EUROSEAS LTD.
Form SC 13D/A
October 11, 2017
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

SCHEDULE 13D

Under The Securities Exchange Act of 1934

(Amendment No. 16)

Euroseas Ltd.
(Name of Issuer)

Common Shares, $0.03 par value
(Title of Class of Securities)

Y23592309
(CUSIP Number)

Friends Investment Company Inc.

4 Messogiou & Evropis St.
151 24 Maroussi Greece
(Name, Address and Telephone Number of Person Authorized to Receive

Notices and Communications)

October 4, 2017
(Date of Event Which Requires Filing of this Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition which is the subject of this Schedule 13D, and is filing this schedule because of Rule 13d-1(e), Rule 13d-1(f) or Rule 13d-1(g), check the following box [X].

The information required on the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

*The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter disclosures provided in a prior cover page.

CUSIP No. Y23592309

1. NAME OF REPORTING PERSONS
I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY)

Friends Investment Company Inc.

2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP*
(a) [_]
(b) [_]

3. SEC USE ONLY

4. SOURCE OF FUNDS*

WC

5. CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) OR 2(e) [_]

6. CITIZENSHIP OR PLACE OF ORGANIZATION

Republic of the Marshall Islands

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH

7. SOLE VOTING POWER

3,757,695

8. SHARED VOTING POWER

0

9. SOLE DISPOSITIVE POWER

3,757,695

10. SHARED DISPOSITIVE POWER [_]

0

11. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

3,757,695

12. CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES*

[_]

13. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

33.6%

14. TYPE OF REPORTING PERSON*

CO

CUSIP No. Y23592309

1. NAME OF REPORTING PERSONS
I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY)

Preferred Friends Investment Company Inc.

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5. CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) OR 2(e) [_]

6. CITIZENSHIP OR PLACE OF ORGANIZATION

Republic of the Marshall Islands

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH

7. SOLE VOTING POWER

611,640

8. SHARED VOTING POWER

0

9. SOLE DISPOSITIVE POWER

611,640

10. SHARED DISPOSITIVE POWER [_]

0

11. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

611,640

12. CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES*

[_]

13. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

5.2%*

14. TYPE OF REPORTING PERSON*

CO

* As adjusted for authorized Common Shares not yet issued that are beneficially owned by Preferred Friends Investment Company Inc.

CUSIP NO. Y23592309

This Schedule 13D is Amendment No. 16 with respect to Friends Investment Company Inc. and Amendment No. 7 with respect to Preferred Friends Investment Company Inc.

Item 1. Security and Issuer

The class of equity security to which this statement relates is the Common Shares, $0.03 par value (the "Common Shares"), of Euroseas Ltd., a Marshall Islands corporation (the "Issuer"). The address of the principal executive office of the Issuer is 4 Messogiou & Evropis St., 151 24 Maroussi, Greece.

Item 2. Identity and Background

(a),(f) The persons filing this statement are Friends Investment Company Inc., a Marshall Islands corporation ("Friends Investment Company"), and Preferred Friends Investment Company Inc., a Marshall Islands corporation ("Preferred Friends Investment Company", and together with Friends Investment Company, the "Reporting Persons").

(b) The address of the principal place of business of Friends Investment Company and Preferred Friends Investment Company is 4 Messogiou & Evropis St., 151 24 Maroussi, Greece.

(b),(c) The principal business of the Reporting Persons is acting as shipping investment holding companies.

The name, citizenship, present principal occupation or employment and business address of each executive officer and director of Friends Investment Company is set forth below. The business address of each director and executive officer is 4 Messogiou & Evropis St., 151 24 Maroussi, Greece.

Aristides P. Pittas	President, Director	Mr. Pittas is a citizen of Greece. His principal occupation is serving as Vice Chairman of the Issuer.
Aristides J. Pittas	Vice President/Director	Mr. Pittas is a citizen of Greece. His principal occupation is serving as Chairman, CEO and President of the Issuer and President of Eurobulk Ltd.

Nikolaos J. Pittas	Treasurer/Secretary/Director	Mr. Pittas is a citizen of Greece. His principal occupation is serving as the financial manager of Eurobulk Ltd.
Emmanuel J. Pittas	Director	Mr. Pittas is a citizen of Greece. His principal occupation is serving as vice president of Eurobulk Ltd.

The name, citizenship, present principal occupation or employment and business address of each executive officer and director of Preferred Friends Investment Company is set forth below. The business address of each director and executive officer business is 4 Messogiou & Evropis St., 151 24 Maroussi, Greece.

Aristides J. Pittas	President/Director	Mr. Pittas is a citizen of Greece. His principal occupation is serving as Chairman, CEO and President of the Issuer and President of Eurobulk Ltd.
Nikolaos J. Pittas	Vice President/Director	Mr. Pittas is a citizen of Greece. His principal occupation is serving as the financial manager of Eurobulk Ltd.
Stephania J. Karmiri	Treasurer/Secretary/Director	Ms. Karmiri is a citizen of Greece. Her principal occupation is serving as the corporate secretary and administration manager of Eurobulk Ltd..

(d),(e) None of the Reporting Persons, nor any manager or executive officer of the Reporting Persons, has, during the past five years, (a) been convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors), or (b) been a party to a civil proceeding of a judicial or administrative body of competent jurisdiction and as a result of such proceeding was or is subject to a judgment, decree or final order enjoining future violations of, or prohibiting, or mandating activities subject to, federal or state securities laws or finding any violation with respect to such laws.

Item 3. Source and Amount of Funds or Other Consideration

The source of funds for the purchases of the 3,757,695 Common Shares directly owned by Friends Investment Company came from its working capital. No borrowed funds were used to purchase the Common Shares, other than any borrowed funds used for working capital purposes in the ordinary course of business.

The source of funds for the purchase of the 611,640 Common Shares beneficially owned by Preferred Friends Investment Company pursuant to the “PIPE Transaction” (as described in Item 4 of the Schedule 13D/A filed with respect to the Issuer on August 18, 2014) came from its working capital. No borrowed funds were used to purchase the Common Shares, other than any borrowed funds used for working capital purposes in the ordinary course of business.

The other persons named in response to Item 2 hold the following number of Common Shares in their accounts, which they received pursuant to the Issuer's Stock Incentive Plan and pursuant to certain rights offerings to shareholders of the Issuer:

	Vested/Purchased Pursuant to a Rights Offering	Unvested
Aristides P. Pittas	0	6,885
Aristides J. Pittas	7,425	25,245
Nikolaos J. Pittas	21,686	6,885
Emmanuel J. Pittas	36,388	6,885

Item 4. Purpose of Transaction

The Reporting Persons have acquired their Common Shares of the Issuer for investment. The Reporting Persons evaluate their investment in the Common Shares on a continual basis. The Reporting Persons are filing this Schedule 13D/A to report a change in their beneficial ownership percentage of the Shares, as indicated in Item 5 below.

