

VSE CORP
Form DEF 14A
April 05, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES
EXCHANGE ACT OF 1934

Filed by the registrant

Filed by a party other than the registrant

Check the appropriate box:

- | | |
|--|--|
| <input type="checkbox"/> Preliminary Proxy Statement | <input type="checkbox"/> Confidential, For Use of the Commission Only
(as permitted by Rule 14a-6(e) (2)) |
| <input checked="" type="checkbox"/> Definitive Proxy Statement | |
| <input type="checkbox"/> Definitive Additional Materials | |
| <input type="checkbox"/> Soliciting Material
Pursuant to Section 240.14a-12 | |

VSE Corporation

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement if Other Than the Registrant)

Payment of filing fee (check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11
- (1) Title of each class of securities to which transaction applies:
 - (2) Aggregate number of securities to which transaction applies:
 - (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
 - (4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

- “ Fee paid previously with preliminary materials.
- “ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

2550 Huntington Avenue, Alexandria, Virginia 22303-1499

Notice of 2011 Annual Meeting of
Stockholders and Proxy Statement
Fellow Stockholders:

You are cordially invited to attend the annual meeting of stockholders of VSE Corporation (“VSE” or the “Company”) to be held on Tuesday, May 3, 2011, commencing at 10:00 a.m., Eastern Daylight Time, at the VSE Building, 2550 Huntington Avenue, Alexandria, Virginia 22303-1499 (the “Annual Meeting”).

We are furnishing proxy materials to our stockholders by mail and over the Internet. You may read, print and download our 2010 Annual Report to Stockholders, 2011 Proxy Statement and Proxy Card at www.cfpproxy.com/3307. You may vote your shares by Internet, by telephone, by regular mail or in person at the Annual Meeting. Instructions regarding the various methods of voting are contained on the notice and on the Proxy Card.

The proxy materials describe the formal business to be transacted at the Annual Meeting and a report on the operations of the Company. VSE directors and officers will be present to answer any questions that you and other stockholders may have. Included in the materials is our Annual Report on Form 10-K for the fiscal year ended December 31, 2010, that contains detailed information concerning the Company’s activities and operating performance.

The business to be conducted at the Annual Meeting consists of (1) the election of eight directors, (2) the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for the year ending December 31, 2011, (3) the approval of amendments to VSE’s 2006 Restricted Stock Plan, (4) an advisory vote on executive compensation and (5) an advisory vote on the frequency of the advisory vote on executive compensation. VSE’s Board of Directors unanimously recommends a vote (1) “FOR” the election of each of the eight director nominees; (2) “FOR” the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for the year ending December 31, 2011; (3) “FOR” the approval of the amendments to VSE’s 2006 Restricted Stock Plan; (4) “FOR” the approval, by non-binding advisory vote, of our executive compensation; and (5) “FOR” a recommendation, by non-binding advisory vote, to hold an advisory vote on executive compensation on an annual basis.

On behalf of VSE’s Board of Directors, please vote your shares now, even if you plan to attend the Annual Meeting. This will not prevent you from voting in person, but it will ensure that your vote is counted. Your vote is important.

Please note the location for the Annual Meeting. The VSE Building is located at 2550 Huntington Avenue, Alexandria, Virginia 22303-1499, just off I95/I495 at Exit 176A (VA 241 S. Telegraph Rd.; take Huntington Avenue ramp). The building is also within walking distance of the Huntington Avenue Metro Station (Yellow Line), using the Lower Level exit to Huntington Avenue. I hope you will be able to join us.

Sincerely,
VSE CORPORATION

Clifford M. Kendall
Chairman of the Board

April 5, 2011

VSE CORPORATION
2550 Huntington Avenue, Alexandria, Virginia 22303-1499

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD ON MAY 3, 2011

To the Stockholders of VSE Corporation:

Notice is hereby given that the annual meeting of stockholders of VSE Corporation, a Delaware corporation (“VSE” or the “Company”), will be held on Tuesday, May 3, 2011, commencing at 10:00 a.m., Eastern Daylight Time, at VSE’s corporate headquarters, 2550 Huntington Avenue, Alexandria, Virginia 22303-1499, for the following purposes (the “Annual Meeting”):

1. To elect eight directors to serve until the next annual meeting of stockholders or until their successors are duly elected and qualified;
2. To ratify the appointment of Ernst & Young LLP as VSE’s independent registered public accounting firm for the year ending December 31, 2011;
3. To approve amendments to the VSE Corporation 2006 Restricted Stock Plan (a) extending the term thereof until May 3, 2016, (b) providing that restricted stock units issued thereunder will be exempt from Internal Revenue Code Section 409A and (c) eliminating the Compensation Committee’s authority to waive the vesting date or any restriction imposed on an award under the plan in the event of a grantee’s retirement, all as more fully set forth in the accompanying Proxy Statement;
4. To provide an advisory vote on executive compensation;
5. To provide an advisory vote on the frequency of the advisory vote on executive compensation; and
6. To transact such other business as may properly come before the Annual Meeting or any adjournment thereof.

Only record holders of VSE common stock as of the close of business on March 4, 2011, will be entitled to notice of, and to vote at, the Annual Meeting, or any adjournments thereof. The list of stockholders entitled to vote at the Annual Meeting or any adjournments thereof, will be open to the examination of any stockholder during the 10 days prior to the Annual Meeting at VSE’s offices located at 2550 Huntington Avenue, Alexandria, Virginia 22303-1499, during ordinary business hours.

The VSE Corporation 2010 Form 10-K and Annual Report to Stockholders, which contains the Company’s consolidated financial statements and other information of interest to stockholders, accompanies this proxy material.

IT IS IMPORTANT THAT YOUR SHARES BE REPRESENTED AND VOTED AT THE ANNUAL MEETING. STOCKHOLDERS HAVE A CHOICE OF VOTING BY PROXY CARD, TELEPHONE OR THE INTERNET, AS DESCRIBED ON YOUR PROXY CARD. CHECK YOUR PROXY CARD OR THE INFORMATION FORWARDED BY YOUR BROKER, BANK OR OTHER HOLDER OF RECORD TO SEE THE OPTIONS AVAILABLE TO YOU. ANY STOCKHOLDER PRESENT AT THE ANNUAL MEETING MAY WITHDRAW HIS OR HER PROXY AND VOTE PERSONALLY ON ANY MATTER PROPERLY BROUGHT BEFORE THE ANNUAL MEETING.

By Order of the Board of Directors
Thomas M. Kiernan, Secretary
April 5, 2011

VSE CORPORATION

PROXY STATEMENT
Annual Meeting of Stockholders
to be held on May 3, 2011

ABOUT THE 2011 ANNUAL MEETING AND VOTING AT THE MEETING

This Proxy Statement is being furnished to the stockholders of VSE Corporation, a Delaware corporation (“VSE” or the “Company”), in connection with the solicitation of proxies by VSE’s Board of Directors (the “Board”) for use at the annual meeting of VSE’s stockholders to be held on Tuesday, May 3, 2011, commencing at 10:00 a.m., Eastern Daylight Time, at the VSE Building, 2550 Huntington Avenue, Alexandria, Virginia 22303-1499, and at any adjournments thereof for the purposes specified in the accompanying notice of meeting (the “Annual Meeting”).

The mailing address of VSE’s principal executive office is 2550 Huntington Avenue, Alexandria, Virginia 22303-1499. VSE’s telephone number is (703) 960-4600. Your Annual Meeting materials, including the Notice of Annual Meeting, Proxy Statement, and proxy card from our Board are enclosed. If you received your Annual Meeting materials via e-mail, the e-mail contained voting instructions and links to the Annual Report and the Proxy Statement on the Internet, which are both available at www.cfpproxy.com/3307.

The close of business on March 4, 2011 is the record date for the determination of stockholders entitled to notice of, and to vote at, the Annual Meeting. Holders of a majority of VSE’s outstanding common stock, par value \$.05 per share (“Stock” or “VSE Stock”), as of March 4, 2011, must be present at the Annual Meeting, either in person or represented by properly executed proxy, to constitute a quorum for the transaction of business at the Annual Meeting. Abstentions and broker non-votes will be counted solely for the purpose of determining whether a quorum is present. A proxy submitted by a broker that is not voted is sometimes referred to as a broker non-vote.

As of the close of business on March 4, 2011, there were 5,235,947 shares of Stock outstanding and approximately 300 stockholders of record. Each stockholder is entitled to one vote for each share of Stock held of record as of the close of business on March 4, 2011, on all matters that may be submitted to the stockholders at the Annual Meeting. All Stock represented by valid proxies will be voted at the Annual Meeting in accordance with the directions on the proxies. If you are a stockholder whose shares are not registered in your own name, you will need appropriate documentation from the stockholder of record to vote in person at the Annual Meeting. If you want to vote your VSE Stock that is held in street name in person at the Annual Meeting, you will need a written proxy card in your name from the broker, bank or other nominee who holds your Stock.

Matters to be Considered

The purpose of the Annual Meeting is (1) to vote on the election of eight directors to the Board; (2) to ratify the appointment of Ernst & Young LLP as VSE’s independent registered public accounting firm for the year ending December 31, 2011; (3) to approve amendments to the VSE Corporation 2006 Restricted Stock Plan; (4) to provide an advisory vote on executive compensation; (5) to provide an advisory vote on the frequency of the advisory vote on executive compensation; and (6) to transact any other business that may properly come before the Annual Meeting.

As of the date of this Proxy Statement, the Board does not intend to present, and has not been informed that any other person intends to present, any matter for action at the Annual Meeting other than those matters specifically referred to

herein. If, however, any other matters are properly presented to the Annual Meeting for action, the proxy holders will vote the proxies, which confer authority on such holders to vote on such matters, in accordance with their best judgment. The persons named as attorneys-in-fact in the proxies are the Chairman of the Board and VSE's general counsel.

Recommendations of the Board

The Board recommends a vote:

1. “FOR” the election of each of the eight director nominees named in this Proxy Statement;
2. “FOR” the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for the year ending December 31, 2011;
3. “FOR” the approval of the amendments to the VSE Corporation 2006 Restricted Stock Plan;
4. “FOR” the approval, by non-binding advisory vote, of our executive compensation; and
5. “FOR” a recommendation, by non-binding advisory vote, to hold an advisory vote on executive compensation once every year.

Vote Required

Directors are elected by a plurality of votes cast, including Stock voted, and without regard to either broker non-votes or proxies as to which authority to vote for the nominees being proposed is withheld.

The ratification of the appointment of Ernst & Young LLP as independent registered public accounting firm will be determined by a majority of the votes cast, without regard to broker non-votes or abstentions.

The approval of the amendments to the VSE Corporation 2006 Restricted Stock Plan requires the affirmative vote of a majority of the Stock present, in person or by proxy, at the Annual Meeting and entitled to vote. Abstentions have the same effect as a vote against the proposal. Broker non-votes will have no effect on the outcome of the proposal.

The approval of the advisory resolution on the Company’s executive compensation requires the affirmative vote of a majority of the Stock present, in person or by proxy, at the Annual Meeting and entitled to vote. Abstentions have the same effect as a vote against the advisory resolution. Broker non-votes will have no effect on the outcome of the advisory vote. The results of this vote are not binding on the Board.

The advisory vote on the frequency of advisory votes on the Company’s executive compensation will be determined based on a plurality of the votes cast. This means that the option that receives the most votes will be recommended by the stockholders to the Board. Abstentions and broker non-votes are not counted for the advisory vote on frequency of advisory votes on the Company’s executive compensation and, therefore, will have no effect on the outcome of the proposal. The results of this vote are not binding on the Board.

How to Vote

We make our proxy materials available to stockholders by mail and on the Internet. You may read, print and download our 2010 Annual Report to Stockholders, 2011 Proxy Statement and proxy card at www.cfpproxy.com/3307. On an ongoing basis, stockholders may request to receive proxy materials in printed form by mail or electronically by e-mail. You may vote your shares by Internet, by telephone, by regular mail or in person at the Annual Meeting. Each of these voting options is described in the notice and the proxy card.

You should complete and return your proxy card, or vote using the Internet or telephone voting options, to ensure that your vote is counted at the Annual Meeting, regardless of whether you plan to attend. If you return an executed Proxy

Card without marking your instructions, your executed Proxy Card will be voted in accordance with the recommendations of the Board. In connection therewith, the Board has designated the Chairman of the Board Clifford M. Kendall and VSE's general counsel Thomas M. Kiernan as proxies. If you indicate a choice with respect to any matter to be acted upon on your proxy card or voting instruction card, your shares will be voted in accordance with your instructions.

4

If you are a beneficial owner and hold your shares in street name through a broker or other nominee and do not return the voting instruction card, the broker or other nominee will vote your shares on each matter at the Annual Meeting for which he or she has the requisite discretionary authority. Under applicable rules, brokers have the discretion to vote on routine matters, such as the ratification of the selection of independent registered public accounting firms. Because of recent changes to these rules, the uncontested election of directors at a stockholder meeting is no longer considered a routine matter. Also, because the proposal to approve the amendments to the 2006 Restricted Stock Plan is a non-routine matter, a broker or other nominee who hold your shares in street name will not be permitted to vote your shares on this proposal if you do not provide voting instructions on the proposal. These rules have been changed to prohibit broker discretionary authority with respect to votes on executive compensation. Therefore, brokers do not have the discretion to vote on the uncontested election of directors, the amendments to the 2006 Restricted Stock Plan or on any advisory vote regarding the Company's executive compensation.

Revocation of Proxies

A stockholder returning a proxy to VSE may revoke it at any time before it is exercised by granting a later proxy with respect to the same Stock or by communicating such revocation in writing to our Secretary. In addition, any stockholder who has executed a proxy but attends the Annual Meeting in person may cancel a previously given proxy by voting in person whether or not the proxy has been revoked in writing.

Proposal No. 1

ELECTION OF DIRECTORS

Nominees

At the Annual Meeting, stockholders will elect, by a plurality of the votes cast, in person or by proxy, eight VSE directors, who will constitute the entire Board. Each nominee listed below is currently serving as a VSE director and was elected by the stockholders at the previous year's meeting. Each nominee elected as a director will serve until the next annual meeting of stockholders and until his or her successor is elected and qualified. If any nominee should become unable to serve for any reason, the proxies will be voted for such substitute nominee as shall be designated by the Board. The eight nominees for election as VSE directors and certain information regarding them are as follows:

Name and Principal Occupation	Age	Director since
Ralph E. Eberhart General, U.S. Air Force (Ret.), formerly Commander-in-Chief, North American Aerospace Defense Command (NORAD) and U.S. Northern Command. General Eberhart retired from the Air Force in 2005 after 36 years of service. He was then appointed and continues to serve as President of the Armed Forces Benefit Association (AFBA) and as Chairman of its related enterprises. He is also a director of Rockwell Collins, Inc., and serves on the Audit Committee of The Triumph Group.	64	2007
Maurice A. Gauthier VSE Chief Executive Officer, President and Chief Operating Officer from April 28, 2008 to the present. Mr. Gauthier	63	2009

retired in 1997 as a Navy Captain after a 28-year military career. Mr. Gauthier worked for VSE from October 1997 through February 1999 as Vice President and Director of Strategic Planning and Business Development, before joining the Nichols Research Corporation as President of its Navy Group. With the acquisition of Nichols Research Corporation by Computer Sciences Corporation (CSC) in 1999, Mr. Gauthier served as a CSC Vice President and General Manager until rejoining VSE in 2008.

Clifford M. Kendall 79 2001

VSE Chairman of the Board Mr. Kendall is Chairman of the Board of Regents of the University System of Maryland. Mr. Kendall was one of the founders of Computer Data Systems, Inc., in 1968, and he served as its Chairman and Chief Executive Officer from 1970 to 1991 and as Chairman until December 1997. Mr. Kendall has been a private investor (for more than the past five years.)

Calvin S. Koonce 73 1992

President and director of Montgomery Investment Management (a securities investment firm), and is Chairman and a director of Koonce Securities, Inc., a securities broker/dealer firm (for more than the past five years).

James F. Lafond 68 2003

Retired executive and certified public accountant. From 1998 to 2002, Mr. Lafond was Washington Area Managing Partner, Pricewaterhouse-Coopers LLP. He previously served in various leadership positions at Coopers & Lybrand (1964 to 1998). He is also a director of WGL Holdings, Inc., Washington Gas Light Co., and various nonprofit and private entities.

David M. Osnos 79 1968

Of counsel (previously senior partner) at Arent Fox LLP, attorneys-at-law (for more than the past five years). He is also a director of EastGroup Properties, Inc. Mr. Osnos was also a director of Washington Real Estate Investment Trust until May 2007.

Jimmy D. Ross 74 1994

General, U.S. Army (Ret.), formerly Commanding General, U.S. Army Materiel Command. He was also a director of Stanley, Inc. until 2010.

Bonnie K. Wachtel 55 1991

Principal and Director, Wachtel & Co., Inc., brokers and underwriters (for more than the past five years). She is also a director of Information Analysis Incorporated and Integral Systems, Inc. She was also a director of Acies Corporation

from May 2006 to July 2008.

