



Mission: Success

Annual Report
and Form 10K
2006



After guiding his jet away from an air show crowd of more than 60,000 people, a pilot safely ejects from a USAF Thunderbirds aircraft less than a second before it struck the ground. The ACES II ejection seat, produced and supported by VSE's team of experts in aircrew escape systems, performed flawlessly. VSE's life cycle management of Cartridge Actuated Devices and Propellant Actuated Devices (CAD/PAD) delivers significant improvements in reliability, safety, and cost savings, principally measured by extended storage time on the shelf in magazines and installed service life in aircraft.

U.S. Air Force photo by Staff Sgt. Bennie J. Davis III

About the Cover

VSE's mission is success, and in 2006, VSE has again achieved its mission. Mission: Success.

VSE Corporation helps organizations succeed through the effective use of people, systems, and technology. The photographs used throughout this Annual Report demonstrate ways in which VSE has helped its clients achieve their missions in 2006. These success stories contributed to VSE's financial achievements in 2006, as shown in the financial results presented in this document. We are also very proud about the important differences that our successes are making in the world today. From protecting the lives of U.S. soldiers in the field to enhancing the navies of allied nations; from developing a global strategy for a malaria vaccine to maximizing the nation's ability to turn seized property into additional funds for law enforcement and homeland security – 2006 has been another year of Mission: Success.

Corporate Profile

VSE Corporation is a diversified professional services company established in 1959. The company provides engineering, systems integration, scientific, and management solutions to customers in the defense, homeland security, law enforcement, energy, and environmental sectors. Headquartered in Alexandria, Virginia, VSE employs more than 850 personnel supporting clients from more than 25 locations 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 Global Market 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 07016-1340, 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 Security and Exchange Report on Form 10-K for the fiscal year ended December 31, 2006, 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.

LETTER TO SHAREHOLDERS

Fellow Stockholders:

After experiencing a record year of growth in revenues, earnings, and backlog in 2005, VSE in 2006 continued to perform at a very high level and generated an even better financial performance. Our annual revenues in 2006 exceeded \$363 million, while earnings exceeded \$7.7 million (\$3.21 per diluted share). Along with the increase in revenues and earnings, our return on equity exceeded 25%, with increases in stockholders' equity, funded backlog, employees, and the number of customers we serve. We increased our cash dividend by 17%, and our stock price reflected these increases when the results for 2006 were reported.

The performance of VSE employees and our business team in 2006 makes us confident about our ability to set and meet higher goals.

Financial Results

The financial results reported for 2006 are consistent with the positive trend in VSE operations and results reported in recent years. VSE revenues have grown significantly as our ability to meet customer needs has 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 2006 we received new contracts and delivery orders representing potential revenues of up to \$206 million, and at the end of 2006 our funded backlog was about \$299 million. Based on these and other new awards announced during the year, our strong bookings and funded backlog, and on our sense of VSE's favorable position in several of the markets we serve, we anticipate continued revenue and net income growth in 2007.

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

Business Operations

VSE operations grew in 2006 as we established new facilities, added employees, and developed new relationships.

- * *In our Federal Group*, our new Engineering and Logistics Division (ELD) continues to lead in the development of facilities in Virginia, Mississippi, Texas, and Missouri to serve customers in the U.S. Army, Army Reserve, and Army National Guard. In November 2006, ELD won a multi-year, multiple-award Army FORSCOM FIRST contract for equipment repair, upgrade, and RESET work. Our Systems Engineering Division continued to meet the challenges of installing Tanker Ballistic Protection Systems in Iraq. In addition, our Communications and Engineering Development Division saw a significant expansion in VSE and subcontractor services provided and revenues earned through our Rapid Response contract. Management Sciences Division continued to develop its ability to deliver high quality consulting services for product improvement and continuous process improvement in Enterprise Excellence, Lean Six Sigma, and related practice areas.
- * *In our International Group*, the BAV Division completed the reactivation and transfer of four ex-Kidd class warships to Taiwan, ahead of schedule and below budget. Among other "firsts," the highly visible and successful BAV Kidd project established a new standard for timely, cost-effective ex-Navy ship overhaul planning and reactivation services. In August 2006, our Fleet Maintenance-Government Services Division was awarded the nationwide Seized and Forfeited General Property contract by the U.S. Treasury Department. This new eight-year contract represents potential revenues of about \$113 million, with growth potential as requirements develop. Our Coast Guard Division was awarded its first task under the new USCG International Programs contract to transport patrol boats to Azerbaijan, and it is preparing responses to support requirements for the Chilean and Yemeni Coast Guards. The Coast Guard Division is also providing support to the Defense Threat Reduction Agency.