Aristides J. Pittas, who serves as the Vice President and as a Director of Friends Investment Company, and who also serves as the President as a Director of Preferred Friends Investment Company, is the Chairman, President, Chief Executive Officer and a Class A Director of the Issuer. Aristides P. Pittas, who serves as the President and as a Director of Friends Investment Company, is the Vice Chairman and a Class A Director of the Issuer.

Moreover, since certain persons serving as directors and officers for Preferred Friends Investment Company also serve in similar capacities for Friends Investment Company, Preferred Friends Investment Company and Friends Investment Company may be deemed to be affiliates of each other for purposes of reporting on Schedule 13D. As such, each Reporting Person may be deemed to beneficially own the Common Shares of the other Reporting Person.

Except as set forth above, the Reporting Persons do not have any present plan or proposal which would relate to or result in any of the matters set forth in subparagraphs (a) - (j) of Item 4 of Schedule 13D. The Reporting Persons intend to review their investment in the Issuer on a continuing basis. Depending on various factors, the Reporting Persons may in the future take such actions with respect to their investment in the Issuer as they deem appropriate including, without limitation, purchasing additional Common Shares, selling some or all of their Common Shares, engaging in short selling of or any hedging or similar transaction with respect to the Common Shares or changing its intention with respect to any and all matters referred to in Item 4.

Item 5. Interest in Securities of the Issuer

(a)-(d) As of the date hereof, Friends Investment Company may be deemed to be the beneficial owner of 3,757,695 Common Shares, constituting 33.6% of the Common Shares, based upon 11,177,892 Common Shares outstanding. Friends Investment Company has the sole power to vote or direct the vote of 3,757,695 Common Shares and the shared power to vote or direct the vote of 0 Common Shares. Friends Investment Company has the sole power to dispose or direct the disposition of 3,757,695 Common Shares and the shared power to dispose or direct the disposition of 0 Common Shares.

As of the date hereof, Preferred Friends Investment Company may be deemed to be the beneficial owner of 611,640 Common Shares, constituting 5.2% of the Common Shares, based upon 11,789,532 Common Shares outstanding as adjusted for authorized Common Shares not yet issued that are beneficially owned by Preferred Friends Investment Company. Preferred Friends Investment Company has the sole power to vote or direct the vote of 611,640 Common Shares and the shared power to vote or direct the vote of 0 Common Shares. Preferred Friends Investment Company has the sole power to dispose or direct the disposition of 611,640 Common Shares and the shared power to dispose or direct the disposition of 0 Common Shares. The 611,640 Common Shares beneficially owned by Preferred Friends Investment Company are beneficially owned pursuant to the PIPE Transaction (as further described in Item 4 of the Schedule 13D/A filed with respect to the Issuer on August 18, 2014), a privately negotiated transaction.

None of the other persons named in response to Item 2 have the sole power to vote or to direct the vote, the shared power to vote or direct the vote, the sole power to dispose or to direct the disposition of the Shares that are the subject of this Statement.

There have been no purchases or sales of the Common Shares during the past 60 days by Preferred Friends Investment Company.

The transactions by Friends Investment Company in the Common Shares during the past sixty days are set forth on Exhibit B.

(e) N/A

Item 6. Contracts, Arrangements, Understandings or Relationships with Respect to Securities of the Issuer

Except for the Securities Purchase Agreement and the Statement of Designation of the Rights, Preferences and Privileges of Series B Convertible Perpetual Preferred Shares of Euroseas Ltd., which are described in Item 4 of the Schedule 13D/A filed with respect to the Issuer on August 18, 2014 and attached as exhibits thereto, Preferred Friends Investment Company does not have any contract, arrangement, understanding or relationship with any person with respect to securities of the Issuer.

Friends Investment Company does not have any contract, arrangement, understanding or relationship with any person with respect to the securities of the Issuer.

Item 7. Material to be Filed as Exhibits

Exhibit A: Joint Filing Agreement

Exhibit B: Schedule of Transactions in the Common Shares by Friends Investment Company

SIGNATURES

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

October 11, 2017
(Date)

Friends
Investment
Company Inc.

By: /s/ Aristides
J. Pittas
Name: Aristides J.
Pittas

Title: Vice
President

Preferred Friends
Investment
Company Inc.

By: /s/ Aristides
J. Pittas
Name: Aristides J.
Pittas

Title: President

Attention: Intentional misstatements or omissions of fact constitute Federal criminal violations (see 18 U.S.C. 1001).

Exhibit A

AGREEMENT

The undersigned agree that this Amendment No. 16 to Schedule 13D, dated October 11, 2017, relating to the Common Shares, $0.03 par value, of Euroseas Ltd. shall be filed on behalf of the undersigned.

October 11, 2017
(Date)

Friends Investment Company Inc.

By: /s/ Aristides J. Pittas
Name: Aristides J. Pittas

Title: Vice President

Preferred Friends Investment Company Inc.

By: /s/ Aristides J. Pittas
Name: Aristides J. Pittas

Title: President

Exhibit B

SCHEDULE OF TRANSACTIONS IN COMMON SHARES BY FRIENDS INVESTMENT COMPANY INC.

Schedule of Transactions in Common Shares by Friends Investment Company Inc.

Date of Transaction	Title of Class	Number of Common Shares Acquired	Number of Common Shares Disposed	Price Per Common Share
05/26/17	Common Shares, $0.03 par value	12*	N/A	$1.25
06/22/17	Common Shares, $0.03 par value	71,991**	N/A	N/A
06/22/17	Common Shares, $0.03 par value	33,334**	N/A	N/A
10/03/17	Common Shares, $0.03 par value	68,600*	N/A	$1.79
10/04/17	Common Shares, $0.03 par value	70,000*	N/A	$1.88
10/04/17	Common Shares, $0.03 par value	61,400*	N/A	$1.997

* These Common Shares were acquired in an open market transaction.

** These Common Shares were acquired pursuant to a transaction in which a company merged its shares with Friends Investment Company Inc.

