



# *2004 Annual Report and Form 10-K*



*Leaders in Innovation*

**Create**  
**Create**  
**Sustain**

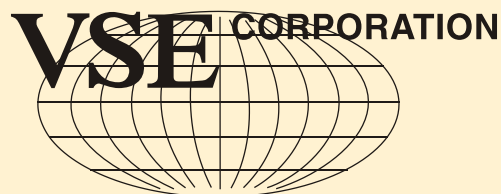


**Sustain**

**Improve**  
**Improve**

# VSE CORPORATION

helps organizations succeed through the effective use of people, systems, and technology. In helping others succeed, we increase shareholder value by capturing new work, delighting our customers, increasing our technical competence, and building great industry teammates. Our reputation for success and our quality management system are based on honesty and integrity in everything we do; on communications, on teamwork and leadership; and on an enduring commitment to help our customers, employees, and teaming partners succeed with cost effective solutions, continuous learning, and process improvement.

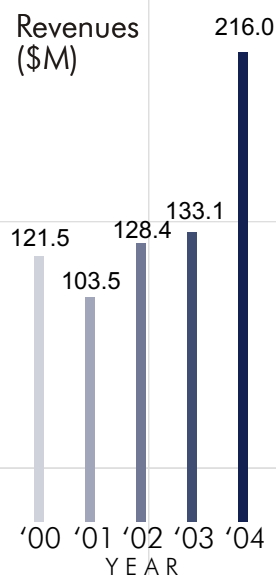


*Celebrating  
46 years  
of Excellence*

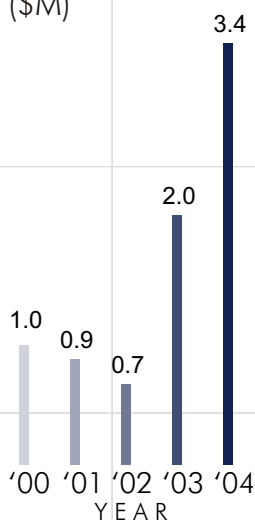


# FINANCIAL HIGHLIGHTS

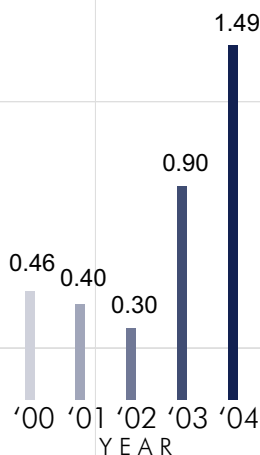
Revenues (\$M)



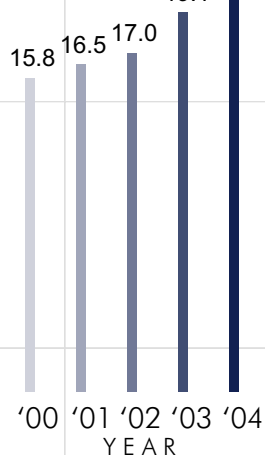
Net Income (\$M)



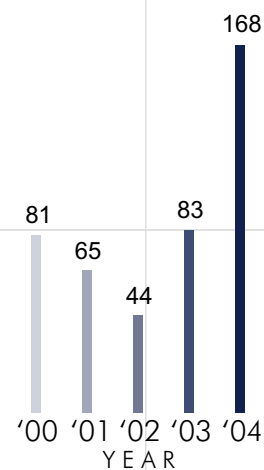
Earnings Per Share Diluted (\$)



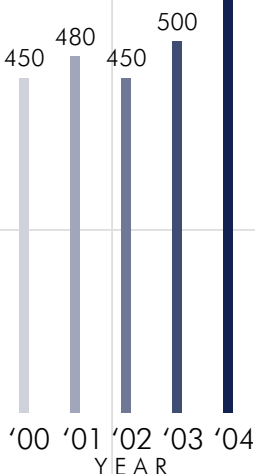
Stockholders' Investment (\$M)