- * *In our Energy and Environmental Group*, Energetics Incorporated continued its consulting services practice supporting the U.S. Department of Energy and other customers in technology research, development, assessment, demonstration, and transfer projects. Energetics earns high margins for its services, and with new leadership in 2005, Energetics is growing and is expected to increase its contribution in the coming years.

Management Strategies

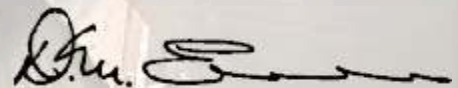
One of my most important and pleasant tasks is taking the time, as often as possible, to discuss with VSE's directors, officers, managers, employees, business associates, customers and stockholders the management strategies we use in building and growing our business. As these conversations have developed, our strategies have been sharpened to the following four essentials. Each is necessary, and we need to pay attention to all four of them to succeed:

- * *Practice honesty and integrity.* This is the gold standard guiding every aspect of our business. With demonstrated honesty and integrity in our relationships and transactions with customers, teaming partners, employees, business associates, and stockholders, we are on the road to success.
- * *Exceed customer expectations.* Our goal is to be the preferred supplier to our customers. We offer quality services, on time and at a fair price. When we make a mistake, we acknowledge it, and we fix it. Past performance is a requirement for winning new work, and we never forget that "today's performance is tomorrow's past performance."
- * *Champion new business.* It is important that everyone in VSE focus on identifying, bidding, and winning new work. As we say, every contract we have today will expire on some date. By developing new products and services for new and existing customers, we can ensure a continuing path to corporate growth.
- * *Take care of your people.* VSE's principal assets are the experienced and talented employees who achieve everything that the company does. We focus on recruiting the best and giving them the information and resources they need to succeed. We focus on identifying, bidding, and winning new work. We acknowledge and reward exceptional performance.

VSE People

VSE depends on the contribution and dedication of each employee and every VSE business associate, consultant, supplier and subcontractor. 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.



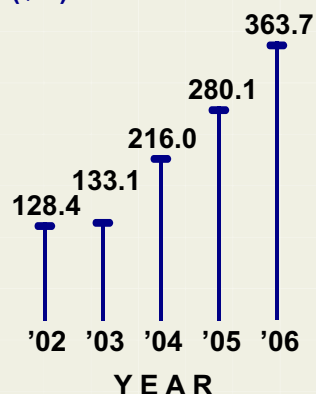
Donald M. Ervine
Chairman of the Board
President and CEO/COO
February 28, 2007

Photo: DDG 1801 (ex-USS SCOTT) in drydock, just prior to undocking. VSE's commitment to supporting the missions of both the U.S. Navy and the Taiwan Navy resulted in the successful accomplishment of the largest ship transfer program ever undertaken. In September 2006, VSE completed the transfer of all four DDGs resulting in the successful completion of the program both under budget and ahead of schedule.

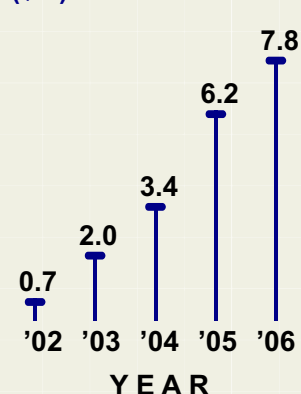
VSE Corporation photo, Copyright 2006 VSE Corporation.