2.4

12,981

2.8

Department of Treasury

1,405

0.3

10,897

2.6

35,929

7.6

Other Government

15,102

2.8

20,029

4.7

29,483

6.2

Total - Other Civilian Agencies

42,193

7.9

60,079

14.2

98,517

20.9

Total

$
533,982

100.0

$
424,071

100.0

$
471,638

100.0

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Backlog

Funded backlog represents a measure of potential future revenues from work performed by our Federal Services and IT, Energy and Management Consulting groups on government contracts. Funded backlog is defined by us as the total value of contracts that has been appropriated and funded by the procuring agencies, less the amount of revenues that have already been recognized on such contracts. Our reported backlog is comprised of funding received by us in incremental amounts intended to fund work that is generally expected to be completed within six to 12 months following the award of the funding. Accordingly, substantially our entire reported backlog is reasonably expected to be filled within this time. Our funded backlog for our Federal Services and IT, Energy and Management Consulting groups as of December 31, 2015, was approximately $238 million. Funded backlog as of December 31, 2014 and 2013 was approximately $193 million and $234 million, respectively. Changes in funded backlog on contracts are sometimes unpredictable due to uncertainties associated with changing government program priorities and availability of funds, which is heavily dependent upon the congressional authorization and appropriation process. Delays in this process, such as those experienced in recent years, may temporarily diminish the availability of funds for ongoing and planned work.

In addition to the funded backlog levels, we have contract ceiling amounts available for use on multiple award, indefinite delivery, indefinite quantity contracts with DoD and federal civilian agencies. While these contracts increase the opportunities available for us to pursue future work, the actual amount of future work is indeterminate until task orders are placed on the contracts. Frequently, these task orders are competitively awarded. Additionally, these task orders must be funded by the procuring agencies before we can perform work and begin generating revenues.

Marketing

Our marketing activities are conducted at the operating group level by our marketing and business development staff and our professional staff of sales representatives, managers, and other personnel. New customer contacts and information concerning new programs, requirements and opportunities become available through attendance at industry trade shows and events, through sales calls and client servicing, through negotiation with key business partners, through formal and informal briefings, from participation in professional organizations, in the course of contract performance, and from literature published by government, trade associations, professional organizations and commercial entities.

Personnel

Our employees have a variety of specialized experience, training, and skills that provide the expertise required to service our clients. Some have high levels of education. As of December 31, 2015, we had 2,057 employees, an increase from 1,589 as of December 31, 2014. Principal employee categories include (a) mechanics and vehicle, aircraft, and equipment technicians, (b) logisticians, (c) warehouse and sales personnel, (d) engineers and technicians in mechanical, electronic, industrial, energy and environmental services, (e) information technology professionals in computer systems, applications and products, configuration, change and data management disciplines, and (f) environmental specialists. The expertise required by our customers frequently includes knowledge of government administrative procedures.

We actively seek initiatives and participate in outreach programs to assist individuals who have served in the U.S. Armed Forces. These efforts include an emphasis on hiring military veterans, which we believe enhances the quality of our workforce. Approximately one-third of our employees have previously served as members in the U.S. Armed Forces.

Competition

The supply chain, logistics, and MRO services offered by our Supply Chain Management and Aviation groups and the federally contracted professional and technical services offered by our Federal Services and IT, Energy and Management Consulting groups are conducted in very competitive operating environments.

The vehicle parts aftermarket and aviation parts and servicing markets are fragmented, with many large and small competitors that compete for our customer base.

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Large diversified federal contracting firms with greater financial resources and larger technical staffs are capable of providing the same services offered by us. Government agencies emphasize awarding contracts on a competitive basis as opposed to a sole source or other noncompetitive basis. Most of the significant contracts under which we currently perform services were either initially awarded on a competitive basis or have been renewed at least once on a competitive basis. There is no assurance regarding the level of work we may obtain under some of these contracts. Government budgets, and in particular the budgets of certain government agencies, can also affect competition in our business. A general decline in government budgets, a reallocation of government spending priorities, or a reallocation of work for small business set-aside programs that results in lower levels of potential business in the markets we serve or the services we offer, will cause increased competition. In recent years, contract awards are frequently protested to the Government Accounting Office ("GAO").

The extent and range of competition that we will encounter as a result of changing economic or competitive conditions, customer requirements or technological developments is unpredictable. We believe the principal competitive factors for our business are customer knowledge, technical and financial qualifications, past performance, government budgetary stress, with price more heavily weighted than in the past.

Available Information

Copies of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports are filed with or otherwise furnished to the Securities and Exchange Commission ("SEC") pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended. They are available free of charge through our website www.vsecorp.com as soon as reasonably practicable after the reports are electronically filed with the SEC.

ITEM 1A. Risk Factors

Our future results may differ materially from past results and from those projected in the forward-looking statements contained in this Form 10-K due to various uncertainties and risks, including but not limited to those risks set forth below, non-recurring events and other important factors disclosed previously and from time to time in our other reports filed with the SEC.

Uncertain government budgets and shifting government priorities could delay contract awards and funding and adversely affect our ability to continue work under our government contracts. Additionally, federal procurement directives could result in our loss of work on current programs to small business set-asides and large multiple award contracts.

Our government business is subject to funding delays, terminations, reductions, in-sourcing, extensions, and moratoriums associated with the government's budgeting and contracting process. The federal procurement environment is unpredictable and could adversely affect our ability to perform work under new and existing contracts. We have experienced delays in contract awards and funding on our contracts in recent years that have adversely affected our ability to continue existing work and to replace expiring work. Additionally, our government business is subject to the risk that one or more of our potential contracts or contract extensions may be diverted by the contracting agency to a small or disadvantaged or minority-owned business pursuant to set-aside programs administered by the Small Business Administration, or may be bundled into large multiple award contracts for very large businesses. These risks can potentially have an adverse effect on our revenue growth and profit margins.

Increased market competition resulting from decreases in government spending for contract services and government contracting award criteria could adversely affect our ability to sustain our revenue levels.

Pressure on government budgets may adversely affect the flow of work to federal contractors, particularly new programs. Competitor contractors that experience a loss of government work have tended to redirect their marketing efforts toward the types of work that we perform. This increase in competition for our service offerings has adversely affected our ability to win new work or successor contracts to continue work that is currently performed by us under expiring contracts. Unsuccessful bidders frequently protest contract awards, which can delay or reverse the contract awards. Additionally, the government has trended toward contract award criteria that emphasizes lowest price, technically acceptable bids, which further intensifies competition in our government markets.

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Certain programs comprise a material portion of our revenue. Our work on large government programs presents a risk to revenue and profit growth and sustainability.

The eventual expiration of large government programs or the loss of or disruption of revenues on a single contract may reduce our revenues and profits. Such revenue losses could also erode profits on our remaining programs that would have to absorb a larger portion of the fixed corporate costs previously allocated to the expiring programs or discontinued contract work. Our USPS managed inventory program ("MIP") and our foreign military sales program ("FMS Program") each constitute a material portion of our revenues. This concentration of our revenue subjects us to risk of material adverse revenue disruptions if customer operational decisions, government contractual, or other issues prevent or delay the fulfillment of work requirements associated with these key programs. In recent years, our financial results have been adversely affected by revenue declines for our FMS Program due to the government's inability to pass ship transfer legislation which must precede the Navy's authorization of VSE to perform this work under our existing FMS contract.

