Employee shall have furnished to the other in writing.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement, to be effective as of the day and year first above written.

VSE CORPORATION
a Delaware corporation

/s/ D. M. Ervine
By: _____
D. M. Ervine
Chairman and Chief Executive Officer
Date: November 9, 2000

JAMES M. TODD
an individual

/s/ James M. Todd
By: _____
James M. Todd
Date: November 9, 2000

EXHIBIT VI
EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT is made and entered into as of December 10, 1997, by and between VSE Corporation, a Delaware corporation ("Employer"), and Byron S. Bartholomew "Employee");

WHEREAS, Employee currently is employed by Employer as a senior corporate officer;

WHEREAS, Employee has rendered good and valuable service to the Employer and has contributed greatly to Employer's growth and success;

WHEREAS, Employer wishes to induce Employee to remain in Employer's employ to prevent the significant loss which Employer would incur if Employee were to leave and to enter the employment of a competitor;

WHEREAS, in the current business climate of takeovers and acquisitions, Employee may be concerned about the continuation of employment and status and responsibilities if a Change in Control (as defined below) occurs, and Employer is concerned that Employee may be approached by others with employment opportunities;

WHEREAS, Employer desires to ensure that, if a Change in Control appears possible, Employee will be in a secure position from which to objectively engage in any potential deliberations or negotiations respecting such Change in Control without fear of any direct or implied threat to employment, status and responsibilities; and

WHEREAS, Employee desires to have the foregoing assurances;

NOW, THEREFORE, in consideration of the mutual promises contained herein, and for other good and valuable consideration, the adequacy of which is hereby acknowledged, Employer and Employee, each intending to be legally bound, agree as follows:

1. Term. The term of Employee's employment hereunder shall commence on the date hereof and shall continue until January 1, 1999, except as otherwise provided in Section 7. If the term of Employee's employment hereunder shall have continued until January 1, 1999, thereafter, such term of Employee's employment hereunder shall be deemed to be renewed automatically, on the same terms and conditions contained herein, for successive periods of one year each, unless and until Employee, at least 90 days prior to the expiration of the original term or any such extended term, shall give written notice to the other of intent not to renew the term of Employee's employment hereunder. All references herein to the "Term" refer to the original term of Employee's employment hereunder and all extensions thereof.

2. Duties

(a) Offices

During the Term, Employee shall serve in Employee's current or comparable capacity, and the Board shall renominate Employee, and Employee shall perform duties as assigned. Employer agrees that Employee will be assigned only duties of the type, nature and dignity normally assigned to someone in a comparable position at a corporation of the size, stature and nature of Employer. During the Term, Employee shall have, at a minimum, the same perquisites of office as on the date hereof, and shall report directly to the Employer's Chief Operating Officer.

(b) Full-Time Basis

During the Term, Employee shall devote, on a full-time basis, Employee's services, skills and abilities to employment hereunder, excepting periods of vacation, illness or Disability (as defined below), and excepting any pursuits which do not materially interfere with duties hereunder or present a conflict of interest with the interests of Employer or of any subsidiary

thereof ("Subsidiary").

3. Compensation

(a) Salary

During the Term, as compensation for services rendered by Employee hereunder, Employer shall pay to Employee a base salary at the rate of not less than Employee's current rate per annum, payable in installments in accordance with Employer's policy governing salary payments to senior officers generally ("Base Salary"). In February of every year during the Term, Employee's compensation, including Base Salary, will be subject to review, provided that, the Base Salary shall not be less than the current rate.

(b) Performance Bonus

Except as otherwise provided in Section 7, in addition to the Base Salary, Employee shall be eligible for an annual performance bonus as determined in accordance with Company policy ("Performance Bonus"). Any Performance Bonus payable pursuant to this Section 3(b) shall be paid within 30 days after the end of the fiscal period to which such Performance Bonus relates.

(c) Other Compensation Plans or Arrangements

During the Term, Employee shall also be eligible to participate in all other currently existing or subsequently implemented compensation or benefit plans or arrangements available generally to other officers or senior officers of Employer, including Employer's "Deferred Supplemental Compensation Plan," ESOP/401(k), and any stock option, stock purchase or similar stock plans or arrangements.

(d) Tax Withholdings

Employer shall withhold from Employee's compensation hereunder and pay over to the appropriate governmental agencies all payroll taxes, including income, social security, and unemployment compensation taxes, required by the federal, state and local governments with jurisdiction over Employer.

4. Benefits. During the Term, Employee shall be entitled to such comparable fringe benefits and perquisites as may be provided to any or all of Employer's senior officers pursuant to policies established from time to time. These fringe benefits and perquisites shall include holidays, group health insurance, disability insurance, and life insurance.

5. Expenses and Other Perquisites. Employer shall reimburse Employee for all reasonable and proper business expenses incurred in the performance during the Term of duties hereunder, in accordance with Employer's customary practices for senior officers, and provided such business expenses are reasonably documented.

6. Exclusive Services, Confidential Information, Business Opportunities and Non-Solicitation

(a) Exclusive Services

(i) During the Term, Employee shall at all times devote full-time attention, energies, efforts and skills to Employer's business and shall not, directly or indirectly, engage in any other business activity, whether or not for profit, gain or other pecuniary advantages, without the written consent of the Chief Executive Officer or Chief Operating Officer, provided that such prior consent shall not be required with respect to (1) business interests that neither compete with Employer or any Subsidiaries nor interfere with Employee's duties and obligations hereunder, and (2)

Employee's charitable, eleemosynary, philanthropic or professional association activities.

- (ii) During the Term, Employee shall not, without the prior written consent of the Chief Executive Officer or Chief Operating Officer, directly or indirectly, either as an officer, director, employee, agent, advisor, consultant, principal, stockholder, partner, owner or in any other capacity, on Employee's own behalf or otherwise, in any way engage in, represent, be connected with or have a financial interest in, any business which is, or to Employee's knowledge, is about to become, engaged in the business of providing engineering, management, energy or environmental services to the United States Government or any department, agency, or instrumentality thereof or any state or local governmental agency or to any person, corporation or other entity (collectively a "Person") with which Employer or any Subsidiary is currently or has previously done business or any subsequent line of business developed by Employee or any Subsidiary during the Term. Notwithstanding the foregoing, Employee shall be permitted to own passive investments in publicly held companies provided that such investments do not exceed five percent of any such company's outstanding equity.

(b) Confidential Information

During the Term and for the first 24 consecutive months after the termination of the Term, Employee shall not disclose or use, directly or indirectly, any Confidential Information (as defined below). For the purposes of this Agreement, "Confidential Information" shall mean all information disclosed to Employee, or known by Employee as a consequence of or through employment with Employer or any Subsidiary, where such information is not generally known in the trade or industry or was regarded or treated as confidential by Employer or any Subsidiary, and where such information refers or relates in any manner whatsoever to the business activities, processes, services or products of Employer or its Subsidiaries. Confidential Information shall include business and development plans (whether contemplated, initiated or completed), information with respect to the development of technical and management services, business contacts, methods of operation, results of analysis, business forecasts, financial data, costs, revenues, and similar information. Upon termination of Term, Employee shall immediately return to Employer all of property of Employer or any Subsidiary and Confidential Information which is in tangible form, and all copies thereof.

(c) Business Opportunities

- (i) During the Term, Employee shall promptly disclose to Employer each business opportunity of a type which, based upon its prospects and relationship to the existing businesses of Employer or any Subsidiary, Employer or any Subsidiary might reasonably consider pursuing. Upon termination of the Term, regardless of the circumstances thereof, Employer shall have the exclusive right to participate in or undertake any such opportunity on its own behalf without any involvement of Employee.
- (ii) During the Term, Employee shall refrain from engaging in any activity, practice or act which conflicts with, or has the potential to conflict with, the interests of Employer or its Subsidiaries, and shall avoid any acts or omissions which are disloyal to, or competitive with Employer or its Subsidiaries.

(d) Non-Solicitation of Employees

During the Term and for the first 24 consecutive months after termination of the Term, Employee shall not, except in the course of duties hereunder, directly or indirectly, induce or attempt to induce or otherwise counsel, advise, ask or encourage any person to leave the employ of Employer or any Subsidiary, or solicit or offer employment to any person who was employed by Employer or any Subsidiary at any time during the twelve-month period preceding the solicitation or offer.

