

Proud of Our Past. Excited About Our Future.

2008 VSE Annual Report and Form 10-K

Proud of Our Past. Excited About Our Future.

VSE Corporation achieved two major milestones for this reporting period. On January 22, 2009—VSE celebrated its 50th anniversary. To crown that accomplishment, we had record revenues of more than \$1 billion. This is about a 60% increase from our record revenues of \$653 million last year. Because of these 2008 accomplishments, VSE was showcased by Government Executive Magazine as the #1 Best Defense Contractor (Small) in America; Business Week's #6 Hottest Growing Company in the U.S.; and the Washington Post listed VSE as the #2 climber for industry in the Washington, D.C. metro area. For the first time VSE (NASDAQ Global Select Market: VSEC) stock was added to the Russell 3000®, Russell 2000®, and Russell MicroCap Indexes.

In April 2008, we acquired G&B Solutions, Inc. of Reston (VA). G&B is a diversified information technology and management consulting provider to government agencies. G&B's expertise lies in enterprise architecture development, information assurance/business continuity, program and portfolio management, network IT services and systems design and integration. Cash paid at closing for G&B was approximately \$19.5 million, with the potential for additional payments of up to approximately \$4.2 million if certain financial targets are met during the first three years after the acquisition.

VSE has also been substantially expanding services during 2008 in: Birmingham (AL); Texarkana (AR); China Lake (CA); Tampa (FL); Albany and Fort McPherson (GA); Mountain Home Air Force Base (ID); Hamel (IL); Kuwait; Fort Devens (MA); Adelphi (MD); Marine Corps Air Station New River(NC); Broken Arrow and Oklahoma City (OK); Chambersburg and Letterkenny Army Depot (PA); Romania; Gatesville and Poteet (TX); Ogden (UT); Arlington and Reston (VA); Whidbey Island (WA) and Fort McCoy (WI).

Corporate Profile

VSE Corporation is the Federal services company of choice for solving issues of global significance with agility, integrity and value. VSE is dedicated to making our clients successful by delivering talented people and innovative solutions for:

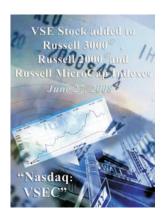
- **Program Management** Specializing in complete management services including systems integration, planning, evaluation, procurement and contracts.
- **Logistics** Multi-dimensional functions that support one service task/equipment system such as true field support, supply chain management or warehouse management.
- Engineering and Refurbishment Conceptual design, engineering of equipment /facilities for fabrication specializing in equipment sustainment, efficiency and advanced technologies.
- IT Services Complete enterprise architecture; data mining; public protection/security, and technical and software engineering for systems and standards development, assessments and reviews.
- **Construction Management** Development planning, preparation, permitting, feasibility studies, procurement/contracts, and for major complexes as well as civil works projects.
- Consulting Professional competencies in technology roadmaps and solutions, policy impacts, analysis, cyber-security and infrastructure protection and mitigation measurements.

Headquartered in Alexandria, Virginia, VSE and its wholly-owned subsidiaries employ more than 1,920 personnel (an increase from about 1,223 in 2007) supporting clients from more than 40 locations across the United States and around the world. VSE is proud of its continued growing support to the U.S. military, navies of allied nations and federal and civil agencies. We strive to provide our customers with competitive, cost effective solutions to specific problems.

Stockholder Inquiries

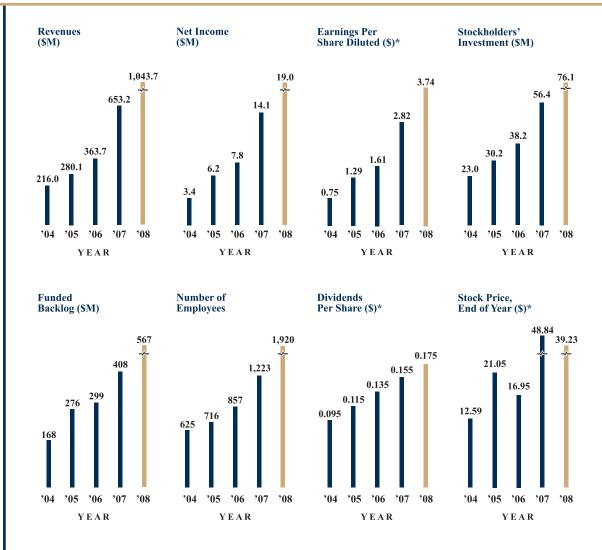
VSE is an employee and publicly owned company, and its shares are traded on the NASDAQ Global Select Market under the symbol VSEC. Inquiries about stock ownership, dividends, and stockholder changes of address may be directed to our Transfer Agent: Registrar and Transfer Company, 10 Commerce Drive, Cranford, New Jersey 07016-1340, or to VSE at 2550 Huntington Avenue, Alexandria, Virginia 22303-1499, Attention: Corporate Secretary, Telephone (703) 329-4770.