5

Board, Committees and Corporate Governance

The Board currently has nine members. Upon Donald M. Ervine's retirement from the Board on May 3, 2011, the Board will be reduced to eight members. Except for Mr. Gauthier who serves as our Chief Executive Officer and President, all of our nominees for directors are "independent" as defined by the currently applicable rules of The NASDAQ Stock Market, Inc. ("NASDAQ"). The seven independent directors regularly have the opportunity to meet without Mr. Gauthier in attendance. During 2010, there were ten regular Board meetings, and no director attended less than 75% of the aggregate of (a) the total number of Board meetings (in person or by telephone) and (b) meetings of Board committees on which he or she served (during the period that he or she served). We do not have a specific policy regarding attendance at the annual stockholders meeting. All directors, however, are encouraged to attend if available, and we try to ensure that at least one independent director attends the annual stockholder meeting and is available to answer stockholder questions. All nine directors, including our seven independent directors, attended our annual stockholders meeting in 2010.

The Board has an Audit Committee, a Nominating and Corporate Governance Committee, a Compensation Committee, and a Planning and Finance Committee; (the latter of which the Board has decided to eliminate, as described below). The current charters for each of the Board committees are available on our Internet site, www.vsecorp.com. The Board committee members, as of the date of this Proxy Statement, are identified in the following table.

Board Committees and Membership				
Director	Audit Committee	Compensation Committee	Nominating	and Planning
			Corporate Governance Committee	and Finance Committee
Ralph E. Eberhart		X	X	X
Donald M. Ervine				Chair
Maurice A. Gauthier				X
Clifford M. Kendall	X	X	Chair	X
Calvin S. Koonce		X	X	X
James F. Lafond	Chair		X	X
David M. Osnos				X
Jimmy D. Ross		Chair	X	X
Bonnie K. Wachtel	X		X	X

Changes in Committee Membership from 2010-2011 Term

Effective May 3, 2011, Calvin S. Koonce has been appointed Chairman of the Nominating and Corporate Governance Committee succeeding Clifford M. Kendall who will remain a committee member.

Audit Committee

The primary purpose of the Audit Committee is to oversee our accounting and financial reporting processes and the audits of our financial statements. The Audit Committee is directly responsible for, among other things, the appointment, compensation, retention and oversight of our independent registered public accounting firm. The Audit Committee also reviews our guidelines and policies with respect to risk assessment and risk management, specifically our risk exposures in the areas of independent audit, financial reporting, internal controls and disclosure controls, and internal audit, and evaluating the action management has taken to identify, monitor and control such exposures.

All of the Audit Committee members during the past fiscal year were independent in accordance with applicable rules of the Securities and Exchange Commission (the "SEC") and NASDAQ. Each member is able to read and understand fundamental financial statements, including our consolidated balance sheet and consolidated statements of income, stockholders' equity and cash flow. The Board has determined that Mr. Lafond is an "audit committee financial expert" as defined in SEC Regulation S-K Item 407(d)(5). During 2010, the Audit Committee met seven times.

Compensation Committee

The primary purpose of the Compensation Committee is to oversee VSE's compensation structure, to review and provide guidance to the Board regarding the compensation of VSE's officers and directors, including the compensation of the Chief Executive Officer and other executive officers, to review and provide guidance regarding employment agreements, to administer certain compensation plans, including restricted stock, stock option and deferred compensation plans, and to perform such other duties and responsibilities as are consistent with the committee's charter. The Compensation Committee reviews our guidelines and policies with respect to risk assessment and risk management, specifically our risk exposures related to compensation of the directors, executives and management; and risk exposures related to the administration of our performance incentive and employee benefit plans, and evaluates the actions management has taken to identify, monitor and control such exposures. Each of the committee members is independent in accordance with current applicable NASDAQ rules. The Compensation Committee met four times during 2010.

Matters recommended by the Compensation Committee, and any delegation of its authority, are subject to Board approval. If such approval is not received, the Compensation Committee will reconsider the recommendation or proposed delegation. The Compensation Committee has the authority to retain outside counsel or other experts or consultants as needed. Additional information on the role and responsibilities of the Compensation Committee is provided in the Compensation Discussion and Analysis section below.

Nominating and Corporate Governance Committee

The primary purpose of the Nominating and Corporate Governance Committee is to make recommendations to the Board with respect to nominees to be proposed for election as directors and with corporate policies regarding, among other things, business conduct, securities trading, indemnification of VSE officers and directors, and conflicts of interest involving VSE officers, directors and employees. The Committee also reviews our guidelines and policies with respect to risk assessment and risk management, specifically our risk exposures in the areas of corporate governance, compliance and ethics, as well as succession planning for senior management, and the actions management has taken to identify, monitor and control such exposures.

Each of the committee members is independent in accordance with applicable NASDAQ rules. During 2010, the Nominating and Corporate Governance Committee met two times.

Planning and Finance Committee

The primary purpose of the Planning and Finance Committee is to consider and make recommendations to the Board regarding (a) strategic planning, acquisitions, mergers and succession planning, (b) capitalization and long-term funding requirements, and (c) proposals concerning the Company's financial policies and substantive financial transactions. The Planning and Finance Committee also reviews our guidelines and policies with respect to risk assessment and management, specifically our exposure to operational risks, and evaluates the actions management has taken to identify, monitor and control such exposures. During 2010, the Planning and Finance Committee met four times.

The Board has determined that the above-referenced functions of the Planning and Finance Committee are more appropriately performed by the full Board rather than delegated to a committee. Additionally, all Board members are also Planning and Finance Committee members which creates a duplicative decision structure. In view of the foregoing circumstances, and to promote management and Board efficiency, the Board has decided to dissolve the Planning and Finance Committee effective May 3, 2011.

Committee Structure and Risk

The Board has overall responsibility for oversight of our risk management plans, policies and practices. In view of the Board's decision to dissolve the Planning and Finance Committee effective May 3, 2011, each Board committee has been assigned oversight of certain risks associated with its respective activities as discussed below, and the charters of each committee have been revised to reflect these risk oversight responsibilities. The Board has approved a risk management policy that delineates the risk oversight responsibilities of management, the Board and its committees.

Director Nominations and Qualifications

Stockholders may recommend persons to be nominated for election as directors of VSE at the annual meeting of stockholders. To be considered, such recommendation must be submitted in accordance with VSE's by-laws and must be received in writing by VSE's Corporate Secretary no later than 90 days before the date in the current year that corresponds to the date on which the annual meeting was held during the immediate prior year. (Nominations for the year 2012-2013 should be received by the Corporate Secretary no later than February 3, 2012.) Such recommendation

shall be accompanied by the proposing stockholder's name, evidence that such stockholder is a beneficial owner of VSE Stock, and the candidate's name, biographical data and qualifications.

The policy of the Nominating and Corporate Governance Committee is to consider properly submitted stockholder nominations for candidates for Board membership as described below. In evaluating such nominations, the Nominating and Corporate Governance Committee seeks to achieve a balance of knowledge, experience and capability on the Board and to address the directorship criteria discussed below.

Under these criteria for Board nominations, Board members should have the highest professional and personal ethics and values, consistent with longstanding VSE values and standards. As a group, the Board should have diverse and broad experience at the policy-making level in business, government, education, technology or public interest. They should be committed to enhancing stockholder value and should have sufficient time to carry out their duties and to provide insight and practical wisdom based on experience. Their service on other boards of public companies should be limited to a number that permits them, given their individual circumstances, to perform responsibly all director duties. Each director must represent the interests of all stockholders. While we do not have a formal policy regarding diversity of Board nominees or a formal definition of “diversity,” the Nominating and Corporate Governance Committee has recently discussed diversity considerations of potential Board nominees within the context of Board succession planning. Factors discussed as relevant to the selection of Board nominees may include nature and length of business experience, including experience in business areas related to our potential growth areas, race, gender, age and factors that promote alignment of the Board with the interests of stockholders.

The Nominating and Corporate Governance Committee utilizes a variety of methods for identifying and evaluating nominees for director. Such committee periodically assesses the appropriate size of the Board, and whether any Board vacancies are expected due to retirement or otherwise. If vacancies are anticipated, or otherwise arise, the Nominating and Corporate Governance Committee will consider various potential candidates for director. Candidates may come to the attention of the Nominating and Corporate Governance Committee through Board members, professional search firms, stockholders or other persons. These candidates are evaluated at regular or special meetings of the Nominating and Corporate Governance Committee and may be considered at any point during the year. As described above, the Nominating and Corporate Governance Committee will consider properly submitted stockholder nominations for candidates for the Board. Following verification of the stockholder status of persons proposing candidates, recommendations will be aggregated and considered by the Nominating and Corporate Governance Committee at a regularly scheduled meeting. If any materials are provided by a stockholder in connection with the nomination of a director candidate, such materials will be forwarded to the Nominating and Corporate Governance Committee. Such Committee also will review materials provided by professional search firms or other parties in connection with a nominee who is not proposed by a stockholder. The Committee has not in the past retained any third party to assist in identifying nominees for Board membership.

The traits identified with respect to the current director nominees as qualifications to serve on the Board include:

- Ralph E. Eberhart · Experience as Chairman and President of the Armed Forces Benefit Association provides insight into challenges associated with managing complex organizations and holding management accountable for company performance.
- Expertise in the defense industry due to 36 years of experience in the U.S. Air Force and senior positions in the U.S. military, including assignment as Commander-in-Chief North American Aerospace Defense Command and U.S. Northern Command.
- Maurice A. Gauthier · Chief Executive Officer and President of VSE; experience as Vice President and General Manager of Computer Sciences Corporation provides insight into challenges associated with managing complex organizations and withholding management accountable for performance.
- Familiarity with core customer due to 28 years as an officer in the United States Navy.

Edgar Filing: VSE CORP - Form DEF 14A

- Clifford M. Kendall · Expertise in public company accounting, disclosure and financial system management due to roles as Chairman and Chief Executive Officer of Computer Data Systems from 1970-1991 and Chairman until 1997.
· Experience as a private investor provides insight into the enhancement of stockholder value.
- Calvin S. Koonce · Experience as President of Koonce Securities, Inc., a registered securities broker-dealer provides insight into the enhancement of stockholder value.
· Familiarity with the core strategy and operations of VSE due to 19 years as a Board member.
- James F. Lafond · Experienced in business management, public company accounting, financial disclosure and financial systems oversight gained from his experience as Area Managing Partner for Greater Washington at PricewaterhouseCoopers (PwC).
· Expertise in risk management processes given his experience as Area Managing Partner for PwC and serving as an engagement partner for entities of all types including manufacturing companies and financial institutions.
- David M. Osnos · Familiarity with the strategy and operations of VSE due to 43 years as a Board member.
· More than 50 years of legal practice in securities, real estate and tax and provides corporate legal knowledge and expertise in the negotiation, documentation and closing of corporate transactions.
- Jimmy D. Ross · Expertise in the defense industry due to senior positions in the U.S. military, including Commanding General, U.S. Army Materiel Command.
· Familiarity with the acquisition requirements of core customer due to experience as senior logistics consultant and executive officer of Cypress International, Inc., a defense business development consulting firm.
- Bonnie K. Wachtel · Experience as Supervisory Control Principal and Director of Wachtel & Co., Inc. provides management experience in financial systems, people and processes.
· Service on the Listing Qualifications Panel of NASDAQ and holding of Chartered Financial Analyst certification provides expertise in the functioning of capital markets and insight into the enhancement of stockholder value.

Leadership Structure of the Board

The positions of Chairman of the Board and Chief Executive Officer (“CEO”) currently are separated at VSE. The Board believes that this structure best serves the Company’s needs at this time. Prior to the 2008 retirement of Donald M. Ervine as CEO and President, the Chairman and CEO positions were combined. Currently, the Board believes that its existing structure effectively maintains independent oversight of management. The Board periodically reviews and considers whether the positions of Chairman and CEO should be combined as part of its regular review of the effectiveness of our governance structure.

On May 4, 2010, upon the succession of Mr. Kendall to Chairman of the Board, VSE eliminated the position of Lead Independent Director. Previously, the Board had established the position of Lead Independent Director to assist the Chairman and the other Board members in assuring effective corporate governance. David M. Osnos had served as Lead Independent Director from March 2007 until May 2010.

Communications with the Board

Individuals may communicate with the Board by submitting an email to the Board at board@vsecorp.com. All directors have access to this email address. Communications that are intended specifically for non-employee directors should be sent to the email address above to the attention of the Corporate Secretary. Communications to the Board by mail can be addressed to The Board of Directors or a particular Board member c/o VSE Corporation, 2550 Huntington Avenue, Alexandria, Virginia 22303-1499.

Code of Business Conduct and Ethics

The Board has adopted a Code of Business Conduct and Ethics that applies to all of its directors, officers, including its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, and employees. The Code is posted on VSE's Internet website www.vsecorp.com. VSE intends to satisfy the disclosure requirements under Item 5.05 of Form 8-K under the Securities Exchange Act of 1934, as amended ("the Exchange Act"), regarding any waiver or amendment of the Code with respect to VSE's principal executive officer, principal financial officer, and principal accounting officer or controller, or persons performing similar functions, by posting such required information on VSE's Internet website.

Compensation of Non-Employee Directors for 2010

In 2010, the Company paid each non-employee director a cash retainer of \$35,000 per year. In addition, each non-employee director was paid \$1,000 for each Board meeting attended, and each Board committee member was paid \$1,000 for each committee meeting attended. Each non-employee director also received in respect of 2010 an annual award under our 2006 Restricted Stock Plan of such number of shares of VSE Stock equal to \$35,000 divided by the per share closing price of VSE Stock on the first trading day following January 1, 2011, rounded to the nearest 100 shares. On January 2, 2011, each non-employee director was granted an award of 1,400 shares of restricted Stock under our 2006 Restricted Stock Plan. On January 2, 2011, the closing price of our Stock was \$33.16 per share.

The chairman of the Audit Committee and the chairman of the Compensation Committee were each paid an additional annual fee of \$10,000 (for a total director fee of \$45,000).

The Chairman of the Board was also paid \$40,000 during 2010 for serving as Chairman of the Board since May 3, 2010 (based on an annual rate of \$60,000).

Pursuant to our 2004 Non-Employee Directors Stock Plan approved by stockholders in 2004, each non-employee director can elect that all or a portion of his or her annual cash compensation for services as a VSE director be paid in VSE Stock at fair market value determined in accordance with the plan. Mr. Koonce and General Ross each made such an election for 2010.

VSE Stock issued to non-employee directors pursuant to our 2006 Restricted Stock Plan is fully vested when issued, but the certificates for such Stock bear a restrictive legend prohibiting the sale, transfer, pledge and assignment of such Stock for a two-year period commencing on the issue date. When all restrictions on the certificates bearing a restrictive legend have lapsed, VSE issues a non-restrictive certificate to the directors (subject to any applicable securities law restrictions). Directors appointed during the year will be eligible for a pro rata annual award.

No compensation is paid to any non-employee director for personal services rendered to VSE pursuant to a consulting services agreement between the director and VSE, or any of VSE's subsidiaries, unless authorized as a special assignment by the Board. No such authorization was requested for or on behalf of any director in 2010. The foregoing procedures do not restrict reimbursement for expenses incurred by a director for attending meetings of the Board or Board committees.

The following table provides information related to the compensation of each of the Company's non-employee directors for fiscal year 2010.

Director Compensation for Fiscal Year 2010 Table

Name	Fees earned or paid in cash (\$ (1) (2)	Stock awards (\$ (3) (c)	Option awards (\$ (4) (d)	Non-equity incentive plan compensation (\$ (e)	Change in pension value and non-qualified deferred compensation earnings (\$ (f)	All other compensation (\$ (g)	Total (\$ (h)
Ralph E. Eberhart	52,000	33,068	--	--	--	--	85,068
Clifford M. Kendall	104,330	33,068	--	--	--	--	137,398
(2)							
Calvin S. Koonce	54,000	33,068	--	--	--	--	87,068
James F. Lafond	67,000	33,068	--	--	--	--	100,068
David M. Osnos	46,650	33,068	--	--	--	--	79,718
Jimmy D. Ross	64,000	33,068	--	--	--	--	97,068
Bonnie K. Wachtel	58,000	33,068	--	--	--	--	91,068

Notes to Director Compensation Table

1. The amount reported in column (b) combines amounts paid for director fees and meeting fees, as described above.
2. Includes prorated compensation for eight months of service in 2010 of \$40,000 for serving as Chairman of the Board.
3. Pursuant to the 2004 Non-Employee Directors Stock Plan, Mr. Koonce elected to receive all of his annual director fees of \$35,000, and General Ross elected to receive half of his annual director fees of \$45,000 for 2010 in our Stock in lieu of cash. Mr. Koonce received 1,028 shares (\$34,983), and General Ross received 661 shares (\$22,494), of our Stock pursuant to their respective elections. The dollar amount recognized for financial statement reporting purposes in accordance with FAS 123R was the fair market value of our Stock received based on the closing price of our Stock on December 22, 2010 (\$34.03 per share), the valuation date specified in the plan.
4. Pursuant to the 2006 Restricted Stock Plan, each non-employee director was granted an award of 1,400 shares of VSE Stock on January 2, 2011. The dollar amount recognized for financial statement reporting purposes in accordance with FAS 123R is based on the closing price of our Stock on January 2, 2011 (\$33.16 per share).

Narrative to Director Compensation Table

Please see the section above entitled "Compensation of Non-Employee Directors for 2010."