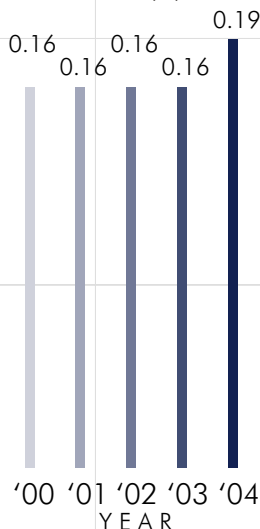
Funded Backlog (\$M)



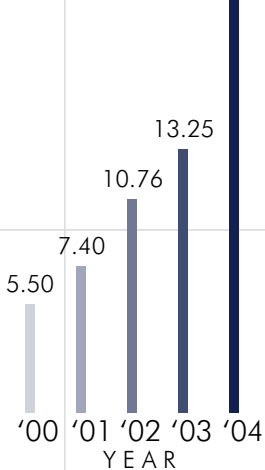
Number of Employees



Dividends Per Share (\$)



Stock Price, End of Year (\$)



## Income Statement Data (in thousands, except share data)

Year ended December 31	2004	% Change	2003
Revenues	\$ 216,011	62%	\$ 133,059
Net income	3,444	71%	2,011
Earnings per share (diluted)	1.49	66%	0.90
Weighted average shares (diluted)	2,309,932		2,230,226

## Balance sheet data (in thousands, except percentages)

December 31	2004		2003
Total assets	\$ 60,352		\$ 40,776
Working capital	15,583		13,394
Stockholders' investment	23,043		19,058
Return on equity	18.1%		11.8%

# LETTER TO SHAREHOLDERS

Fellow Shareholders:

**VSE** experienced a record year in 2004—for the first time, our annual revenues exceeded \$200 million. Along with the increase in revenues, we experienced increases in net income and return on equity, as well as increases in funded backlog, employees, and the number of customers we proudly serve. We increased our cash dividend by 25%, and our stock price reflected an increase in shareholder value. These excellent results establish high expectations for future growth.

Last year we wrote, “While VSE does not predict revenues or earnings, and setbacks may occur, we expect the positive trends we experienced in 2003 to continue into 2004 and 2005. We are doing a better job of identifying, bidding, and winning new work, and we are working the jobs we have won with more focus on customer quality and profitability. As a result, I expect VSE to achieve a higher level of operations success and financial performance, and I look forward to reporting on our progress.”

We remain focused on growth, quality, and financial performance, and our guidance for 2005 and into 2006 remains positive.

## Outlook for Growth

Based on projected activity under existing contracts, as evidenced by our year-end funded backlog of about \$168 million, we expect continued growth in 2005. The ship transfer work performed by our BAV Division led our growth in 2004, and BAV is expected to contribute significantly to our revenues. Other previously announced indefinite quantity, indefinite delivery contracts won in 2003 and 2004 also contributed in 2004 and are expected to contribute in 2005 and beyond.

In addition, our Systems Engineering Division was awarded an important contract in 2004 to provide the U.S. Army with an innovative, self-sealing fuel tanker system



which could be important for VSE growth in 2005. During 2004 we significantly increased our support to the U.S. Air Force, and we were awarded new contracts to establish Army programs in equipment maintenance, corrosion control, and driver vehicle upgrade kits. Our subsidiary Energetics is recognized as a global leader in developing technology roadmaps and also participated on the winning team to support the National Energy Technology Laboratory. We continue to identify new bidding opportunities, and our success rate is improving.

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In 2004 VSE annual revenues  
exceeded \$200 million  
for the first time.

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# LETTER TO SHAREHOLDERS

Our quality management system was recognized with the renewal of our ISO 9001 registration certificate to 2008.

VSE will continue to review promising strategic business opportunities that may arise from time to time, including potential acquisitions to accelerate our growth.

