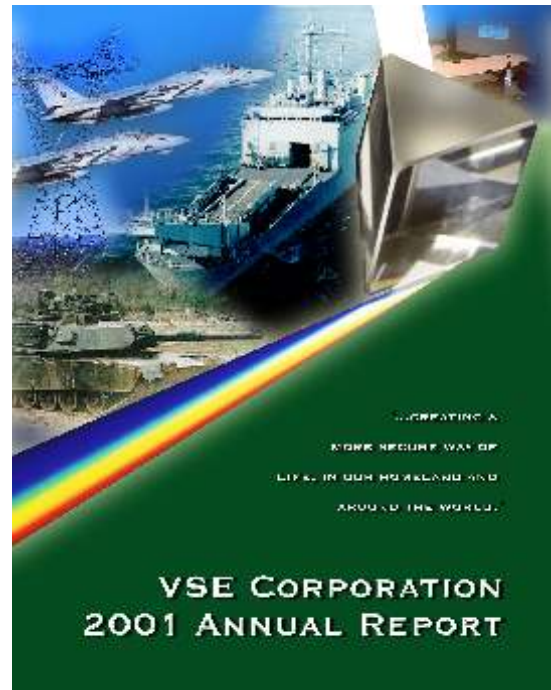


"...CREATING A  
MORE SECURE WAY OF  
LIFE, IN OUR HOMELAND AND  
AROUND THE WORLD."

# VSE CORPORATION 2001 ANNUAL REPORT



As a prism separates light into the colors of the rainbow, VSE analyzes and supports customer requirements with business practices focused to meet specific needs.

Working to meet naval ship and coastal defense needs, aircraft logistics support, ground combat systems design and development, energy management and conservation, security systems and collaboration environments, and business process optimization requirements, our respective International, Federal, Energy and Environmental, Telecommunications Technologies, and Management Sciences business practices respond with effective solutions for businesses and governments across our nation and around the world.

Our purpose is to help customers in “creating a more secure way of life, in our homeland and around the world.”

## Corporate Profile

VSE Corporation is a professional services company established in 1959. The company provides diversified services and products to the engineering, energy, environment, security, and defense services markets to the high technology and defense services markets. VSE's principal customers are agencies of the U.S. Government and other government prime contractors. Operations are conducted by VSE's professional staff of 550 employees located at offices across the United States and around the world.

Further information about VSE is available at the company's website at [www.vsecorp.com](http://www.vsecorp.com).

## Stockholder Inquiries

VSE is an employee and publicly owned company, and its shares are traded on the Nasdaq National Market System under the symbol VSEC. Inquiries about stock ownership, dividends, and stockholder changes of address may be directed to our transfer agent:

*Registrar and Transfer Company  
10 Commerce Drive  
Cranford, New Jersey 07016-3572  
1-800-368-5948*

*or to VSE:*

*2550 Huntington Avenue  
Alexandria, Virginia 22303-1499  
Attention: Corporate Secretary  
703-329-4770*

## Quality Systems Management

VSE's policy is to provide products and services of the highest quality to meet the expectations and requirements of our customers, on time and at a fair price. VSE's quality management system is registered to ISO 9001.