Global economic conditions and political factors could adversely affect our revenues on current government programs.

Revenues from our government programs for which work is performed in foreign countries are subject to economic conditions in these countries and to political risks posed by ongoing foreign conflicts and potential terrorist activity. Services performed by our employees on our FMS Program are, to a certain extent, dependent on our placement of employees in a client country. Significant domestic and political unrest in client countries can constrain our ability to maintain consistent staffing levels, resulting in a fluctuating level of services performed by our employees. We cannot predict when these conditions will occur or the affect it will have on our FMS Program revenues. Regime changes in these countries can result in U.S. Government restrictions upon the continuation of ongoing work.

Economic conditions in both the United States and foreign countries, and global prices and availability of oil and other commodities could potentially have an adverse on the demand for some of our services, including our aviation services.

Due to the nature of our work we could potentially be exposed to legal actions arising from our operations.

Our work includes many manual tasks, including warehousing, shipping and packing of truck parts inventory, maintaining and repairing military and non-military vehicles and equipment, and maintaining and overhauling U.S. Navy ships. Some of our work efforts involve the handling of hazardous materials. This may pose certain challenges that could cause us to be exposed to legal and other liabilities arising from performance issues, work related incidents, or employee misconduct that result in damages, injury or death to third parties. Such events could cause us to suffer financial losses and adversely affect our financial condition. (See "Item 3. Legal Proceedings.")

Technology security and cyber attack risks could potentially impact our financial results.

We face the threat to our computer systems of unauthorized access, computer hackers, computer viruses, malicious code, organized cyber-attacks and other security problems and system disruptions, including possible unauthorized access to our and our clients' proprietary or classified information.

Some of our contract work includes data management and technology services associated with Social Security Administration and military medical and health records. This exposes us to certain information and technology security risks. If there is a security breach of sensitive data in our custody or for which we provide services, we could possibly be held liable for damages to third parties related to such security breach and incur costs to prevent future incidents. We also provide refurbishment, maintenance and training services support to international clients directly and through DoD. Foreign nations adverse to international clients we support could be motivated to conduct a cyber-attack to access information on these programs.

Costs associated with preventing or remediating information management security breaches have not had a material adverse effect on our capital expenditures, earnings, or competitive position. However, the occurrence of a future security breach event could potentially have such an adverse effect.

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Acquisitions, which have been a part of our business strategy in recent years, present certain risks.

The acquisition of a business that subsequently does not meet expected operating and financial performance targets, the ineffective integration of an acquisition, or the inability of our company to service debt associated with making an acquisition could adversely affect our financial performance. Also, the failure to make or timely complete an acquisition could adversely affect our financial performance.

The nature of our operations and work performed by our employees present certain challenges related to work force management.

Our financial performance is heavily dependent on the abilities of our operating and administrative staff with respect to technical skills, operating performance, pricing, cost management, safety, and administrative and compliance efforts. A wide diversity of contract types, nature of work, work locations, and legal and regulatory complexities challenges our administrative staff and skill sets. We also face challenges associated with our quality of workforce, quality of work, safety, and labor relations compliance. Our current and projected work in foreign countries exposes us to challenges associated with export and ethics compliance, local laws and customs, workforce issues, extended supply chain, political unrest and war zone threats. Failure to attract or retain an adequately skilled workforce, lack of knowledge or training in critical functions, or inadequate staffing levels can result in lost work, reduced profit margins, losses from cost overruns, performance deficiencies, workplace accidents, and regulatory noncompliance.

Our business could be adversely affected by incidents that could cause an interruption in our operations or impose a significant financial liability on us.

Disruption of our operations due to internal or external system or service failures, accidents or incidents involving employees or third parties working in high-risk locations, or natural disasters or other crises could adversely affect our financial performance and condition. A fire, flood, earthquake, or other natural disaster at physical facilities that support key revenue generating operations, or a procurement system or contractual delay could potentially interrupt the revenues from our operations.

As a government contractor, we are subject to numerous procurement rules and regulations that could expose us to potential liabilities or work loss.

We must comply with and are affected by laws and regulations relating to the award, administration and performance of government contracts. Additionally, we are responsible for subcontractor compliance with these laws and regulations. Government contract laws and regulations affect how we conduct business with our customers and, in some instances, impose added costs to us. A violation of laws or regulations could result in the imposition of fines and penalties or the termination of contracts or debarment from working or bidding on government contracts.

In some instances, these government contract laws and regulations impose terms or rights that are significantly more favorable to the government than those typically available to commercial parties in negotiated transactions. For example, the government may terminate any government contract or subcontract at its convenience, as well as for performance default.

A termination for default could expose us to liability and have a material adverse effect on our ability to compete for future contracts and orders. A termination for default could also impact our past performance and ability to obtain new or additional work. In addition, the government could terminate a prime contract under which we are a subcontractor, irrespective of the quality of services provided by us as a subcontractor.

Additionally, our contract work that is performed on our behalf by subcontractors is subject to government compliance, performance requirements and financial risks. If unsatisfactory performance or compliance failure occurs on the part of our subcontractors, we may have to bear the cost to remedy these deficiencies on our prime contracts.

Environmental and pollution risks could potentially impact our financial results.

Some of our contract work includes the use of chemical solvents and the handling of hazardous materials to maintain and refurbish vehicles and equipment. This exposes us to certain environmental and pollution risks. Costs associated with preventing or remediating pollution clean-up efforts and environmental regulatory compliance have not yet had a material adverse effect on our capital expenditures, earnings, or competitive position. However, the occurrence of a future environmental or pollution event could have such an adverse effect.

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Our business could be adversely affected by government audits.

Government agencies, including the Defense Contract Audit Agency and the Department of Labor, routinely audit and investigate government contractors. These agencies review a contractor's performance under its contracts, cost structure and compliance with applicable laws, regulations and standards. The government also may review the adequacy of, and a contractor's compliance with, its internal control systems and policies, including the contractor's purchasing, property, estimating, compensation and management information systems. Any costs found to be improperly allocated to a specific contract will not be reimbursed and any such costs already reimbursed must be refunded. If an audit uncovers improper or illegal activities, we may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines and suspension or debarment from doing business with the government. In addition, we could suffer serious harm to our reputation if allegations of impropriety were made.

Investments in facilities could cause losses if certain work is disrupted or discontinued.

We have made investments in facilities and lease commitments to support specific business programs, work requirements, and service offerings. A slowing or disruption of these business programs, work requirements, or service offerings that results in operating below intended levels could cause us to suffer financial losses.