FINANCIAL HIGHLIGHTS

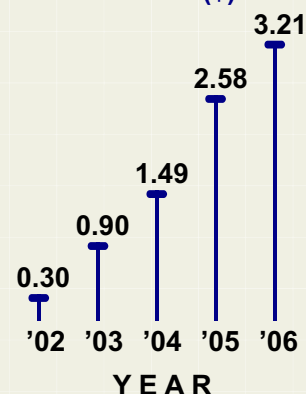
Revenues (\$M)



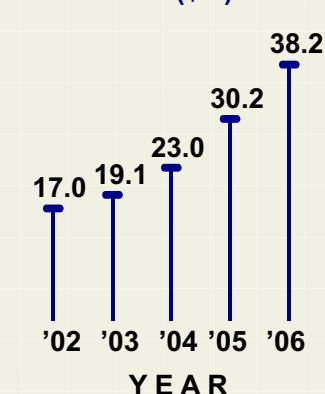
Net Income (\$M)



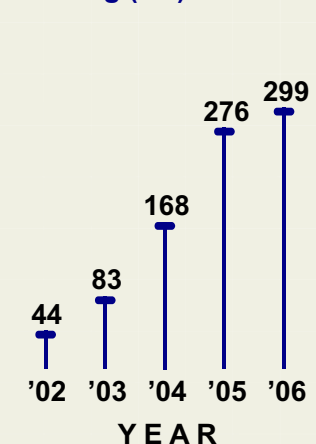
Earnings Per Share Diluted (\$)



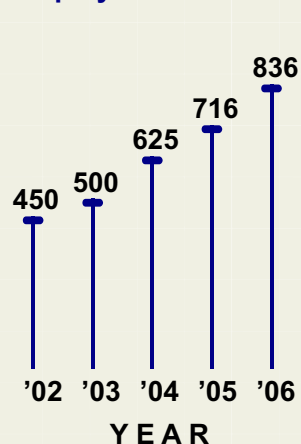
Stockholders' Investment (\$M)



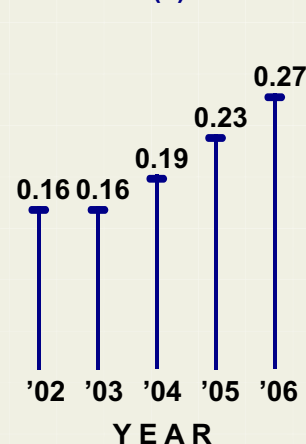
Funded Backlog (\$M)



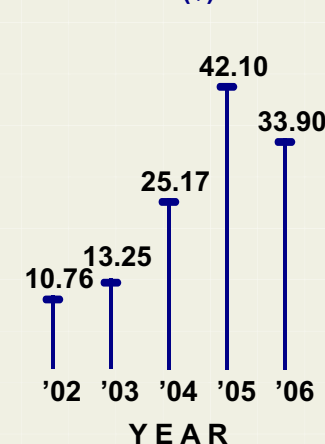
Number of Employees



Dividends Per Share (\$)



Stock Price, End of Year (\$)



Income Statement Data (in thousands, except share data)

Year ended December 31

| | 2006 | % Change | 2005 |
|-----------------------------------|------------|----------|------------|
| Revenues | \$ 363,734 | 30% | \$ 280,139 |
| Net income | 7,789 | 26% | 6,169 |
| Earnings per share (diluted) | 3.21 | 24% | 2.58 |
| Weighted average shares (diluted) | 2,424,442 | 1% | 2,392,027 |

Balance sheet data (in thousands, except percentages)

December 31

| | 2006 | % Change | 2005 |
|--------------------------|-----------|----------|-----------|
| Total assets | \$ 98,535 | 33% | \$ 73,866 |
| Working capital | 25,646 | 16% | 22,028 |
| Stockholders' investment | 38,236 | 27% | 30,151 |
| Return on equity | 25.8% | -4% | 26.8% |



BUSINESS PRACTICE

Federal Group Thomas G. Dacus, President

VSE's Federal Group consists of four divisions and approximately 335 employees. Federal Group revenues in 2006 increased 134% from 2005 to approximately \$191 million. The Communications and Engineering Division supports Department of Defense mission requirements through the use of its \$2.9 billion, 8-year, IDIQ multiple award Rapid Response contract. The Systems Engineering Division supports the U.S. Army and Marine Corps in maintaining and modernizing equipment and systems, including the fuel tanker ballistic protection system currently being deployed across the U.S. Army tanker inventory in the Southwest Asia. The Federal Group's newest division, the Engineering and Logistics Division, was established to perform the company's rapidly expanding equipment maintenance and refurbishment services in support of the U.S. Army and Army Reserve. The Management Sciences Division provides Lean Manufacturing and Six Sigma tools in support of the VSE-developed Enterprise Excellence business model.



