



## ***2005 Annual Report and Form 10-K***





*Create*  
*Sustain*  
*Improve*



## ABOUT THE COVER

VSE has seven operating divisions and one subsidiary (Energetics Incorporated) which act together as "Team VSE" to ensure all of our resources are dedicated to customer support. Our cover shows "Team VSE" depicted as interlocking gears, each of which contains a photograph of the systems, equipment, energy or environmental concerns supported by VSE. Our continuing business themes for 2006—Create, Sustain, and Improve—and our corporate goals—Teamwork, Leadership, and Communications—are highlighted on the inside covers of our Annual Report.

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 700 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

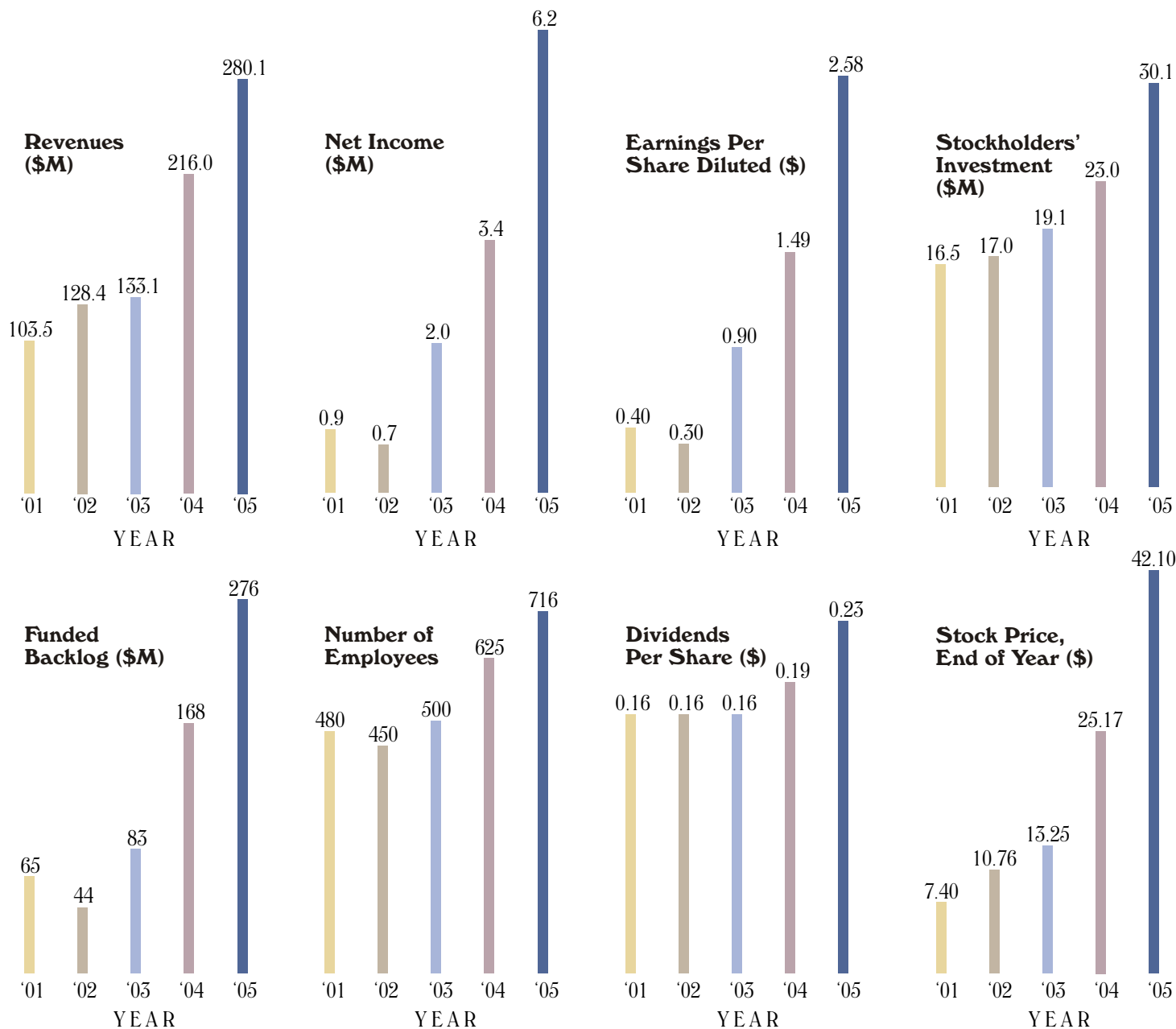
This report contains statements which, to the extent they are not recitations of historical fact, constitute "forward looking statements" within the meaning