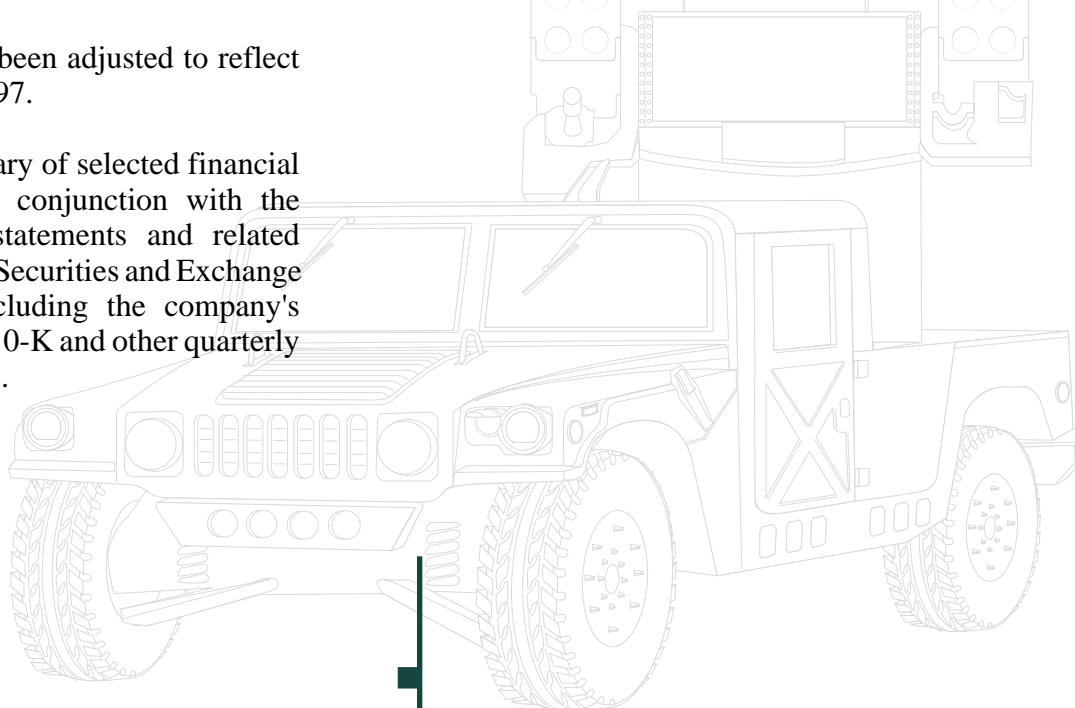
## Selected Financial Data

(In thousands, except per share data)

	2001	2000	1999	1998	1997
Revenues, principally from contracts.....	\$ 111,572	\$ 122,269	\$ 157,354	\$ 177,074	\$ 152,522
Income from continuing operations.....	\$ 855	\$ 1,385	\$ 2,364	\$ 3,015	\$ 2,566
Loss from discontinued operations.....	0	0	(256)	(1,420)	(4,013)
Loss on disposal of discontinued operations.....	0	(417)	(574)	0	0
Net income (loss).....	\$ 855	\$ 968	\$ 1,534	\$ 1,595	\$ (1,447)
Basic earnings per common share:					
Income from continuing operations.....	\$ .40	\$ .65	\$ 1.12	\$ 1.42	\$ 1.21
Loss from discontinued operations.....	0	(.19)	(.39)	(.67)	(1.89)
Net income (loss).....	\$ .40	\$ .46	\$ .73	\$ .75	\$ (.68)
Diluted earnings per common share:					
Income from continuing operations.....	\$ .40	\$ .65	\$ 1.12	\$ 1.42	\$ 1.21
Loss from discontinued operations.....	0	(.19)	(.39)	(.67)	(1.89)
Net income (loss).....	\$ .40	\$ .46	\$ .73	\$ .75	\$ (.68)
Working capital.....	\$ 8,807	\$ 8,364	\$ 7,078	\$ 5,801	\$ 6,258
Total assets.....	\$ 33,209	\$ 31,523	\$ 31,250	\$ 47,248	\$ 43,413
Long-term debt.....	\$ 351	\$ 0	\$ 0	\$ 1,503	\$ 3,444
Stockholders' investment.....	\$ 16,475	\$ 15,793	\$ 15,145	\$ 13,852	\$ 12,481
Cash dividends per common share.....	\$ .16	\$ .16	\$ .144	\$ .144	\$ .144

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

This consolidated summary of selected financial data should be read in conjunction with the consolidated financial statements and related notes included on VSE's Securities and Exchange Commission filings, including the company's Annual Report on Form 10-K and other quarterly and current period reports.



## Fellow Shareholders:

As indicated in reporting our annual financial results in February 2002, we anticipated that VSE revenues in 2001 would be about the same as in 2000, but we came in below our estimate primarily as a result of a slowdown in orders to our ship transfer division (BAV), partly as a result of the tragic events of September 11, 2001. Indications are that some of the deferred BAV work will be placed for delivery in 2002.

Our profit in 2001 also came in below our estimate. Profits were reduced by costs incurred during 2001 to build-up the work of our new Telecommunications Technologies Group, to strengthen our VSE marketing team, and to improve our information technology infrastructure. The decrease in 2001 revenues also reduced our overall profitability for the year.

## Outlook for 2002

Looking forward, we expect an increase in consolidated revenues in 2002 and an increase in operating profits as the year progresses. We have reduced overhead costs since year end, but profitability will probably be lower during the first two quarters of 2002 as we work through the slowdown in volume we began to experience late in 2001. Based on current expectations, we expect a stronger second half of the year, with profits for the full year 2002 exceeding 2001.