VSE's Tanker Ballistic Protection System program, including the application of a Fuel Tanker Self-Sealing System and Add-on Armor Panels, for U.S. Army Fuel Dispensing Tankers operating in Kuwait and Iraq has matured from the rapid development, testing, and completion of our first tanker in 2005 to a highly efficient system that has produced 1,000 completed tankers, providing an extra level of protection to America's warfighters.

Top: VSE celebrates the completion of its 500th tanker in 2006. Bottom: VSE's first completed tanker in 2005. VSE Corporation photos, Copyright 2005-2006 VSE Corporation.

International Group

James M. Knowlton, President

Recording revenues of approximately \$158 million in 2006, VSE's International Group employs approximately 350 employees across three operating divisions. The BAV Division supports U.S. Navy ship transfers to foreign governments, principally through its \$554 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 clients in 2006, Egypt and Taiwan. The Coast Guard Division provides similar foreign military sales support to U.S. Coast Guard equipment transfers to foreign nations. The Fleet Maintenance Division supports a wide variety of clients and programs: Navy and Marine Corps waterfront activity, through contracts such as its multi-billion dollar U.S. Navy SeaPort-enhanced contract; U.S. Air Force munitions, logistics, and BEAR equipment support through several different readiness contracts; the Navy F/A-18 fleet and other clients with advanced prognostics and diagnostics applications; and the Department of the Treasury and Department of Homeland Security seized and forfeited property management programs under its new 8-year, \$113 million contract.

Below: Testing an F/A-18F Super Hornet jet engine aboard USS Kitty Hawk (CV 63), the U.S. Navy's only permanently forward deployed aircraft carrier. Test and sensor data fed into VSE's F/A-18 Automated Maintenance Environment (AME) provides the key to "cost-wise readiness" for the Navy's fleet.

Left: An Aviation Machinist's Mate 2nd Class utilizes VSE's AME system to review maintenance procedures for an F/A-18E Hornet assigned to the "Eagles" of Strike Fighter Squadron One One Five (VFA-115) in the hangar bay aboard the aircraft carrier USS Ronald Reagan (CVN 76). VSE's AME system provides advanced interactive electronic technical manuals intelligently linked to the advanced diagnostic and prognostic functions of the system.

*Below: U.S. Navy photo by Photographer's Mate Airman Thomas J. Holt
Left: U.S. Navy photo by Mass Communication Specialist 3rd Class Christopher Blachly*



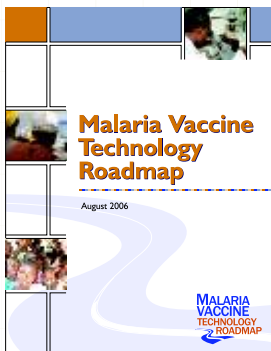
Energy and Environment Group

James E. Reed, President

VSE's Energy and Environment Group was acquired in 1995 and consists of VSE's wholly owned subsidiary, Energetics Incorporated. Energetics had revenues of approximately \$14 million in 2006, up 12% from 2005. Through its staff of about 90 professionals, Energetics provides technical and management consulting services with an emphasis 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. It has earned an international reputation for developing technology roadmaps that help government and industry solve complex science and technology problems through collaborative partnerships.

Right: Energetics is working with the U.S. Department of Energy to help utilities improve cyber security. Through a unique collaboration, Energetics prepared an industry- and government-endorsed roadmap that seeks to secure control systems throughout the energy sector within 10 years.

Photo courtesy of Kansas City Power and Light, used by permission. Copyright 2006 Kansas City Power and Light.



Below: Energetics facilitated development of the Malaria Vaccine Technology Roadmap, which establishes a global plan for developing a safe, effective, and affordable vaccine to protect against Plasmodium falciparum malaria in children under five years of age in sub-Saharan Africa and other highly endemic regions.

Photo courtesy of the David and Lucile Packard Foundation.