Transition and Compensation of Non-Executive Chairman

Donald M. Ervine, our former CEO, President and Chief Operating Officer, served as Non-Executive Chairman of the Board from April 1, 2009 until May 3, 2010, at which time he continued to serve and will serve as a director until May 3, 2011. Prior to Mr. Ervine's service as Non-Executive Chairman, he served as Executive Chairman between April 28, 2008 and March 31, 2009.

Mr. Ervine's compensation was negotiated with our Lead Independent Director and approved by the Board. Pursuant to an agreement dated as of April 22, 2008, and as amended as of December 31, 2008, between VSE and Mr. Ervine (the "Transition Agreement"), during his two-year term of service as Non-Executive Chairman of the Board, Mr. Ervine was paid a consulting fee of \$216,000 annually.

The December 31, 2008 amendment to the Transition Agreement also provides for Mr. Ervine's participation in our 2006 Restricted Stock Plan on a pro rata basis (being one fourth of the restricted stock award that Mr. Ervine would have otherwise been entitled had he been a participant for the entire fiscal year), for restricted stock awards in respect of VSE's fiscal year ended December 31, 2009. Based on Mr. Ervine's long term tenure and Chairmanship, the Board decided to accelerate his final Stock award of \$18,000 that he would have otherwise received in March of 2012 as his final Stock award. This represents the final payment in respect of his three-month period of serving as Non-Executive Chairman of the Board in 2009.

Compensation Committee Interlocks and Insider Participation

During 2010, the Compensation Committee was composed of General Ross, Mr. Kendall, Mr. Koonce, and General Eberhart. No member of the committee was at any time during 2010 or at any other time an officer or employee of VSE. No executive officer of VSE serves or has served as a member of the compensation committee of another entity that has an executive officer who serves on VSE's Compensation Committee. No executive officer of VSE served on the board of directors or compensation committee of any entity which has one or more executive officers serving as members of the Board or Compensation Committee.

Mr. Koonce is a major stockholder of VSE. See table below titled "Security Ownership of Certain Beneficial Owners and Management."

Certain Relationships and Related Transactions

On June 4, 2007, VSE acquired Integrated Concepts and Research Corporation ("ICRC") from (a) Koniag Development Corporation ("KDC"), which owned 80% of ICRC's capital stock, and (b) the Nancy Ellen Lexo Living Trust (the "Trust"), which owned 20% of ICRC's capital stock, for approximately \$11.65 million. Up to an additional \$5.815 million in purchase price will be payable by VSE to KDC and the Trust, on a pro rata basis, if ICRC achieves certain revenues during an approximate six-year period after the closing, as provided in the purchase agreement among VSE, KDC, the Trust, James W. Lexo, Jr. ("Mr. Lexo"), ICRC and Koniag, Inc. Mr. Lexo is the sole trustee of the Trust and the beneficiaries of the Trust are Mr. Lexo and his adult children. In 2010, VSE paid the Trust approximately \$89,006 as additional purchase price as stated above, and in 2011 we expect to pay the Trust approximately \$53,954 as additional purchase price, as stated above. Mr. Lexo has served as a VSE Executive Vice President since June 4, 2007.

There is no family relationship between any director or executive officer of VSE and any other director or executive officer of VSE.

Please refer to "Compensation Discussion and Analysis—Narrative to Summary Compensation Table" for information on VSE's employment agreement with Mr. Gauthier and to the section above entitled Compensation Committee Interlocks and Insider Participation" for additional information about directors and nominees for director.

Pursuant to the Company's policies, including Code of Business Conduct and Ethics for VSE's directors, officers and employees, each of the above-referenced relationships and related transactions was subject to the prior consideration

and approval of the Board, including a majority vote of the disinterested directors.

VSE and the trustees of VSE's employee benefit plans have in the past effected certain of their transactions in VSE Stock through Wachtel & Co., Inc., of which Ms. Wachtel is a director, officer and stockholder, and through Koonce Securities, Inc., which is wholly owned by Mr. Koonce. During 2010 VSE benefit plans did not perform any transactions with respect to VSE Stock through Wachtel & Co., Inc., nor with Koonce Securities, Inc.

Mr. Osnos is of counsel at the law firm of Arent Fox LLP, which has represented and is expected to continue to represent VSE on various legal matters.

The Board unanimously recommends that stockholders vote “for” the election of each of the eight persons nominated to serve as a director of VSE for the ensuing year.

Proposal No. 2

APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Based on the recommendation of its Audit Committee, the Board has appointed the firm of Ernst & Young LLP to be VSE’s independent registered public accounting firm for the year ending December 31, 2011, and recommends to stockholders that they vote for ratification of that appointment. Although not required to do so, the Board has determined that it would be desirable to request stockholders’ approval of this appointment. The ratification of the appointment of VSE’s independent auditors will require the affirmative vote by the holders of a majority of the outstanding Stock present in person or represented by proxy at the Annual Meeting. If such approval is not received, the Board will reconsider the appointment.

In 2010 and 2009, Ernst & Young LLP services included an audit of VSE’s consolidated financial statements and reviews of the consolidated financial statements included in VSE’s Forms 10-Q filed with the SEC for each of the quarters ended March 31, June 30, and September 30. Ernst & Young LLP services also included an audit of the effectiveness of our internal controls over financial reporting as of December 31, 2010 and December 31, 2009.

Audit Fees

Ernst & Young LLP’s fees for professional services rendered for the years ended December 31, 2010 and December 31, 2009, were as follows:

	2010	2009
Audit fees (1)	\$818,288	\$761,936
Tax fees (2)	\$139,320	\$57,000
Other (3)	\$1,945	\$1,585

(1) Includes fees and expenses related to the annual audits and to interim reviews, notwithstanding when the fees and expenses were billed. The 2010 amount includes fees associated with the acquisition of Akimeka, LLC in August, 2010.

(2) Includes fees and expenses for tax compliance and advisory services. The 2010 amount also includes fees associated with foreign tax issues, employment tax issues and other tax related services.

(3) Represents fees related to management’s use of the E&Y Online accounting research tool. The Audit Committee approves in advance all audit and non-audit services provided by the independent auditors prior to their engagement with respect to such services. The Audit Committee has delegated to the Committee’s chairman the authority to pre-approve additional audit-related and non-audit services not prohibited by law to be performed by VSE’s independent auditors and associated fees up to a maximum for any one non-audit service equal to the lesser of \$30,000 or 25% of the audit fees for VSE’s most recent completed fiscal year, provided that the Audit Committee’s chairman shall report any decisions to pre-approve such audit-related or non-audit services and fees to the full Audit

Committee at its next regular meeting. The Audit Committee approved in advance all of the audit and non-audit services provided by the independent auditors in 2010 and 2009.

A representative of Ernst & Young LLP is expected to attend the Annual Meeting, will have an opportunity to make a statement, if he or she desires to do so, and will be available to respond to appropriate questions.

The Board unanimously recommends that stockholders vote “for” the proposal to ratify the appointment of Ernst & Young LLP to serve as VSE's independent registered public accounting firm for the year ending December 31, 2011.

AUDIT COMMITTEE REPORT

The Audit Committee is composed of three non-employee directors (Mr. Lafond, Mr. Kendall and Ms. Wachtel), each of whom is considered an “independent” director for the purposes of the applicable rules of NASDAQ and the SEC. The Audit Committee’s responsibilities are set forth in its charter, a copy of which is available on VSE’s Internet website, www.vsecorp.com. The Board and the Audit Committee believe that the Audit Committee members are and were at the time of the actions described in this report “independent” directors as independence is defined by NASDAQ Rule 4200(a)(15).

The Audit Committee has implemented the requirements of the Sarbanes-Oxley Act of 2002 and the Marketplace Rules of The NASDAQ Stock Market, Inc. with respect to the responsibilities of audit committees of public companies. Among other matters, the Audit Committee reviews procedures on internal control over financial reporting with management and with the Company’s independent registered public accounting firm, and it discussed with the independent registered public accounting firm the adequacy of the Company’s internal controls and the overall scope and specific plans for their audit.

The Audit Committee has reviewed and discussed with management VSE’s audited consolidated financial statements as of and for the year ended December 31, 2010, and has discussed with VSE’s independent registered accounting firm the matters required to be discussed by Statement on Auditing Standards No. 61, as amended (AICPA, Professional Standards, Vol. 1, AU Section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T.

The Audit Committee has received and reviewed the written disclosures and the letter from the independent registered accounting firm required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent auditor’s communications with the audit committee concerning independence, and has discussed with the auditors the auditors’ independence and considered whether the provision of non-audit services by the auditors is compatible with maintaining their independence.

Based on the foregoing reviews and discussions, the Audit Committee recommended to the Board that the above referenced consolidated financial statements be included in VSE’s Annual Report on Form 10-K for the year ended December 31, 2010, for filing with the SEC.

Audit Committee: James F. Lafond,
Chairman
Clifford M. Kendall
Bonnie K. Wachtel

COMPENSATION DISCUSSION AND ANALYSIS

OVERVIEW

Introduction

Founded in 1959, VSE Corporation (“VSE” or the “Company”) provides government services with integrity, agility and value. The Company has historically generated strong stockholder returns over the long-term and is committed to continued long-term value creation for stockholders. The government services market is highly competitive and the Company’s recent growth has placed it in a more competitive market tier. The Company’s continued ability to create long-term stockholder value is dependent on our ability to attract and retain highly qualified executives in the government services market, including the named executive officers (“NEOs”) named in this Proxy Statement. As discussed in the following Compensation Discussion and Analysis, VSE’s compensation program has been designed to align closely with the Company’s commitment to long-term success.

Compensation Committee Philosophy

The principal objectives of our Board’s Compensation Committee (the “Committee”) are to (a) develop an executive compensation program that will attract and retain executive officers capable of leading and growing the Company in a complex, competitive and changing industry; (b) pursue a promote from within strategy, (c) maintain a compensation structure that is competitive and performance based, and (d) link total compensation to corporate goals and performance.

Compensation Program Components

The four key elements of our executive compensation program are:

1. Base salary to compensate executives for services performed during the fiscal year.
2. Annual performance-based monetary incentive to promote achievement of the Company’s profitability and return on beginning stockholder equity targets.
3. Long-term incentives, including deferred supplemental compensation and awards of restricted stock to reward executives for their contributions to the Company’s profitability and return on beginning stockholders equity performance.
 4. A 401(k) employee contributions matching program to maintain market competitiveness.

Basis for Compensation Decisions

For our executives as a group, we generally target total compensation including long term incentives, at the upper end of the market, depending upon numerous factors such as: level of responsibility, individual performance, Company performance, market competitive data, and prior experience.

Leadership Structure

During 2010, the Company was managed by Maurice A. Gauthier, in his capacities as Chief Executive Officer (“CEO”), President and Chief Operating Officer. Thomas R. Loftus reported directly to Mr. Gauthier as the Company’s chief financial officer. Thomas G. Dacus reported directly to Mr. Gauthier as president of the Federal Group, the Company’s largest operating division. Thomas M. Kiernan reported directly to Mr. Gauthier as the Company’s general counsel and corporate secretary. James E. Lexo reported directly to Mr. Gauthier as executive vice president, strategic planning and business initiatives, and chief administrative officer. The following Compensation Discussion and Analysis outlines the processes, elements and decisions regarding 2010 compensation for Messrs. Gauthier, Loftus, Dacus, Kiernan and Lexo (the “NEOs”).

OVERSIGHT AND AUTHORITY OVER EXECUTIVE COMPENSATION

Compensation Committee Composition and Duties

The Committee is composed of four independent directors as defined by the NASDAQ listing standards and described in the section above entitled Board, Committees and Corporate Governance.

The Committee is responsible for reviewing and recommending for Board approval the compensation of our chief executive officer (principal executive officer), chief financial officer (principal financial officer), and other executive officers, including all of the NEOs. The Committee is governed by a written charter adopted by the Board. The full text of the charter is available on VSE's corporate website at www.vsecorp.com.

The following is a summary of the Committee's key responsibilities relating to executive compensation:

1. To review compensation programs for the executive officers, including the NEOs, of the Company and to provide recommendations to the Board regarding such compensation programs;
 2. To evaluate the performance of the CEO;
3. To review and approve corporate goals and objectives relevant to the compensation of the NEOs and make recommendations to the Board for approval of total compensation for NEOs; and
 4. To provide recommendations to the Board regarding director compensation.

Annual Compensation Review

In December of each year, the Committee meets to review the performance and compensation of our CEO and the other NEOs. The Committee meets in executive session to review the performance and compensation of our CEO.

In consultation with the CEO, the Committee reviews and approves the compensation of all other NEOs based on recommendations submitted by the CEO. In submitting these recommendations, the CEO evaluates the performance and recommends salary adjustments, bonuses, benefit plan participation, and all other elements of compensation affecting the NEOs. The Committee has discretion in approving, disapproving or modifying any recommended salary adjustments or proposed awards to NEOs.

Compensation Committee Philosophy and Pay-Setting Process

Total executive compensation is structured to attract and retain a superior management team consistent with our corporate strategic goal of recruiting and retaining top level executives. This is an essential element of our "promote from within" strategy. Our approach emphasizes investment in high performing internal candidates for career development and advancement. The strategic intent is to produce a stronger management team over time rather than incurring market driven attrition resolved through external recruitment.

The Committee believes it is important to maintain a compensation structure that is competitive, which allows us to attract and retain the executives we require to perform well, while maintaining labor rates that permit us to compete effectively in the markets we serve. We measure our competitiveness by comparing our prices for services against competitor prices and by monitoring our ability to recruit and retain highly qualified executives available in our chosen markets.

Our chosen markets have compelled us to routinely compete against much larger companies for both new work and the executive talent required to prevail and succeed in those markets; therefore it is important to consider the total compensation offered by those companies as one factor in setting total compensation at VSE. However, the executives at larger peer competitor companies are compensated for leading larger organizations of similar complexity with larger staffs. The total compensation of these competitor executives, including base salary, is significantly greater than that of their VSE executive peers largely due to scale (revenue and headcount). In establishing the compensation of our equivalent executives, the compensation for executives at larger peer companies is only one of many factors taken into consideration. In drawing those comparisons, we take into account factors such as revenue, headcount and net income at equivalent divisions.

The Committee also believes it is important to maintain a compensation structure that is performance-based, such that two-thirds of total compensation for each of our NEOs is “at risk” and subject to incentives based on achieving defined short- and long-term performance-based goals and depends on exceeding pre-established targets for profitability and return on beginning stockholders’ equity.

The Committee considers multiple factors when determining compensation levels for NEOs, including level of responsibility, individual performance, Company performance, market competitive data, and prior experience. These considerations compel the Committee to make subjective total compensation recommendations while incorporating other relevant factors such as bookings, backlog, client satisfaction and operational performance. Using subjectively assigned total compensation as the point of peer competitor comparison, the next step is to factor our competitive short term and long term performance incentives into the total compensation equation. VSE’s short-term and long-term incentive compensation constitutes about two thirds of total compensation, with base salaries constituting approximately one-third of potential total compensation.

For the three-year period ended December 31, 2010, the percentages of total compensation of each component of NEO compensation were approximately as follows (please refer to the Summary Compensation Table below for actual amounts):

NEO Compensation Components as Percentage of Total Compensation 2008-2010 Table

NEO Compensation Component	Percentage of Total Compensation 2008 - 2010
Base salaries	35%
Performance-based monetary incentives	34%
Long-term incentives-- Deferred Supplemental Compensation Restricted Stock	30%
Other compensation-- 401(k) Match	1%

Role of Compensation Consultant

The Committee has the authority to engage independent compensation consultants to assist in evaluating the compensation of NEOs, as well as to provide periodic reviews of the effectiveness and competitiveness of VSE’s executive compensation structure. During 2010 the Committee interviewed several experienced compensation consultants and advisory firms and ultimately selected and retained PricewaterhouseCoopers LLP (“PwC”). In 2010, PwC advised the Committee on a variety of compensation-related issues, including:

- The appropriateness of potential modifications to the Company’s long-term incentive plan, taking into account market trends and competitive practice.
- Pay levels and compensation mix for NEOs;
- Development of VSE stock retention guidelines; and
- Emerging compensation trends.

PwC received approximately \$26,000 in fees from the Company in 2010 for the services described above. Other than providing the services described above as a consultant to the Compensation Committee, PwC provided no other services to the Committee or otherwise to the Company in 2010.

Peer Companies and Survey Data

The government services market is complex and competitive. The Committee believes that a competitive compensation package is an important tool in our efforts to attract and retain qualified executives with government services contracting experience. In determining total compensation for our NEOs, we consider competitive market data for a peer group of publicly traded companies. The Committee does not apply a formulaic approach to setting individual elements of the NEOs' compensation or their total compensation amounts and does not set compensation levels at any specific level or percentile against the peer group data described below. However, the Committee periodically reviews market compensation levels to determine whether the total compensation opportunity for the NEOs is appropriate in light of factors such as the compensation arrangements for similarly situated executives in the market and may make adjustments as the Committee determines appropriate.