I am optimistic about VSE's business and potential for improving results based on positive recent developments:

- The International Group under the leadership of Jim Knowlton is expected to be VSE's revenue leader in 2002 as it has been each year since 1996 (2001 revenues of about \$68 million). The ship transfer and follow-on technical support work performed by the BAV Division for foreign navies has been in high demand, and in January 2002 VSE reported

the award of a new five-year contract to support the U.S. Coast Guard. In December 2001 VSE was awarded a new five-year contract to support the Naval Surface Warfare Center Indian Head Division, and in February 2002, VSE was also awarded a five-year follow on contract to support NAVSEA's Shipbuilding Support Office. Prospects for significant revenue growth late in 2002 and into 2003 are expected to contribute to VSE's profitability.

- The Federal Group under the leadership of Bart Bartholomew has a number of opportunities to provide diversified services (2001 revenues of about \$22 million). VSE's Land Systems Division provides system engineering support and prototype development for combat vehicles such as the Army's Field Artillery Ammunition Support Vehicle and the Marine Corps' Light Armored Vehicle, as well as logistics capability support and supply chain management for fielded systems, provisioning, automated warehousing and inventory management, technical manual preparation, revision, and translation, and deployment of mobile technical training teams worldwide. For NAVAIR, our VSS Division supports automated maintenance data base management programs for the F/A-18. VSS has also recently received outstanding performance reports for its support of U.S. Navy requirements for A-76 privatization outsourcing to commercial companies.





- The Energy and Environmental Group under the leadership of Bob Kelly continues to support clients at the Department of Energy and other agencies concerned with renewable energy sources, new technologies, and energy conservation programs (2001 revenues of about \$12 million). Our work in the energy and environment sector is growing, and we anticipate continued growth and profitability from this business in 2002.
- The Telecommunications Technologies Group under the leadership of Tom Stallone and Bob Waizenegger has grown into a significant VSE business (2001 revenues of about \$9 million). During 2001 our work in facilities security became a high demand, high growth area, including directed support for state port authorities as a part of our homeland defense capability. Coupled with our total “low voltage” expertise and rapid response in designing, building, and installing collaborative environments for command and control centers and intelligent conference rooms, we see continued VSE growth from this business.
- VSE exited the ship scrapping business in late 2001 due to inadequate funding and low profit margins. We expect to replace much of the lost business (about \$4 million in 2001) with a new Management Sciences Division established in December 2001 under the leadership of Tom Dacus (MSD 2002 revenues are estimated at about \$3 million). The new MSD division provides Six Sigma training and consulting services for quality systems management and process optimization. Margins in this division have

the potential to exceed those in the ship scrapping business, and we expect a boost in our profits as this new venture becomes an established part of our business.

Looking at each of our business areas, we are optimistic about our prospects for revenue growth in 2002 and 2003, and we will work to translate real growth into improved profitability. In view of the current economic environment and other uncertainties, there is no assurance that we can achieve the revenue and profit goals we have set. However, we intend to focus all of our efforts on growing the company and increasing shareholder value. We have an outstanding “past performance” record across all our business units, and we believe this enhances our ability to win new work in the future. We look forward to reporting our progress as the year proceeds.

## VSE People

VSE has fewer employees today than in many years, partly as a result of changing government procurement methods, discontinued work, contract expirations, staff reductions, and a change in our business development priorities towards higher margin work. We have reduced our overhead costs since year end, and our projected revenue per employee continues to rise.

We have a strong and seasoned management team, and the new employees and managers we have added recently are positive, energetic, and totally committed to meeting our goals for growth, outstanding performance, and increased profitability. Our customers and stockholders will ultimately benefit from these changes as we move forward.

As always, your comments and suggestions for improvement are welcome at any time.

D. M. Ervine  
Chairman of the Board  
President and CEO/COO  
March 7, 2002

## BAV Division

*"FMS One-Stop Shopping"*

Under the direction of the Naval Sea Systems Command Security Assistance Program Office (PMS 380), BAV and its team of American shipyards, marine engineering specialists, defense system manufacturers, and system integrators provides program management, engineering, logistics, and training services to complete the reactivation and transfer of ex-U.S. Navy ships to foreign navies. BAV provides lifecycle logistics support, training, and follow-on technical assistance after the transfer of these vessels and helps foreign navies execute long-range maintenance plans.

Now in its seventh year of providing technical support services to the naval forces of American Allies and friendly foreign governments around the world, the BAV Team offers worldwide capabilities to accomplish the mission of the U.S. Navy's ship transfer program. To date, BAV has transferred 28 ex-U.S. Navy combatant ships and 41 U.S. Coast Guard small craft to 16 foreign governments. During 2002 and subsequent years, the BAV Team expects to continue this high profile effort with ship transfer and support efforts in Central and Eastern Europe, Asia, Latin America, and the Middle East.