VSE CORPORATION helps

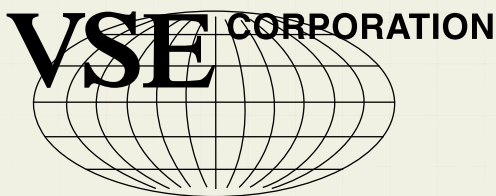
organizations succeed through the effective use of people, systems, and technology. In helping others succeed, we increase shareholder value by capturing new work, delighting our customers, increasing our technical competence, and building great industry teammates. Our reputation for success and our 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.

VSE was established in 1959 with a mission to provide engineering and technical support services to reduce the cost and improve the reliability of DoD systems and equipment. Today, VSE is a broadly diversified company focused on creating, sustaining, and improving the systems, equipment, and processes of government. Our expanded mission now includes providing innovative services and technologies to help our customers succeed in the engineering, energy, environment, information technology, and defense services markets.

VSE's strength lies in the talented professionals who support our customers in maintaining and modernizing products, equipment, and systems. We combine their individual skills, experience, and motivation with corporate resources, technology, teamwork, and the management principles of integrity, honesty, and self-governance to deliver high quality, cost-effective solutions to a global customer base.

NASDAQ: VSEC

ISO 9001:2000



*Celebrating
48 years
of Excellence*





VSE and Mack Trucks have partnered to bring the next generation M915 Line Haul Tractor to the U.S. Army and other services. Combining the historically proven (Mack produced the very first military truck in 1911) and industry-leading truck design and building skills of Mack with VSE's engineering, total life cycle logistics support and systems integration capabilities provides the U.S. Army with a risk reduced, advanced alternative to the Line Hauls of today. Together, VSE and Mack will re-introduce "The Bulldog" to our Soldiers with unprecedented levels of reliability, maintainability and survivability.

Photo by Harold Welsh, Copyright 2006 Mack Trucks. Used by Permission.

BOARD OF DIRECTORS

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

Clifford M. Kendall
Private Investor and
Chairman of the Board of Regents
of the University System of Maryland

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 LLP
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.

Background photo: A Customs and Border Protection (CBP) Officer examines the last bit of cargo to be off loaded from an aircraft.

VSE is proud to support the Department of the Treasury, Department of Homeland Security CBP, and all of the participating agencies in the Treasury Franchise Fund (TFF).

Through teamwork and an unwavering commitment to victory, the TFF is succeeding in its mission to “affirmatively influence the consistent and strategic use of asset forfeiture by participating agencies to disrupt and dismantle criminal enterprises.”

Department of Homeland Security photo by James R. Tourtellotte



CORPORATE OFFICERS

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

Executive Vice Presidents
Thomas G. Dacus
Michael E. Hamerly
James M. Knowlton
Thomas R. Loftus, CFO
Craig S. Weber, CAO, Secretary

Senior Vice President
Jayne M. Tuohig

Vice Presidents
Jerry M. Alvey, Comptroller
Stephen W. Austin
David W. Chivers
Peter J. Desrosiers
James S. Fallon
Harold J. Flammang, Jr.
Richard J. Hannah, Treasurer
H. Eugene Hosier
Louis G. Lawrence
Donnelle L. Moten
Michael J. Rayder

Assistant Vice Presidents
Carl S. Barbour
Charley J. Borns
I. Monique Brooks
Terry D. Chandler*
James M. Coritz
Roy L. Dooley*
Normand L. Frigon
James H. Koontz
Elizabeth M. Price
Robert W. Rouzer
Edward C. Webster
Frank G. Wickersham, III
William C. Wright*

* Appointed in 2007.

Inset photo: The motto for CBP is displayed at the border.

The “One Team—One Fight!” motto also captures the spirit of VSE’s support to this critical program. By improving both the effectiveness and efficiency of the TFF personal property management program, VSE ensures more funds are available to law enforcement agencies to enhance their capabilities to conduct successful investigations and forfeitures.

Department of Homeland Security photo by James R. Tourtellotte

BUREAU OF
CUSTOMS AND BORDER PROTECTION
ONE TEAM - ONE FIGHT!

FACILITIES



In 2006, VSE substantially increased its infrastructure and overall support to U.S. Army Reserve equipment engineering, maintenance and logistics readiness tasks. VSE has made a nationwide, long-term commitment to high quality, rapid response service to enhance the overall equipment readiness of the Reserve.

Above photo: A vehicle undergoing maintenance at VSE's San Antonio, Texas facility.