The peer group has historically been selected on the basis of comparable market capitalization, revenues and profit margins. Our growth between 2007 and 2009 caused us to outgrow our peer group. For 2010, the Committee directed management to develop a new peer group consisting of publicly traded companies that are more comparable to our current market capitalization, revenues and profit margins. Additionally, the Committee decided to limit the peer group to those companies with which we compete for new work and executive talent. Three companies met this criteria: Dynamics Research Corporation, ICF International, Inc. and SRA International, Inc. The Committee believes that to attract and retain qualified executives, total compensation levels for our NEOs should be established at a competitive level relative to this group of companies. The nature of our highly decentralized and diverse lines of business presents challenges in identifying similar organizations for comparison purposes; therefore we added four companies that are larger than us to provide additional market data regarding "aspirational" peers: AECOM Technology Corporation, CACI International Inc., ManTech International Corporation and SAIC, Inc.

2010 Peer Group

Similarly Sized Peers	Aspirational Peers
Dynamics Research Corporation	AECOM Technology Corporation
ICF International, Inc.	CACI Inc.
SRA International, Inc.	ManTech International Corporation
	SAIC, Inc.

In preparing analyses of pay levels and compensation mix, PwC also referred to other commercially available survey sources such as the World@Work 2010/2011 Salary Budget Survey.

Consideration of Risk

Our compensation programs are discretionary, balanced and focused on the long term. Under this structure, the highest amount of compensation can be achieved through consistent superior performance over sustained periods of time. In addition, large amounts of compensation are usually deferred or only realizable upon retirement. This provides strong incentives to manage the Company for the long-term, while avoiding excessive risk-taking in the short-term. Likewise, the elements of compensation are balanced among current cash payments, deferred cash and equity awards. The Committee retains significant discretion to adjust compensation for quality of performance and adherence to Company values.

Additionally, to further align the interests of our executive officers with those of our stockholders in pursuit of long-term value creation, the Committee recommended and the Board approved stock retention guidelines for

directors and other participants in VSE's 2006 Restricted Stock Plan to be phased in over time as described in the section below entitled "Stock Retention Guidelines".

The Committee reviews the relationship between our risk management policies and practices and the incentive compensation we provide to our NEOs to confirm that our incentive compensation does not encourage unnecessary and excessive risks. The Committee also reviews the relationship between risk management policies and practices, corporate strategy and senior executive compensation.

EXECUTIVE COMPENSATION COMPONENTS

The four key elements of our executive compensation program are base salary, performance-based monetary incentives, long-term incentives, and 401(k) matching program.

Base Salary

The Committee believes that one of the most effective ways to compete in the government services industry's executive labor market is to offer our executive officers a competitive base salary. The Committee analyzes each executive officer's compensation using the following process:

1. Review the key executive positions within the Company in terms of scope and responsibility, job complexity, knowledge, experience required, and other relevant factors.
2. Rank the executive positions on the basis of these factors to establish a logical relationship among them.
3. For the NEOs, develop a salary band using the Market Reference Point as the 50th percentile.
4. For other executive positions, establish salary ranges by utilizing applicable industry surveys.

We generally set our NEOs' base salaries to fall between the 25th and 50th percentile of the peer group. The Committee reviews the base salaries of all executive officers, including the NEOs, on an annual basis in December of each fiscal year. The CEO provides his recommendations to the Committee on compensation actions for all other executive officers. The Committee, in conjunction with the CEO, determines whether to recommend adjustments to the base salaries of our executive officers, including our NEOs, in connection with these reviews.

The Committee considers each executive's benchmarking against the relevant market reference point, position and scope of responsibilities. In addition to such external market considerations, the Committee also considers internal pay equity among our executives, including the NEOs, for base salary planning. The foregoing discussion of how the Committee determines base salaries is not intended to be exhaustive, but does summarize the material factors considered by the Committee. The Committee did not find it useful to, and did not attempt to, quantify, rank or otherwise assign relative weights to these factors. In considering the factors described above, individual Committee members may have given different weight to different factors. The Committee conducted an overall analysis of the factors described above and considered the totality of the information presented to it, including discussions with our senior management.

On December 17, 2009, the Committee approved 2010 base salary increases for Messrs. Gauthier, Loftus, Dacus and Kiernan. This decision was based on a combination of peer group adjustments and merit-based increases, with total compensation serving as the basis for peer comparisons. Mr. Gauthier, in his capacity as CEO, President and Chief Operating Officer, received an increase in base salary from \$415,000 to \$500,000. Mr. Loftus received an increase in base salary from \$225,000 to \$260,000. Mr. Dacus received an increase in base salary from \$235,000 to \$244,420. Mr. Kiernan received an increase in base salary from \$210,020 to \$228,700.

Base Salaries of Named Executive Officers 2009 – 2011 Table

Named Executive Officer	2009	2010	2011
Maurice A. Gauthier	415,000	500,000	515,000
Thomas R. Loftus	225,000	260,000	267,800
Thomas G. Dacus	235,000	244,420	244,420
Thomas M. Kiernan	210,020	228,700	235,560
James W. Lexo	225,000	225,000	225,000

Subsequent Committee Actions

On December 8, 2010, the Committee approved 2011 base salary increases for Messrs. Gauthier, Loftus and Kiernan. This decision was based on a combination of peer group adjustments and merit-based increases, with total compensation serving as the basis for peer comparisons. Mr. Gauthier, in his capacity as CEO, President and Chief Operating Officer, received an increase in base salary from \$500,000 to \$515,000. Mr. Loftus received an increase in base salary from \$260,000 to \$267,800. Mr. Kiernan received an increase in base salary from \$228,700 to \$235,560.

Performance-Based Monetary Incentive Compensation

In December 2009, the Committee recommended and the Board adopted a performance bonus plan based on achieving annual financial results in excess of financial thresholds established by the Committee at the beginning of each year and submitted to the Board for its approval (“Bonus Plan”).

On December 8, 2010, the Committee recommended and the Board approved, the awarding of performance bonuses for the NEOs under the Bonus Plan in respect of VSE’s fiscal year ending December 31, 2010 (“Fiscal 2010”). These bonus amounts range from 2% of the NEO’s base salary for achieving a return on beginning VSE stockholders equity in excess of 12% to 100% of base salary for achieving a return for Fiscal 2010 up to the maximum bonus amount set forth below for achieving a return on beginning stockholders’ equity of 27% or more.

Name	Maximum Bonus Potential
Maurice A. Gauthier	\$500,000
Thomas R. Loftus	\$260,000
Thomas G. Dacus	\$244,420
Thomas M. Kiernan	\$228,693
James W. Lexo	\$225,014

For Fiscal 2010, VSE achieved a return on beginning stockholders' equity of approximately 23% (\$24.0 million) as compared to the corporate goal of 27% with aggregate annual performance bonuses under the Bonus Plan of about \$8.9 million. Specific amounts paid to NEOs under the Bonus Plan are reported in the Summary Compensation Table below under the heading "Non-equity Incentive Plan Compensation."

The goals consist principally of operating income targets for operating group executives, and return on beginning stockholders' equity for corporate staff, corporate officers and corporate executives, including the CEO and Chief Financial Officer (return on beginning stockholders' equity as calculated by dividing net income for the year by total stockholders' equity at the beginning of the year). To participate in the bonus program, an executive must be an employee during the fiscal year that the bonus payment is earned and at the time the payment is distributed. During Fiscal 2010 the pool thresholds were established as follows:

- The bonus pool for operations is determined by a percentage of pretax income formula based on a return on beginning VSE stockholders' equity at a 12% threshold. Individual operating group executives' bonuses are capped at 100% of salary.
- The bonus pool for corporate staff, corporate officers, and corporate executives is determined as a percentage of salary based on VSE's return on stockholders' equity at a 12% threshold. Individual administrative bonuses are capped at 15% of salary for corporate staff, 65% of salary for corporate officers, and 100% of salary for executives, including the CEO and CFO.

Our bonus pool for operations personnel as well as corporate staff, officers and executives is developed by the increase in return on beginning stockholders' equity (ROE). A ROE of less than 12% results in no performance bonus for operations personnel or the corporate staff, officers or executives. As ROE equals or increases above the 12% threshold, the bonus pool is created. The bonus pool will continue to increase as long as ROE (net of all compensation costs) increases. At year end, the Committee exercises its discretion in how much of the pool to allocate to both operations personnel and corporate staff based in part upon executive management's recommendation and the company's overall performance. For 2010, the maximum bonus pool target for ROE was 27%. Because the actual ROE for 2010 was 23%, the NEOs, other corporate officers and corporate staff did not receive their maximum bonus potential. For 2011, the Board approved on December 8, 2010 a ROE target of 25% for the bonus pool.

Long-Term Incentive Compensation

VSE provides long-term incentive compensation to its NEOs to reward them for their contributions to the Company's profitability and return on beginning stockholders equity. The two components of the Company's long-term incentive program are the Deferred Supplemental Compensation Plan and the Restricted Stock Plan.

Deferred Supplemental Compensation

VSE has a nonqualified, non-contributory Deferred Supplemental Compensation Plan ("DSC Plan") for all VSE corporate officers, including NEOs. The objective of the DSC Plan is to compensate executives for their contribution to VSE's profitability. The DSC Plan provides, at the Board's discretion, for a bonus pool to be created through an annual contribution to the plan not to exceed 12% of VSE's consolidated net income for the year. Each officer's allocation from the annual contribution bears the same percentage of the annual contribution as that officer's salary bears to total annual officer salaries.

The DSC Plan was amended in 2008 to comply with the nonqualified deferred compensation provisions of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"). Benefits are payable to participants on retirement or resignation, subject to a vesting schedule, two-year non-competition agreement and other plan provisions, or a change of control of VSE occurs as described in the section below entitled "Employment Contracts and Severance Agreements". The Board believes the vesting schedule and completion of the non-competition agreement prior to receiving a distribution create an additional benefit of encouraging executive retention.

On December 17, 2009, the Board approved an annual contribution of 8% of VSE's consolidated net income to constitute the bonus pool for Fiscal 2010. Eight percent of VSE's Fiscal 2010 net income is \$1.9 million, which amount was authorized on December 8, 2010 and allocated to 34 participant accounts, including about \$466,000 allocated to NEOs' accounts. Specific amounts contributed to the DSC Plan on behalf of the NEOs are included in the

Summary Compensation Table under the heading “All Other Compensation.”

Subsequent Committee Actions: On December 8, 2010, the Committee recommended and the Board approved an annual contribution of 8% of VSE’s consolidated net income for VSE’s fiscal year ending December 31, 2011 (“Fiscal 2011”) to constitute the bonus pool for Fiscal 2011.

Restricted Stock

The Committee believes that compensating executives with restricted VSE Stock fosters a long-term focus on the Company’s operational and financial performance and provides our executives with a means to establish an equity stake in the Company that will, in turn, align their interests with those of our stockholders. In addition, the vesting provisions and other restrictions on sale of the equity awards encourage executive retention.

Under the Restricted Stock Plan, a dollar-denominated award equal to a percentage of a participant’s base salary can be earned based on the Company’s level of achievement with respect to return on beginning stockholders’ equity for the prior fiscal year. The awards range from 2.5% of base salary for a 12% return on equity to 60% of base salary (70% of base salary in respect of the CEO) for a return on equity of 25% or higher.

For Fiscal 2010, VSE’s return on beginning stockholders’ equity was approximately 23% compared to the maximum target of 25%. The CEO was awarded restricted Stock equal to 58% of his base salary compared to the maximum target of 70% of his base salary for the year subject to vesting and other restrictions, as reported in the below section entitled “Compensation of Chief Executive Officer”. NEOs other than the CEO were awarded restricted stock under the Restricted Stock Plan equal to 50% of their base salary for the year compared to the maximum target of 60%, subject to vesting and other restrictions. Specific amounts paid to the NEOs for 2010 under the Restricted Stock Plan are reported in the Summary Compensation Table below under the heading “Stock Awards.” The following table displays restricted stock awards based on ROE performance.

Restricted Stock – Compensation Table:

Compensation Opportunity Table

Return on Equity	% of Base Salary NEOs other than CEO	% Base Salary-CEO
25% & higher	60%	70%
24%	55%	64%
23%	50%	58%
22%	45%	53%
21%	40%	47%
20%	35%	41%
19%	30%	30%
18%	25%	25%
17%	20%	20%
16%	15%	15%
15%	10%	10%
14%	7.5%	7.5%
13%	5.0%	5.0%
12%	2.5%	2.5%
Below 12%	0%	0%

Our proposed five-year extension of the Restricted Stock Plan discussed below under Proposal 3 was approved by the Board on March 2, 2011, subject to the approval of our stockholders at the Annual Meeting as required by applicable NASDAQ rules. If the extension of and other amendments to the Restricted Stock Plan are not approved, employees and non-employee directors will not be eligible to receive awards of restricted Stock or restricted Stock units under the Plan.

In December 2005, the Board determined that restricted stock is a more appropriate and effective form of equity-based compensation than stock options and decided to discontinue awarding options under our 2004 Option Plan that was approved by stockholders in 2004, until and unless the Board approves otherwise. The primary reason for the Board's suspension of option awards under the 2004 Option Plan was the potential impact on VSE's results of operations from the application of recent accounting pronouncements to share-based payments to employees, including stock option awards. The Board believes that the potential impact on VSE's results of operations due to the issuance of restricted Stock and restricted Stock units under the Restricted Stock Plan should be less than the potential impact of issuing options under the 2004 Option Plan.

Our Restricted Stock Plan was approved by our Board and stockholders in December 2006, to replace the equity-based compensation provided under the 2004 Option Plan. The Board did not discontinue the issuance of VSE Stock to non-employee directors under the 2004 Directors Stock Plan, which as of March 20, 2006, had 46,389 shares of VSE Stock available for issuance thereunder.

The awards are subject to a two-year vesting schedule: one-third of the award vests after completion of our annual financial audit and one-third on each of the next two anniversaries of such initial vesting date, subject to continued employment with the Company. As each third of the dollar-denominated award vests, the award is converted into restricted VSE Stock based on the fair market value (closing market price) of VSE Stock at the date of conversion. The restricted stock is subject to a two-year holding period and to other restrictions on sale.

Awards made under the Restricted Stock Plan are subject to Committee authorization based on audited financial results, including total compensation costs, competitiveness of total executive compensation and other factors determined by the Committee and Board. The Committee may, in its sole discretion, reduce or totally eliminate an award to the extent it determines that such reduction or elimination is appropriate under facts and circumstances the Committee deems relevant.

Other Compensation

VSE executive officers, including NEOs, are eligible to participate in the VSE Employee 401(k) Plan, which is an Internal Revenue Service qualified plan available to all eligible employees.

During Fiscal 2010, VSE paid a 401(k) matching contribution equal to 100% of the employee deferral on the first 3% of the employee pay deferred and 50% of the employee deferral on the next 2% of the employee pay deferred, with all such contributions fully vested when made.

Specific amounts contributed to the VSE 401(k) Plan on behalf of the NEOs are included in the Summary Compensation Table under the heading "All Other Compensation."

VSE does not provide any of its executives, including the NEOs, with perquisites or other personal benefits having a total annual value in excess of \$10,000. The Committee periodically reviews the levels of perquisites and other personal benefits provided to the NEOs.

COMPENSATION OF CEO

Mr. Gauthier, our CEO, assumed the responsibilities of CEO, President, and Chief Operating Officer in April 2008, and became a Board member in April 2009. His activities include leadership in developing the Company's strategies, overseeing all of the Company's major business and staff units, and guiding and developing VSE's senior management. During 2010, each of the other NEOs reported directly to Mr. Gauthier. Our Board and the Committee recognize that the Company's performance is the direct result of the CEO's leadership.

Pay Awarded for 2010

On December 17, 2009, based on Mr. Gauthier's management of the Company, and in light of the compensation decision making processes and policies described above, the Committee and the Board increased Mr. Gauthier's base salary to \$500,000. On December 8, 2010, the Committee and the Board awarded Mr. Gauthier an annual incentive bonus for 2010 of up to \$500,000, which would be approximately 33% of his overall compensation target. Based on the actual 2010 ROE, the amount paid was \$400,009. On December 8, 2010, the Committee recommended and the Board approved an award to Mr. Gauthier of restricted Stock in the amount up to 70% of his base salary. Based on the actual 2010 ROE, the awarded amount was 58% of his salary. Specific amounts awarded to Mr. Gauthier are listed in the Summary Compensation Table below.

Pay Approved for 2010

On December 8, 2010, the Committee recommended and the Board approved the following compensation for Fiscal 2011 for Mr. Gauthier: (a) \$515,000 in base salary, (b) participation in the DSC Plan (subject to an aggregate annual contribution by VSE not to exceed 12% of its consolidated net income for the Fiscal 2011 for all participants in the plan), (c) a participation in the Bonus Plan of up to 100% of Mr. Gauthier's base salary for Fiscal 2011 (or a maximum bonus of \$515,000), and (d) an award under the Restricted Stock Plan of shares of restricted Stock in an amount of up to 70% of his base salary for Fiscal 2011 (or a maximum award of \$360,500).

2008 One-Time Incentive Bonus and Grant of Stock

On April 21, 2008, as an incentive to become our CEO, President and Chief Operating Officer, Mr. Gauthier received a one-time cash bonus of \$25,000 and a grant of 5,831 shares of VSE Stock that vested and were issued or will vest and be issued, at the April 21, 2008 closing price of \$34.30 per share, as follows:

- 25% of the shares vested and were issued to Mr. Gauthier on each of April 28, 2009 and April 28, 2010; and
- 50% of the shares will vest and be issued to Mr. Gauthier on April 28, 2011.