Direct commercial sales are effected through VSE Services International, Inc.

## Coast Guard Division

*"Worldwide FMS Support"*

The success of VSE's efforts in transferring ex-Coast Guard small craft to foreign governments over the past six years led to the competitive award of a new long-term contract to VSE in January 2002. Under the new contract, VSE will provide support directly to the U.S. Coast Guard for foreign military sales, lease, and transfer requirements.



As a result of the experience gained under the BAV contract, VSE's Coast Guard Division will provide a core team of contractors who understand Coast Guard program requirements and will execute transfer and training tasks effectively, on time and at budgeted cost. Building on a team of marine subcontractors and professional organizations, American Allies and friendly foreign governments will be assured of world-class support to help meet the coastal defense requirements of their countries.

We are very pleased to be selected by the Coast Guard for this program, and we will continue to apply all of our resources to meet the continuing requirements of this international program.



## Fleet Maintenance Division

*"Supporting Fleet Readiness and Sea Power Projection"*

The Fleet Maintenance Division (FMD) provides engineering and technical support services to the U.S. Navy and other customers. We are part of the professional team that helps the Navy meet its global sea power and surface warfare challenges.

FMD provides engineering, design, and installation services; hull, mechanical and electrical and combat systems inspection; ship repair and overhaul availability planning; ship surveys and configuration management; and foreign military sales support. Utilizing a total team approach, we work with our partners to perform alteration and installation

services, and we provide integrated logistics support. Our customers include naval shipyards, surface warfare centers, shipbuilding support offices, supervisors of shipbuilding, and fleet technical support centers, as well as other government agencies, government prime contractors, and foreign navies. We also provide technical and management services to the contractor team supporting the Marine Corps Blount Island Command at Jacksonville, Florida.

FMD also provides engineering and technical support for Energetics and associated ordnance systems for the Naval Surface Warfare Center Indian Head Division. The VSE team includes more than 20 subcontractors, and together we provide state-of-the-art support for Indian Head programs in systems engineering and technical support, explosives system safety engineering support, modeling and simulation, test and evaluation, and software engineering.





## Land Systems Division

*“VSE Supports Team Army and Team Marine Corps”*

Land Systems Division is VSE’s premier, ISO 9001 registered engineering and technical services support center for ground weapons and support equipment, for logistics and training services, and for material procurement programs for U.S. Army active and reserve components and Marine Corps customers.

Teamed with its strategic partners, Land Systems provides system engineering support and prototype development for combat vehicles such as the Army’s Field Artillery Ammunition Support Vehicle and the Marine Corps’ Light Armored Vehicle. Land Systems’ logistics capability supports supply chain management for fielded systems, provisioning, automated warehousing and inventory management, technical manual preparation, revision, and translation, and deployment of mobile technical training teams worldwide.



## VSS Division

*“Meeting Customer Goals and Objectives”*

VSE’s Value Systems Services (VSS) Division supports three programs where we have earned the trust of our customers for timely and effective support services:

- VSS supports the Naval Air Systems Command F/A-18 Program, including the automated maintenance data base management programs and their transfer, integration, and deployment to a new integrated information systems environment.



- VSS supports U.S. Navy requirements for privatization outsourcing to commercial companies. We provide experience A-76 subject matter experts to support management studies, performance work statements, functional assessments and analysis, and the “most efficient organization” concept of operations.
- VSS supports the U.S. Postal Service with specialized HRSI project management services to augment its nationwide Facilities Support Offices with the development or modernization of USPS facilities, including state-of-the-art retail postal lobbies.

Market areas in which VSS has focused for growth include information systems integration and deployment, data asset technology, and program management within NAVAIR FMS programs; business process reengineering for government agency requirements; and technical and large program expertise support for USPS specialized functional organizations.

## Energetics, Incorporated

*“Energy and Environmental Consulting”*

Energetics facilitates the development and implementation of advanced, energy-related technologies to help meet America’s needs for energy while protecting the natural environment. Principal client areas served are renewable energy and energy

efficiency, fossil fuels and power generation, environmental management and restoration research and development, and environmental health and safety.

Recognized for its ability to integrate scientific and technical expertise, the Energetics staff combines a detailed knowledge of business and related policy. By addressing technology and policy challenges in a dynamic business environment, Energetics establishes a basis for long-term client relationships, and clients rely on us for technically sound, responsive, and cost-effective solutions.

