



“Worldwide Support”
2002 Annual Report



About the Cover:

For the U.S. Navy and U.S. Coast Guard, VSE has supported customers in over 30 countries during the past five years, principally through our BAV Division ship transfer and follow-on technical support contract awarded in 1995, and now through our new Coast Guard contract awarded in January 2002.

From Egypt to Thailand and from Turkey to Taiwan, VSE employees have assisted in the transfer of 30 naval warships and 42 Coast Guard vessels to international navies and coastal defense forces. Not to be outdone, our subsidiary Energetics also serves clients in Russia and Australia.

“Worldwide Support” has rapidly become an important capability associated with VSE. The corporate motto guiding our efforts remains unchanged—from day to day and year to year, “Value and Quality—the VSE Advantage.”

*Layout and Design:
Energetics Graphics Department*

Corporate Profile:

VSE Corporation is a diversified professional services company established in 1959. The company and its subsidiaries provide services and products to the engineering, energy, environment, and defense services markets around the world. 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 500 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.

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:

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, 2002,

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

or to VSE at 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 the ISO 9001:2000 standard.

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.

Financial Highlights

Selected Financial Data

(In thousands, except per share data)

	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Revenues, principally from contracts	\$134,379	\$111,572	\$122,269	\$157,354	\$177,074
Income from continuing operations	\$652	\$855	\$1,385	\$2,364	\$3,015
Loss from discontinued operations	-	-	-	(\$256)	(\$1,420)
Loss on disposal of discontinued operations	-	-	(\$417)	(\$574)	-
Net income	\$652	\$855	\$968	\$1,534	\$1,595
Basic earnings per common share:					
Income from continuing operations	\$.30	\$.40	\$.65	\$ 1.12	\$ 1.42
Loss from discontinued operations	-	-	(\$.19)	(\$.39)	(\$.67)
Net income	\$.30	\$.40	\$.46	\$.73	\$.75
Diluted earnings per common share:					
Income from continuing operations	\$.30	\$.40	\$.65	\$ 1.12	\$ 1.42
Loss from discontinued operations	-	-	(\$.19)	(\$.39)	(\$.67)
Net income	\$.30	\$.40	\$.46	\$.73	\$.75
Working capital	\$10,762	\$8,807	\$8,364	\$7,078	\$5,801
Total assets	\$31,677	\$33,209	\$31,523	\$31,250	\$47,248
Long-term debt	-	\$351	-	-	\$1,503
Stockholders' investment	\$17,043	\$16,475	\$15,793	\$15,145	\$13,852
Cash dividends per common share	\$.16	\$.16	\$.16	\$.144	\$.144

This consolidated summary of selected financial data should be read in conjunction with the consolidated financial statements and related notes included in VSE's Securities and Exchange Commission filings, including the company's Annual Report on Form 10-K and other quarterly and current period reports. The historical results set forth above are not necessarily indicative of the results of operations to be expected in the future.

Letter to Shareholders

Fellow Shareholders:

As indicated in the February 2003 reporting of our 2002 financial results, VSE's revenues increased about 20% in 2002 compared to 2001, primarily as a result of increased work in BAV, our "worldwide support" ship transfer and follow-on technical support division. BAV's sales were about \$72 million in 2002, 54% of total VSE sales for the year. In 2001 and 2000, BAV's sales were about \$42 million (38%) and \$50 million (40%), respectively. We expect continued strength and year-to-year volatility in BAV's sales during the next few years.

Net income in 2002 was below our expectation, primarily due to losses in our Telecommunications Technologies Division (TTD). After attempting to resolve TTD operational problems, we determined that management's time would be better used in achieving the revenue and profit potential of our traditional business areas and customer base. As a result, we decided to exit the TTD marketplace. TTD revenues of \$6 million in 2002 and \$8 million in 2001 were not material to VSE, and with TTD's losses ended, we expect to see a prompt improvement in VSE profitability.

Outlook for Growth

Looking forward, we believe our prospects for revenue growth are good. Based on current information, including the series of contract awards we have announced during the past six months, our business volume should increase over the next two to four years. Our target for annual revenues within five years remains within the \$175 to \$200 million range.