The yearly vesting of this award of this incentive bonus was and is subject to Mr. Gauthier's employment not having been terminated. The award of a total of 5,831 shares of VSE Stock at the April 21, 2008, closing price of \$34.30 represented an award of approximately \$200,000.

OTHER COMPENSATION POLICIES

Employment Contracts and Severance Agreements

CEO

Mr. Gauthier is employed under an employment agreement for a term ending on April 28, 2015.

Mr. Gauthier's employment may be terminated by the Company for willful and gross misconduct, and his employment will also be terminated in the case of death or disability. If Mr. Gauthier's employment is terminated because of death or disability, his beneficiary or he, as the case may be, will be paid his annual base salary then in effect for one full year from the date of death or disability.

If Mr. Gauthier's employment is terminated by the Company without cause before April 28, 2015, Mr. Gauthier will be entitled to a lump sum severance compensation payment equal to the lesser of two times his annual base salary then in effect or such amount as would not trigger the application of Section 280G of the Internal Revenue Code of 1986, as amended (the "280G Limitation"). If a change of control of VSE, as defined, occurs, Mr. Gauthier may terminate his employment agreement for good reason, as defined, on 30 days' notice. If Mr. Gauthier or VSE terminates the employment agreement for good reason within 365 days after a change of control of VSE occurs, Mr. Gauthier will be entitled to the lesser of three times his annual base salary then in effect or the 280G Limitation.

Executive Vice President, Strategic Planning and Business Initiatives

As part of VSE's acquisition of ICRC in June 4, 2007, ICRC's chief executive officer, James E. Lexo and VSE entered into an employment agreement under which Mr. Lexo served as an executive vice president for strategic planning and business initiatives and ICRC's chief executive officer. The initial term of the employment agreement expired on December 31, 2008, and the current one-year term is subject to automatic extensions for successive one-year periods unless notice to terminate is given by VSE or Mr. Lexo at least 60 days prior to the expiration of the then current term. The employment agreement also provides Mr. Lexo with the termination without cause and change of control benefits providing for a lump sum payment equal to his then base salary. On December 31, 2009, Mr. Lexo relinquished his role as chief executive officer of ICRC and assumed the additional role of VSE's chief administrative officer.

Other NEOs

The Company has entered into employment and transition agreements with each of the NEOs other than Messrs. Gauthier and Lexo. These agreements are designed to promote stability and continuity of senior management. Information regarding applicable payments under these agreements for the NEOs is also summarized in the Executive Compensation section below under the caption “Potential Payments on Termination or Change of Control.”

Payments Made On Termination

On termination of employment with VSE or any of our subsidiaries, a NEO is entitled to receive amounts earned during his term of employment. Such amounts include:

- salary through date of termination
- unused vacation pay

- reimbursement for company business and travel expenses.

The NEO also retains a vested interest in and is entitled to receive payment in accordance with respective plan documents and other applicable procedures, restrictions (such as termination-for-cause), and expiration dates:

- 401(k) account
- DSC Plan account
- Restricted Stock

The NEO is also entitled to continue participation in our group health plans for a period of 18 months (COBRA continuation coverage) following termination on payment of 102% of the monthly premium charged to us for such coverage. We have no executive-only health benefit plans.

In the event of involuntary termination without cause, a NEO is eligible for up to four months of outplacement assistance services having an estimated value of about \$6,250.

Payments Made On Death or Disability

Pursuant to employment agreements with each NEO, in the event of the death or disability for any period of six consecutive months of a NEO, in addition to the benefits listed under the headings “Payments Made On Termination” and “Payments Made On Retirement” above, the NEO’s designated beneficiary or the NEO, as the case may be, will be paid the NEO’s base salary then in effect for one full year following the date of death or disability.

Payments Made On Change of Control

In addition to VSE’s employment agreement with the CEO, VSE has entered into an employment agreement with each of the other NEOs. Pursuant to these agreements, if a change of control of VSE occurs, the NEO may terminate the employment agreement on 30 days’ notice. If a NEO’s employment is terminated following a change of control, in addition to the benefits listed above under “Payments Made On Termination,” the NEO will receive:

- a lump sum payment of one or two times the NEO’s base salary
- full vesting and payment of the NEO’s DSC Plan account
- full vesting and payment of the NEO’s Restricted Stock Plan benefits

The employment agreements and change of control provisions for each of the NEOs, other than the CEO, are substantially similar. Generally, pursuant to the agreements, a change of control is deemed to have occurred on the occurrence of any of the following events:

- 30% or more of the outstanding VSE Stock is acquired beneficially by one or more persons acting together in concert or otherwise;
- a cash tender or exchange offer is completed for an aggregate of 40% or more of the outstanding VSE Stock;
- Our stockholders approve an agreement to merge, consolidate, liquidate, or sell all or substantially all of our assets, unless after the merger or consolidation, VSE is the surviving corporation and more than 50% of the outstanding VSE Stock is beneficially owned by existing VSE stockholders both before and after the merger or consolidation; or

- two or more directors are elected to the Board without having previously been nominated and approved by the Board members immediately prior to such election.

STOCK RETENTION GUIDELINES

To align the interests of our executive officers with those of our stockholders, the Committee recommended and the Board approved stock retention guidelines for directors and Restricted Stock Plan participants. Beyond the normal vesting schedule and two year Stock sales restriction period, it is the Board's sense that the guidelines for restricted Stock retention be phased in over time from the initiation of the retention guidelines proposed herein. It is also the Board's intent that these guidelines be subject to annual Board review and, under certain circumstances, be subject to Board waiver. The recommended guidelines for the retention of restricted Stock are as follows:

Directors: by the end of 2013, each current Director will be encouraged to retain Stock of market value equivalent to five years of the Director's cash portion of his or her annual retainer, excluding meeting fees. Any Director appointed after the date of these guidelines will be expected to retain at least as much Stock as the Director's earned cumulative cash retainer until such time the market value of his or her Stock is equal to at least five years of the Director's cash portion of the retainer.

Management Team:

By the end of 2015:

CEO: the CEO is encouraged to retain Stock of market value equal to five years of the CEO's current base salary.

Other NEOs: Each of the other four NEOs is encouraged to retain Stock with a market value equal to three years of the NEO's current base salary.

Corporate Officers other than NEOs: Each of these officers is encouraged to retain Stock with a market value equal to two years of his or her current base salary.

Other Restricted Stock Plan participants: Each of these officers is encouraged to retain Stock with a market value equal to one year of his or her current base salary.

While both directors and officers are encouraged to maintain and increase their VSE Stock positions, these guidelines are not intended for directors or officers to be obligated to purchase Stock on the open market to rebalance their holdings that may fall below the suggested guidelines referenced above as a result of unusual swings in the market value of VSE Stock during any particular period.

New directors and officers will be encouraged to retain their allocated Stock to achieve over time the suggested holding thresholds referenced above, but they will not be required to purchase Stock on the open market to achieve such thresholds.

Tax Deductibility

The Committee reviews and considers the deductibility of executive compensation under Section 162(m) which provides that companies may not deduct compensation of more than \$1,000,000 that is paid to certain individuals. We believe that compensation paid under our incentive plans is generally fully deductible for federal income tax purposes. However, in certain situations, the Committee may approve compensation that will not meet these requirements to ensure competitive levels of total compensation for its executive officers. For 2008, 2009, and 2010, we believe that all compensation paid to the NEOs is deductible for federal income tax purposes, except for deferred supplemental compensation contributions that may not be deducted until distributed in accordance with Internal Revenue Service regulations.

COMPENSATION COMMITTEE REPORT

The Compensation Committee has reviewed the preceding Compensation Discussion and Analysis and has discussed its contents with VSE management. Based on the review and discussions, the Committee has recommended to the Board that this Compensation Discussion and Analysis be included in the Proxy Statement.

Edgar Filing: VSE CORP - Form DEF 14A

Compensation Committee: Jimmy D. Ross,
Chairman
Ralph E. Eberhart
Clifford M. Kendall
Calvin S. Koonce

EXECUTIVE COMPENSATION

Summary Compensation Table

The table below summarizes the total compensation paid or earned by each of the NEOs in each of the last three fiscal years.

Name and principal position	Year	Salary (\$)	Bonus (\$)	Stock awards (\$)	Option awards (\$)	Non-equity incentive plan compensation (\$)	Change in pension value and non-qualified deferred compensation earnings (\$)	All other compensation (\$)	Total (\$)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Maurice A. Gauthier	2010	500,000	--	291,673	--	400,009	--	174,295	1,365,977
CEO, President and Chief Operating Officer	2009	415,000	--	249,001	--	415,000	--	157,566	1,236,567
(4)	2008	284,000	--	368,800	--	284,000	--	109,955	1,046,755
Thomas R. Loftus	2010	260,000	--	130,000	--	208,000	--	95,009	693,009
Executive Vice President and Chief Financial Officer	2009	225,000	--	135,008	--	225,000	--	86,558	671,566
	2008	197,000	--	118,200	--	197,000	--	60,194	572,394
Thomas G. Dacus	2010	244,420	--	122,210	--	183,318	--	90,171	640,119
Executive Vice President and President, Federal Group	2009	235,000	--	141,001	--	235,000	--	90,348	701,349
	2008	221,000	--	132,600	--	221,000	--	67,005	641,605
Thomas M. Kiernan	2010	228,696	--	114,348	--	182,957	--	83,591	609,592
Vice President, General Counsel and Secretary	2009	210,018	--	126,011	--	136,511	--	83,029	555,569
James W. Lexo	2010	225,000	--	112,507	--	180,012	--	81,526	599,045
Executive Vice President, Strategic Planning and Business	2009	225,000	--	135,008	--	225,000	--	86,076	671,084
	2008	194,000	--	116,400	--	194,000	--	58,828	563,228

Initiatives (5)

Notes to Summary Compensation Table

1. The amounts reported in column (e) represent annual performance-based awards under VSE's 2006 Restricted Stock Plan ("RSP"). The amounts in this column reflect the aggregate grant date fair values of RSP awards computed in accordance with applicable accounting guidance. The RSP awards are subject to a two-year vesting schedule: one-third of the award vests after completion of our annual financial audit and one-third on each of the next two anniversaries of such initial vesting date, subject to continued employment with the Company. Restricted Stock awarded under the RSP is further subject to a two-year holding period and other restrictions on sale. See discussion above under the caption "Executive Compensation Components—Long-Term Incentive Compensation." With respect to Mr. Gauthier, the amounts reported in column (e) also include restricted Stock awards of \$200,000 in 2008 as discussed above—please see "Compensation of CEO."
2. The amounts reported in column (g) represent cash paid to the NEOs under VSE's performance bonus plan. This plan is discussed above under the caption "Executive Compensation Components—Performance-Based Monetary Incentive Compensation."

3. The amounts reported in column (i) represent 401(k) plan matching contributions allocated to each of the NEOs' accounts pursuant to VSE's Employee 401(k) Plan discussed above under the caption "Executive Compensation Components—Other Compensation." Also reported in column (i) is the amount allocated to each NEO's account in VSE's Deferred Compensation Plan. See discussion above under the caption "Executive Compensation Components—Deferred Supplemental Compensation." With respect to Mr. Gauthier, the amount reported in column (i) also includes \$25,000 paid in 2008 as an incentive to enter into employment with VSE as discussed in the "Compensation of CEO" section above.
4. Mr. Gauthier commenced his employment as CEO, President and Chief Operating Officer effective April 28, 2008, in accordance with his employment agreement as discussed above. The compensation reported in the Summary Compensation Table for Mr. Gauthier for 2008 covers the period of April 28, 2008 through December 31, 2008.
5. Mr. Lexo joined VSE on June 4, 2007, in accordance with his employment agreement. The compensation reported in the Summary Compensation Table for Mr. Lexo for 2007 covers the period of June 4, 2007 through December 31, 2007. See caption above "Election of Directors—Certain Relationships and Related Transactions" for information on additional purchase price amounts that may be payable to a trust under which Mr. Lexo is the sole trustee and he and his adult children are the beneficiaries in connection with VSE's acquisition of ICRC in 2007.

Narrative to Summary Compensation Table See "Compensation Discussion and Analysis" above for a description of the compensation plans pursuant to which the amounts listed in the "Summary Compensation Table" were paid or awarded and the criteria for such payments and awards.

Grants of Plan-Based Awards in Fiscal Year 2010 Table

The table below reports all grants of plan-based awards to each of the NEOs for the year ended December 31, 2010.

Name	Grant Date	Estimated future payouts under non-equity incentive plan awards			Estimated future payouts under equity incentive plan awards(1)			All other stock awards: number of shares or units (#)	All other awards: number of securities under-lying options (#)	Exercise or base price of option awards (\$)	Grant date fair value of stock and option awards (\$)
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (\$)	Target (\$)	Maximum (\$)				
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)(3)	(i)	(j)	(k)	(l)
Maurice A. Gauthier (2)	01/14/11	--	--	--	12,875	51,501	360,506	--	--	--	291,673
Thomas R. Loftus	01/14/11	--	--	--	6,695	26,780	160,680	--	--	--	130,000
Thomas G. Dacus	01/14/11	--	--	--	6,111	24,442	146,652	--	--	--	122,210
Thomas M. Kiernan	01/14/11	--	--	--	5,889	23,566	141,334	--	--	--	114,348
James W. Lexo	01/14/11	--	--	--	5,625	22,500	135,000	--	--	--	112,507

Notes to Grants of Plan-Based Awards Table

1. The amounts reported above represent potential payments to the NEOs under the RSP, which is discussed above under the caption “Executive Compensation Components—Long-Term Incentive Compensation.”
2. The amount reported above represents potential payments to Mr. Gauthier under the RSP. The amount excludes an award of 2,915 shares of VSE Stock on April 22, 2008, pursuant to Mr. Gauthier’ employment agreement, with subsequent vesting and issue dates, subject to Mr. Gauthier's employment not having been terminated. The total of 5,831 shares of VSE Stock awarded at the April 21, 2008, closing price of \$34.30 represented an award of approximately \$200,000, of which 1,458 shares vested on April 28, 2009 and on April 28, 2010).
3. The amounts in column (h) represent a maximum payout equivalent to 60% of the annual base salary of each NEO, except for Mr. Gauthier’s maximum payout equivalent to 70% of his annual base salary.

Narrative to Grants of Plan-Based Awards Table

See “Compensation Discussion and Analysis” above for a description of the RSP pursuant to which the amounts listed in the “Grants of Plan-Based Awards in Fiscal Year 2010 ” were paid or awarded and the criteria for such payments and awards.

Outstanding Equity Awards at Fiscal Year End Table

The table below reports all outstanding equity awards for each of the NEOs for fiscal year ended December 31, 2010.

Name	Option awards (1)					Stock awards (2)			
	Number of securities underlying unexercised options (#) exercisable	Number of securities underlying unexercised options (#) unexercisable	Equity incentive plan awards: number of securities underlying unexercised options (#)	Option exercise price (\$)	Option expiration date	Number of shares or units of stock that have not vested (#)	Market value of stock that have not vested (\$)	Equity incentive plan awards: number of shares, units or rights that have not vested (#)	Equity incentive plan awards: market or payout value of unearned shares, units or rights that have not vested (\$)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Maurice A. Gauthier	--	--	--	--	--	--	--	--	513,900
Thomas R. Loftus	--	--	--	--	--	--	--	--	259,400
Thomas G. Dacus	--	--	--	--	--	--	--	--	260,400
Thomas M. Kiernan	--	--	--	--	--	--	--	--	198,400
James W. Lexo	--	--	--	--	--	--	--	--	241,300

Notes to Outstanding Equity Awards Table

1. Options that were granted to the NEOs under VSE's 2004 Stock Option Plan had been exercised or expired on or before December 31, 2009. Therefore, no data appears in the Table.

2. As discussed above, the RSP provides for dollar-denominated awards that are subject to a two-year vesting schedule: one-third of the award vests after completion of VSE's annual financial audit and one-third on each of the next two anniversaries of such initial vesting date. As each third of the dollar-denominated award vests, the award is converted into restricted VSE Stock based on the fair market value (closing market price) of VSE Stock at the date of conversion. Accordingly, the number of shares of restricted Stock that have not vested is not currently determinable (see discussion above under the caption "Executive Compensation Components—Long-Term Incentive Compensation"). The aggregate dollar-denominated value of all such awards that have not vested as of December 31, 2010, is reported in column (j) of the table.

Narrative to Outstanding Equity Awards Table

On December 30, 2005, the Board discontinued awarding options to purchase VSE Stock. Options outstanding as of December 30, 2005, were not affected by this Board action. See discussion above under the caption "Executive Compensation Components—Long-Term Incentive Compensation."

Option Exercises and Stock Vested During Fiscal Year 2010 Table

The following table reports stock options exercised and stock awards vested by the NEOs during the fiscal year ended December 31, 2010.

Name (a)	Option awards		Stock awards	
	Number of shares acquired on exercise (#) (b)	Value realized on exercise (\$) (1) (c)	Number of shares acquired on vesting (#) (2) (d)	Value realized on vesting (\$) (e)
Maurice A. Gauthier	--	--	2,186	94,428
Thomas R. Loftus	--	--	1,896	81,904
Thomas G. Dacus	--	--	2,085	90,039
Thomas M. Kiernan	--	--	660	28,478
James W. Lexo	--	--	1,315	56,818

Notes to Options Exercises and Stock Vested Table

1. No stock options were exercised by the NEOs during 2010. VSE has not granted any stock options to its employees, including officers, since December 31, 2005 and as of December 31, 2009 all VSE stock options had been exercised or had expired.