(e) Covenant Not To Compete

- (i) If Employee voluntarily terminates the Term, or if Employer terminates the Term for Cause (as defined below), Employee shall not, during the first 24 consecutive months following such termination, engage in competition with Employer or any Subsidiary, or solicit, from any person or entity who purchased any then existing product or service from Employer or any Subsidiary during employment hereunder, the purchase of any then existing product or service in competition with then existing products or services of Employer or any Subsidiary.
- (ii) For purposes of this Agreement, Employee shall be deemed to engage in competition with Employer if Employee shall directly or indirectly, either individually or as a stockholder, director, officer, partner, consultant, owner, employee, agent, or in any other capacity, consult with or otherwise assist any person or entity engaged in providing technical and management services to any person or entity which Employer or any Subsidiary, during the Term, has developed or is working to develop. Notwithstanding anything herein to the contrary, if Employer is in material breach of this Agreement, the provisions of this Section 6 shall not apply.

(f) Employee Acknowledgment

Employee hereby agrees and acknowledges that the restrictions imposed upon by the provisions of this Section 6 are fair and reasonable considering the nature of Employer's business, and are reasonably required for Employer's protection.

(g) Invalidity

If a court of competent jurisdiction or an arbitrator shall declare any provision or restriction contained in this Section 6 as unenforceable or void, the provisions of this Section 6 shall remain in full force and effect to the extent not so declared to be unenforceable or void, and the court may modify the invalid provision to make it enforceable to the maximum extent permitted by law.

(h) Specific Performance

Employee agrees that if Employee breaches any of the provisions of this Section 6, the remedies available at law to Employer would be inadequate and in lieu thereof, or in addition thereto, Employer shall be entitled to appropriate equitable remedies, including specific performance and injunctive relief. Employee agrees not to enter into any agreement, either written or oral, which may conflict with this Agreement, and Employee authorizes Employer to make known the terms of Sections 6 and 7 hereof to any Person, including future employers of Employee.

7. Termination

(a) By Employer

(i) Termination for Cause

Employer may for Cause (as defined below) terminate the Term at any time by written notice to Employee. For purposes of this Agreement, the term "Cause" shall mean any one or more of the following: (1) conduct by Employee which is materially illegal or fraudulent or a material breach of Company policy; (2) the breach or violation by Employee of any of the material provisions of this Agreement, provided that Employee must first be given notice by the Board of the alleged breach or violation and 30 days to cure said alleged breach or violation; (3) Employee's use of illegal drugs or abuse of alcohol or authorized drugs which impairs Employee's ability to perform duties hereunder, provided that Employee must be given notice by the Board of such impairment and 60 days to cure the impairment; (4) Employee's knowing and willful neglect of duties or negligence in the performance of duties which materially affects Employer's or any Subsidiary's business, provided that Employee must first be given notice by the Board of such alleged neglect or negligence and 30 days to cure said alleged neglect or negligence. If a termination occurs pursuant to clause (1) above, the date on which the Term is terminated (the "Termination Date") shall be the date Employee receives notice of termination and, if a termination occurs pursuant to clauses (2), (3) or (4) above, the Termination Date shall be the date on which the specified cure period expires. In any event, as of the Termination Date (in the absence of satisfying the alleged breach or violation within the applicable cure period), Employee shall be relieved of all duties hereunder and Employee shall not be entitled to the accrual or provision of any compensation or benefit, after the Termination Date but Employee shall be entitled to the provision of all compensation and other benefits that shall have accrued as of the Termination Date, including Base Salary, Performance Bonuses, paid leave benefits, Deferred Compensation Units, Deferred Supplemental Compensation to the extent permitted by the plans, and reimbursement of incurred business expenses.

(ii) Termination Without Cause

Employer may, in its sole discretion, without Cause, terminate the Term at any time by providing Employee with (a) 60 days' prior notice thereof and (b) on or prior to the Termination Date, a lump sum severance compensation payment equal to the total amount of Employee's Base Salary payable for one (1) year hereunder, based upon the amount in effect as of the effective Termination Date. If Employee has less than five years of service with the Employer as of the Termination Date, the lump sum severance compensation payment shall equal 6 months' pay rather than one year of pay. Employee shall not be entitled to the accrual or provision of any other compensation or benefit after the Termination Date other than (a) the medical and hospitalization benefits after the Termination Date, in accordance with "COBRA" or other Company policy if covered by a Company-sponsored plan, (b) the provision of all compensation and other benefits that shall have accrued as of the Termination Date, including Base Salary, Performance Bonus, paid leave benefits, Deferred Compensation Units, Deferred Supplemental Compensation and reimbursements of incurred expenses; and (c) all stock options or similar rights to acquire capital stock granted by Employer to Employee shall automatically become vested and exercisable in whole or in part.

(b) Death or Disability

The Term shall be terminated immediately and automatically upon Employee's death or "Disability." The term "Disability" shall mean Employee's inability to perform all of the essential functions of Employee's position hereunder for a period of 26 consecutive weeks or for an aggregate of 150 work days during any 12-month period by reason of illness, accident or any other physical or mental incapacity, as may be permitted by applicable law. Employee's capability to continue performance of Employee's duties hereunder shall be determined by a panel composed of two independent medical doctors appointed by the Board and one appointed by the Employee or designated representative. If the panel is unable to reach a decision the matter will be referred to arbitration in accordance with Section 8. In the event of Employee's death or Disability for any period of six consecutive months, Employee (or designated beneficiary) will be paid Base Salary then in effect for one full year following the date of death or disability (6 months pay rather than one year of pay if Employee has less than five years of service with Employer as of the final day worked).

(c) By Employee

- (i) Employee may, in Employee's sole discretion, without cause, terminate the Term at any time upon 60 days' written notice to Employer. If Employee exercises such termination right, Employer may, at its option, at any time after receiving such notice from Employee, relieve Employee of all duties and terminate the Term at any time prior to the expiration of said notice period. If the Term is terminated by Employee or Employer pursuant to this Section 7(c)(i), Employee shall not be entitled to any further Base Salary or the accrual or provision of any compensation or benefits after the Termination Date, except medical and hospitalization benefits to the extent permitted by "COBRA" or other Company policy.
- (ii) If, during the Term, a Change of Control (as defined below) occurs, Employee may, in Employee's sole discretion, terminate the Term upon 30 days' notice of Employer. If Employee exercises such termination right, Employer may, at its option, at any time after receiving such notice from Employee, relieve Employee of all duties hereunder and terminate the Term at any time prior to the expiration of said notice period. If this Agreement is terminated by Employee or Employer pursuant to this Section 7(c)(ii), Employee shall be entitled:
 - (a) to receive on or prior to the Termination Date a lump sum severance compensation payment equal to two (2) times the total amount of Employee's Base Salary payable hereunder, based on the amount in effect as of the Termination Date. If Employee has less than five years of service with the Employer as of the date of Employee's notice to Employer, the lump sum severance compensation payment shall be equal to one (1) times the total amount of the Employee's Base Salary rather than two (2) times the total amount;
 - (b) the medical and hospitalization benefits and all compensation and other benefits that shall have accrued as of the Termination Date, as described in Section 7(a)(ii)(1); and
 - (c) to the automatic vesting and exercisability in whole or in part of all stock options or similar rights to acquire capital stock granted by Employer to Employee; provided that Employee shall not be entitled, after the Termination Date to the accrual or provision of any other compensation payable hereunder, including the Performance Bonus, but shall be permitted to

continue medical and hospitalization benefits to the extent permitted by "COBRA" or other Company policy.