Further information about VSE and its subsidiaries is available at www.vsecorp.com; www.icrcsolutions.com; www.gbsolutionsinc.com and www.energetics.com.





Financial Highlights



Income Statement Data (in thousands, except share data)

Year ended December 31

Revenues

Net income

Earnings per share (diluted)

Weighted average shares (diluted)

Balance sheet data (in thousands, except percentages)

December 31

Total assets

Working capital

Stockholders' equity

Return on equity

2008	% Change	2007
\$ 1,043,735	59.8%	\$ 653,164
19,040	35.0%	14,102
3.74	32.6%	2.82
5,096,186	1.8%	5,003,675
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	2008	% Change	2007	
:	\$ 275,966	60.7%	\$	171,771
	24,179	-2.3%		24,756
	76,123	35.0%		56,376
	33.8%	-8.4%		36.9%

Message to Stockholders

Operational and Financial Information

After experiencing significant growth in revenues, earnings and backlog the past several years, VSE continued to perform at a record pace and generated an even better financial performance during 2008. Based on our \$1 billion plus revenues in 2008, Federal Group generated about 64% of our revenues; International contributed 21%; IT/Energy and Management Consulting efforts resulted in 5% of our revenues and our Infrastructure Group provided 10% of the total.

Our funded backlog as of December 31, 2008 was about \$567 million. Funded backlog for government contracts represents a measure of our potential future revenues and is defined as the total value of the contracts that have been appropriated and funded by the procuring agencies, less the amount of revenues that have already been recognized on such contracts..

In 2007 cash dividends were declared quarterly at the annual rate of \$.14 per share through March 31, 2007, and at the annual rate of \$16 per share commencing June 11, 2007. In 2008 cash dividends were declared quarterly at the annual rate of \$.16 per share through March 31, 2008, and at the annual rate of \$.18 per share commencing June 3, 2008.



Over the previous five years the VSE management team delivered increased revenues and net income, increases in stockholders' equity, dividends and funded backlog, and an increase in total employees. Calendar year 2008 continued the upward trend with significant growth in all of the performance indicators mentioned above. VSE's management team and employees are commended for another outstanding year.

Late in 2007, the VSE Board of Directors initiated action to transition the executive leadership of VSE to a new Chief Executive Officer. A search was conducted and after several months of careful consideration, the Board selected Maurice (Mo) Gauthier to succeed me. During the search period, a detailed transition plan was developed and the plan has been executed over the past 11 months. The purpose of the lengthy transition plan was to ensure that we did not interrupt the successful strategies that have worked in the past for VSE, so they could be carried into the future. The transition has been successful, and the company is well













positioned to gain new customers and employees in the years ahead. Mo Gauthier has the knowledge and experience to take VSE to the next level, while meeting the challenges that will come in the future.

VSE's strategy for continued growth in the DoD/Federal market place is sound and will continue, in my view, to produce favorable results over the long-term. That being said, it is important that the VSE management team stay tightly focused on growing and managing the current business, while targeting and maximizing the opportunities that will be presented in an economy that is currently being challenged from many different directions.

I take this opportunity to thank the VSE Board of Directors, the VSE management team, employees and VSE stockholders for granting me the privilege of being a part of your team over the last 26 years. It has truly been a wonderful experience that I will cherish forever.

Sincerely,

Khu S.

Donald M. Ervine Executive Chairman of the Board

March 2009



Letter to Stockholders

2008 Milestones

This year, VSE celebrates its 50th year. I am pleased to announce that we experienced a very successful year, with revenues topping one billion dollars for the first time with record earnings of about \$19 million (\$3.74 per share diluted) and a return on equity of 33.8%.

50 years ago, our founder, John Toomey, established VSE as a federal government services company. Since then, we have adhered to the principles of integrity, agility and value, as we provide outstanding service to our expanding list of clients. Today, with the new administration firmly in place with "change" as its foundational objective, we believe where there is change there is opportunity, and where there is great change, there is even greater opportunity.