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, 2005, 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



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

Year ended December 31	2005	% Change	2004
Revenues	\$ 280,139	30%	\$ 216,011
Net income	6,169	79%	3,444
Earnings per share (diluted)	2.58	73%	1.49
Weighted average shares (diluted)	2,392,027	4%	2,309,932

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

December 31	2005		2004
Total assets	\$ 73,866	22%	\$ 60,352
Working capital	22,028	40%	15,748
Stockholders' investment	30,151	31%	23,043
Return on equity	26.8%	48%	18.1%

# LETTER TO SHAREHOLDERS

Fellow Shareholders:

**VSE** experienced a record year in 2005 — our annual revenues exceeded \$280 million, while earnings exceeded \$6 million (\$2.58 per share diluted). Along with the increase in revenues and earnings, we experienced increases in return on equity and in stockholders' investment, as well as increases in funded backlog, employees, and the number of customers we serve. We increased our cash dividend by 21%, and our stock price reflected an increase in shareholder value. These results capped an excellent year for us in 2005 and establish high expectations for future growth.

Customer service is always first on our list of priorities: we work hard to ensure we deliver a quality product, on time at a fair price. Then we focus on growth, and we intend to continue shaping the company for long-term growth and margin improvement. The performance of VSE employees and our business team in 2005 makes us confident about our ability to set and meet new goals.

## OUTLOOK FOR GROWTH

The financial results reported for 2005 are in line with the positive trend in VSE operations and results reported over the past several years. VSE revenues have grown significantly as our customers' needs have grown. With the increase in revenues, we have been able to allocate our corporate costs over a larger base and improve our margins on certain time and materials and fixed price contracts.

As previously reported, during the fourth quarter of 2005 we received new contracts and delivery orders representing potential multi-year revenues of up to \$495 million. Our contract funding or “book-



ings” during all of 2005 increased to about \$390 million, up 28% from 2004, and our funded backlog increased to about \$276 million at the end of 2005, up 64% from the prior year-end. Based on these new awards, increased bookings, and funded backlog, and on our sense of VSE's favorable position in several of the markets we serve, we anticipate continued strength in VSE revenues and net income in 2006.

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

**VSE experienced a record year in 2005 — our annual revenues exceeded \$280 million, while earnings exceeded \$6 million (\$2.58 per share diluted).**



# LETTER TO SHAREHOLDERS

We emphasize integrity in all that we do, and we support teamwork, leadership, and communications as tried and true methods to achieve success.

## BUSINESS OPERATIONS

VSE operations worldwide and across the country remain diverse and complex. Here are a few examples: our work in Kuwait and Iraq to provide a protection system for fuel trailers will be an important challenge during the year: we are proud of our innovative work in this area, and we will be working very hard to complete this project and extend its success. We will be working to complete the two remaining Kidd-class ship transfers on schedule, and we expect several new projects in 2006 that will challenge our BAV Team. We have a new Engineering and Logistics Division to stand-up in 2006 as part of our growing effort to support U.S. Army equipment maintenance.

And we have a new \$351 million task with ManTech to provide maintenance and logistics services in support of U.S. Army equipment in Iraq and Afghanistan. We look forward to an exciting year, and we are very pleased with the trust and confidence shown in us by our customers and business associates.

## VSE PEOPLE

VSE depends on the contribution and dedication of each employee and every VSE business associate, consultant, supplier and subcontractor. We emphasize integrity in all that we do, and we support teamwork, leadership, and communications as tried and true methods to achieve success.

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 year."