(d) Change of Control

For purposes of this Section 7, a "Change of Control" shall be deemed to have occurred upon the happening of any of the following events:

- (i) any "person," including a "group," as such terms as defined in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended, and the rules promulgated thereunder (collectively the "Exchange Act"), other than a trustee or other fiduciary holding voting securities of Employer ("Voting Securities") under any Employer-sponsored benefit plan, becomes the beneficial owner, as defined under the Exchange Act, directly or indirectly, whether by purchase or acquisition or agreement to act in concert or otherwise, of 30% or more of the outstanding Voting Securities;
- (ii) a cash tender or exchange offer is completed for such amount of Voting Securities which, together with the Voting Securities then beneficially owned, directly or indirectly, by the offeror (and affiliates thereof) constitutes 40% or more of the outstanding Voting Securities;
- (iii) except in the case of a merger or consolidation in which (a) Employer is the surviving corporation and (b) the holders of Voting Securities immediately prior to such merger or consolidation beneficially own, directly or indirectly, more than 50% of the outstanding Voting Securities immediately after such merger or consolidation (there being excluded from the number of Voting Securities held by such holders, but not from the outstanding Voting Securities, any Voting Securities received by affiliates of the other constituent corporation(s) in the merger or consolidation in exchange for stock of such other corporation), Employer's share-holders approve an agreement to merge, consolidate, liquidate, or sell all or substantially all of Employer's assets; or
- (iv) two or more directors are elected to the Board without having previously been nominated and approved by the members of the Board incumbent on the day immediately preceding such election. For purposes of this Section 7, "affiliate" of a person or another entity shall mean a person or other entity that directly or indirectly controls, is controlled by, or is under common control with the person or other entity specified.

(e) No Duty to Mitigate

If Employee is entitled to the compensation and other benefits provided under Sections 7(a)(ii) or (c)(ii), Employee shall have no obligation to seek employment to mitigate damages hereunder.

(f) Other Policies

This Agreement supersedes and replaces applicable provisions of General Policy Memorandum (GPM) No. 31 and GPM 31-1 concerning Executive Severance Program for Corporate Officers.

8. Arbitration. Whenever a dispute arises between the parties concerning this Agreement or any of the obligations hereunder, or Employee's employment generally, Employer and Employee shall use their best efforts to resolve the dispute by mutual agreement. If any dispute cannot be resolved by Employer and Employee, it shall be submitted to arbitration to the exclusion of all other avenues of

relief and adjudicated pursuant to the American Arbitration Association's Rules for Employment Dispute Resolution then in effect. The decision of the arbitrator must be in writing and shall be final and binding on the parties, and judgment may be entered on the arbitrator's award in any court having jurisdiction thereof. The arbitrator's authority in granting relief to Employee shall be limited to an award of compensation, benefits and unreimbursed expenses as described in Sections 3, 4, and 5 above, and to the release of Employee from the provisions of Section 6 and the arbitrator shall have no authority to award other types of damages or relief to Employee, including consequential or punitive damages. The arbitrator shall also have no authority to award consequential or punitive damages to Employer for violations of this Agreement by Employee. The expenses of the arbitration shall be borne by the losing party to the arbitration and the prevailing party shall be entitled to recover from the losing party all of its own costs and attorneys' fees with respect to the arbitration. Nothing in this Section 8 shall be construed to derogate Employer's rights to seek legal and equitable relief in a court of competent jurisdiction as contemplated by Section 6(h).

9. **Non-Waiver.** It is understood and agreed that one party's failure at any time to require the performance by the other party of any of the terms, provisions, covenants or conditions hereof shall in no way affect the first party's right thereafter to enforce the same, nor shall the waiver by either party of the breach of any term, provision, covenant or condition hereof be taken or held to be a waiver of any succeeding breach.
10. **Severability.** If any provision of this Agreement conflicts with the law under which this Agreement is to be construed, or if any such provision is held invalid or unenforceable by a court of competent jurisdiction or any arbitrator, such provision shall be deleted from this Agreement and the Agreement shall be construed to give full effect to the remaining provision thereof.
11. **Survivability.** Unless otherwise provided herein, upon termination of the Term, the provisions of Sections 6(b), (d) and (e) shall nevertheless remain in full force and effect.
12. **Governing Law.** This Agreement shall be interpreted, construed and governed according to the laws of the Commonwealth of Virginia, without regard to the conflict of law provisions thereof.
13. **Construction.** The paragraph headings and captions contained in this Agreement are for convenience only and shall not be construed to define, limit or affect the scope or meaning of the provisions hereof. All references herein to Sections shall be deemed to refer to Sections of this Agreement.
14. **Entire Agreement.** This Agreement contains and represents the entire agreement of Employer and Employee and supersedes all prior agreements, representations or understandings, oral or written, express or implied with respect to the subject matter hereof. This Agreement may not be modified or amended in any way unless in a writing signed by each of Employer and Employee. No representation, promise or inducement has been made by either Employer or Employee that is not embodied in this Agreement, and neither Employer nor Employee shall be bound by or liable for any alleged representation, promise or inducement not specifically set forth herein.
15. **Assignability.** Neither this Agreement nor any rights or obligations of Employer or Employee hereunder may be assigned by Employer or Employee without the other party's prior written consent. Subject to the foregoing, this Agreement shall be binding upon and inure to the benefit of Employer and Employee and their heirs, successors and assigns.
16. **Notices.** All notices required or permitted hereunder shall be in writing and shall be deemed properly given if delivered personally or sent by certified or registered mail, postage prepaid, return receipt requested, or sent by telegram, telelex, telecopy or similar form of telecommunication, and shall be deemed to have been given

when received. Any such notice or communication shall be addressed:
(a) if to Employer, to President, 2550 Huntington Avenue,
Alexandria, Virginia 22303-1499 or (b) if to Employee, to the last
known home address on file with Employer, or to such other address
as Employer or Employee shall have furnished to the other in
writing.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement,
to be effective as of the day and year first above written.

VSE CORPORATION
a Delaware corporation

Date: December 10, 1997 By: /s/ R. B. McFarland

R. B. McFarland
President and
Chief Operating Officer

Date: December 10, 1997 /s/ B. S. Bartholomew

B. S. Bartholomew
Employee

EXHIBIT VII

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT is made and entered into as of December 10, 1997, by and between VSE Corporation, a Delaware corporation ("Employer"), and Jayne M. Tuohig ("Employee");

WHEREAS, Employee currently is employed by Employer as a senior corporate officer;

WHEREAS, Employee has rendered good and valuable service to the Employer and has contributed greatly to Employer's growth and success;

WHEREAS, Employer wishes to induce Employee to remain in Employer's employ to prevent the significant loss which Employer would incur if Employee were to leave and to enter the employment of a competitor;

WHEREAS, in the current business climate of takeovers and acquisitions, Employee may be concerned about the continuation of employment and status and responsibilities if a Change in Control (as defined below) occurs, and Employer is concerned that Employee may be approached by others with employment opportunities;

WHEREAS, Employer desires to ensure that, if a Change in Control appears possible, Employee will be in a secure position from which to objectively engage in any potential deliberations or negotiations respecting such Change in Control without fear of any direct or implied threat to employment, status and responsibilities; and

WHEREAS, Employer desires to have the foregoing assurances;

NOW, THEREFORE, in consideration of the mutual promises contained herein, and for other good and valuable consideration, the adequacy of which is hereby acknowledged, Employer and Employee, each intending to be legally bound, agree as follows:

1. Term. The term of Employee's employment hereunder shall commence on the date hereof and shall continue until January 1, 1999, except as otherwise provided in Section 7. If the term of Employee's employment hereunder shall have continued until January 1, 1999, thereafter, such term of Employee's employment hereunder shall be deemed to be renewed automatically, on the same terms and conditions contained herein, for successive periods of one year each, unless and until Employee, at least 90 days prior to the expiration of the original term or any such extended term, shall give written notice to the other of intent not to renew the term of Employee's employment hereunder. All references herein to the "Term" refer to the original term of Employee's employment hereunder and all extensions thereof.

2. Duties

(a) Offices

During the Term, Employee shall serve in Employee's current or comparable capacity, and the Board shall renominate Employee, and Employee shall perform duties as assigned. Employer agrees that Employee will be assigned only duties of the type, nature and dignity normally assigned to someone in a comparable position at a corporation of the size, stature and nature of Employer. During the Term, Employee shall have, at a minimum, the same perquisites of office as on the date hereof, and shall report directly to the Employer's Chief Operating Officer.