ITEM 1B. Unresolved Staff Comments

None

ITEM 2. Properties

Our executive and administrative headquarters are located in a five-story building in Alexandria, Virginia, with approximately 95,000 square feet of office space leased by us through April 2027.

We own facilities located in an industrial park in Somerset, Pennsylvania that we use to conduct the operations of our subsidiary Wheeler Bros., Inc. These properties consist of approximately 30 acres of land and buildings totaling approximately 239,000 square feet of office, engineering, and warehouse space.

We own two properties that we use to conduct the operations of our subsidiary VSE Aviation, Inc. We own and operate a property consisting of approximately one acre of land and a building with approximately 14,000 square feet of warehouse and office space in Miami, Florida. We own and operate a property consisting of a building with approximately 30,500 square feet of warehouse and office space in Independence, Kansas that is located on leased municipal airport land.

We own and operate two facilities in Ladysmith, Virginia. One of these properties consists of approximately 44 acres of land and multiple storage and vehicle maintenance buildings totaling approximately 56,000 square feet of space. The other property consists of 30 acres of land and buildings totaling approximately 13,500 square feet of space. We also own and operate two properties in Texarkana, Arkansas consisting of an aggregate of approximately 16 acres of land and buildings totaling approximately 114,000 square feet. We use these properties primarily to provide refurbishment services for military equipment, storage and maintenance.

We also provide services and products from facilities generally occupied under short-term leases primarily located near customer sites to facilitate communications and enhance program performance. As of December 31, 2015, we leased approximately 28 such facilities with a total of approximately 358,000 square feet of office and warehouse space. Our employees often provide services at customer facilities, limiting our requirement for additional space. We also provide services from locations outside of the United States, generally at foreign shipyards or U.S. military installations.

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ITEM 3. Legal Proceedings

We may have, in the normal course of business, certain claims, including legal proceedings, against us and against other parties. In our opinion, the resolution of these claims will not have a material adverse effect on our results of operations or financial position. However, the results of any claims, including legal proceedings, cannot be predicted with certainty.

On or about May 24, 2012, four complaints were filed in the Circuit Court of the First Circuit, State of Hawaii, by the estates of five deceased individuals and certain of their relatives against VSE and certain other entities and individuals. The complaints allege, among other things, that the explosion of fireworks and diesel fuel that injured and killed the five individuals on or about April 8, 2011 was caused by negligence, actions and omissions of VSE and the other defendants and their employees, agents and representatives. The five deceased plaintiffs were employees of Donaldson Enterprises, Inc., which was a vendor retained by VSE to warehouse, store and dispose of fireworks and other explosives seized by the federal government from entities and persons illegally in possession of the fireworks and other explosives. We had a prime contract with the U.S. Department of Treasury ("Treasury") to support the Treasury Executive Office for Asset Forfeiture to manage various seized assets, including management and disposal of fireworks and other explosives seized by various federal government agencies. We have denied the allegations and, together with our insurance carriers, will aggressively defend the proceedings, which are expected to proceed to trial in 2017. While the results of legal proceedings cannot be predicted with certainty, we do not anticipate that this lawsuit will have a material adverse effect on our results of operations or financial condition.

On or about March 8, 2013, a lawsuit, Anchorage v. Integrated Concepts and Research Corporation, et al., was filed in the Superior Court for the State of Alaska at Anchorage by the Municipality of Anchorage, Alaska against our wholly owned subsidiary Integrated Concepts and Research Corporation ("ICRC") and two former subcontractors of ICRC (the "Anchorage Lawsuit"). Two additional defendants have been added to this litigation. With respect to ICRC, the Anchorage Lawsuit asserts, among other things, breach of contract, professional negligence and negligence in respect of work and services ICRC rendered under the Port of Anchorage Intermodal Expansion Contract with the Maritime Administration, a federal agency with the United States Department of Transportation. ICRC did not have a contract with the Municipality of Anchorage. ICRC's contract with the Maritime Administration expired on May 31, 2012. In April 2013, ICRC removed the lawsuit to the United States District Court for the District of Alaska. The Anchorage Lawsuit is expected to proceed to trial in early 2017.

On or about August 21, 2015, a lawsuit, The Charter Oak Fire Insurance Company, The Travelers Indemnity Company of Connecticut and Travelers Property Casualty Company of America v. Integrated Concepts and Research Corporation, VSE Corporation and Municipality of Anchorage, was filed against VSE and ICRC in the United States District Court for the District of Alaska. The plaintiff insurance companies are seeking, among other things, (a) a declaration by the court that there is no defense or indemnity coverage available to ICRC and VSE for the Anchorage Lawsuit under the insurance policies issued by the plaintiffs and (b) reimbursement of defense fees and costs incurred by the plaintiffs in the defense of uncovered claims in respect of the Anchorage Lawsuit.

Currently we cannot predict whether either of the two above-referenced lawsuits related to ICRC will have a material adverse effect on our results of operations or financial condition.

On or about February 27, 2015, a lawsuit, Heritage Disposal and Storage v. VSE Corporation, was filed against VSE in the United States District Court for the District of Nebraska. The litigation subsequently was transferred to the Eastern District of Virginia on November 9, 2015. The lawsuit asserts, among other things, breach of contract for services rendered related to the storage and manipulation of fireworks. The services relate to a prime contract that VSE maintains with the U.S. Bureau of Alcohol Tobacco, Firearms and Explosives. The complaint alleges that VSE has not paid Heritage the full charge for services rendered. Currently, we cannot predict whether this litigation will have a material adverse effect on our results of operations or financial position.

Further, from time-to-time, government agencies investigate whether our operations are being conducted in accordance with applicable contractual and regulatory requirements. Government investigations of us, whether relating to government contracts or conducted for other reasons, could result in administrative, civil or criminal liabilities, including repayments, fines or penalties being imposed upon us, or could lead to suspension or debarment from future government contracting. Government investigations often take years to complete and many result in no adverse action against us. We believe, based upon current information, that the outcome of any such government disputes and investigations will not have a material adverse effect on our results of operations or financial position.

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ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 4(a). Executive Officers of Registrant

Our executive officers are listed below, as well as information concerning their age and positions held with VSE. There is no family relationships among any of our executive officers. For executive officers who have been with us fewer than five years, their principal occupations and business experience during the last five years are provided. The executive officers are appointed annually to serve until the first meeting of VSE's Board of Directors (the "Board") following the next annual meeting of stockholders and until their successors are elected and have qualified, or until death, resignation or removal, whichever is sooner.