Profitability should improve in 2003 without the drag of TTD's losses. With steady growth in our revenue base, our profitability should return to previous levels. Our goal for net income within five years remains targeted at two to three percent of consolidated annual revenues.

While there is no assurance that we can achieve our revenue and profit goals, we are very focused on satisfying our customers, growing the company and increasing shareholder value.

Here are some specific reasons why I believe VSE should continue to grow and prosper in the next few years.

- **Contract Backlog:** During the past six months VSE has been awarded several large contracts to maintain and extend our services for our largest customer, the U. S. Navy. Also, in February 2003 we reported that the U.S. Army awarded VSE a large (\$2.9 billion ceiling) multiple award, indefinite delivery/indefinite quantity, omnibus contract extending for an eight-year term (if all options are exercised). We also anticipate an increase in our BAV ship transfer efforts with the announced transfer of four Kidd class destroyers to Taiwan commencing in late 2003 or early 2004.

- **Process Improvement:** During 2003 we were one of the first North American companies to upgrade its international quality management system registration from ISO 9001:1994 to ISO 9001:2000. Serving

customers well is very important to us, for as we say, how we perform today is how our past performance will be rated tomorrow. Our quality management system is one of the ways in which we seek to improve our services and capabilities on a daily basis. This effort spills over into our internal processes as well, as we seek, for example, to improve our marketing results and the quality of our proposals.

- Corporate Culture: VSE is known by its customers and other business associates as a company which stresses honesty and integrity. We intend to maintain this reputation. At the same time, our efforts in process improvement have led us to focus more closely on achieving higher levels of customer service and profitability on every contract and delivery order we perform. If we “do what we say, and say what we do,” we will satisfy our customers and achieve our profit objectives.


VSE People

VSE depends on the sustained contribution and dedication of each employee and every VSE business partner, consultant, supplier and subcontractor. We have an active Board of Directors, a seasoned management team and a staff of experienced and qualified employees. Together we will continue to set high goals and strive to achieve them.

VSE performs an important role in the defense of our nation. In providing “world-wide support” to friendly navies around the

world, we contribute to achieving the U.S. Navy’s mission. Our services for the Departments of Defense, Energy and Homeland Security make a difference in readiness and field support, in policy and technology, and in government preparedness. We are proud of what we accomplish every day.

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 6, 2003

INTERNATIONAL GROUP

BAV Division — “FMS One-Stop Shopping”

Supporting the U.S. Navy’s Security Assistance Program Office (PMS 380), BAV and its team of subcontractors including shipyards, marine engineering consultants, defense system manufacturers, and system integrators provide program management, engineering, logistics, and training services to complete the reactivation and transfer of ex-U.S. Navy ships to foreign navies. BAV also provides lifecycle logistics support, supply chain management, training, and follow-on technical assistance after the transfer of these vessels and helps foreign navies execute long-range maintenance plans.

Now in its eighth year of a ten-year \$1.1 billion contract to provide technical support services to the naval forces of U.S. 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 30 ex-U.S. Navy combatant ships to foreign governments. BAV has provided sustaining support services to the navies of Egypt, Turkey, and Taiwan, and in recent periods, has provided significant supporting efforts to Poland and Bahrain.

During 2003 BAV expects to begin advance planning efforts for its largest single project to date, the transfer of four Kidd class destroyers to Taiwan. This multi-year effort will include towing, cold ship reactivation in a U.S. shipyard, logistics, training, and crew support.

BAV’s quality management system is registered to the international standard, ISO 9001:2000.

Coast Guard Division – “Worldwide FMS Support”

The success of VSE’s efforts in transferring 41 ex-U.S. Coast Guard small craft to 16 foreign governments under the BAV contract led to the competitive award of a new long-term contract to VSE in January 2002. Under the new contract, VSE provides support directly to the U.S. Coast Guard Office of International Affairs, FMS Program, for foreign military sales requirements.