2. The number of shares acquired on vesting reported in column (d) excludes the shares withheld for the minimum amount of taxes required to be withheld by the Company under applicable law, as follows: Mr. Gauthier—1,039 shares, Mr. Loftus—901 shares, Mr. Dacus—990 shares, Mr. Kiernan—313 shares, Mr. Lexo—625 shares. The value realized on vesting reported in column (e) represents the number of vested shares acquired valued at the closing market price for VSE Stock (\$43.19 per share) on the vesting date (March 2, 2010), excluding the shares withheld for the minimum amount of taxes required to be withheld by the Company under applicable law.

Pension Benefits

VSE does not provide pension arrangements or post-retirement health coverage for executives and employees. VSE and Energetics sponsor participation in the VSE Employee 401(k) Plan, Energetics sponsors a profit sharing plan, ICRC sponsors a 401(k) Plan, and G&B sponsors a 401(k) Plan; all of the plans are IRS-qualified, defined contribution, money-purchase plans. VSE also has a nonqualified deferred compensation plan as discussed below. Energetics, ICRC and G&B are wholly owned subsidiaries of VSE.

Nonqualified Deferred Compensation Table

The following table provides information related to potential benefits payable to each NEO under VSE's Deferred Supplemental Compensation Plan as of and for the year ended December 31, 2010.

Name (1)	Executive contributions in last FY (\$)	Registrant contributions in last FY (2) (\$)	Aggregate earnings in last FY (\$)	Aggregate withdrawals/distributions (\$)	Aggregate balance at last FYE (\$)
(a)	(b)	(c)	(d)	(e)	(f)
Maurice A. Gauthier	--	159,778	34,021	--	437,069
Thomas R. Loftus	--	83,083	47,864	--	470,464
Thomas G. Dacus	--	78,105	20,028	--	400,378
Thomas M. Kiernan	--	73,080	9,083	--	162,983
James W. Lexo	--	71,903	15,732	--	261,775

Notes to Nonqualified Deferred Compensation Table

1. Of the NEOs in column (a) Mr. Loftus has been a participant in the plan or predecessor plans for more than 20 years, Mr. Dacus, Mr. Lexo, Mr. Gauthier and Mr. Kiernan have been participants for nine years, four years, three years, and two years, respectively.
2. Amounts reported in column (c) are reported in the Summary Compensation Table, column (i). Aggregate earnings (losses) reported in column (d) are not reported in the Summary Compensation Table.
3. Amounts reported in column (f) include aggregate contributions that were reported as compensation to the NEOs in the Summary Compensation Table for previous years and aggregate earnings that were not reported as compensation. Aggregate contributions previously reported in the Summary Compensation Tables for the years 2000 through 2010, the period for which plan records identifying contributions to individual participants are available, and aggregate earnings (losses) for the same period, were:

Aggregate Company Contributions and Earnings, 2000-2010

Name	Aggregate Company Contributions (\$)	Aggregate Earnings (\$)
Maurice A. Gauthier	383,587	53,482

Thomas R. Loftus	351,708	72,148
Thomas G. Dacus	362,281	38,097
Thomas M. Kiernan	152,669	10,314
James W. Lexo	233,013	28,762

Narrative to Nonqualified Deferred Compensation Table

We have a non-qualified, non-contributory Deferred Supplemental Compensation Plan (“DSC Plan”) for all of our officers which was adopted by the Board in 1994. The DSC Plan provides, at the Board’s discretion, for an annual contribution to the plan not to exceed 12% of our consolidated net income for the year. Each officer’s allocation from the annual contribution bears the same percentage to the annual contribution as that officer’s salary bears to total annual officer salaries. For Fiscal 2010 an annual contribution of 8% of our consolidated net income (approximately \$1.9 million) was authorized and allocated to 34 participant accounts, including about \$466,000 allocated to the NEOs’ accounts.

Benefits under the plan are payable to the participant on retirement or resignation, subject to a vesting schedule, non-competition agreement, and other plan provisions, or in the event of a change of control of VSE. Our contributions to the DSC Plan are irrevocable and shall be used to pay benefits under the plan, subject to the claims of our general creditors.

Our contributions to the DSC Plan are deposited in a plan trust. We invest the DSC Plan trust assets in an account managed by BNY Mellon Wealth Management. The managed account contains investments in a diversified portfolio of individual company equity securities and in several mutual funds, including Class M shares of the BNY Mellon Bond Fund, BNY Mellon Small Cap Stock Fund (MPSSX), BNY Mellon Mid Cap Stock Fund (MPMCX), BNY Mellon International Fund (MPITX), and BNY Mellon Emerging Market Fund (MEMKX), and a Money Market Demand Account.

Potential Payments on Termination or Change of Control Table

The following table sets forth potential payments to our NEOs on termination of employment or a change of control of VSE. The amounts shown assume that such termination or termination on change of control was effective as of December 31, 2010, and are estimates of the amounts that would be paid to the NEOs on their termination. The actual amounts to be paid can only be determined at the time of such NEO's separation from VSE or any of our subsidiaries.

Potential Payments on Termination or Change of Control Table

Name	Benefit	Termination	Termination
		Without Cause (\$)	on Change of Control (\$)
Maurice A. Gauthier	Salary	1,000,000	1,500,000
	DSC Plan	437,069	437,069
	Restricted Stock	613,900	613,900
Thomas R. Loftus	Salary	260,000	260,000
	DSC Plan	470,464	470,464
	Restricted Stock	259,405	259,405
Thomas G. Dacus	Salary	244,420	244,420
	DSC Plan	400,378	400,378
	Restricted Stock	260,411	260,411
Thomas M. Kiernan	Salary	228,696	228,696
	DSC Plan	162,983	162,983
	Restricted Stock	198,355	198,355
James W. Lexo	Salary	225,000	225,000

DSC Plan	261,775	261,775
Restricted Stock	241,313	241,313

Notes to Potential Payments on Termination or Change of Control Table. The table excludes information with respect to contracts, agreements, plans, or arrangements to the extent they do not discriminate in scope, terms, or operation in favor of executive officers and that are available generally to all salaried employees—for example, qualified benefit plan distributions and payment for unused vacation pay.

Narrative to Potential Payments on Termination or Change of Control Table. See “Compensation Discussion and Analysis” above for a description of the potential payments awarded upon termination or change of control and the criteria for such payments.

Proposal No. 3

APPROVAL OF AMENDMENT OF OUR 2006 RESTRICTED STOCK PLAN

We are requesting that stockholders vote in favor of amending our 2006 Restricted Stock Plan (the “Plan”), which was approved by the Board on March 2, 2011, upon recommendation of the Compensation Committee (for purposes of this Proposal, the “Committee”), subject to the approval of our stockholders at the Annual Meeting. If approved by stockholders, the amendments will (a) extend the term during which awards can be made under the Plan from May 2, 2011 to May 3, 2016; (b) provide that a maximum of 250,000 shares of VSE Stock can be issued under the Plan, subject to adjustments for recapitalizations and certain other corporate transactions; (c) provide that any restricted stock units issued under the Plan will be paid out in full as soon as practicable after their vesting date and, in all events, no later than two and one-half months after the end of the calendar year in which the vesting date occurs, so that such restricted stock units are exempt from Section 409A of the Internal Revenue Code, as amended (the “Code”) by qualifying for the “short-term deferral” exemption described in Treasury Regulation Section 1.409A-1(b)(4); and (d) eliminate the Committee’s authority to waive the vesting date or any restrictions imposed on an award under the Plan in the event of a grantee’s retirement. If the amendments are not approved by stockholders, no more awards of restricted stock or restricted stock units will be granted under the Plan.

If the Plan is approved by stockholders, the Company will be able to continue, as discussed below, granting to its employees, including NEOs, and non-employee directors awards of restricted VSE Stock and restricted stock units that entitle the grantees to receive VSE Stock.

The purpose of the Plan is to promote VSE’s ability to recruit and retain employees and non-employee directors and enhance the Company’s growth and profitability by providing the incentive of long-term awards for continued employment and directorship and the attainment of performance objectives. In 2005 the Board determined that restricted stock is a more effective form of equity-based compensation than stock options and decided to discontinue awarding stock options under the Company option plan, until and unless the Board approves otherwise. As with the Company’s former use of stock options, the use of restricted stock or restricted stock units under the Plan is intended to promote a long-term focus on our performance and to provide our employees and non-employee directors with a means to have an equity stake in VSE that will, in turn, align their interest with those of our stockholders.

Description of Plan

The following is a summary of the material features of the Plan, as it will be amended if the stockholders approve the amendments. The following summary does not purport to be complete and is qualified in its entirety by reference to the terms and conditions of the Plan, which, as proposed to be amended is attached to this Proxy Statement as Appendix A.

Types of Awards; Eligibility. Awards of restricted stock and restricted stock units may be granted under the Plan (“Awards”). Awards of restricted stock are shares of VSE Stock that are awarded subject to such restrictions on transfer and such conditions of potential forfeiture as the Committee or Board may establish. Awards of restricted stock units are units valued by reference to the VSE Stock that a participant is entitled to receive, upon the settlement of the unit, after satisfaction of such conditions of potential forfeiture as the Committee or the Board may establish, one share of VSE Stock for each unit. If the amendments to the Plan are approved by stockholders, VSE employees, including NEOs and employees of VSE subsidiaries, and non-employee directors will be eligible to receive Awards under the Plan. As of March 25, 2011, potentially eligible 2011 Plan participants included approximately 2,700 employees, of whom approximately 50 employees are expected to participate, and seven non-employee directors.

Shares Subject to the Plan. As of the date of this Proxy Statement, 118,557 shares of Stock have been issued under the Plan since May 2006 and 131,443 shares remain available for issuance prior to May 2, 2011. If the Plan is amended, no more than 250,000 shares, including the shares currently available for issuance may be issued pursuant to Awards under the Plan, subject to adjustments for recapitalizations and certain other corporate transactions. Shares issued under the Plan may be either treasury shares or shares originally issued for this purpose. Rights to receive shares forfeited pursuant to the terms of an Award will be available again for grant under the Plan.

Term of the Plan. No Awards may be granted under the Plan after May 3, 2016 (the fifth anniversary of the date on which the Plan as amended is approved by stockholders).

Administration. The Plan will be administered by the Committee. The Board, however, will be responsible for administering any Awards granted to non-employee directors.

Terms of Awards. The terms and conditions of each Award of restricted stock or restricted stock units granted to an employee or non-employee director will be determined under the Plan. The Committee will determine the terms and conditions of each Award to an employee, including the period which generally will extend for at least six months from the date of grant, during which the recipient of an Award (the "Grantee") cannot sell, transfer, pledge or assign Awards (the "Restriction"). The Committee will determine the rights that Grantees have with respect to Awards. Upon the grant of an Award of restricted stock, the Company will certificate the shares, but will not deliver such shares to the Grantee unless and until the Restrictions associated with the shares have been satisfied. When all Restrictions applicable to an Award lapse, the Company will deliver to the Grantee a certificate for the number of shares of VSE Stock without any legend or restriction (except as necessary to comply with applicable federal and state securities laws).

Currently, the Board has not made any determination regarding the granting of Awards to non-employee directors. Each Award to a non-employee director of restricted stock will be fully vested on the grant date. Awards of restricted stock to a non-employee director will also contain other terms and conditions as determined by the Board.

Termination of Employment. , If any Grantee's employment is terminated, all of his or her Awards that are still subject to Restriction will be forfeited by the Grantee. With respect to any Award, the Committee may, in its sole discretion, waive Restrictions in whole or in part, other than in the event of a Grantee's retirement.

Withholding. Tax liabilities incurred in connection with the grant of an Award or its vesting or lapse of Restrictions or settlement will be satisfied by our withholding a portion of the shares subject to the Award that have a fair market value approximately equal to the minimum amount of taxes required to be withheld by VSE under applicable law. Subject to certain conditions specified in the Plan, a Grantee may elect to have taxes withheld in excess of the minimum amount required to be withheld or may satisfy his or her tax withholding in cash.

Adjustments. The aggregate number of shares of VSE Stock available for issuance under the Plan, the class of shares as to which awards may be granted and the number of shares covered by each outstanding Award are subject to adjustment in the event of a stock dividend, recapitalization or certain other corporate transactions.

Terminating Events. In the event of our liquidation or a transaction or series of transactions in which an unaffiliated third party acquires VSE Stock ownership such that this person has the ability to direct the Company's management, as determined by the Board in its sole discretion, the Committee may provide that upon consummation of such an event, any outstanding Awards will vest in full or in part or that all restricted stock or restricted stock units that have been previously deferred be transferred to the recipient.

Amendment or Termination. The Plan may be amended by the Board or the Committee and may be terminated by the Board at any time. No Award will be materially and adversely affected by any amendment or termination without the written consent of the recipient of the Award.

Section 16(b). Approval of the Plan by the stockholders will exempt the acquisition of VSE Stock pursuant to the Plan by a VSE director or officer from the provisions of Section 16(b) of the Exchange Act. Section 16(b) provides, among other things, that a director or officer who, within a six-month period, purchases and sells (or sells and

purchases) the stock of a corporation that employs him or her is liable to the corporation for the difference between the purchase price and the sale price. Exchange Act Rule 16b-3 provides that the acquisition of stock by a director or officer of a corporation pursuant to an employee stock plan, including a plan such as the Plan, that meets certain requirements (one of which is stockholder approval of the plan) is not subject to Section 16(b).

Restrictions on Resale. The Company intends to register the VSE Stock issuable under the Plan under the Securities Act of 1933, as amended (the "Securities Act"), as soon as practicable after receiving stockholders approval. Certain officers may be deemed to be "affiliates" of VSE as that term is defined under the Securities Act. Stock acquired under the Plan by an affiliate may be reoffered or resold only pursuant to an effective registration statement or pursuant to Rule 144 promulgated under the Securities Act or another exemption from the registration requirements of the Securities Act.

Code Section 162(m). Code Section 162(m) generally limits the allowable deduction for compensation paid to an officer of a publicly held corporation who is the chief executive officer or one of the four most highly compensated officers (other than the chief executive officer) to \$1 million for each taxable year.

Certain types of compensation are exempted from the deduction limit imposed by Code Section 162(m), including payments contingent on the attainment of one or more performance goals if the performance goals are established by a compensation committee of the board of directors that is comprised solely of two or more outside directors and the material terms of the compensation and performance goals are disclosed to and approved by the stockholders of the corporation before payment. In the case of an award of restricted stock or restricted stock units, a payment will satisfy the requirement that compensation be paid on the basis of a pre-established performance goal if the award is made by the compensation committee comprised solely of outside directors, and the plan is approved by the corporation's stockholders.

The Plan was designed to allow the Committee, in its sole discretion, to cause an Award thereunder to qualify for the exemption from the \$1 million aggregate limit on tax-deductible compensation payments under Code Section 162(m). Any Award that is designated to so qualify must include performance criteria that satisfy Code Section 162(m). Any Award intended to qualify as "performance-based compensation" under Code Section 162(m), either will be conditioned on or granted based upon the achievement of one or more of the following performance measures, which shall be set by the Committee no later than 90 days following the commencement of each performance period (or such other time as may be required or permitted by Code Section 162(m): (a) total stockholder return, (b) stock price, (c) operating earnings, (d) net earnings, (e) return on equity or capital, (f) income, (g) level of expenses or (h) growth in revenue. Performance goals may be established on a Company-wide basis or with respect to one or more business units or divisions or subdivisions or subsidiaries. The targeted level or levels of performance (which may include minimum, maximum and target levels of performance) with respect to such performance measures may be established at such levels and in such terms as the Committee may determine, in its discretion. Each Award intended to qualify as "performance-based compensation" will be subject to a \$1 million per Award cap.

Following the completion of each performance period, the Committee will certify in writing whether the applicable performance targets have been achieved and the number of units or shares, if any, earned by a participant for such performance period. In determining the number of units or shares earned by a participant, for a given performance period, subject to any applicable Award agreement, the Committee shall have the right to reduce (but not increase) the amount earned at a given level of performance to take into account additional factors that the Committee may deem relevant to the assessment of individual or corporate performance for the performance period. For Awards that are intended to qualify as "performance based compensation" the Committee has the authority to waive vesting conditions in the case of death, disability or a change of control of the Company, but not under any other circumstances.

New Plan Benefits. Grants of Awards to eligible employees, including NEOs, will be subject to the Committee's discretion and, therefore, are not determinable at this time. The Board has not made any determination for the granting of Awards to non-employee directors.

Federal Income Taxation

The federal and state income tax consequences of restricted stock and restricted stock units are complex and subject to change. The following discussion is only a brief summary of the general U.S. federal income tax consequences of restricted stock and restricted stock units granted under the Plan and does not cover all specific transactions that may arise. A taxpayer's particular situation may be such that the general federal income tax rules described below may not apply. Also, this summary does not cover the state, local or foreign tax consequences of either the award of restricted stock or restricted stock units or the subsequent sale or other transfer of the underlying VSE Stock, or federal or state estate tax, inheritance or death taxes. Therefore, each participant in the Plan is urged to consult with his or her own tax advisor regarding federal, state, local and foreign tax consequences relating to participation in the Plan.