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



Donald M. Ervine  
Chairman of the Board  
President and CEO/COO  
February 24, 2006

# 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  
Tuxpan, Vera Cruz, Mexico  
Suva 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

## **Engineering and Logistics Division**

2550 Huntington Avenue  
Alexandria, Virginia 22303  
(703) 329-3208

### *Offices*

Long Beach, Mississippi  
Weldon Spring, Missouri  
San Antonio, Texas  
Ladysmith, 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

## **Management Sciences Division**

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

## **Systems Engineering Division**

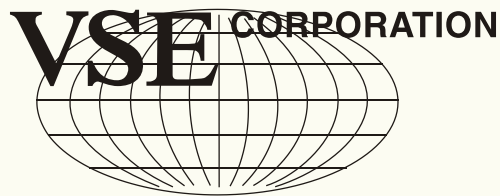
2550 Huntington Avenue  
Alexandria, Virginia 22303  
(703) 329-4205

### *Offices*

Warner Robins, Georgia  
Sterling Heights, Michigan

# 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  
47 years  
of Excellence*





# 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 seven divisions and one subsidiary organized into three operating groups.

## INTERNATIONAL GROUP

VSE's largest business unit, the International Group, has about 325 employees and is led by Executive VP Jim Knowlton. Recording revenues of about \$186 million in 2005 (up 15%), 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 BEAR Base 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 and follow-on \$544 million, 5-year 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 2005, Egypt and Taiwan.

## FEDERAL GROUP

VSE's original business unit, the Federal Group, has about 230 employees and is led by Senior VP Tom Dacus. The Federal Group produced revenues of about \$82 million in 2005 (up 107%) through three 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 Manu-

facturing and Six Sigma tools in support of the VSE developed Enterprise Excellence<sup>SM</sup> business model. In 2006 the Federal Group split out a portion of its equipment maintenance work and formed the Engineering and Logistics Division to manage this rapidly growing business.

## 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 \$13 million in 2005 (up 9%) and has a staff of about 85 employees led by President Jim Reed. 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.

# BOARD OF DIRECTORS

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

**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  
Harold J. Flammang, Jr.  
Richard J. Hannah, Treasurer  
H. Eugene Hosier  
Michael J. Rayder

**Assistant Vice Presidents**  
Jerry M. Alvey, Comptroller  
Carl S. Barbour  
David W. Chivers  
James H. Koontz  
Louis G. Lawrence  
Donnelle L. Moten  
Elizabeth M. Price  
Robert W. Rouzer  
Edward C. Webster  
Frank G. Wickersham, III



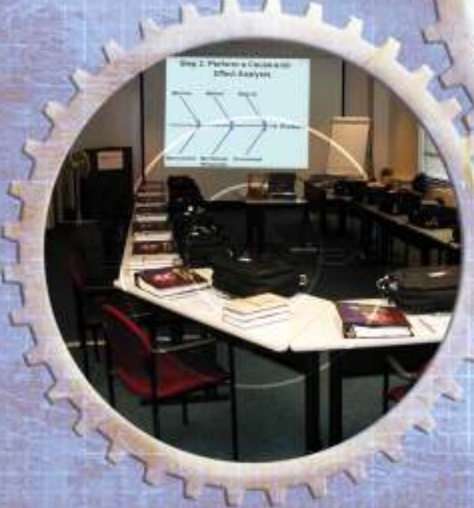
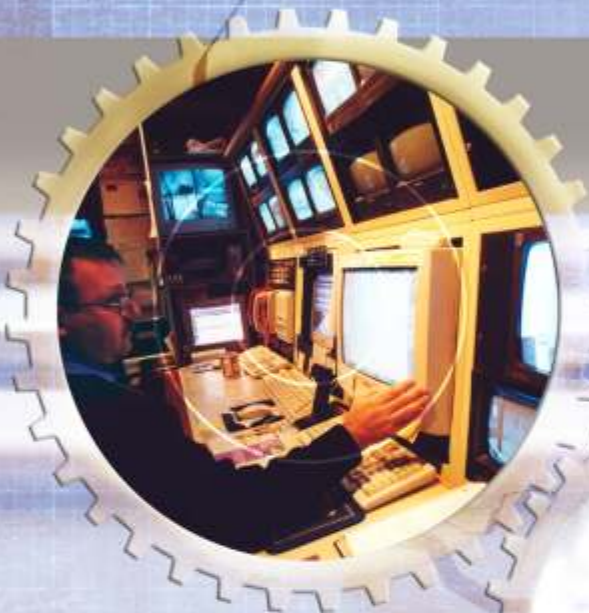


*Teamwork*

*Leadership*

*Communications*





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