The Coast Guard Division provides a core team of contractors who understand Coast Guard program requirements and can 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 are assured of world-class support to help meet the coastal defense requirements of their countries.



The TCG Gokova (ex-Morrison, FFG-12) departing Charleston, South Carolina, for Turkey.

Fleet Maintenance Division — “Supporting Fleet Readiness and Sea Power Projection”

The Fleet Maintenance Division (FMD) provides ISO 9001 registered 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.

Supported by over \$190 million in new contract awards in 2002, 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.

As a principal support contractor for the Naval Surface Warfare Center – Indian Head Division, FMD also provides engineering and technical support for a broad range of military systems and equipment. The VSE team at Indian Head 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.

FMD also supports the Naval Air Systems Command PMA-265 F/A-18 Hornet Program, principally in the area of Automated Maintenance Environment (AME) systems administration and network and database management support. We support the F/A-18 AME distributed database architecture that is deployed throughout the Navy’s Fleet, and we support AME integration into the new Navy-wide Optimized NALCOMIS environment.



Coastal Patrol Boat with Sikorsky SH-60 Seahawk Helicopter during underway replenishment.

FEDERAL GROUP

Systems Engineering Division – “VSE Supports Team Army, Team Air Force, and Team Marine Corps”

The Systems Engineering Division (formerly the Land Systems Division) is VSE’s premier, ISO 9001 registered engineering and technical services support center for tracked and wheeled vehicles, ground weapons, and support equipment, for logistics and training services, and for material procurement programs for U.S. Army active and reserve components, U.S. Air Force, and U.S. Marine Corps customers.

Boosted by an increase in U.S. Army Reserve Command funding, the Systems Engineering Division is providing Resource Transformation

engineering and technical support. In addition, at the Army’s Tank-automotive & Armaments Command (TACOM), Systems Engineering participates as a team member in a new five-year \$30 million STS contract for production support, post-production sustainment, system modernization, and system improvement activities for the entire M109 Family of Vehicles, including the Field Artillery Ammunition Support Vehicle. In another teaming effort, Systems Engineering provides administrative, management, and technical support services to support the TACOM Program Executive Office (PEO) for Combat Support and Combat Services Support. Areas of support include project and product management, life-cycle management, product assurance and testing, product planning, and technical engineering and logistics support.

Building on VSE’s experience in configuration control and database management, computer network engineering, and information technology support, the Systems Engineering Division has also established an initiative to centralize and market VSE’s proven ability to maintain and manage critical computer assets. For example, we support U.S. Air Force aircraft logistics and information technology at the Warner Robins Air Logistics Center. Service offerings are expected to range from system and network design to full-scale system integration, including the design and construction of computer command and control facilities, operations centers, and multimedia audio-visual conference centers.



Field Artillery Ammunition Support Vehicle (FAASV) performing test maneuvers.

Communications and Engineering Division – “Rapid Response”

As announced in February 2003, VSE has been awarded a new multi-year Rapid Response support contract by the U.S. Army Communications-Electronics Command (CECOM) at Fort Monmouth, New Jersey. VSE led a 28-member team with diverse engineering, technical, and manufacturing capabilities in seeking this contract. Depending on future work requirements and funding availability, the time and materials and firm fixed price contract includes a two-year contract ceiling of \$712 million and a total ceiling of \$2.9 billion over an eight-year period if all options are exercised. The contract is a multiple award, indefinite delivery, indefinite quantity contract, and accordingly actual revenue estimates for the contract cannot be predicted.

Under this contract, the Communications and Engineering Division will provide CECOM with a broad spectrum of equipment and services to research, develop, upgrade, install, fabricate, test, operate, maintain and support new and existing government platforms, systems, subsystems, and other items.

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-Lean Enterprise training, certification, and business product and process optimization consulting services. 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 and Lean Manufacturing techniques.

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, as well as numerous commercial clients doing business with the Federal Government.



VSS Division – “Meeting Customer Goals and Objectives”

The Value Systems Services (VSS) Division supports Government requirements for privatization outsourcing to commercial companies. We provide experienced 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 also 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, and it provides human resource program implementation support services to the Treasury Department.