(b) Full-Time Basis

During the Term, Employee shall devote, on a full-time basis, Employee's services, skills and abilities to employment hereunder, excepting periods of vacation, illness or Disability (as defined below), and excepting any pursuits which do not materially interfere with duties hereunder or present a conflict

of interest with the interests of Employer or of any subsidiary thereof ("Subsidiary").

3. Compensation

(a) Salary

During the Term, as compensation for services rendered by Employee hereunder, Employer shall pay to Employee a base salary at the rate of not less than Employee's current rate per annum, payable in installments in accordance with Employer's policy governing salary payments to senior officers generally ("Base Salary"). In February of every year during the Term, Employee's compensation, including Base Salary, will be subject to review, provided that, the Base Salary shall not be less than the current rate.

(b) Performance Bonus

Except as otherwise provided in Section 7, in addition to the Base Salary, Employee shall be eligible for an annual performance bonus as determined in accordance with Company policy ("Performance Bonus"). Any Performance Bonus payable pursuant to this Section 3(b) shall be paid within 30 days after the end of the fiscal period to which such Performance Bonus relates.

(c) Other Compensation Plans or Arrangements

During the Term, Employee shall also be eligible to participate in all other currently existing or subsequently implemented compensation or benefit plans or arrangements available generally to other officers or senior officers of Employer, including Employer's "Deferred Supplemental Compensation Plan," ESOP/401(k), and any stock option, stock purchase or similar stock plans or arrangements.

(d) Tax Withholdings

Employer shall withhold from Employee's compensation hereunder and pay over to the appropriate governmental agencies all payroll taxes, including income, social security, and unemployment compensation taxes, required by the federal, state and local governments with jurisdiction over Employer.

4. Benefits. During the Term, Employee shall be entitled to such comparable fringe benefits and perquisites as may be provided to any or all of Employer's senior officers pursuant to policies established from time to time. These fringe benefits and perquisites shall include holidays, group health insurance, disability insurance, and life insurance.

5. Expenses and Other Perquisites. Employer shall reimburse Employee for all reasonable and proper business expenses incurred in the performance during the Term of duties hereunder, in accordance with Employer's customary practices for senior officers, and provided such business expenses are reasonably documented.

6. Exclusive Services, Confidential Information, Business Opportunities and Non-Solicitation

(a) Exclusive Services

(i) During the Term, Employee shall at all times devote full-time attention, energies, efforts and skills to Employer's business and shall not, directly or indirectly, engage in any other business activity, whether or not for profit, gain or other pecuniary advantages, without the written consent of the Chief Executive Officer or Chief Operating Officer, provided that such prior consent shall not be required with respect to (1) business interests that neither compete with Employer or any Subsidiaries nor interfere with

Employee's duties and obligations hereunder, and (2) Employee's charitable, eleemosynary, philanthropic or professional association activities.

- (ii) During the Term, Employee shall not, without the prior written consent of the Chief Executive Officer or Chief Operating Officer, directly or indirectly, either as an officer, director, employee, agent, advisor, consultant, principal, stockholder, partner, owner or in any other capacity, on Employee's own behalf or otherwise, in any way engage in, represent, be connected with or have a financial interest in, any business which is, or to Employee's knowledge, is about to become, engaged in the business of providing engineering, management, energy or environmental services to the United States Government or any department, agency, or instrumentality thereof or any state or local government agency or to any person, corporation or other entity (collectively a "Person") with which Employer or any Subsidiary is currently or has previously done business or any subsequent line of business developed by Employee or any Subsidiary during the Term. Notwithstanding the foregoing, Employee shall be permitted to own passive investments in publicly held companies provided that such investments do not exceed five percent of any such company's outstanding equity.

(b) Confidential Information

During the Term and for the first 24 consecutive months after the termination of the Term, Employee shall not disclose or use, directly or indirectly, any Confidential Information (as defined below). For the purposes of this Agreement, "Confidential Information" shall mean all information disclosed to Employee, or known by Employee as a consequence of or through employment with Employer or any Subsidiary, where such information is not generally known in the trade or industry or was regarded or treated as confidential by Employer or any Subsidiary, and where such information refers or relates in any manner whatsoever to the business activities, processes, services or products of Employer or its Subsidiaries. Confidential Information shall include business and development plans (whether contemplated, initiated or completed), information with respect to the development of technical and management services, business contacts, methods of operation, results of analysis, business forecasts, financial data, costs, revenues, and similar information. Upon termination of Term, Employee shall immediately return to Employer all of property of Employer or any Subsidiary and Confidential Information which is in tangible form, and all copies thereof.

(c) Business Opportunities

- (i) During the Term, Employee shall promptly disclose to Employer each business opportunity of a type which, based upon its prospects and relationship to the existing businesses of Employer or any Subsidiary, Employer or any Subsidiary might reasonably consider pursuing. Upon termination of the Term, regardless of the circumstances thereof, Employer shall have the exclusive right to participate in or undertake any such opportunity on its own behalf without any involvement of Employee.
- (ii) During the Term, Employee shall refrain from engaging in any activity, practice or act which conflicts with, or has the potential to conflict with, the interests of Employer or its Subsidiaries, and shall avoid any acts or omissions which are disloyal to, or competitive with Employer or its Subsidiaries.

(d) Non-Solicitation of Employees

During the Term and for the first 24 consecutive months after termination of the Term, Employee shall not, except in the course of duties hereunder, directly or indirectly, induce or attempt to induce or otherwise counsel, advise, ask or encourage any person to leave the employ of Employer or any Subsidiary, or solicit or offer employment to any person who was employed by Employer or any Subsidiary at any time during the twelve-month period preceding the solicitation or offer.

(e) Covenant Not To Compete

(i) If Employee voluntarily terminates the Term, or if Employer terminates the Term for Cause (as defined below), Employee shall not, during the first 24 consecutive months following such termination, engage in competition with Employer or any Subsidiary, or solicit, from any person or entity who purchased any then existing product or service from Employer or any Subsidiary during employment hereunder, the purchase of any then existing product or service in competition with then existing products or services of Employer or any Subsidiary.

(ii) For purposes of this Agreement, Employee shall be deemed to engage in competition with Employer if Employee shall directly or indirectly, either individually or as a stockholder, director, officer, partner, consultant, owner, employee, agent, or in any other capacity, consult with or otherwise assist any person or entity engaged in providing technical and management services to any person or entity which Employer or any Subsidiary, during the Term, has developed or is working to develop. Notwithstanding anything herein to the contrary, if Employer is in material breach of this Agreement, the provisions of this Section 6 shall not apply.

(f) Employee Acknowledgment

Employee hereby agrees and acknowledges that the restrictions imposed upon by the provisions of this Section 6 are fair and reasonable considering the nature of Employer's business, and are reasonably required for Employer's protection.

(g) Invalidity

If a court of competent jurisdiction or an arbitrator shall declare any provision or restriction contained in this Section 6 as unenforceable or void, the provisions of this Section 6 shall remain in full force and effect to the extent not so declared to be unenforceable or void, and the court may modify the invalid provision to make it enforceable to the maximum extent permitted by law.

(h) Specific Performance

Employee agrees that if Employee breaches any of the provisions of this Section 6, the remedies available at law to Employer would be inadequate and in lieu thereof, or in addition thereto, Employer shall be entitled to appropriate equitable remedies, including specific performance and injunctive relief. Employee agrees not to enter into any agreement, either written or oral, which may conflict with this Agreement, and Employee authorizes Employer to make known the terms of Sections 6 and 7 hereof to any Person, including future employers of Employee.