We build on our relationships by continuously developing new products and services that have exceptional value for clients. Our products and services include scientific, engineering, regulatory, economic, and institutional analysis, graphics, and reports. We also provide strategic planning and technology roadmaps, communications and technology transfer activities, and conference and meeting design and oversight.

In coming periods, Energetics expects to expand and increase the level of services provided to existing clients. We are also expanding into new areas including Department of Energy Nuclear Energy and Defense Programs, consulting services for the Environmental Protection Agency, and services supporting the Department of Defense.

## Telecommunications Technologies Group

*“Turnkey Support for Security and Collaborative Technologies and Environments”*

VSE’s Telecommunications Technologies Group (TTG) continues to grow as a one-stop solution for state-of-the-art multimedia, telecommunications, security, computer network, fire and life safety systems, and integrated environmental solutions. Our expertise in teleconferencing and security is timely and in demand due to the heightened security awareness and the need for organizations to minimize air travel and enhance personal security.

The VSE/TTG team composition is unique to the industry. It includes multimedia and audio-visual engineers, programmers, technicians, network designers, professional architects and interior designers, telephony and data technicians, security specialists, construction managers, maintenance and “refresh” specialists, project and business managers, and millwork artists. Working together, this diverse team continues to consult, conceptualize, construct, integrate, debug, and deliver projects on a “turnkey” basis -- complete and ready to use by an expanding list of clients including federal and state governments, commercial businesses, and non-profit organizations.

VSE designs and builds state-of-the-art integrated “collaborative environments” including command and control centers, distance learning environments, war rooms, collaboratories, FUSION Centers™, operations centers, innovation centers, communications centers, visionpoint environments™, secure environments and SCIFs, business intelligence centers, information coordination centers, monitoring and surveillance facilities, high technology conference and board rooms, mobile decision and command modules, call centers, and technical support and excellence centers.



## Management Sciences Division

*“Six Sigma Quality Programs and Process Optimization”*

In December 2001 VSE established a new Management Sciences Division (MSD) to provide Six Sigma training and business product and process optimization management services.

MSD is a senior level organization specializing in management science related support. We provide consulting services for product and process optimization, quality engineering, integrated product and process development, reliability engineering, and the training and certification of personnel and organizations in the implementation of Six Sigma quality programs.



The MSD team consists of engineers, scientists, analysts, and statisticians who are nationally and internationally recognized experts and published authors in the field of product and process improvement. MSD offers consulting and seminar training support for a variety of industries and environments, including defense, aerospace, manufacturing, medical products, healthcare and financial services.

MSD is currently supporting the implementation of Six Sigma quality programs at the U.S. Army Research, Development, and Engineering Center (ARDEC), the Army's Tank-Automotive and Armaments Command (TACOM), and the Army Program Executive Officers for Ground Combat and Support Systems and Ammunition programs. MSD is also in the planning stages for the implementation of Six Sigma quality programs at the Army's Operations Support Command (OSC).



Our list of successes include projects for the U.S. Air Force, U.S. Customs Service, Virginia Port Authority, District of Columbia Protective Service, American Association of Retired Persons (AARP), and British Aerospace.

For 2002 VSE/TTG has expanded services to include implementation of broadband RF, satellite, fiber, and copper transmission head-end and receiving systems, networking, infrastructure, switching, routing, programming, system optimization, inside and outside plant cabling, fiber optics, and fire and security installation.

TTG has established itself as a market leader and has grown through the use of our GSA schedules and the GSA schedules of our partnering companies. With the award of GSA Schedule 539, we can also facilitate the delivery of security services and products to customers.



## *“One Company- One Team- One Goal”*

**T**o be a preferred provider of professional support services to a diverse customer base: this is our vision.

Through the effective use of people, systems, and technology, we help organizations succeed. And in helping others succeed, we build value for our shareholders. We believe that in meeting customer goals first, we will achieve our corporate goals for growth and profitability.

Our success is measured by customers, and our service goals are consistent: delighting our customers, expanding technical

resources, and building a great customer-industry team.

Our reputation for success is based on honesty and integrity in everything we do. We value full and open communications, teamwork, and leadership. From an outstanding past performance record to a registered quality management system, we believe in our commitment to help our customers achieve their goals, today, tomorrow, and everyday, on time, and at a fair price.