F/A-18 “Hornet” securing America’s freedom.

ENERGY AND ENVIRONMENT GROUP

Energetics, Incorporated — *“Energy and Environmental Consulting”*

For over two decades Energetics has assisted government and industry clients to develop and implement new technology efforts and policy options that meet the nation’s energy needs while protecting the environment. The professional staff provides consulting services on industry processes and technologies, planning and program analysis for energy-efficiency and renewable technologies, training and outreach, the Federal Energy Management Program, technology assessments for power conversion, transmission, and utility programs, project and product management support, and environmental compliance support including environmental impact analysis, outreach programs, and regulatory analysis. Energetics also has an award winning technical writing and graphics capability, and designs and oversees a variety of conference and meeting activities.

Our principal client is the Department of Energy (DOE). We support DOE Headquarters Program Offices for Energy Efficiency and Renewable Energy, Engineering and Construction Management, Environmental Management and Restoration R & D, Fossil Fuels and Power Generation, and Nuclear Energy R & D Programs. Energetics also provides technical and planning support for advanced fossil-energy systems and environ-

mental remediation technology to the National Energy Technology Laboratory at Morgantown, West Virginia, and Pittsburgh, Pennsylvania, in addition to supporting other DOE field offices.

Our staff has the ability to integrate scientific and technical expertise with industry specific, business and policy related matters. We can therefore assist clients to address technology and policy challenges in a dynamic business environment. This has allowed Energetics to maintain a loyal client base because they can rely on Energetics to provide technically sound, responsive, and cost-effective solutions. Energetics builds on these relationships by continuously developing new, value added, products and services.

In 2003 Energetics expects to expand and increase the level of services provided to existing clients. We have recently expanded into new areas of DOE. In particular we expect a significant amount of new work providing support to the Office of Nuclear Energy. We also hope to expand our foothold in the Environmental Protection Agency, and to secure new work with the Department of Defense.



Wind turbines produce electricity from a clean and renewable source of energy.

“One Company – One Team – One Goal”

The VSE Vision is to be a preferred provider of professional support services to a diverse customer base.

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 also 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.

“Process, Performance, and Satisfaction – the VSE QMS Advantage”

“Value and Quality – the VSE Advantage”

VSE’s Quality Management System (QMS) has been registered to the ISO 9001 international quality standard since 1999. During 2002, VSE successfully upgraded its QMS registration to meet the new **ISO 9001:2000** standard. At the time VSE accomplished this upgrade in

August 2002, only about 6% of all North America companies currently registered to the ISO 9000 family of standards had successfully transitioned to the new 2000 standard.

The new ISO standard emphasizes two key quality system elements: improved customer satisfaction and overall process improvement. Both elements

are implemented and maintained through the use of documented methods and processes, measured against goals and targets and adjusted as needed to obtain the required results. By driving these two key quality elements, customers are assured of VSE’s constant effort to provide products and services that meet or exceed their requirements.

VSE employees also benefit from having a documented quality management system in place. This system facilitates training for new employees and guidance for existing employees. Our QMS and all of its documentation are available to every employee on a worldwide basis, in the office or on the road, through our worldwide computer network. Only the most current version of any document is made available through this system, assuring that every employee is working to the same guidance throughout the company.

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.



VSE Corporation, 2550 Huntington Avenue, Alexandria, Virginia 22303.



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

Vice Presidents

Bryan E. Adams

Stephen W. Austin

Thomas G. Dacus

Peter J. Desrosiers

Richard J. Hannah, Treasurer

H. Eugene Hosier

Assistant Vice Presidents

David W. Chivers

James S. Fallon

Louis G. Lawrence

David K. Meier

Elizabeth M. Price

Director Emeritus

Harold P. Weinberg

formerly Senior Vice President
and Director (1961-1996),
VSE Corporation

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 and
Director, On-Site Sourcing, Inc.

Calvin S. Koonce, Ph.D.