7. Termination

(a) By Employer

(i) Termination for Cause

Employer may for Cause (as defined below) terminate the Term at any time by written notice to Employee. For purposes of this Agreement, the term "Cause" shall mean any one or more of the following: (1) conduct by Employee which is materially illegal or fraudulent or a material breach of Company policy; (2) the breach or violation by Employee of any of the material provisions of this Agreement, provided that Employee must first be given notice by the Board of the alleged breach or violation and 30 days to cure said alleged breach or violation; (3) Employee's use of illegal drugs or abuse of alcohol or authorized drugs which impairs Employee's ability to perform duties hereunder, provided that Employee must be given notice by the Board of such impairment and 60 days to cure the impairment; (4) Employee's knowing and willful neglect of duties or negligence in the performance of duties which materially affects Employer's or any Subsidiary's business, provided that Employee must first be given notice by the Board of such alleged neglect or negligence and 30 days to cure said alleged neglect or negligence. If a termination occurs pursuant to clause (1) above, the date on which the Term is terminated (the "Termination Date") shall be the date Employee receives notice of termination and, if a termination occurs pursuant to clauses (2), (3) or (4) above, the Termination Date shall be the date on which the specified cure period expires. In any event, as of the Termination Date (in the absence of satisfying the alleged breach or violation within the applicable cure period), Employee shall be relieved of all duties hereunder and Employee shall not be entitled to the accrual or provision of any compensation or benefit, after the Termination Date but Employee shall be entitled to the provision of all compensation and other benefits that shall have accrued as of the Termination Date, including Base Salary, Performance Bonuses, paid leave benefits, Deferred Compensation Units, Deferred Supplemental Compensation to the extent permitted by the plans, and reimbursement of incurred business expenses.

(ii) Termination Without Cause

Employer may, in its sole discretion, without Cause, terminate the Term at any time by providing Employee with (a) 60 days' prior notice thereof and (b) on or prior to the Termination Date, a lump sum severance compensation payment equal to the total amount of Employee's Base Salary payable for one (1) year hereunder, based upon the amount in effect as of the effective Termination Date. If Employee has less than five years of service with the Employer as of the Termination Date, the lump sum severance compensation payment shall equal 6 months' pay rather than one year of pay. Employee shall not be entitled to the accrual or provision of any other compensation or benefit after the Termination Date other than (a) the medical and hospitalization benefits after the Termination Date, in accordance with "COBRA" or other Company policy if covered by a Company-sponsored plan, (b) the provision of all compensation and other benefits that shall have accrued as of the Termination Date, including Base Salary, Performance Bonus, paid leave benefits, Deferred Compensation Units, Deferred Supplemental Compensation and reimbursements of incurred expenses; and (c) all stock options or similar rights to acquire capital stock granted by Employer to Employee shall automatically become vested and exercisable in whole or in part.

(b) Death or Disability

The Term shall be terminated immediately and automatically

upon Employee's death or "Disability." The term "Disability" shall mean Employee's inability to perform all of the essential functions of Employee's position hereunder for a period of 26 consecutive weeks or for an aggregate of 150 work days during any 12-month period by reason of illness, accident or any other physical or mental incapacity, as may be permitted by applicable law. Employee's capability to continue performance of Employee's duties hereunder shall be determined by a panel composed of two independent medical doctors appointed by the Board and one appointed by the Employee or designated representative. If the panel is unable to reach a decision the matter will be referred to arbitration in accordance with Section 8. In the event of Employee's death or Disability for any period of six consecutive months, Employee (or designated beneficiary) will be paid Base Salary then in effect for one full year following the date of death or disability (6 months pay rather than one year of pay if Employee has less than five years of service with Employer as of the final day worked).

(c) By Employee

- (i) Employee may, in Employee's sole discretion, without cause, terminate the Term at any time upon 60 days' written notice to Employer. If Employee exercises such termination right, Employer may, at its option, at any time after receiving such notice from Employee, relieve Employee of all duties and terminate the Term at any time prior to the expiration of said notice period. If the Term is terminated by Employee or Employer pursuant to this Section 7(c)(i), Employee shall not be entitled to any further Base Salary or the accrual or provision of any compensation or benefits after the Termination Date, except medical and hospitalization benefits to the extent permitted by "COBRA" or other Company policy.
- (ii) If, during the Term, a Change of Control (as defined below) occurs, Employee may, in Employee's sole discretion, terminate the Term upon 30 days' notice of Employer. If Employee exercises such termination right, Employer may, at its option, at any time after receiving such notice from Employee, relieve Employee of all duties hereunder and terminate the Term at any time prior to the expiration of said notice period. If this Agreement is terminated by Employee or Employer pursuant to this Section 7(c)(ii), Employee shall be entitled:
 - (a) to receive on or prior to the Termination Date a lump sum severance compensation payment equal to two (2) times the total amount of Employee's Base Salary payable hereunder, based on the amount in effect as of the Termination Date. If Employee has less than five years of service with the Employer as of the date of Employee's notice to Employer, the lump sum severance compensation payment shall be equal to one (1) times the total amount of the Employee's Base Salary rather than two (2) times the total amount;
 - (b) the medical and hospitalization benefits and all compensation and other benefits that shall have accrued as of the Termination Date, as described in Section 7(a)(ii)(1); and
 - (c) to the automatic vesting and exercisability in whole or in part of all stock options or similar rights to acquire capital stock granted by Employer to Employee; provided that Employee shall not be entitled, after the Termination Date to the accrual or provision of any other compensation payable hereunder, including the Performance Bonus, but shall be permitted to continue medical and hospitalization benefits to

the extent permitted by "COBRA" or other Company policy.

(d) Change of Control

For purposes of this Section 7, a "Change of Control" shall be deemed to have occurred upon the happening of any of the following events:

- (i) any "person," including a "group," as such terms as defined in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended, and the rules promulgated thereunder (collectively the "Exchange Act"), other than a trustee or other fiduciary holding voting securities of Employer ("Voting Securities") under any Employer-sponsored benefit plan, becomes the beneficial owner, as defined under the Exchange Act, directly or indirectly, whether by purchase or acquisition or agreement to act in concert or otherwise, of 30% or more of the outstanding Voting Securities;
- (ii) a cash tender or exchange offer is completed for such amount of Voting Securities which, together with the Voting Securities then beneficially owned, directly or indirectly, by the offeror (and affiliates thereof) constitutes 40% or more of the outstanding Voting Securities;
- (iii) except in the case of a merger or consolidation in which (a) Employer is the surviving corporation and (b) the holders of Voting Securities immediately prior to such merger or consolidation beneficially own, directly or indirectly, more than 50% of the outstanding Voting Securities immediately after such merger or consolidation (there being excluded from the number of Voting Securities held by such holders, but not from the outstanding Voting Securities, any Voting Securities received by affiliates of the other constituent corporation(s) in the merger or consolidation in exchange for stock of such other corporation), Employer's share-holders approve an agreement to merge, consolidate, liquidate, or sell all or substantially all of Employer's assets; or
- (iv) two or more directors are elected to the Board without having previously been nominated and approved by the members of the Board incumbent on the day immediately preceding such election. For purposes of this Section 7, "affiliate" of a person or another entity shall mean a person or other entity that directly or indirectly controls, is controlled by, or is under common control with the person or other entity specified.

(e) No Duty to Mitigate

If Employee is entitled to the compensation and other benefits provided under Sections 7(a)(ii) or (c)(ii), Employee shall have no obligation to seek employment to mitigate damages hereunder.

(f) Other Policies

This Agreement supersedes and replaces applicable provisions of General Policy Memorandum (GPM) No. 31 and GPM 31-1 concerning Executive Severance Program for Corporate Officers.

8. Arbitration. Whenever a dispute arises between the parties concerning this Agreement or any of the obligations hereunder, or Employee's employment generally, Employer and Employee shall use their best efforts to resolve the dispute by mutual agreement. If any dispute cannot be resolved by Employer and Employee, it shall be submitted to arbitration to the exclusion of all other avenues of relief and adjudicated pursuant to the American Arbitration

Association's Rules for Employment Dispute Resolution then in effect. The decision of the arbitrator must be in writing and shall be final and binding on the parties, and judgment may be entered on the arbitrator's award in any court having jurisdiction thereof. The arbitrator's authority in granting relief to Employee shall be limited to an award of compensation, benefits and unreimbursed expenses as described in Sections 3, 4, and 5 above, and to the release of Employee from the provisions of Section 6 and the arbitrator shall have no authority to award other types of damages or relief to Employee, including consequential or punitive damages. The arbitrator shall also have no authority to award consequential or punitive damages to Employer for violations of this Agreement by Employee. The expenses of the arbitration shall be borne by the losing party to the arbitration and the prevailing party shall be entitled to recover from the losing party all of its own costs and attorneys' fees with respect to the arbitration. Nothing in this Section 8 shall be construed to derogate Employer's rights to seek legal and equitable relief in a court of competent jurisdiction as contemplated by Section 6(h).