VSE's Leadership

Under Don Ervine's inspirational leadership, VSE began deliberately and incrementally positioning itself to capitalize on shifting national priorities during the mid 90's with the acquisition of Energetics. Several years ago, he led the acquisition of ICRC, followed quickly by G&B Solutions last year. The net effect of these moves has been to gradually increase the share of business into the branches of government beyond the Department of Defense. At year's end, 20% of our business came from the Department of Transportation, the Department of the Treasury, the Department of Energy, the Department of the Interior, and many other governmental agencies. We are on a path to continually expand our share of that work by small but achievable increments over the next several years.

Also under Mr. Ervine's leadership, VSE anticipated the winding down of the war in Iraq and the repositioning of people and material to Afghanistan and to the United States. Billions of dollars of Army and Marine Corps equipment is now in need of restoration because the shifting national priorities will simply not support replacing the equipment with new equipment. Over the past three years, VSE has added more than 500 employees to restore this equipment for the Army, and we will continue to grow this business as future needs arise.













Integrity, Agility and Value

Our "Integrity, Agility and Value" will continue to guide the company through the changing and challenging times ahead, and I will continue to place customer satisfaction at the top of VSE's list of priorities. I am most pleased at our unwavering commitment to serve clients. It sets us apart and above our competitors. I like to think of that commitment as the VSE Culture of Service. We don't need to talk about it...we just expect it from one another.

I conclude by restating my belief that the "change" we hear about from the new administration favors VSE. Change opens doors; it presents opportunities to demonstrate our value and capabilities to new clients. We will be aggressive in our pursuit of new business, and I am excited by the challenges ahead. We have the right team in place, the correct operating model, and we are fully committed to executing the right plan going forward as a team of skilled professionals focused on the common goal of success.

I am proud to lead this company into the future and continue the tradition of honor, excellence and service we are known for.

We welcome your comments and suggestions.

M. E. Gauthier CEO/President/COO

March 2009



Board of Directors

Ralph E. Eberhart

General, USAF (Ret.)
President, Armed Forces Benefit
Association
Chairman and Director of
5Star Bank/Life/Funds/Investments

Maurice E. Gauthier (not pictured) President and CEO/COO VSE Corporation (appointed in February 2009)

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 Bonnie K. Wachtel

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

Donald M. Ervine

Executive Chairman of the Board, VSE Corporation

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

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

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



Corporation is the federal services company of choice for solving issues of global significance with agility, integrity and value. VSE is dedicated to making our clients successful through the effective use of highly experienced people, systems, and technology in program management, logistics and equipment refurbishment, engineering, IT services, construction program management and consulting. In helping others succeed, we increase stockholder value by capturing new work, exceeding our customers' expectations, increasing our technical competence, affording more employment opportunities and building great industry teammates.

Our reputation for success and our quality management system are based on self-governance, openness and honesty in everything we do. The foundation of our success is also based on highly experienced leadership, state-of-the-art IT communications, teamwork and motivation.

VSE has more than 50 years of experience as a preferred provider of professional support services to a diverse customer base. VSE specializes in reducing costs and improving the reliability of systems and equipment. VSE evolves along with the needs of the federal and civil governments while remaining true to our roots as a value engineering firm.

VSE's policy is to provide only 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.

NASDAQ: VSEC ISO 9001:2000

Gelebrating 50 years of Excellence







International Group

President (incoming), Michael E. Hamerly President (outgoing), James M. Knowlton

In July 2008, we were awarded a prime contract to support aircraft maintenance for the Air Force Contract Field Teams (CFT) Program with a maximum ceiling of about \$10.12 billion. A new office in Oklahoma City was opened to focus on this effort for rapid deployments and long-term support services and expand our work for the Air Force. We are also a subcontractor on six prime contracts which will allow us to support Warner Robbins-Air Logistics Center (GA) on the Future Flexible Acquisition and Sustainment Tool (F2AST) contract that will provide lifecycle and modernization sustainment support to the U.S. Air Force. This multi-awarded contract has a 10-year \$6.9 billion ceiling.

We recently established a boiler and pressure vessel inspection service business unit. In addition to inspecting Naval Facilities, we are a National Board Authorized Inspection Agency certified to do public and commercial inspections.

We are very proud of the "first-of-its-kind" virtual-electronic classroom we developed in Taiwan during 2008 to train sailors as part of the ongoing support for four ex-USS KIDD (DDG 993) class ships that were transferred several years ago. This training model is transferrable to other countries and ship class platforms.