Chairman, Koonce Securities, Inc.
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General, USA (Ret.);
Executive Vice President
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Bonnie K. Wachtel

Vice President and General Counsel
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Facilities Information

VSE Executive Offices

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VSE Divisions and Subsidiaries:

BAV Division

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Communications and Engineering Division

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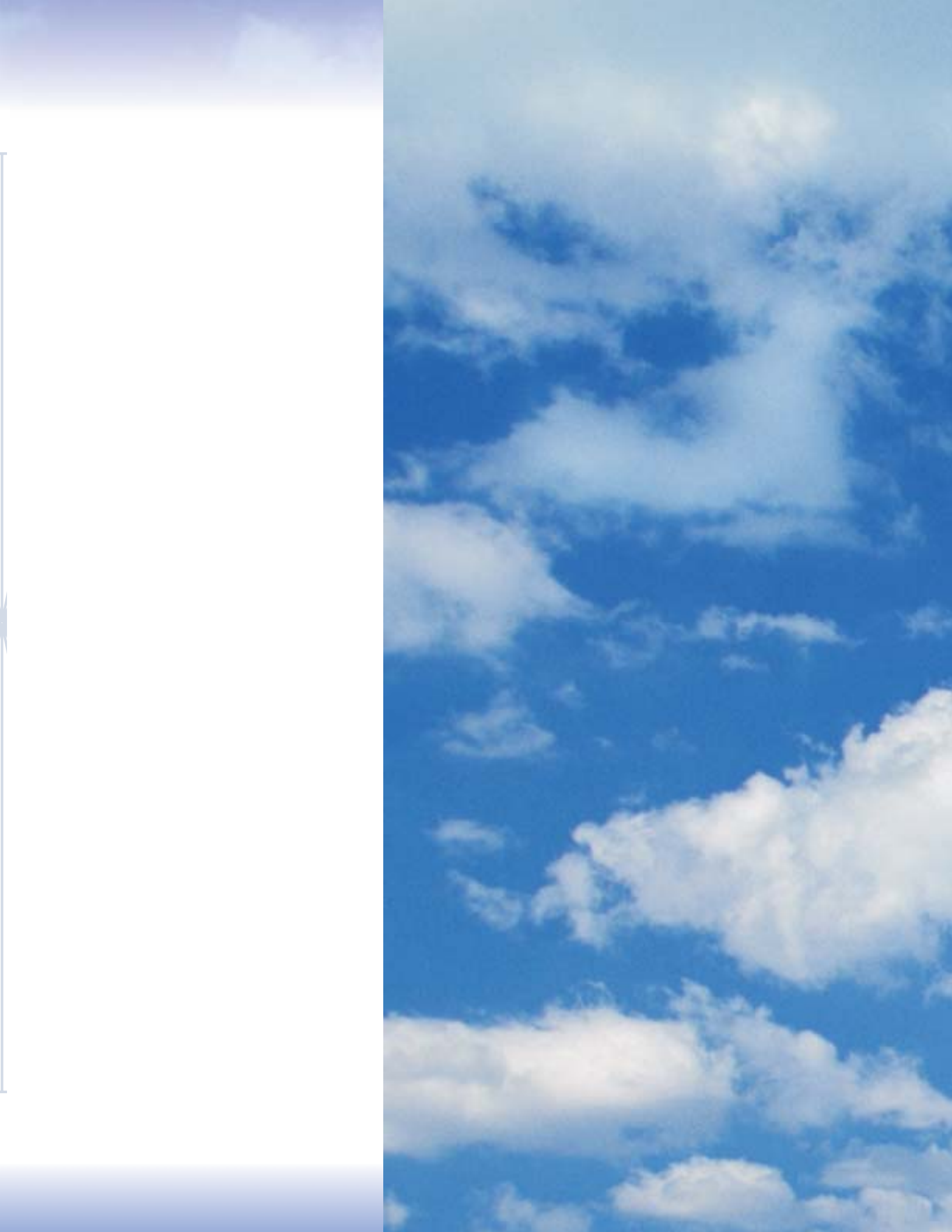
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