## Worldwide Operations

VSE became a global company in 1995 with our competitive success in winning the ten-year, \$1 billion ship transfer and follow-on technical support contract awarded by the Naval Sea Systems Command to our BAV Division. While NAVSEA is our customer, clients under the contract include foreign governments and navies from 27 nations from Egypt to Taiwan to whom we have transferred 93 ex-Navy and ex-Coast Guard ships and vessels. Since 1995 other VSE divisions have assigned employees and resources to Europe and Asia to support Department of Defense requirements, and in

June 2004 we extended our reach with the award of an Air Force task order to support a pre-positioned equipment program located in Guam. More recently, VSE employees are serving in Kuwait and Iraq to support the fuel tanker ballistic protection system currently being deployed across the U.S. Army tanker inventory. As of early 2005, more than 10% of our workforce was employed overseas.

## VSE People

VSE depends on the contribution and dedication of each employee and every VSE business partner, consultant, supplier and subcontractor. We have an active board of directors, a focused management team, a staff of experienced and qualified employees, and a commitment to our quality management system registered to the international ISO 9001

quality standard. Together we will continue to set high goals and strive to achieve them. *"Better this year than we were last."*

After years of dedicated service on the VSE Board of Directors and as President of Energetics, Admiral Kelly has announced his retirement in 2005. On behalf of the directors, officers, and employees of the company, I take this opportunity to thank Admiral Kelly for his years of continuous service since 1996. His experience and counsel have been held in high regard by me and by his fellow directors. We wish him well in the years to come.

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



Donald M. Ervine  
Chairman of the Board  
President and CEO/COO  
March 9, 2005

# FACILITIES

*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

*Offices*  
Charleston, South Carolina  
Alexandria, Egypt  
Tokyo, Japan  
Mancanillo, Mexico  
Suoa and Tsoying, Taiwan  
Sattahip, Thailand  
Golchuk, Turkey

**Communications and  
Engineering  
Division**  
170 Avenue at the Common  
Shrewsbury, New Jersey 07702  
(732) 389-3324

**Coast Guard Division**  
2550 Huntington Avenue  
Alexandria, Virginia 22303  
(703) 317-5200

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

*Offices*  
Washington, D.C.  
Morgantown, West Virginia

**Fleet Maintenance Division**  
500 Woodlake Drive, Suite 1  
Chesapeake, Virginia 23320  
(757) 523-7200

*Offices*  
San Diego, California  
Jacksonville, Florida  
Honolulu, Hawaii  
Indian Head, Maryland  
Lexington Park, Maryland  
Bridgeport, New Jersey  
Haddon Heights, New Jersey  
Beaufort, South Carolina  
Langley, Virginia  
Anderson AFB, Guam  
Atusgi, Japan  
Osan, Korea

**Information Assurance  
Division**  
2550 Huntington Avenue  
Alexandria, Virginia 22303  
(703) 329-4776

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

**Systems Engineering  
Division**  
2550 Huntington Avenue  
Alexandria, Virginia 22303  
(703) 329-4205

*Offices*  
Warner Robins, Georgia  
Sterling Heights, Michigan  
Weldon Spring, Missouri  
San Antonio, Texas  
Ladysmith, Virginia

# 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  
Private Investor; formerly  
Chairman and CEO,  
Computer Data Systems, Inc.

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

James F. Lafond, CPA  
Retired Executive; formerly  
Washington Area Managing Partner  
PricewaterhouseCoopers LLP

David M. Osnos, Esq.  
Of Counsel  
Arent Fox PLLC  
Attorneys-at-Law

Jimmy D. Ross  
General, USA (Ret.);  
Senior Logistics Consultant  
Cypress International, Inc.