Other 2008 highlights include:

- First time support to Romania in the installation and testing of a coastal surveillance system comprising short and long range radars and a communications/electronic emissions sensor system.
- Hosted a Naval Value Stream Analysis to establish a more efficient process for transferring FFG 7 class ships to foreign navies.
- In Egypt, approximately 94 VSE employees and subcontractors support the Egyptian Navy's ex-U.S. Navy Frigates, Guided Missile Frigates and Mine Hunters. VSE provides a depot repair team that performs industrial planning and complex repairs to these ships; provides management and contracting for rebuilding the infrastructure that supports ship maintenance and repairs and is developing a cadre of skilled local technicians through the Egyptian Naval Industrial Training program.
- Teamwork efforts with a more streamlined modeling process combining our business units in fleet maintenance and ship waterfronts.
- Expansion of our diagnostics and prognostics offerings for U.S. Army ground units.
- Augmentation of our core base of work by emphasizing growth on the Treasury Seized Property Management Program to include potential target cost adjustments for the years 2007 and 2008.
- We are continuing our support at NSWC Indian Head Division, MD to the CAD/PAD Joint Program Office and Demilitarization/Decontamination contracts. We are working with Navy and Army agencies on Demilitarization processes for munitions end items as well as initiatives for a defense wide assessment process for the munitions stockpile and with the U.S. Congress to highlight the need to reinvigorate a national effort for advancing the science and technology for all facets of explosives and propellants (research & development; manufacturing processes; detection; forensics; modeling and simulation of blast effects; support of the intelligence community; and, needs of Department of Homeland Security).
- We were awarded a contract allowing us to bid on emergent repair work for the U.S. Army's two LSVs and two LCUs that are forward deployed to (home ported in) Kuwait thus increasing our support to our warriors in South West Asia

In our ship transfer work we are well underway on planning for the Chilean project, the transfer of ex-USNS ANDREW J HIGGINS (TAO-190). We also have been planning an industrial work package in Mexico for ex-USS STEIN (FF-1065). Based on congressional approval of certain ship transfers, we expect to increase our ship transfers in 2009 and possibly future years.

We are energized by our organizational changes that allow us to take full advantage of the Executive Team's guidance on revitalizing our business processes and marketing our full capabilities. This has allowed us to enhance our proven model of performing projects with integrity, agility and value built in. We really are extremely proud of our past and very excited about our future.











Federal Group













President, Thomas G. Dacus

Our Army Reserve RESET/Refurbishment services continued to grow significantly during 2008 with new operations being established this past year in Texarkana (AR), Hamel (IL), Gatesville and Fort Hood (TX). We also opened our first Center of Excellence in Ladysmith (VA) which is our flagship for complete state-of-the-art equipment refurbishment/repair and upgrading.

Our major focus for Federal Group during 2008 has been expanding our services in Southwest Asia. We introduced the Tanker Ballistic Protection System in 2004 to our forces in Iraq and finished the project recently completing more than 1,500 fuel tankers. This program preceded the launch of our Field Support Services initiative in 2007 to provide worldwide field maintenance, logistic support and technical advisory services for a wide variety of mine-clearing vehicles and equipment. Although there were various contractors in the area performing similar work, VSE quickly became the "go to" experts in intermediate and depot-level maintenance for these vehicles. VSE's willingness to travel with units, in need of this expertise, at a moment's notice, in austere environments, coupled with the low turnover rate of our motivated team, solidified the value of our contributions.

Because of this stellar reputation, in 2008 the Letterkenny Army Depot as the Tank-Automotive and Armaments Command agent for Assured Mobility Systems, selected us to serve as the prime contractor on an award of approximately \$194 million to establish a 950,000-square foot, depot level, refurbishment complex in Kuwait for modernizing and improving the U.S. military's wheeled vehicles used for defense against roadside mines and improvised explosive devices.

At the beginning of 2009, an additional task of approximately \$389 million was awarded on behalf of the US Army Program Executive Office Combat Support and Combat Service Support Systems, to provide rapid turn-around of repaired military assets, to the combat soldier in theater.

Our Southwest Asia expansion is just the tip of the iceberg on what Federal Group can accomplish internationally.

I want to extend a special appreciation to our managers and employees who have been and are continuing to deploy to multiple theaters of operations, shadowing our warfighters, providing superior equipment maintenance, refurbishment and sustainment. They are serving in harm's way freely and tirelessly, and have earned our respect and gratitude.

Our commitment to "serving those who serve" doesn't stop there. We strategically recruit veterans and reservists because they bring discipline, responsibility, training and qualifications to the VSE workforce. Further, in 2008 we began registering our jobs on a data base that goes directly to all reserve component soldiers nationwide.