Restricted Stock. Generally, the grant of an award of restricted stock that is subject to restrictions on transfer and a substantial risk of forfeiture is not a taxable event. The recipient of the award will recognize ordinary compensation income in each year in which restrictions on the award lapse and the award vests, in an amount equal to the fair market value of the common stock received. An award of restricted stock that is fully vested on the grant date generally will be taxable to the recipient on such date. A recipient's basis for determining gain or loss on a subsequent disposition of common stock will be the amount the recipient must include in income when the restrictions lapse or when the award was granted, if not subject to restrictions. Any gain or loss recognized on a disposition of the common stock generally will be short-term or long-term capital gain or loss depending on the length of time the recipient holds the shares.

Restricted Stock Units. Generally, the grant of an award of restricted stock units is not a taxable event. The recipient of the award will recognize ordinary compensation income in each year in which the units are settled, in an amount equal to the fair market value of the common stock received. A recipient's basis for determining gain or loss on a subsequent disposition of common stock will be the amount the recipient must include in income when the units vest and are settled. Any gain or loss recognized on a disposition of the common stock generally will be short-term or long-term capital gain or loss depending on the length of time the recipient holds the shares.

Section 83(b) Election. If a recipient of an Award of restricted stock properly makes an election pursuant to Code Section 83(b), he or she will recognize ordinary compensation income equal to the fair market value of the common stock at the time the Award is granted, without taking into account the effect of the restrictions on the Award. The recipient's basis for determining gain or loss on a subsequent disposition of shares will be the amount the recipient so included in income. Any gain or loss recognized on a disposition of common stock that was subject to the Section 83(b) election will be short-term or long-term capital gain or loss, depending on the length of time since the date of the Award. If, however, the recipient forfeits an Award upon a termination of employment prior to the time the restrictions lapse, he or she will generally not be entitled to deduct any loss upon such forfeiture even though the recipient may have been required to include an amount in income by virtue of the Section 83(b) election.

Approval of the Plan, as amended requires the affirmative vote of the holders of a majority of the VSE Stock present or represented and entitled to be cast at the Annual Meeting.

The Board unanimously recommends that stockholders vote "for" approval of the amendments to the VSE Corporation 2006 Restricted Stock Plan.

Proposal No. 4

ADVISORY VOTE ON EXECUTIVE COMPENSATION

Recently enacted federal legislation (amending Section 14A of the Exchange Act) requires that we include in this Proxy Statement a non-binding advisory stockholders vote on our executive compensation as described in this Proxy Statement (commonly referred to as “Say-on-Pay”) and a non-binding stockholders vote to advise on whether the Say-on-Pay vote should occur every one, two or three years. (commonly referred to as “Say When on Pay”)

We encourage stockholders to review the Compensation Discussion and Analysis and the “Executive Compensation” sections of this Proxy Statement. VSE’s consistent value creation over the long term is reinforced by and aligned with the executive compensation program. We believe the program strikes the appropriate balance between utilizing responsible, measured pay practices and effectively incentivizing our executives to dedicate themselves fully to value creation for our stockholders. This balance is evidenced by the following:

- We provide a significant part of executive compensation in performance based incentives, including primarily performance shares. Payouts of performance shares are based on achievement of financial objectives over three years and are capped at 100 percent of the share awards.
- We have annual award and three year payout cycle for performance shares.
- We respond to economic conditions appropriately, such as holding base salaries and bonuses of the NEOs in 2009, reflecting lower year-over-year results.
- We do not provide tax gross-ups to our NEOs

The Board strongly endorses the Company’s executive compensation program and recommends that the stockholders vote in favor of the following resolution:

RESOLVED, that the stockholders approve, on an advisory basis, the compensation of the NEOs as described in this Proxy Statement under “Compensation Discussion and Analysis” and “Executive Compensation,” including the related tabular and narrative disclosure contained in this Proxy Statement.

Because the vote is advisory, it will not be binding upon the Board or the Compensation Committee and neither the Board nor the Compensation Committee will be required to take any action as a result of the outcome of the vote on this proposal. The Compensation Committee will, however, carefully consider the outcome of the vote when considering future executive compensation arrangements.

The Board unanimously recommends a vote “for” the approval of the Company’s compensation of NEOs.

Proposal No. 5

VOTE ON FREQUENCY OF ADVISORY VOTES ON EXECUTIVE COMPENSATION

As mentioned above, recently enacted legislation requires that we include in this Proxy Statement a separate non-binding stockholder vote to advise on whether the Say-on-Pay vote should occur every one, two or three years. You have the option to vote for any one of the three options, or to abstain on the matter.

After careful consideration of this proposal, our Board has determined that an advisory stockholders vote on executive compensation that occurs once every year is the most appropriate alternative for our Company at this time, and therefore our Board recommends an annual stockholders vote for the advisory vote on executive compensation. Also, we welcome communications with our stockholders as frequently as possible to be advised on matters that concern them.

In formulating its recommendation, our Board considered that an annual advisory stockholders vote on executive compensation provides the highest level of communication with our stockholders by allowing them to provide us with their direct input on our NEOs, as disclosed in the proxy statement, every year. Additionally, an annual advisory vote

on executive compensation is consistent with our belief that engagement with our stockholders is a component of our corporate governance and our practice of seeking input from, and engaging in discussions with, our stockholders on corporate governance matters.

In the future we may determine that a less frequent advisory vote is appropriate, either in response to the vote of our stockholders on this proposal or for other reasons.

Stockholders may cast their vote on the preferred voting frequency by choosing the option of one year, two years, three years or abstain from voting when voting on this proposal. The option of one year, two years or three years that receives a majority of votes cast by stockholders will be the frequency for the advisory vote on executive compensation that has been recommended by stockholders. However, because this vote is advisory and not binding on our Board in any way, our Board may decide that it is in the best interests of our stockholders and the Company to hold an advisory vote on executive compensation more or less frequently than the option approved by our stockholders.

The Board unanimously recommends a vote to conduct an advisory stockholders vote on executive compensation every year.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

As of the record date, March 4, 2011, there were 5,235,947 shares of VSE Stock outstanding. The following table sets forth certain information regarding beneficial ownership of VSE Stock as of March 4, 2011, for beneficial owners of more than 5% of VSE Stock, each executive officer, each director nominee, and for all executive officers and directors of the Company as a group.

Name of Beneficial Owner	Shares beneficially owned	Percent of class(a)
Certain Beneficial Owners (at least 5%)		
FMR LLC (a)	674,886	12.9%
BlackRock, Inc. (b)	297,666	5.7%
Non-Employee Directors		
Ralph E. Eberhart	3,800	*
Donald M. Ervine	15,091	*
Clifford M. Kendall	45,314	*
Calvin S. Koonce (c)	856,818	16.4%
James F. Lafond	8,676	*
David M. Osnos	19,900	*
Jimmy D. Ross	7,462	*
Bonnie K. Wachtel	54,476	1%
Executive Officers and Other Director		
Tina B. Bailey	0	*
Thomas G. Dacus (d)	13,787	*
Maurice A. Gauthier (e)	15,319	*
Michael E. Hamerly	7,401	*
Randy W. Hollstein	2,205	*
William J. Jonas	884	*

Edgar Filing: VSE CORP - Form DEF 14A

Thomas M. Kiernan	2,682	*
James W. Lexo, Jr.	6,370	*
Thomas R. Loftus	25,419*	
Denise Manning	0*	
Nancy Margolis	0	*
Carl E. Williams	5,406	*
Crystal R. Williams	2,205	*
Directors and Executive Officers as a Group (22 persons) (f)	1,093,215	20.9%

* Represents less than one percent.

- (a) FMR LLC's mailing address is 82 Devonshire Street, Boston, MA 02109-3605.
- (b) BlackRock, Inc.'s mailing address is 40 East 52nd Street, New York, NY 10022
- (c) Mr. Koonce's mailing address is 6550 Rock Spring Drive, Suite 600, Bethesda, Maryland 20817. The share amount reported for Mr. Koonce does not include 10,000 shares held by spouse.
- (d) The share amount reported for Mr. Dacus does not include 250 shares held by spouse.
- (e) The share amount reported above for Mr. Gauthier does not include 4,373 shares of VSE Stock, with subsequent vesting and issuance dates. Mr. Gauthier was awarded 5,831 shares on April 28, 2008, as an incentive to become our CEO and President. Of the 5,831 shares, 1,458 shares vested and were issued to Mr. Gauthier on each of April 28, 2009 and April 28, 2010 and, subject to Mr. Gauthier's being employed by the Company as of the vesting date, 2,915 shares will vest and be issued to Mr. Gauthier on April 28, 2011.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act, requires VSE officers and directors and persons who own more than 10% of the VSE Stock to file reports of ownership and changes in ownership with the SEC. Such officers, directors and stockholders are required by SEC regulations to furnish us with copies of all such reports that they file. Based solely on a review of copies of reports filed with the SEC and written representations by certain officers and directors, we believe that all of our officers, directors and stockholders subject to the reporting requirements of Section 16(a) filed their reports on a timely basis during 2010.

STOCKHOLDER PROPOSALS

Pursuant to Rule 14a-8 under the Exchange Act, some stockholder proposals may be eligible to be presented at our 2012 Annual Meeting of Stockholders by no later than the close of business on November 23, 2011. These stockholder proposals must be submitted, along with proof of ownership of our stock in accordance with Exchange Act Rule 14a-8(b) (2), to our principal executive offices at 2550 Huntington Avenue, Alexandria, VA 22303-1499 in care of our Corporate Secretary by no later than the close of business on November 23, 2011 to be considered for inclusion in VSE's proxy material relating to such meeting.

In addition, under our By-Laws stockholders may recommend persons to be nominated for election as our directors at the Annual Meeting of Stockholders. To be considered for nomination, such recommendation must be received in writing by our Secretary no later than 90 days before the date which corresponds to the date on which the annual meeting of stockholders was held during the immediate prior year, i.e., February 3, 2012. Such recommendation shall be accompanied by the name of the stockholder proposing the candidate, evidence that stockholder is a beneficial owner of our Stock as of the record date established for the determination of stockholders entitled to notice of, and to vote at, the annual meeting of stockholders, the name of candidate being proposed for nomination, and the candidate's biographical data and qualifications.

OTHER MATTERS

We will bear the costs of the solicitation of proxies for use at the Annual Meeting. In addition to the use of the mails, proxies may be solicited by personal interview, telephone and telegram by our directors, officers and employees. Arrangements will also be made with brokerage houses and other custodians, nominees, and fiduciaries, who are record holders of Stock, for forwarding solicitation material to the beneficial owners of the Stock. We will, on the request of such record holders, pay the reasonable expenses for completing the mailing of such materials to the beneficial owners.

A copy of the VSE's Annual Report on Form 10-K (without exhibits) for the year ended December 31, 2010, will be furnished without charge on written or telephonic request to Thomas M. Kiernan, Vice President and Corporate Secretary, 2550 Huntington Avenue, Alexandria, VA 22303-1499 or call (703) 329-4721. The Form 10-K is also available at www.vsecorp.com

By Order of the Board of Directors
Thomas M. Kiernan, Secretary

APPENDIX A

VSE CORPORATION
2006 RESTRICTED STOCK PLAN, AS AMENDED

1. Purpose

The purpose of the VSE Corporation 2006 Restricted Stock Plan (the “Plan”) is to promote the ability of VSE Corporation, a Delaware corporation, to recruit and retain employees and non-employee directors and enhance the growth and profitability of VSE Corporation by providing the incentive of long-term awards for continued employment and directorship and the attainment of performance objectives. The Board approved and adopted certain amendments to the Plan on March 2, 2011. Such amendments have been incorporated into the Plan, as set forth herein. The Plan, as amended, is subject to the approval of the VSE Corporation’s stockholders, as set forth in Section 13 below.

2. Definitions

- (a) “Affiliate” means, with respect to any Person, any other person that, directly or indirectly, is in control of, is controlled by, or is under common control with, such Person. For purposes of this definition, the term “control,” including its correlative terms “controlled by” and “under common control with,” mean, with respect to any Person, the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.
- (b) “Award” means an award of Restricted Stock or Restricted Stock Units granted under the Plan.
- (c) “Board” means the Board of Directors of the Company.
- (d) “Change of Control” means any transaction or series of transactions as a result of which any Person who was a Third Party immediately before such transaction or series of transactions owns then outstanding securities of the Company such that such Person has the ability to direct the management of the Company, as determined by the Board in its discretion. The Board may also determine that a Change of Control shall occur upon the completion of one or more proposed transactions. The Board’s determination shall be final and binding.
- (e) “Code” means the Internal Revenue Code of 1986, as amended.
- (f) “VSE Plan” means any restricted stock, restricted stock unit, stock bonus, stock option or other compensation plan, program or arrangement established or maintained by the Company or an Affiliate, including the Plan, the VSE Corporation 2004 Stock Option Plan, the VSE Corporation 1998 Stock Option Plan and the VSE Corporation 2004 Directors Stock Plan.
- (g) “Committee” means the Compensation Committee of the Board.
- (h) “Common Stock” means Common Stock, par value \$0.05 per share, of the Company.
- (i) “Company” means VSE Corporation, a Delaware corporation, including any successor thereto by merger, consolidation, acquisition of all or substantially all the assets thereof, or otherwise.
- (j) “Date of Grant” means the date on which an Award is granted.

(k) “Eligible Employee” means an employee of a Participating Company, as determined by the Committee.

1

- (l) “Fair Market Value” means:
- (i) If trades of Shares are reported on the Nasdaq National Market, Fair Market Value shall be determined based on the last quoted sale price of a Share on the Nasdaq National Market on the date of determination, or if such date is not a trading day, the next trading date.
 - (ii) If trades of Shares are not reported on the Nasdaq National Market but Shares are listed on a stock exchange, Fair Market Value shall be determined based on the last reported sale price of a Share on the principal exchange on which Shares are listed on the date of determination, or if such date is not a trading day, the next trading date.
 - (iii) If Shares are not so listed nor trades of Shares so reported, Fair Market Value shall be determined by the Committee in good faith.
- (m) “Grantee” means an Eligible Employee or Non-Employee Director who is granted an Award.
- (n) “Non-Employee Director” means an individual who is a member of the Board, and who is not an employee of the Company, including an individual who is a member of the Board and who previously was an employee of the Company.
- (o) “Other Available Shares” means, as of any date, the sum of:
- (i) The total number of Shares owned by a Grantee that were not acquired by such Grantee pursuant to a VSE Plan or otherwise in connection with the performance of services to the Company or an Affiliate thereof; plus
 - (ii) The excess, if any of:
 - (1) The total number of Shares owned by a Grantee other than the Shares described in Section 2(o) (i); over
 - (2) The sum of:
 - (A) The number of such Shares owned by such Grantee for less than six months; plus
 - (B) The number of such Shares owned by such Grantee that has, within the preceding six months, been the subject of a withholding certification pursuant to Section 8(c)(ii) or any similar withholding certification under any other VSE Plan; plus
- (p) “Participating Company” means the Company and each of the Subsidiary Companies.
- (q) “Person” means an individual, a corporation, a partnership, a limited liability company, an association, a trust or any other entity or organization.
- (r) “Plan” means the VSE Corporation 2006 Restricted Stock Plan, as set forth herein, and as amended from time to time.
- (s) “Restricted Stock” means Shares subject to restrictions as set forth in an Award.
- (t) “Restricted Stock Unit” means a unit that entitles the Grantee, upon the Vesting Date set forth in an Award, to receive one Share.

- (u) “Rule 16b-3” means Rule 16b-3 promulgated under the 1934 Act.
- (v) “Senior Executive” means an Eligible Employee whom the Committee has identified as a “covered employee” for purposes of Code Section 162(m).
- (w) “Share” or “Shares” means a share or shares of Common Stock.
- (x) “Subsidiary Companies” means all business entities that, at the time in question, are subsidiaries of the Company, within the meaning of Code Section 424(f).
- (y) “Successor-in-Interest” means the estate or beneficiary to whom the right to payment under the Plan shall have passed by will or the laws of descent and distribution.
- (z) “Terminating Event” means any of the following events:
 - (i) the liquidation of the Company; or
 - (ii) a Change of Control.
- (aa) “Third Party” means any Person, together with such Person’s Affiliates, provided that the term “Third Party” shall not include the Company or an Affiliate of the Company.
- (bb) “Vesting Date” means, as applicable: (i) the date on which the restrictions imposed on a Share of Restricted Stock lapse or (ii) the date on which the Grantee vests in a Restricted Stock Unit.
- (cc) “1933 Act” means the Securities Act of 1933, as amended.
- (dd) “1934 Act” means the Securities Exchange Act of 1934, as amended.

3. Rights to be Granted

Rights that may be granted under the Plan are:

- (i) Rights to Restricted Stock which gives the Grantee ownership rights in the Shares pursuant to the Award, subject to a substantial risk of forfeiture, as set forth in Section 7, and
- (ii) Rights to Restricted Stock Units which give the Grantee a contractual right granted under Section 7 that is denominated in Shares, each of which represents a right to receive the value of Shares upon the terms and conditions set forth in the Plan and the applicable Award. It is intended that any Restricted Stock Units issued hereunder be exempt from the provisions of Section 409A of the Internal Revenue Code by qualifying for the “short-term deferral” exemption described in Treasury Regulation Section 1.409A-1(b)(4). As such, all Restricted Stock Units shall be paid out in full as soon as practicable following their Vesting Date and, in all events, shall be paid out in full no later than two and one-half months following the end of the calendar year in which the Vesting Date occurs.

