

# Letter to Shareholders

## Fellow Shareholders:

VSE reported improved financial performance in 2003, with revenues of \$134.5 million and net income of \$2.0 million (\$.92 a share). 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.

## Outlook for Growth

As an example of progress this year, we recently announced that our BAV Division received a delivery order for \$100 million to support the reactivation and transfer of four KIDD-class destroyers, a multiyear effort extending into 2007. We are performing ahead of schedule, and our customer has indicated satisfaction with our efforts. BAV's contract with the U.S. Navy is VSE's largest contract, contributing 48% of total VSE revenues in 2003, and the KIDD delivery order received in early 2004 is the single largest delivery order ever received by VSE. We are proud of the trust and confidence placed in us by the Navy and by our Taiwan customers. Needless to say, we are also extraordinarily proud of the BAV Division employees and staff employees who, together with our BAV subcontractors, work very hard to ensure that our customer receives superior value.

We are also pleased with the continuing effort to spur revenue growth and profit in each of our other business units. Each of our divisions has set goals to exceed their revenue and profit performance in 2003, and our board of directors is encouraging their effort with an incentive bonus plan. Our workforce grew about 10% in 2003, and we hope to exceed that growth rate in 2004. With a substantial \$83 million backlog to start the year 2004, we intend to build on our success.

As you know, about a year ago we announced that the board of directors determined to discontinue VSE's previously announced pursuit of strategic business alternatives, including the potential sale of the company. Having considered certain strategic alternatives, including a review of offers by third parties, the board determined that superior value could be achieved for shareholders through continuing to operate VSE in

accordance with its ongoing business plan. The results of this decision are reflected in the positive trends and growing shareholder value we have seen over the past year. VSE will continue, however, to review promising strategic business opportunities that may arise from time to time, including potential acquisitions to accelerate our growth.

## 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 unified 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.

VSE welcomed James F. Lafond as a director in 2003. Jim is a talented and experienced professional from the independent audit community, and we look forward to his leadership role on VSE's audit committee and to his contribution to the board of directors.

VSE performs an important role in the defense of our nation. 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.

Your company passed an important milestone on January 22, 2004, celebrating 45 years of continuous service and support. While it is a pleasure to stop and recognize all that has gone before, and on which we have been given the good fortune to build, we are working very hard as a team to assure that VSE's next five years achieve a higher level of value for our customers as well as corporate growth and profitability for our shareholders and employees.

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 9, 2004