As part of our strategic plan, we are transitioning our marketing away approach toward a functional and regionalize structure. We are still doing the same mission requirements on a local level, but, because of our increasing size, we are competing for more complex and regional work. Our strategies have improved business opportunity communications to all our VSE Groups and Divisions. This corporate-wide, consolidated team marketing approach benefits all, while building unity within the company.

Despite many challenges during 2008, Federal Group exceeded all goals and expectations. Hard work, integrity, ingenuity, commitment and being a true value added supporter to our clients, by our dedicated workforce were the driving factors behind our record revenues and profit. That effort will continue throughout 2009 and the outyears.

Management and IT Consulting Group

President, Jim Reed

2008 was the largest growth year ever for Energetics Incorporated with \$19.3 million in revenue, a substantial increase from 2007's \$14.5 million. VSE's newly acquired subsidiary G&B Solutions had a banner year as well with revenues exceeding \$30.6 million from the acquisition date of April 14, 2008.

G&B is an established information technology provider to many government agencies, including the Departments of Interior, Homeland Security, Labor, Agriculture, and Housing and Urban Development, the Pension Benefit Guaranty Corporation, and the National Institutes of Health. G&B's core expertise lies in enterprise architecture development, information assurance/business continuity, program and portfolio management, network IT services and systems design and integration.

A major contributor to this growth was the establishment in June 2008 and full staffing (13 persons) of our new Arlington (VA) office. We opened this office to support our newest client, the Executive Management Office in the U.S. Department of Homeland Security. Most of our work in Arlington has been addressed to infrastructure protection, and has included policy analysis, development of information sharing mechanisms and processes, and partnership-building activities with the private sector. This successful venture has been managed by Energetics vice president Jim Carey.

Growth occurred in all of Energetics' five business areas. In particular, we expanded our work in support of the U.S. Department of Energy's Office of Energy Efficiency and Renewable Energy and Office of Electricity Delivery and Energy Reliability, and our technical work for the U.S. Commerce Department's National Institute of Science and Technology, where we support the U.S. Measurement System.

This past summer Energetics also began work on a new energy efficiency and renewable energy contract we were awarded in a joint venture with a small business. We are still in the building process to maximize the value of this five-year technical services contract to our client's high-national-priority programs.

One thing of note I'd like to mention is the great corporate teamwork initiatives and guidance. The VSE IT and accounting assistance we've been receiving is invaluable. We are also grateful that we have access to the new corporate general counsel and have been combining human resource efforts with very proven results.

We are also happy with the establishment of a formal VSE business development capture center which has been very positive in giving us structure with a more rigorous process, assuring us more warning and lead time in getting that extra edge.

We have been putting down firm roots and if we continue to perform at this level we believe we will make our growth goals. We need to show people we can operate at this level.

I believe that our management and IT consulting teams are very well positioned and we look forward to the journey ahead.









Infrastructure Group









Carl Williams, President

In creating a clear vision for the future through the newly adopted strategic planning process, we set our sights on increasing our share of the federal civil market. The first step toward this goal was concentrating our business efforts into well-defined lanes, specifically concentrating on construction management services as our one core business area; the second being the adopting of an embedded support model.

2008 represented a year of significant change to the Infrastructure Group. ICRC, having been acquired by VSE in 2007, came to us with three core markets: Information Technology, Engineering/Technical Services and Program/Project Construction Management. Recognizing the importance of the growing market in infrastructure modernization, upgrade and new construction—we have concentrated ICRC's efforts on Program/Project Construction Management by moving the information technology work to G&B Solutions and the engineering/technical services to Federal Group. Additionally we streamlined and refocused our business development and management team to better support this single market by selectively moving resources to other areas within VSE and hiring more expertise in the program construction management field. We continued the integration of ICRC's back office functions into VSE successfully completing the conversion to CostPointTM in December 2008.

The transformation has gone quite well, especially in leveraging the ample VSE core resources to get the transformation completed while maintaining rock steady focus on our existing clients and employees. Even though we farmed several business areas to other VSE Groups, our revenues have grown; exceeding \$100 million in 2008 and we have managed to find roles for almost all the transitioning employees in other VSE groups. Our most valuable resource is our employees and they are directly responsible for the success of the group this year!

The embedding of expertise in each of the groups increases our agility and ability to get things done quicker for our customer. The embedded model also provides the resources we need to quickly adapt to the ever changing marketplace while simultaneously maintaining the required oversight and compliance. In our experience to date the embedding process has also leveraged the considerable talents and experience within VSE to rapidly communicate and bring resources to bear to solve problems or support emergent initiatives.

2008 has been a year of positive transformation for the Infrastructure Group while continuing our revenue and profit growth. We are well positioned to continue this growth in 2009.





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