4. Shares Subject to the Plan or Awards

- (a) Not more than 250,000 Shares in the aggregate may be issued under the Plan pursuant to the grant of Awards, subject to adjustment in accordance with Section 9. The Shares issued under the Plan may, at the Company’s option, be either Shares held in treasury or Shares originally issued for such purpose.

(b) If Restricted Stock or Restricted Stock Units are forfeited pursuant to the term of an Award, other Awards with respect to such Shares may be granted.

5. Administration of the Plan

(a) Administration. The Plan shall be administered by the Committee, provided that with respect to Awards to Non-Employee Directors, the rules of this Section 5 shall apply so that all references in this Section 5 to the Committee shall be treated as references to either the Board or the Committee acting alone.

(b) Grants. Subject to the express terms and conditions set forth in the Plan, the Committee shall have the power, from time to time, to:

(i) select those Employees and Non-Employee Directors to whom Awards shall be granted under the Plan, to determine the number of Shares or Restricted Stock Units, as applicable, to be granted pursuant to each Award, and, pursuant to the provisions of the Plan, to determine the terms and conditions of each Award, including the restrictions applicable to such Shares and the conditions upon which a Vesting Date shall occur; and

(ii) interpret the Plan's provisions, prescribe, amend and rescind rules and regulations for the Plan, and make all other determinations necessary or advisable for the administration of the Plan.

The determination of the Committee in all matters as stated above shall be final, binding and conclusive.

(c) Meetings. The Committee shall hold meetings at such times and places as it may determine. Acts approved at a meeting by a majority of the members of the Committee or acts approved in writing by the unanimous consent of the members of the Committee shall be the valid acts of the Committee.

(d) Exculpation. No member of the Committee shall be personally liable for monetary damages for any action taken or any failure to take any action in connection with the administration of the Plan or the granting of Awards thereunder unless (i) the member of the Committee has breached or failed to perform the duties of his office, and (ii) the breach or failure to perform constitutes self-dealing, willful misconduct or recklessness; provided, however, that the provisions of this Section 5(d) shall not apply to the responsibility or liability of a member of the Committee pursuant to any criminal statute.

(e) Indemnification. Service on the Committee shall constitute service as a member of the Board. Each member of the Committee shall be entitled without further act on his part to indemnity from the Company to the fullest extent provided by applicable law and the Company's certificate of incorporation and by-laws in connection with or arising out of any action, suit or proceeding with respect to the administration of the Plan or the granting of Awards thereunder in which he may be involved by reason of his being or having been a member of the Committee, whether or not he continues to be such member of the Committee at the time of the action, suit or proceeding.

(f) Delegation of Authority. The Committee may delegate to an officer of the Company, or a committee of two or more officers of the Company, discretion under the Plan to grant Restricted Stock or Restricted Stock Units to any Grantee other than a Grantee who, at the time of the grant:

(i) has a base salary of \$100,000 or more;

(ii) is subject to the short-swing profit recapture rules of section 16(b) of the 1934 Act; or

- (iii) is a Senior Executive.
- (g) Termination of Delegation of Authority. Any delegation of authority described in Section 5(f) shall continue in effect until the earliest of:
 - (i) such time as the Committee shall, in its discretion, revoke such delegation of authority;
 - (ii) the delegate shall cease to be an employee of the Company for any reason; or
 - (iii) the delegate shall notify the Committee that he declines to continue exercise such authority.

6. Eligibility

Awards may be granted only to Eligible Employees and Non-Employee Directors.

7. Restricted Stock and Restricted Stock Unit Awards

The Committee may grant Awards in accordance with the Plan, provided that the Board or the Committee may grant Awards to Non-Employee Directors, or otherwise. With respect to Awards to Non-Employee Directors, the rules of this Section 7 shall apply so that either the Board or the Committee acting alone shall have all of the authority otherwise reserved in this Section 7 to the Committee.

The terms and conditions of Awards shall be set forth in writing as determined from time to time by the Committee, consistent, however, with the following:

- (a) Time of Grant. No Awards shall be granted after the fifth anniversary of the Effective Date.
- (b) Terms of Awards. The provisions of Awards need not be the same with respect to each Grantee. No cash or other consideration shall be required to be paid by the Grantee in exchange for an Award.
- (c) Awards and Agreements. Each Grantee shall be provided with an agreement specifying the terms and conditions of an Award. In addition, a certificate shall be issued to each Grantee in respect of Restricted Stock subject to an Award. Such certificate shall be registered in the Grantee's name and shall bear an appropriate legend referring to the terms, conditions and restrictions applicable to such Award. The Company may require that the certificate evidencing such Restricted Stock be held by the Company until all restrictions on such Restricted Stock have lapsed.
- (d) Restrictions. Subject to the provisions of the Plan and the Award, the Committee may establish a period commencing with the Date of Grant during which the Grantee shall not be permitted to sell, transfer, pledge or assign Restricted Stock awarded under the Plan.
- (e) Vesting / Lapse of Restrictions. Subject to the provisions of the Plan and the Award, a Vesting Date for Restricted Stock or Restricted Stock Units subject to an Award shall occur at such time or times and on such terms and conditions as the Committee may determine and as are set forth in the Award; provided, however, that except as otherwise provided by the Committee, a Vesting Date shall occur only if the Grantee is an employee of a Participating Company as of such Vesting Date, and has been an employee of a Participating Company continuously from the Date of Grant. The Award may provide for Restricted Stock or Restricted Stock Units to vest in installments, as determined by the Committee. The Committee may, in its sole discretion, waive, in whole or in part, any remaining conditions to vesting with respect to such Grantee's Restricted Stock or Restricted Stock Units.

(f) **Rights of the Grantee.** Grantees may have such rights with respect to Shares subject to an Award as may be determined by the Committee and set forth in the Award, including the right to vote such Shares, and the right to receive dividends paid with respect to such Shares. A Grantee whose Award consists of Restricted Stock Units shall not have the right to vote or to receive dividend equivalents with respect to such Restricted Stock Units.

(g) **Termination of Grantee's Employment.** A transfer of an Eligible Employee between two employers, each of which is a Participating Company, shall not be deemed a termination of employment. If a Grantee terminates employment with all Participating Companies, all Restricted Shares or Restricted Stock Units as to which a Vesting Date has not occurred shall be forfeited by the Grantee and deemed canceled by the Company.

(h) **Delivery of Shares.** When a Vesting Date occurs with respect to all or a portion of an Award of Restricted Stock or Restricted Stock Units, the Company shall notify the Grantee that a Vesting Date has occurred, and shall deliver to the Grantee (or the Grantee's Successor-in-Interest) a certificate for the number of Shares as to which a Vesting Date has occurred (or in the case of Restricted Stock Units, the number of Shares represented by such Restricted Stock Units) without any legend or restrictions (except those that may be imposed by the Committee, in its sole judgment, under Section 8(a)). All Awards shall be settled no later than the March 15th following the calendar year in which such Award is vested. The right to payment of any fractional Shares that may have accrued shall be satisfied in cash, measured by the product of the fractional amount times the Fair Market Value of a Share at the Vesting Date, as determined by the Committee.

(i) **Qualified Performance-Based Awards.** A Subcommittee of the Committee ("Subcommittee"), comprised solely of two or more Non-Employee Directors who otherwise meet the requirements of being "outside directors" as defined in Code Section 162(m), may designate whether any Award granted to a Senior Executive is intended to qualify as "performance-based compensation" within the meaning of Code Section 162(m).

(i) Any Award designated as intended to be performance-based compensation shall be, to the extent required by Code Section 162(m) either (A) conditioned upon the achievement of one or more of the following performance measures, or (B) granted based upon the achievement of one or more of the following performance measures: total shareholder return, stock price, operating earnings, net earnings, return on equity or capital, income, level of expenses, growth in revenue, or other performance measures deemed by the Subcommittee to be appropriate. The provisions describing the performance goals associated with an Award to a Senior Executive must be expressed in an objective rather than subjective manner such that a Third Party having knowledge of the relevant performance results could calculate the extent, if any, to which an Award has become vested. Performance goals may be established on a Company-wide basis or with respect to one or more business units or divisions or subsidiaries. The targeted level or levels of performance (which may include minimum, maximum and target levels of performance) with respect to such performance measures may be established at such levels and in such terms as the Subcommittee may determine, in its discretion, including in absolute terms, as a global performance in prior periods, or as a goal compared to the performance of one or more comparable companies or an index covering multiple companies. When establishing performance goals for a performance period, the Subcommittee may exclude any or all "extraordinary items" as determined under U.S. generally accepted accounting principles including, the charges or costs associated with restructurings of the Company, discontinued operations, other unusual or non-recurring items, and the cumulative effects of accounting changes. The Subcommittee may also adjust the performance goals for any performance period as it deems equitable in recognition of unusual or non-recurring events affecting the Company, changes in applicable tax laws or accounting principles, or such factors as the Subcommittee may determine; including, any adjustments that would result in the Company paying non-deductible compensation to a Participant. For any Award subject to such pre-established formula, no more than \$1,000,000 can be paid in satisfaction of such Award to any Senior Executive.

(ii) Any Award that is intended to qualify as “performance-based compensation” shall also be subject to the following:

(A) No later than 90 days following the commencement of each performance period (or such other time as may be required or permitted by Code Section 162(m)), the Subcommittee shall, in writing, (1) grant a target number of shares or units, (2) select the performance goal or goals applicable to the performance period and (3) specify the relationship between performance goals the number of shares or units that may be earned by a Participant for such performance period.

(B) Following the completion of each performance period, the Subcommittee shall certify in writing whether the applicable performance targets have been achieved and the number of units or shares if any, earned by a Participant for such performance period. All decisions by the Subcommittee as to the terms and conditions of an Award and the extent to which an Award has become vested shall be binding and conclusive on the Senior Executives.

(C) In determining the number of units or shares earned by a Participant for a given performance period, subject to any applicable Award Agreement, the Subcommittee shall have the right to reduce (but not increase) the amount earned at a given level of performance to take into account additional factors that the Subcommittee may deem relevant to the assessment of individual or corporate performance for the performance period.

(D) In the case of Senior Executives being granted Awards subject to Section 7(i) at least six months must elapse from the date of the grant of the Award to the date of disposition of underlying Shares.

(j) Death or Disability. The Committee may, in its discretion, waive the Vesting Date or any restrictions imposed on an Award in the event of the death or disability of a Participant (each as determined by the Committee, in its discretion). Exercise of such discretion by the Committee in any individual case, however, shall not be deemed to require, or to establish a precedent suggesting such exercise in any other case.

8. Securities Laws; Taxes

(a) Securities Laws. The Committee shall have the power to make each grant of Awards under the Plan subject to such conditions as it deems necessary or appropriate to comply with the then existing requirements of the 1933 Act and the 1934 Act, including Rule 16b-3. Such conditions may include the delivery by the Grantee of an investment representation to the Company in connection with a Vesting Date occurring with respect to Shares subject to an Award, or the execution of an agreement by the Grantee to refrain from selling or otherwise disposing of the Shares acquired for a specified period of time or on specified terms.

(b) Taxes. Subject to the rules of Section 8(c), the Company shall be entitled, if necessary or desirable, to withhold the amount of any tax, charge or assessment attributable to the grant of any Award or the occurrence of a Vesting Date with respect to any Award. The Company shall not be required to deliver Shares pursuant to any Award until it has been indemnified to its satisfaction for any such tax, charge or assessment.

(c) Payment of Tax Liabilities; Election to Withhold Shares or Pay Cash to Satisfy Tax Liability.

(i) In connection with the grant of any Award or the occurrence of a Vesting Date under any Award, the Company shall have the right to (A) require the Grantee to remit to the Company an amount sufficient to satisfy any federal, state or local withholding tax requirements prior to the delivery or transfer of any certificate or certificates for Shares subject to such Award, or (B) take any action whatever that it deems necessary to protect its interests with respect to tax liabilities. The Company's obligation to make any delivery or transfer of Shares shall be conditioned on the Grantee's compliance, to the Company's satisfaction, with any withholding requirement.

(ii) Except as otherwise provided in this Section 8(c)(ii), any tax liabilities incurred in connection with grant of any Award or the occurrence of a Vesting Date under any Award under the Plan shall be satisfied by the Company's withholding a portion of the Shares subject to such Award having a Fair Market Value approximately equal to the minimum amount of taxes required to be withheld by the Company under applicable law, unless otherwise determined by the Committee with respect to any Grantee. Notwithstanding the foregoing, the Committee may permit a Grantee to elect one or both of the following: (A) to have taxes withheld in excess of the minimum amount required to be withheld by the Company under applicable law; provided that the Grantee certifies in writing to the Company at the time of such election that the Grantee owns Other Available Shares having a Fair Market Value that is at least equal to the Fair Market Value to be withheld by the Company in payment of withholding taxes in excess of such minimum amount; and (B) to pay to the Company in cash all or a portion of the taxes to be withheld in connection with such grant or Vesting Date. In all cases, the Shares so withheld by the Company shall have a Fair Market Value that does not exceed the amount of taxes to be withheld minus the cash payment, if any, made by the Grantee. Any election pursuant to this Section 8(c)(ii) must be in writing made prior to the date specified by the Committee, and in any event prior to the date the amount of tax to be withheld or paid is determined. An election pursuant to this Section 8(c)(ii) may be made only by a Grantee or, in the event of the Grantee's death, by the Grantee's legal representative. No Shares withheld pursuant to this Section 8(c)(ii) shall be available for subsequent grants under the Plan. The Committee may add such other requirements and limitations regarding elections pursuant to this Section 8(c)(ii) as it deems appropriate.

9. Changes In Capitalization

The aggregate number of Shares and class of Shares as to which Awards may be granted and the number of Shares covered by each outstanding Award shall be appropriately adjusted in the event of a stock dividend, stock split, recapitalization or other change in the number or class of issued and outstanding equity securities of the Company resulting from a subdivision or consolidation of the Shares or other outstanding equity security or a recapitalization or other capital adjustment (not including the issuance of Shares or other outstanding equity securities on the conversion of other securities of the Company which are convertible into Shares or other outstanding equity securities) affecting the Shares which is effected without receipt of consideration by the Company. The Committee shall have authority to determine the adjustments to be made under this Section 9 and any such determination by the Committee shall be final, binding and conclusive.

10. Terminating Events

The Committee shall give Grantees at least ten (10) days' notice (or, if not practicable, such shorter notice as may be reasonably practicable) prior to the anticipated date of the consummation of a Terminating Event. The Committee may, in its discretion, provide in such notice that upon the consummation of such Terminating Event, any conditions to the occurrence of a Vesting Date with respect to an Award of Restricted Stock or Restricted Stock Units (other than Restricted Stock or Restricted Stock Units that have previously been forfeited) shall be eliminated, in full or in part.

Claims for benefits under the Plan must be filed with the Committee at the following address:

VSE Corporation
2550 Huntington Avenue
Alexandria, VA 22303-1499
Attention: Corporate Secretary

11. Amendment and Termination

The Plan may be terminated by the Board at any time. The Plan may be amended by the Board or the Committee at any time. No Award shall be materially and adversely affected by any such termination or amendment without the written consent of the Grantee.

12. Construction and Certain Terms and Phrases

- (a) Unless the context of the Plan otherwise requires, (i) words of any gender include each other gender; (ii) words using the singular or plural number also include the plural or singular number, respectively; (iii) the terms “hereof,” “herein,” “hereby” and derivative or similar words refer to the entire Plan and not to any particular provision of the Plan and (iv) the term “Section” without any reference to a specified document refer to the specified Section of the Plan.
- (b) The words “including,” “include” and “includes” are not exclusive and shall be deemed to be followed by the words “without limitation”; if exclusion is intended, the word “comprising” is used instead.
- (c) The word “or” shall be construed to mean “and/or” unless the context clearly prohibits that construction.
- (d) Whenever the Plan refers to a number of days, such number shall refer to calendar days unless business days are specified.
- (e) All accounting terms used herein and not expressly defined herein shall have the meanings ascribed to them under United States generally accepted accounting principles.
- (f) Any reference to any federal, state, local or foreign statute or law, including the Code, 1933 Act and the 1934 Act, shall be deemed also to refer to all rules and regulations promulgated thereunder, unless the context requires otherwise.

13. Effective Date

The Plan was originally approved and adopted by the Board on February 9, 2006, and approved by VSE’s stockholders on May 2, 2006. The Plan, as amended, was approved and adopted by the Board on March 2, 2011, subject to the approval of the holders of a majority of the Common Stock entitled to vote thereon. The effective date of the Plan shall be the date on which the Plan, as amended, is approved by VSE’s stockholders as contemplated by the immediately preceding sentence (the “Effective Date”).

14. Governing Law

The Plan and all determinations made and actions taken pursuant to the Plan shall be governed in accordance with the laws (excluding conflict of law rules and principles) of the State of Delaware.

Executed as of March 2, 2011.