Opposite page, top photo: A sample of the range of equipment being repaired and refurbished at VSE's Alexandria, Virginia facility.

Opposite page, bottom photo: A trailer undergoing sandblasting at VSE's Ladysmith, Virginia facility.

All Photographs Copyright 2005-2006 VSE Corporation.

VSE Corporation Headquarters

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(703) 960-4600 or
Toll-free: (800) 455-4873

VSE Divisions and Subsidiaries:

BAV Division

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(703) 317-5200

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Alexandria, Egypt
Tokyo, Japan
Tuxpan, Vera Cruz, Mexico
Suva and Tsoying, Taiwan
Sattahip, Thailand
Golchuk, Turkey

Communications and Engineering Division

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Coast Guard Division

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Morgantown, West Virginia

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ELD Offices

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Weldon Spring, Missouri
San Antonio, Texas
Ladysmith, Virginia



Fleet Maintenance Division

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Chesapeake, Virginia 23320
(757) 523-7200

FMD Offices

San Diego, California
Jacksonville, Florida
Miami, Florida
Honolulu, Hawaii
Indian Head, Maryland
Bridgeport, New Jersey
South Brunswick, New Jersey
Sparta, New Jersey
Beaufort, South Carolina
Langley, Virginia
Andersen AFB, Guam
Atusgi, Japan
Osan, Korea

Management Sciences Division

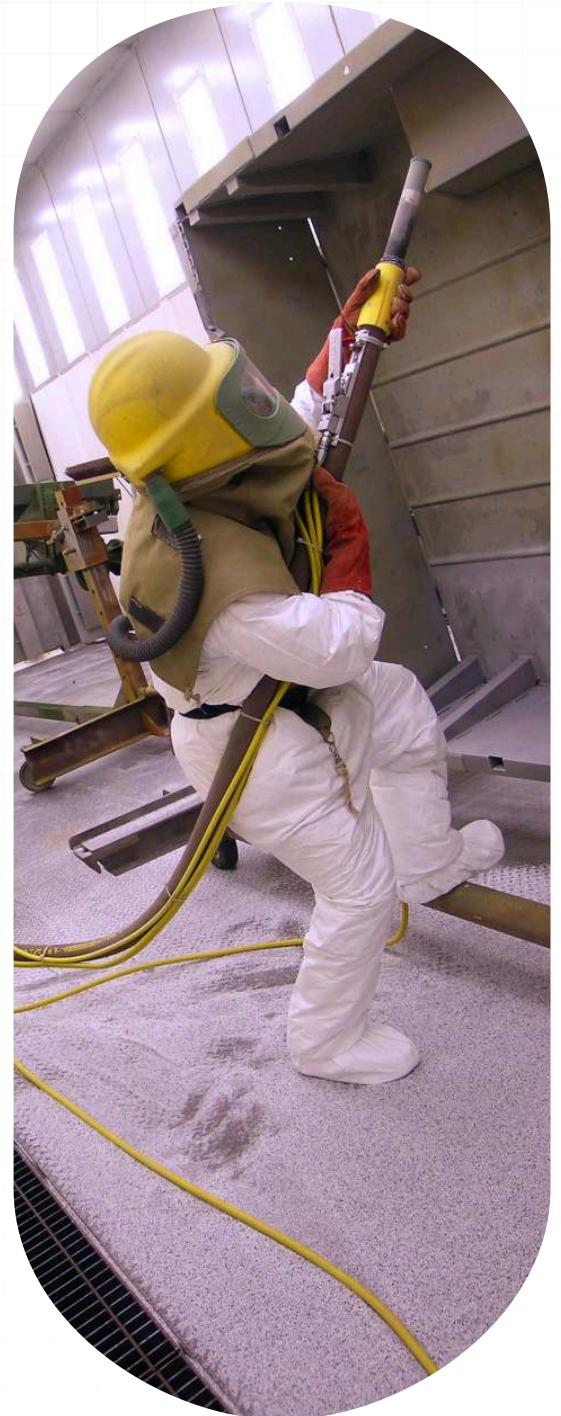
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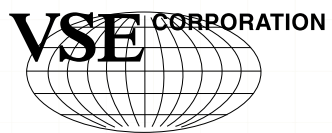
Systems Engineering Division

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