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

## CORPORATE OFFICERS

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

**Executive Vice Presidents**  
James M. Knowlton  
Craig S. Weber, CAO, Secretary

**Senior Vice Presidents**  
Thomas G. Dacus  
Michael E. Hamerly  
Thomas R. Loftus, CFO  
Jayne M. Tuohig

**Vice Presidents**

Stephen W. Austin  
Peter J. Desrosiers  
James S. Fallon  
Richard J. Hannah, Treasurer  
H. Eugene Hosier

**Assistant Vice Presidents**

Jerry M. Alvey, Comptroller  
David W. Chivers  
Harold J. Flammang, Jr.  
James H. Koontz  
Louis G. Lawrence  
Elizabeth M. Price  
Michael J. Rayder  
Robert W. Rouzer  
Edward C. Webster



# BUSINESS PRACTICE



VSE Corporation is a diversified professional services company established in 1959. The company and its subsidiaries provide services and products to the engineering, energy and environment, defense and homeland security markets around the world. The company has eight divisions organized into three operating groups.

## International Group

VSE's largest business unit, the International Group, has about 330 employees and is led by Executive VP Jim Knowlton. Recording revenues of about \$162 million in 2004, the International Group provides services through the BAV Division, which supports U.S. Navy ship transfers to foreign governments; the Fleet Maintenance Division, which supports U.S. Navy and Marine Corps waterfront activity through several contracts, including a \$1.022 billion, 5-year, IDIQ multiple award contract, and the U.S. Air Force requirements through several readiness contracts; and the Coast Guard Division, which supports Coast Guard equipment transfers to foreign nations. Principally through its \$1 billion,

10-year service contract with the Naval Sea Systems Command, the BAV Division provides ship transfer and follow on technical support to countries around the world, including two of VSE's largest customers in 2004, Egypt and Taiwan.

## Federal Group

VSE's original business unit, the Federal Group, has about 170 employees and is led by Senior VP Tom Dacus. The Federal Group produced revenues of about \$42 million in 2004 through four divisions: the Systems Engineering Division, which supports the U.S. Army, Army Reserve, and Marine Corps units in maintaining and modernizing equipment and systems, including an innovative fuel tanker ballistic protection system, currently being deployed across the U.S. Army tanker inventory; the Communications and Engineering Division, which supports Department of Defense mission requirements through the use of a \$2.9 billion, 8-year, IDIQ multiple award Rapid Response contract; the Management Sciences Division, which provides Lean Manufacturing and Six Sigma tools in support of the VSE devel-

oped Enterprise Excellence<sup>SM</sup> business model; and in 2005 the Information Assurance Division, which provides measures to protect and defend information systems, including restoration of information systems by incorporating protection, detection, and reaction capabilities.

## Energy and Environment Group

VSE's Energy and Environment Group was acquired in 1995 and consists solely of our wholly owned subsidiary Energetics, Incorporated. Energetics had revenues of about \$12 million in 2004 and has a staff of about 75 employees led by President Bob Kelly. Energetics provides technical and management consulting services with a focus on energy and environmental issues for its principal client, the U.S. Department of Energy. Energetics excels in planning and managing all aspects of technology research, development, and demonstration, and it has earned an international reputation for developing technology roadmaps that help government and industry solve complex science and technology problems through collaborative partnerships.

### About the Cover

VSE operates in a global environment, providing services and products across the nation and around the world. Our cover presents photographs of a number of systems and equipment we support over an image of the globe. Our themes for 2005—Create, Sustain, Improve—are highlighted on the inside front cover.

*With special thanks to VSE Graphics Designer Helen Sampson.*

### 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 and environment, defense and homeland security 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 about 625 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 (NASDAQ-NMS) 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, Telephone 800-866-1340, or to VSE at 2550 Huntington Avenue, Alexandria, Virginia 22303-1499, Attention: Corporate Secretary, Telephone 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.

### 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 Exchange 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, 2004, 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.





2550 Huntington Avenue  
Alexandria, Virginia 22303-1499  
[www.vsecorp.com](http://www.vsecorp.com) email: [info@vsecorp.com](mailto:info@vsecorp.com)  
(703) 960-4600 • 1-800-455-4873