Name	Age	Position with Registrant
Joseph R. Brown	59	President, Federal Services Group
Maurice A. Gauthier	68	Director, Chief Executive Officer, President and Chief Operating Officer
Paul W. Goffredi	58	President, VSE's subsidiary VSE Aviation, Inc.
John T. Harris	64	President, VSE's subsidiary Akimeka, LLC
Thomas M. Kiernan	48	Vice President, General Counsel and Secretary
Thomas R. Loftus	60	Executive Vice President and Chief Financial Officer
Nancy Margolis	60	President, VSE's subsidiary Energetics Incorporated
Chad Wheeler	41	President, VSE's subsidiary Wheeler Bros., Inc.

Mr. Brown was appointed the President of the Federal Services Group in May 2015. Our Federal Services Group includes VSE's Global Maritime Services and Global Land Services divisions. Mr. Brown brings over 19 years of experience as a program and business unit manager at VSE. Mr. Brown leads an 850-person team, whose primary focus is refurbishment services to extend and enhance the life of existing vehicles and equipment, fleet-wide ship and aircraft support, aircraft sustainment and maintenance, foreign military sales and other technical, management, engineering, logistics, maintenance, configuration management, prototyping, technology, and field support services to the U.S. Navy and Marine Corps, U.S. Army and Army Reserve, U.S. Air Force, and other U.S. and foreign military customers. Prior to joining VSE in 1996, Mr. Brown served 20 years active duty in the U.S. Navy. He earned a Bachelor of Business Administration from University of Maryland University College and an Associate of Science in Mechanical Engineering from the University of Tennessee at Knoxville.

Mr. Goffredi was appointed President and Chief Operating Officer of VSE Aviation, Inc. in January 2015. VSE Aviation, Inc. includes Prime Turbines (including both U.S. and Germany-based operations), CT Aerospace, Kansas Aviation and Air Parts & Supply Co. His focus and background includes business development, strategic OEM and major customer relations, supply chain management, engine and material acquisition, and operational excellence and improvement. Mr. Goffredi has held leadership positions in the aviation industry for nearly three decades. Prior to joining the VSE team, Mr. Goffredi served as Chief Operating Officer for Killick Aerospace, and 13 years with BBA Aviation as Program Director for all Honeywell Engine Programs. Mr. Goffredi received a degree in Business

Administration from Mesa State College (Colorado) in 1980 and holds an MBA in Marketing and Finance from The University of St. Thomas (Texas).

Mr. Wheeler was appointed President and Chief Operating Officer of Wheeler Bros., Inc. ("WBI"), in July 2013. He is involved in the executive management of day-to-day operations, government contract administration, new business development, supply chain initiatives and facilities management. He serves as a member of WBI's board of directors. Since 1991, Mr. Wheeler assumed various roles at WBI, including Senior Vice President of Operations, Senior Vice President of Sales and Marketing, and Marketing and Sales Manager. While serving as Marketing and Sales Manager, Mr. Wheeler coordinated implementation of WBI's Managed Inventory Program which is used at the USPS' Vehicle Maintenance Facilities throughout the country. Mr. Wheeler graduated summa cum laude from Indiana University of Pennsylvania in 1998 with a degree in Marketing.

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PART II

ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

(a) Market Information

VSE common stock, par value $0.05 per share, is traded on The NASDAQ Global Select Market, trading symbol, "VSEC," Newspaper listing, "VSE."

The following table sets forth the range of high and low sales price (based on information reported by The NASDAQ Global Select Market) and cash dividend per share information for our common stock for each quarter and annually during the last two years.

Quarter Ended	High	Low	Dividends
2014:			
March 31	$53.00	$39.98	$ 0.09
June 30	70.35	52.85	0.10
September 30	74.86	47.51	0.10
December 31	66.23	48.85	0.10
For the Year	$74.86	$39.98	$ 0.39
2015:			
March 31	$84.06	$63.00	$ 0.10
June 30	83.89	52.31	0.11
September 30	55.35	33.52	0.11
December 31	67.86	38.08	0.11
For the Year	$84.06	$33.52	$ 0.43

(b) Holders

As of February 8, 2016, VSE common stock, par value $0.05 per share, was held by approximately 227 stockholders of record. The number of stockholders of record is not representative of the number of beneficial holders because many of VSE's shares are held by depositories, brokers or nominees.

(c) Dividends

In 2014 cash dividends were declared quarterly at the annual rate of $0.36 per share through March 31, 2014, and at the annual rate of $0.40 per share commencing June 1, 2014.

In 2015 cash dividends were declared quarterly at the annual rate of $0.40 per share through March 31, 2015, and at the annual rate of $0.44 per share commencing June 1, 2015.

Pursuant to our bank loan agreement (see Note 7, Debt, of "Notes to Consolidated Financial Statements" in Item 8 of this Form 10-K), the payment of cash dividends is subject to annual rate restrictions. We have paid cash dividends each year since 1973 and have increased our dividend each year since 2004.

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(d) Certain Sales and Repurchases of VSE Common Stock

During the fiscal year covered by this Form 10-K, VSE did not sell any of its equity securities that were not registered under the Securities Act of 1933, as amended. During the fourth quarter of the fiscal year covered by this Form 10-K, no purchases of equity securities of VSE were made by or on behalf of VSE or any "affiliated purchaser" (as defined in Exchange Act Rule 10b-18 (a)(3)) [other than 4,105 shares of our restricted common stock that were forfeited to the Company by participants in the VSE 2006 Restricted Stock Plan to cover their personal tax liability for restricted stock awards].

(e) Equity Compensation Plan Information

We have two compensation plans approved by our stockholders under which our equity securities are authorized for issuance to employees and directors: (i) the VSE Corporation 2004 Non-Employee Directors Stock Plan and (ii) the VSE Corporation 2006 Restricted Stock Plan (the "2006 Plan"). On May 6, 2014, the stockholders approved (i) amendments to the 2006 Plan extending the term thereof until May 6, 2021 and authorizing an additional 250,000 shares of our common stock for issuance under the 2006 Plan and (ii) an amendment to the 2004 Non-Employee Directors Stock Plan extending the term thereof from December 31, 2013 to December 31, 2018.

As of December 31, 2015, 66,406 shares of VSE common stock were available for future issuance under the VSE Corporation 2004 Non-Employee Directors Stock Plan and 261,880 shares of VSE common stock were available for future issuance under the 2006 Plan.

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Performance Graph

Set forth below is a line graph comparing the cumulative total return of VSE common stock with (a) a performance index for the broad market (The NASDAQ Global Select Market) on which VSE common stock is traded and (b) a published industry index. VSE common stock is traded on The NASDAQ Global Select Market, and our industry group is engineering and technical services (formerly SIC Code 8711). Accordingly, the performance graph compares the cumulative total return for VSE common stock with (a) an index for The NASDAQ Global Select Market (U.S. companies) ("NASDAQ Index") and (b) our peer group.