## *“Value and Quality- the VSE Advantage”*



## VSE Executive Offices

2550 Huntington Avenue  
Alexandria, Virginia 22303  
(703) 960-4600 or  
(703) 329-4602

### VSE Divisions and Subsidiaries:

## BAV Division

2550 Huntington Avenue  
Alexandria, Virginia 22303  
(703) 317-5200

Charleston, South Carolina

## Coast Guard Division

2550 Huntington Avenue  
Alexandria, Virginia 22303  
(703) 317-5200

## Energetics, Incorporated

7164 Gateway Drive  
Columbia, Maryland 21046  
(410) 290-0370

Washington, D.C.  
Morgantown, West Virginia

## Fleet Maintenance Division

500 Woodlake Drive, Suite 1  
Chesapeake, VA 23320  
(757) 523-7200

Jacksonville, Florida  
Bridgeport, New Jersey  
Haddon Heights, New Jersey  
Indian Head, Maryland  
Lexington Park, Maryland

## HRSI and Postal Programs

2550 Huntington Avenue  
Alexandria, Virginia 22303  
(703) 329-4430

## Land Systems Division

2550 Huntington Avenue  
Alexandria, Virginia 22303  
(703) 329-4724

Shrewsbury, New Jersey  
Sterling Heights, Michigan  
Warner Robins, Georgia  
Ladysmith, Virginia

## Management Sciences Division

11545 West Bernardo Court  
Suite 209  
San Diego, California 92127  
(858) 385-1902

## Telecommunications Technologies Division

2550 Huntington Avenue  
Alexandria, Virginia 22303  
(703) 329-4230

San Antonio, Texas

## VSE Services International, Inc.

2550 Huntington Avenue  
Alexandria, Virginia 22303  
(703) 329-4601

## VSS Division

2550 Huntington Avenue  
Alexandria, Virginia 22303  
(703) 329-4234

Lexington Park, Maryland



## CORPORATE OFFICERS

**Chairman, President, and CEO/COO**  
Donald M. Ervine

**Executive Vice Presidents**

James M. Knowlton  
Craig S. Weber, CAO, Secretary

**Senior Vice Presidents**

Michael E. Hamerly  
Thomas R. Loftus, CFO  
Jayne M. Tuohig  
John J. Werbowski

**Vice Presidents**

Bryan E. Adams  
Peter J. Desrosiers  
Richard J. Hannah, Treasurer  
H. Eugene Hosier  
Thomas A. Stallone, Sr.

**Assistant Vice Presidents**

Stephen W. Austin  
David W. Chivers  
Louis G. Lawrence  
David K. Meier  
Elizabeth M. Price  
Robert A. Waizenegger

## BOARD OF DIRECTORS

**Donald M. Ervine**  
Chairman of the Board  
President and CEO/COO  
VSE Corporation

**Robert J. Kelly**  
Admiral, USN (Ret.);  
Chairman of the Board and President  
Energetics, Incorporated

**Clifford M. Kendall**  
Chairman of the Board  
On-Site Sourcing, Inc.

**Calvin S. Koonce, Ph.D.**  
Chairman, Koonce Securities, Inc.  
Securities Broker/Dealer

**David M. Osnos, Esq.**  
Senior Member  
Arent Fox Kintner Plotkin & Kahn, PLLP  
Attorneys-at-Law

**Jimmy D. Ross**  
General, USA (Ret.);  
Executive Vice President  
Cypress International, Inc.

**Bonnie K. Wachtel**  
Vice President and General Counsel  
Wachtel & Co., Inc.

### Director Emeritus

**Harold P. Weinberg**  
formerly Senior Vice President  
and Director (1961-1996),  
VSE Corporation



# forward looking statements

This report contains statements which, to the extent they are not recitations of historical fact, constitute "forward looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Act of 1934. All forward looking statements involve risks and uncertainties. The forward looking statements in this document are intended to be subject to the safe harbor protection provided by Sections 27A and 21E.

For discussions identifying some important factors that could cause actual VSE results to differ materially from those anticipated in the forward looking statements, please see VSE's Securities and Exchange Report on Form 10-K for the fiscal year ended December 31, 2001, including discussions captioned "Narrative Description of Business," "Management's Discussion and Analysis," and "Notes to Consolidated Financial Statements." Readers are cautioned not to place undue reliance on the forward looking statements, which reflect management's analysis only as of the date hereof. VSE undertakes no obligation to publicly revise the 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 VSE files from time to time with the Securities and Exchange Commission, including the Quarterly Reports on Form 10-Q to be filed by VSE and any Current Reports on Form 8-K.