9. **Non-Waiver.** It is understood and agreed that one party's failure at any time to require the performance by the other party of any of the terms, provisions, covenants or conditions hereof shall in no way affect the first party's right thereafter to enforce the same, nor shall the waiver by either party of the breach of any term, provision, covenant or condition hereof be taken or held to be a waiver of any succeeding breach.
10. **Severability.** If any provision of this Agreement conflicts with the law under which this Agreement is to be construed, or if any such provision is held invalid or unenforceable by a court of competent jurisdiction or any arbitrator, such provision shall be deleted from this Agreement and the Agreement shall be construed to give full effect to the remaining provision thereof.
11. **Survivability.** Unless otherwise provided herein, upon termination of the Term, the provisions of Sections 6(b), (d) and (e) shall nevertheless remain in full force and effect.
12. **Governing Law.** This Agreement shall be interpreted, construed and governed according to the laws of the Commonwealth of Virginia, without regard to the conflict of law provisions thereof.
13. **Construction.** The paragraph headings and captions contained in this Agreement are for convenience only and shall not be construed to define, limit or affect the scope or meaning of the provisions hereof. All references herein to Sections shall be deemed to refer to Sections of this Agreement.
14. **Entire Agreement.** This Agreement contains and represents the entire agreement of Employer and Employee and supersedes all prior agreements, representations or understandings, oral or written, express or implied with respect to the subject matter hereof. This Agreement may not be modified or amended in any way unless in a writing signed by each of Employer and Employee. No representation, promise or inducement has been made by either Employer or Employee that is not embodied in this Agreement, and neither Employer nor Employee shall be bound by or liable for any alleged representation, promise or inducement not specifically set forth herein.
15. **Assignability.** Neither this Agreement nor any rights or obligations of Employer or Employee hereunder may be assigned by Employer or Employee without the other party's prior written consent. Subject to the foregoing, this Agreement shall be binding upon and inure to the benefit of Employer and Employee and their heirs, successors and assigns.
16. **Notices.** All notices required or permitted hereunder shall be in writing and shall be deemed properly given if delivered personally or sent by certified or registered mail, postage prepaid, return receipt requested, or sent by telegram, telelex, telecopy or similar form of telecommunication, and shall be deemed to have been given when received. Any such notice or communication shall be addressed:

(a) if to Employer, to President, 2550 Huntington Avenue, Alexandria, Virginia 22303-1499 or (b) if to Employee, to the last known home address on file with Employer, or to such other address as Employer or Employee shall have furnished to the other in writing.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement, to be effective as of the day and year first above written.

VSE CORPORATION
a Delaware corporation

Date: December 10, 1997 By: /s/ R. B. McFarland

R. B. McFarland
President and
Chief Operating Officer

Date: December 10, 1997 /s/ J. M. Tuohig

J. M. Tuohig
Employee

EXHIBIT VIII

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT is made and entered into as of December 10, 1997, by and between VSE Corporation, a Delaware corporation ("Employer"), and Craig S. Weber ("Employee");

WHEREAS, Employee currently is employed by Employer as a senior corporate officer;

WHEREAS, Employee has rendered good and valuable service to the Employer and has contributed greatly to Employer's growth and success;

WHEREAS, Employer wishes to induce Employee to remain in Employer's employ to prevent the significant loss which Employer would incur if Employee were to leave and to enter the employment of a competitor;

WHEREAS, in the current business climate of takeovers and acquisitions, Employee may be concerned about the continuation of employment and status and responsibilities if a Change in Control (as defined below) occurs, and Employer is concerned that Employee may be approached by others with employment opportunities;

WHEREAS, Employer desires to ensure that, if a Change in Control appears possible, Employee will be in a secure position from which to objectively engage in any potential deliberations or negotiations respecting such Change in Control without fear of any direct or implied threat to employment, status and responsibilities; and

WHEREAS, Employer desires to have the foregoing assurances;

NOW, THEREFORE, in consideration of the mutual promises contained herein, and for other good and valuable consideration, the adequacy of which is hereby acknowledged, Employer and Employee, each intending to be legally bound, agree as follows:

1. Term. The term of Employee's employment hereunder shall commence on the date hereof and shall continue until January 1, 1999, except as otherwise provided in Section 7. If the term of Employee's employment hereunder shall have continued until January 1, 1999, thereafter, such term of Employee's employment hereunder shall be deemed to be renewed automatically, on the same terms and conditions contained herein, for successive periods of one year each, unless and until Employee, at least 90 days prior to the expiration of the original term or any such extended term, shall give written notice to the other of intent not to renew the term of Employee's employment hereunder. All references herein to the "Term" refer to the original term of Employee's employment hereunder and all extensions thereof.

2. Duties

(a) Offices

During the Term, Employee shall serve in Employee's current or comparable capacity, and the Board shall renominate Employee, and Employee shall perform duties as assigned. Employer agrees that Employee will be assigned only duties of the type, nature and dignity normally assigned to someone in a comparable position at a corporation of the size, stature and nature of Employer. During the Term, Employee shall have, at a minimum, the same perquisites of office as on the date hereof, and shall report directly to the Employer's Chief Operating Officer.

(b) Full-Time Basis

During the Term, Employee shall devote, on a full-time basis, Employee's services, skills and abilities to employment hereunder, excepting periods of vacation, illness or Disability (as defined below), and excepting any pursuits which do not materially interfere with duties hereunder or present a conflict

of interest with the interests of Employer or of any subsidiary thereof ("Subsidiary").

3. Compensation

(a) Salary

During the Term, as compensation for services rendered by Employee hereunder, Employer shall pay to Employee a base salary at the rate of not less than Employee's current rate per annum, payable in installments in accordance with Employer's policy governing salary payments to senior officers generally ("Base Salary"). In February of every year during the Term, Employee's compensation, including Base Salary, will be subject to review, provided that, the Base Salary shall not be less than the current rate.

(b) Performance Bonus

Except as otherwise provided in Section 7, in addition to the Base Salary, Employee shall be eligible for an annual performance bonus as determined in accordance with Company policy ("Performance Bonus"). Any Performance Bonus payable pursuant to this Section 3(b) shall be paid within 30 days after the end of the fiscal period to which such Performance Bonus relates.

(c) Other Compensation Plans or Arrangements

During the Term, Employee shall also be eligible to participate in all other currently existing or subsequently implemented compensation or benefit plans or arrangements available generally to other officers or senior officers of Employer, including Employer's "Deferred Supplemental Compensation Plan," ESOP/401(k), and any stock option, stock purchase or similar stock plans or arrangements.

(d) Tax Withholdings

Employer shall withhold from Employee's compensation hereunder and pay over to the appropriate governmental agencies all payroll taxes, including income, social security, and unemployment compensation taxes, required by the federal, state and local governments with jurisdiction over Employer.

4. Benefits. During the Term, Employee shall be entitled to such comparable fringe benefits and perquisites as may be provided to any or all of Employer's senior officers pursuant to policies established from time to time. These fringe benefits and perquisites shall include holidays, group health insurance, disability insurance, and life insurance.

5. Expenses and Other Perquisites. Employer shall reimburse Employee for all reasonable and proper business expenses incurred in the performance during the Term of duties hereunder, in accordance with Employer's customary practices for senior officers, and provided such business expenses are reasonably documented.

6. Exclusive Services, Confidential Information, Business Opportunities and Non-Solicitation

(a) Exclusive Services

(i) During the Term, Employee shall at all times devote full-time attention, energies, efforts and skills to Employer's business and shall not, directly or indirectly, engage in any other business activity, whether or not for profit, gain or other pecuniary advantages, without the written consent of the Chief Executive Officer or Chief Operating Officer, provided that such prior consent shall not be required with respect to (1) business interests that neither compete with Employer or any Subsidiaries nor interfere with

Employee's duties and obligations hereunder, and (2) Employee's charitable, eleemosynary, philanthropic or professional association activities.