Performance Graph Table

	2010	2011	2012	2013	2014	2015
VSE	100	74.29	75.95	150.27	207.65	197.29
NASDAQ Composite	100	100.53	116.92	166.19	188.78	199.95
Peer Group	100	90.84	96.08	148.44	149.00	156.89

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ITEM 6. Selected Financial Data

(in thousands, except per share data)

	Years ended December 31,				
	2015	2014	2013	2012	2011
Revenues	$533,982	$424,071	$471,638	$546,755	$580,762
Income from continuing operations	$24,918	$20,489	$23,990	$27,364	$20,190
(Loss) income from discontinued operations	-	(1,124)	(1,138)	(6,070)	362
Net income	$24,918	$19,365	$22,852	$21,294	$20,552
Basic earnings per share:					
Income from continuing operations	$4.64	$3.83	$4.50	$5.18	$3.86
(Loss) income from discontinued operations	-	(0.21)	(0.21)	(1.15)	0.07
Net income	$4.64	$3.62	$4.29	$4.03	$3.93
Diluted earnings per share:					
Income from continuing operations	$4.62	$3.82	$4.49	$5.15	$3.83
(Loss) income from discontinued operations	-	(0.21)	(0.21)	(1.14)	0.07
Net income	$4.62	$3.61	$4.28	$4.01	$3.90
Cash dividends per common share	$0.43	$0.39	$0.35	$0.31	$0.27

	As of December 31,				
	2015	2014	2013	2012	2011
Working capital	$104,393	$34,871	$47,691	$64,976	$71,123
Total assets	$622,134	$355,330	$380,529	$410,211	$454,512
Long-term debt	$216,125	$23,563	$64,487	$116,377	$144,759
Long-term lease obligations	$23,251	$24,584	$25,721	$27,435	$33,938
Stockholders' equity	$229,309	$205,489	$186,803	$164,335	$143,600

This consolidated summary of selected financial data should be read in conjunction with Management's Discussion and Analysis of the Financial Condition and Results of Operations included in Item 7 of this Form 10-K and with the Consolidated Financial Statements and related Notes included in Item 8 of this Form 10-K. The historical results set forth in this Item 6 are not necessarily indicative of the results of operations to be expected in the future.

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ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Executive Overview

Customers and Services

We are a diversified services company that assists our clients in sustaining, extending the service life, and improving the performance of their transportation, equipment, and other assets and systems. We provide logistics services for legacy systems and equipment and professional and technical services to the United States Government (the "government"), including the United States Postal Service ("USPS"), the United States Department of Defense ("DoD"), federal civilian agencies, commercial customers, and to other customers. Our largest customers are the USPS and DoD. Our operations include supply chain management solutions and parts supply for vehicle fleets; maintenance, repair, and overhaul ("MRO") services and parts supply for aviation clients; vehicle and equipment maintenance and refurbishment; logistics; engineering; energy and environmental services; IT and health care IT solutions; and consulting services. See Item 1 "Business – Revenues and Contracts" on page 6 for revenues by customer.

Acquisitions

In January 2015, we acquired four related businesses that provide MRO services and parts supply for general aviation jet aircraft engines and engine accessories. The acquired businesses include Air Parts & Supply Co., Kansas Aviation of Independence, L.L.C., Prime Turbines LLC (including both U.S. and German based operations), and CT Aerospace LLC. These four businesses currently operate as a combined group, our Aviation Group, managed by our wholly owned subsidiary VSE Aviation, Inc., which retained certain key management members of the former ownership group.

On December 31, 2015, we acquired Ultra Seating Company, a company that manufactures and distributes seating for heavy duty and light duty commercial trucks, fork lifts, and service vehicles for truck fleets and original equipment manufacturers. Ultra Seating Company will operate under our Wheeler Bros., Inc. subsidiary.

Organization and Segments

Our operations are conducted within four reportable segments aligned with our management groups: 1) Supply Chain Management; 2) Aviation; 3) Federal Services; and 4) IT, Energy and Management Consulting.

Supply Chain Management Group – Our Supply Chain Management Group provides sourcing, acquisition, scheduling, transportation, shipping, logistics, data management, and other services to assist our clients with supply chain management efforts. This group consists of our wholly owned subsidiary Wheeler Bros., Inc. ("WBI"). The primary revenue source for this group is WBI's USPS Managed Inventory Program ("MIP") that supplies vehicle parts and mission critical supply chain support for the USPS truck fleet. Other current work efforts include managed inventory services and parts sales to support commercial client truck fleets, parts sales to DoD, and other projects to support the USPS.

Aviation Group – Our Aviation Group provides MRO services, parts supply and distribution, and supply chain solutions for general aviation jet aircraft engines and engine accessories. This group consists of our four aviation businesses acquired in January 2015 (the "Aviation Acquisition"). These businesses have a diversified client base serving corporate and private aircraft owners, regional airlines, aviation manufacturers, other aviation MRO providers, cargo transporters, and agricultural clients.

Federal Services Group - Our Federal Services Group provides foreign military sales services, refurbishment services to extend and enhance the life of existing vehicles and equipment, fleet-wide ship and aircraft support, aircraft sustainment and maintenance, and other technical, management, engineering, logistics, maintenance, configuration management, prototyping, technology, and field support services to the U.S. Navy and Marine Corps, U.S. Army and Army Reserve, U.S. Air Force, and other customers. Significant work efforts for this group include assistance to the U.S. Navy in executing its Foreign Military Sales ("FMS") Program for surface ships sold, leased or granted to foreign countries, our U. S. Army Reserve vehicle refurbishment program, various vehicle and equipment maintenance and sustainment programs for U. S. Army commands, various task orders under the U.S. Air Force Contract Field Teams ("CFT") Program, and, beginning in August 2015, our Ft. Benning Logistics Support Services Program supporting base operations and logistics at Fort Benning, Georgia.

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IT, Energy and Management Consulting Group – Our IT, Energy and Management Consulting Group provides technical and consulting services primarily to various DoD and federal civilian agencies, including the United States Departments of Energy, Homeland Security, Commerce, Treasury, and Interior; the Social Security Administration; the National Institutes of Health; customers in the military health system; and other government agencies and commercial clients. This group consists of our wholly owned subsidiaries Energetics Incorporated ("Energetics") and Akimeka, LLC ("Akimeka"). Energetics provides technical, policy, business, and management support in areas of energy modernization, clean and efficient energy, climate change mitigation, infrastructure protection, and measurement technology. Akimeka offers solutions in fields that include medical logistics, medical command and control, e-health, information assurance, public safety, enterprise architecture development, business continuity, program and portfolio management, network IT services, cloud managed services, systems design and integration, quality assurance services, and product and process improvement services.