(ii) During the Term, Employee shall not, without the prior written consent of the Chief Executive Officer or Chief Operating Officer, directly or indirectly, either as an officer, director, employee, agent, advisor, consultant, principal, stockholder, partner, owner or in any other capacity, on Employee's own behalf or otherwise, in any way engage in, represent, be connected with or have a financial interest in, any business which is, or to Employee's knowledge, is about to become, engaged in the business of providing engineering, management, energy or environmental services to the United States Government or any department, agency, or instrumentality thereof or any state or local government agency or to any person, corporation or other entity (collectively a "Person") with which Employer or any Subsidiary is currently or has previously done business or any subsequent line of business developed by Employee or any Subsidiary during the Term. Notwithstanding the foregoing, Employee shall be permitted to own passive investments in publicly held companies provided that such investments do not exceed five percent of any such company's outstanding equity.

(b) Confidential Information

During the Term and for the first 24 consecutive months after the termination of the Term, Employee shall not disclose or use, directly or indirectly, any Confidential Information (as defined below). For the purposes of this Agreement, "Confidential Information" shall mean all information disclosed to Employee, or known by Employee as a consequence of or through employment with Employer or any Subsidiary, where such information is not generally known in the trade or industry or was regarded or treated as confidential by Employer or any Subsidiary, and where such information refers or relates in any manner whatsoever to the business activities, processes, services or products of Employer or its Subsidiaries. Confidential Information shall include business and development plans (whether contemplated, initiated or completed), information with respect to the development of technical and management services, business contacts, methods of operation, results of analysis, business forecasts, financial data, costs, revenues, and similar information. Upon termination of Term, Employee shall immediately return to Employer all of property of Employer or any Subsidiary and Confidential Information which is in tangible form, and all copies thereof.

(c) Business Opportunities

- (i) During the Term, Employee shall promptly disclose to Employer each business opportunity of a type which, based upon its prospects and relationship to the existing businesses of Employer or any Subsidiary, Employer or any Subsidiary might reasonably consider pursuing. Upon termination of the Term, regardless of the circumstances thereof, Employer shall have the exclusive right to participate in or undertake any such opportunity on its own behalf without any involvement of Employee.
- (ii) During the Term, Employee shall refrain from engaging in any activity, practice or act which conflicts with, or has the potential to conflict with, the interests of Employer or its Subsidiaries, and shall avoid any acts or omissions which are disloyal to, or competitive with Employer or its Subsidiaries.

(d) Non-Solicitation of Employees

During the Term and for the first 24 consecutive months after termination of the Term, Employee shall not, except in the course of duties hereunder, directly or indirectly, induce or attempt to induce or otherwise counsel, advise, ask or encourage any person to leave the employ of Employer or any Subsidiary, or solicit or offer employment to any person who was employed by Employer or any Subsidiary at any time during the twelve-month period preceding the solicitation or offer.

(e) Covenant Not To Compete

(i) If Employee voluntarily terminates the Term, or if Employer terminates the Term for Cause (as defined below), Employee shall not, during the first 24 consecutive months following such termination, engage in competition with Employer or any Subsidiary, or solicit, from any person or entity who purchased any then existing product or service from Employer or any Subsidiary during employment hereunder, the purchase of any then existing product or service in competition with then existing products or services of Employer or any Subsidiary.

(ii) For purposes of this Agreement, Employee shall be deemed to engage in competition with Employer if Employee shall directly or indirectly, either individually or as a stockholder, director, officer, partner, consultant, owner, employee, agent, or in any other capacity, consult with or otherwise assist any person or entity engaged in providing technical and management services to any person or entity which Employer or any Subsidiary, during the Term, has developed or is working to develop. Notwithstanding anything herein to the contrary, if Employer is in material breach of this Agreement, the provisions of this Section 6 shall not apply.

(f) Employee Acknowledgment

Employee hereby agrees and acknowledges that the restrictions imposed upon by the provisions of this Section 6 are fair and reasonable considering the nature of Employer's business, and are reasonably required for Employer's protection.

(g) Invalidity

If a court of competent jurisdiction or an arbitrator shall declare any provision or restriction contained in this Section 6 as unenforceable or void, the provisions of this Section 6 shall remain in full force and effect to the extent not so declared to be unenforceable or void, and the court may modify the invalid provision to make it enforceable to the maximum extent permitted by law.

(h) Specific Performance

Employee agrees that if Employee breaches any of the provisions of this Section 6, the remedies available at law to Employer would be inadequate and in lieu thereof, or in addition thereto, Employer shall be entitled to appropriate equitable remedies, including specific performance and injunctive relief. Employee agrees not to enter into any agreement, either written or oral, which may conflict with this Agreement, and Employee authorizes Employer to make known the terms of Sections 6 and 7 hereof to any Person, including future employers of Employee.

7. Termination

(a) By Employer

(i) Termination for Cause

Employer may for Cause (as defined below) terminate the Term at any time by written notice to Employee. For purposes of this Agreement, the term "Cause" shall mean any one or more of the following: (1) conduct by Employee which is materially illegal or fraudulent or a material breach of Company policy; (2) the breach or violation by Employee of any of the material provisions of this Agreement, provided that Employee must first be given notice by the Board of the alleged breach or violation and 30 days to cure said alleged breach or violation; (3) Employee's use of illegal drugs or abuse of alcohol or authorized drugs which impairs Employee's ability to perform duties hereunder, provided that Employee must be given notice by the Board of such impairment and 60 days to cure the impairment; (4) Employee's knowing and willful neglect of duties or negligence in the performance of duties which materially affects Employer's or any Subsidiary's business, provided that Employee must first be given notice by the Board of such alleged neglect or negligence and 30 days to cure said alleged neglect or negligence. If a termination occurs pursuant to clause (1) above, the date on which the Term is terminated (the "Termination Date") shall be the date Employee receives notice of termination and, if a termination occurs pursuant to clauses (2), (3) or (4) above, the Termination Date shall be the date on which the specified cure period expires. In any event, as of the Termination Date (in the absence of satisfying the alleged breach or violation within the applicable cure period), Employee shall be relieved of all duties hereunder and Employee shall not be entitled to the accrual or provision of any compensation or benefit, after the Termination Date but Employee shall be entitled to the provision of all compensation and other benefits that shall have accrued as of the Termination Date, including Base Salary, Performance Bonuses, paid leave benefits, Deferred Compensation Units, Deferred Supplemental Compensation to the extent permitted by the plans, and reimbursement of incurred business expenses.

(ii) Termination Without Cause

Employer may, in its sole discretion, without Cause, terminate the Term at any time by providing Employee with (a) 60 days' prior notice thereof and (b) on or prior to the Termination Date, a lump sum severance compensation payment equal to the total amount of Employee's Base Salary payable for one (1) year hereunder, based upon the amount in effect as of the effective Termination Date. If Employee has less than five years of service with the Employer as of the Termination Date, the lump sum severance compensation payment shall equal 6 months' pay rather than one year of pay. Employee shall not be entitled to the accrual or provision of any other compensation or benefit after the Termination Date other than (a) the medical and hospitalization benefits after the Termination Date, in accordance with "COBRA" or other Company policy if covered by a Company-sponsored plan, (b) the provision of all compensation and other benefits that shall have accrued as of the Termination Date, including Base Salary, Performance Bonus, paid leave benefits, Deferred Compensation Units, Deferred Supplemental Compensation and reimbursements of incurred expenses; and (c) all stock options or similar rights to acquire capital stock granted by Employer to Employee shall automatically become vested and exercisable in whole or in part.

(b) Death or Disability

The Term shall be terminated immediately and automatically

upon Employee's death or "Disability." The term "Disability" shall mean Employee's inability to perform all of the essential functions of Employee's position hereunder for a period of 26 consecutive weeks or for an aggregate of 150 work days during any 12-month period by reason of illness, accident or any other physical or mental incapacity, as may be permitted by applicable law. Employee's capability to continue performance of Employee's duties hereunder shall be determined by a panel composed of two independent medical doctors appointed by the Board and one appointed by the Employee or designated representative. If the panel is unable to reach a decision the matter will be referred to arbitration in accordance with Section 8. In the event of Employee's death or Disability for any period of six consecutive months, Employee (or designated beneficiary) will be paid Base Salary then in effect for one full year following the date of death or disability (6 months pay rather than one year of pay if Employee has less than five years of service with Employer as of the final day worked).

(c) By Employee

- (i) Employee may, in Employee's sole discretion, without cause, terminate the Term at any time upon 60 days' written notice to Employer. If Employee exercises such termination right, Employer may, at its option, at any time after receiving such notice from Employee, relieve Employee of all duties and terminate the Term at any time prior to the expiration of said notice period. If the Term is terminated by Employee or Employer pursuant to this Section 7(c)(i), Employee shall not be entitled to any further Base Salary or the accrual or provision of any compensation or benefits after the Termination Date, except medical and hospitalization benefits to the extent permitted by "COBRA" or other Company policy.
- (ii) If, during the Term, a Change of Control (as defined below) occurs, Employee may, in Employee's sole discretion, terminate the Term upon 30 days' notice of Employer. If Employee exercises such termination right, Employer may, at its option, at any time after receiving such notice from Employee, relieve Employee of all duties hereunder and terminate the Term at any time prior to the expiration of said notice period. If this Agreement is terminated by Employee or Employer pursuant to this Section 7(c)(ii), Employee shall be entitled:
 - (a) to receive on or prior to the Termination Date a lump sum severance compensation payment equal to two (2) times the total amount of Employee's Base Salary payable hereunder, based on the amount in effect as of the Termination Date. If Employee has less than five years of service with the Employer as of the date of Employee's notice to Employer, the lump sum severance compensation payment shall be equal to one (1) times the total amount of the Employee's Base Salary rather than two (2) times the total amount;
 - (b) the medical and hospitalization benefits and all compensation and other benefits that shall have accrued as of the Termination Date, as described in Section 7(a)(ii)(1); and
 - (c) to the automatic vesting and exercisability in whole or in part of all stock options or similar rights to acquire capital stock granted by Employer to Employee; provided that Employee shall not be entitled, after the Termination Date to the accrual or provision of any other compensation payable hereunder, including the Performance Bonus, but shall be permitted to continue medical and hospitalization benefits to

the extent permitted by "COBRA" or other Company policy.

(d) Change of Control

For purposes of this Section 7, a "Change of Control" shall be deemed to have occurred upon the happening of any of the following events:

- (i) any "person," including a "group," as such terms as defined in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended, and the rules promulgated thereunder (collectively the "Exchange Act"), other than a trustee or other fiduciary holding voting securities of Employer ("Voting Securities") under any Employer-sponsored benefit plan, becomes the beneficial owner, as defined under the Exchange Act, directly or indirectly, whether by purchase or acquisition or agreement to act in concert or otherwise, of 30% or more of the outstanding Voting Securities;
- (ii) a cash tender or exchange offer is completed for such amount of Voting Securities which, together with the Voting Securities then beneficially owned, directly or indirectly, by the offeror (and affiliates thereof) constitutes 40% or more of the outstanding Voting Securities;
- (iii) except in the case of a merger or consolidation in which (a) Employer is the surviving corporation and (b) the holders of Voting Securities immediately prior to such merger or consolidation beneficially own, directly or indirectly, more than 50% of the outstanding Voting Securities immediately after such merger or consolidation (there being excluded from the number of Voting Securities held by such holders, but not from the outstanding Voting Securities, any Voting Securities received by affiliates of the other constituent corporation(s) in the merger or consolidation in exchange for stock of such other corporation), Employer's share-holders approve an agreement to merge, consolidate, liquidate, or sell all or substantially all of Employer's assets; or
- (iv) two or more directors are elected to the Board without having previously been nominated and approved by the members of the Board incumbent on the day immediately preceding such election. For purposes of this Section 7, "affiliate" of a person or another entity shall mean a person or other entity that directly or indirectly controls, is controlled by, or is under common control with the person or other entity specified.

(e) No Duty to Mitigate

If Employee is entitled to the compensation and other benefits provided under Sections 7(a)(ii) or (c)(ii), Employee shall have no obligation to seek employment to mitigate damages hereunder.

(f) Other Policies

This Agreement supersedes and replaces applicable provisions of General Policy Memorandum (GPM) No. 31 and GPM 31-1 concerning Executive Severance Program for Corporate Officers.

8. Arbitration. Whenever a dispute arises between the parties concerning this Agreement or any of the obligations hereunder, or Employee's employment generally, Employer and Employee shall use their best efforts to resolve the dispute by mutual agreement. If any dispute cannot be resolved by Employer and Employee, it shall be submitted to arbitration to the exclusion of all other avenues of relief and adjudicated pursuant to the American Arbitration

Association's Rules for Employment Dispute Resolution then in effect. The decision of the arbitrator must be in writing and shall be final and binding on the parties, and judgment may be entered on the arbitrator's award in any court having jurisdiction thereof. The arbitrator's authority in granting relief to Employee shall be limited to an award of compensation, benefits and unreimbursed expenses as described in Sections 3, 4, and 5 above, and to the release of Employee from the provisions of Section 6 and the arbitrator shall have no authority to award other types of damages or relief to Employee, including consequential or punitive damages. The arbitrator shall also have no authority to award consequential or punitive damages to Employer for violations of this Agreement by Employee. The expenses of the arbitration shall be borne by the losing party to the arbitration and the prevailing party shall be entitled to recover from the losing party all of its own costs and attorneys' fees with respect to the arbitration. Nothing in this Section 8 shall be construed to derogate Employer's rights to seek legal and equitable relief in a court of competent jurisdiction as contemplated by Section 6(h).

9. **Non-Waiver.** It is understood and agreed that one party's failure at any time to require the performance by the other party of any of the terms, provisions, covenants or conditions hereof shall in no way affect the first party's right thereafter to enforce the same, nor shall the waiver by either party of the breach of any term, provision, covenant or condition hereof be taken or held to be a waiver of any succeeding breach.
10. **Severability.** If any provision of this Agreement conflicts with the law under which this Agreement is to be construed, or if any such provision is held invalid or unenforceable by a court of competent jurisdiction or any arbitrator, such provision shall be deleted from this Agreement and the Agreement shall be construed to give full effect to the remaining provision thereof.
11. **Survivability.** Unless otherwise provided herein, upon termination of the Term, the provisions of Sections 6(b), (d) and (e) shall nevertheless remain in full force and effect.
12. **Governing Law.** This Agreement shall be interpreted, construed and governed according to the laws of the Commonwealth of Virginia, without regard to the conflict of law provisions thereof.
13. **Construction.** The paragraph headings and captions contained in this Agreement are for convenience only and shall not be construed to define, limit or affect the scope or meaning of the provisions hereof. All references herein to Sections shall be deemed to refer to Sections of this Agreement.
14. **Entire Agreement.** This Agreement contains and represents the entire agreement of Employer and Employee and supersedes all prior agreements, representations or understandings, oral or written, express or implied with respect to the subject matter hereof. This Agreement may not be modified or amended in any way unless in a writing signed by each of Employer and Employee. No representation, promise or inducement has been made by either Employer or Employee that is not embodied in this Agreement, and neither Employer nor Employee shall be bound by or liable for any alleged representation, promise or inducement not specifically set forth herein.
15. **Assignability.** Neither this Agreement nor any rights or obligations of Employer or Employee hereunder may be assigned by Employer or Employee without the other party's prior written consent. Subject to the foregoing, this Agreement shall be binding upon and inure to the benefit of Employer and Employee and their heirs, successors and assigns.
16. **Notices.** All notices required or permitted hereunder shall be in writing and shall be deemed properly given if delivered personally or sent by certified or registered mail, postage prepaid, return receipt requested, or sent by telegram, telelex, telecopy or similar form of telecommunication, and shall be deemed to have been given when received. Any such notice or communication shall be addressed:

(a) if to Employer, to President, 2550 Huntington Avenue, Alexandria, Virginia 22303-1499 or (b) if to Employee, to the last known home address on file with Employer, or to such other address as Employer or Employee shall have furnished to the other in writing.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement, to be effective as of the day and year first above written.

VSE CORPORATION
a Delaware corporation

Date: December 10, 1997 By: /s/ R. B. McFarland

R. B. McFarland
President and
Chief Operating Officer

Date: December 10, 1997 /s/ C. S. Weber

C. S. Weber
Employee