Concentration of Revenues

	(in thousands)					
	Years ended December 31,					
Source of Revenues	2015	%	2014	%	2013	%
USPS MIP	$174,665	33	$160,742	38	$142,147	30
FMS Program	76,476	14	86,399	20	94,950	20
U.S. Army Reserve	32,533	6	47,765	11	60,162	13
Other	250,308	47	129,165	31	174,379	37
Total Revenues	$533,982	100	$424,071	100	$471,638	100

Management Outlook

We finished 2015 showing a marked improvement in our operating results over the prior year. Strong performance from our supply chain operations and the addition of our aviation MRO, parts supply and distribution businesses were the primary drivers behind this growth. Additionally, financial performance of our contracted services businesses to our traditional markets showed steady improvement as the year progressed. We believe that our 2015 results suggest continued improvements in our overall performance going into 2016.

Our Supply Chain Management Group has demonstrated continued growth in both new and existing markets and offerings in 2015. Our vehicle parts supply and inventory management support for the USPS delivery vehicle fleet, and support to the USPS in adapting its fleet for greater package delivery demand, are the primary drivers of this group's growth and successful results. The USPS is a key client for which our mission critical supply chain support should continue to be essential in sustaining its aging fleet as this client embarks on a lengthy transition to a new replacement fleet. We believe that our years of service and knowledge of this client's needs strategically position us to participate on industry teams in the prospective competition to provide the next generation USPS delivery vehicles. Independent of that outcome, we anticipate servicing this eventual replacement fleet in the same manner we serve the existing fleet. We also are experiencing successful results from marketing our supply chain solutions to commercial clients operating large vehicle fleets, and we have bolstered our access to commercial markets with our acquisition of Ultra Seating Company. Additionally, we increased our sales of vehicle parts to the DoD in 2015. We believe the potential exists to continue revenue growth for this group.

We have successfully integrated our Aviation Group, which has made significant contributions to our operating results in 2015. Our Aviation Group has provided us with a wide range of new clients, enabling us to diversify our business to include a substantial portion of revenue from commercial clients. We are seeking to extend this group's offerings to our traditional U.S. and international military client base. Our Aviation Group is a valuable part of our strategy to expand our markets for sustainment services while diversifying our revenue base and strengthening growth potential.

Our revenue and operating income levels from DoD and federal civilian agencies served by our Federal Services group showed improvement in the second half of 2015. We began work on our contract to provide logistics support services to the Fort Benning Logistics Readiness Center, which began generating revenues in the third quarter of 2015 and has contract options that call for performance over a five and one half year period. We have seen an increase in new contract awards and funding, including funding totaling approximately $178 million during the second half of 2015. In December 2015 government authorization to transfer two frigates to Taiwan under our FMS Program was finalized, and as a result we expect revenue increases under this program. We believe these events position us well for 2016 and future years and we look forward to improved results from our government contract work.

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Through our work with foreign client countries, we have developed strong international business relationships through which we are directly marketing our services to international clients.

Bookings and Funded Backlog

Revenues for federal government contract work performed by our Federal Services and IT, Energy and Management Consulting groups depend on contract funding ("bookings"), and bookings generally occur when contract funding documentation is received. Funded contract backlog is an indicator of potential future revenue for these groups. While bookings and funded contract backlog generally result in revenue, we may occasionally have funded contract backlog that expires or is de-obligated upon contract completion and does not generate revenue.

Bookings for our Supply Chain Management and Aviation groups occur at the time of sale. Accordingly, these groups do not generally have funded contract backlog and backlog is not an indicator of their potential future revenues. Due to the nature of revenues generated by our Supply Chain Management and Aviation groups, we include only our Federal Services and IT, Energy and Management Consulting groups in our disclosure relative to bookings and funded contract backlog.

A summary of our bookings and revenues for our Federal Services and IT, Energy and Management Groups for the years ended December 31, 2015, 2014 and 2013, and funded contract backlog for these groups as of December 31, 2015, 2014 and 2013 is as follows (in millions):

	2015	2014	2013
Bookings	$281	$217	$354
Revenues	$217	$252	$317
Funded Backlog	$238	$193	$234

Contract Award and Protest

In December 2015, we were awarded a task order on one of our contracts to provide logistics support, maintenance, repair, overhaul, modification and upgrade of military vehicles and other equipment for the Red River Army Depot. The task order has a total potential value of $243.8 million over three and one half years, if all options are exercised, and is estimated to require over 1,100 VSE and supporting subcontractor employees. The award was subsequently protested, and a ruling on the protest will likely be made in March or April 2016.

Recently Issued Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, Leases (Topic 842) Leases: Amendments to the FASB Accounting Standards Codifications, to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The ASU will become effective for us in January 2019. Early adoption of the ASU is permitted. We currently are assessing the impact, if any that this standard will have on our consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes, which amends the current requirement for organizations to present deferred tax assets and liabilities as current and noncurrent in a classified balance sheet. Organizations will now be required to classify all deferred tax assets and liabilities as noncurrent. The ASU will become effective for us in January 2017. Early adoption of the ASU is permitted. We currently are assessing the impact, if any that this standard will have on our consolidated financial statements.

In September 2015, the FASB issued ASU No. 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments, which eliminates the requirement to account for measurement-period adjustments retrospectively. The ASU instead requires an acquirer to recognize a measurement-period adjustment during the period in which it determines the amount of the adjustment. We adopted the standard on January 1, 2015 and will prospectively apply the standard to business combination adjustments identified after the date of adoption.

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In April 2015, the FASB issued ASU No. 2015-03, Simplifying the Presentation of Debt Issuance Costs. Under the new standard, debt issuance costs related to a recognized debt liability are required to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The guidance in ASU 2015-03 is effective for the fiscal year, and interim periods within that fiscal year, beginning after December 15, 2015. We currently are assessing the impact that this standard will have on our consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The ASU is based on the principle that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to fulfill a contract. The effective date of the ASU was recently deferred for one year to the interim and annual periods beginning on or after December 15, 2017. Early adoption is permitted as of the original effective date – interim and annual periods beginning on or after December 15, 2016. We currently are assessing the impact that this standard will have on our consolidated financial statements.

Critical Accounting Policies

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States, which require us to make estimates and assumptions. We believe the following critical accounting policies affect the more significant accounts, particularly those that involve judgments, estimates and assumptions used in the preparation of our consolidated financial statements.

Revenue Recognition

Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the fee is fixed or determinable, and collectability is probable.

Substantially all of our Supply Chain Management Group revenues result from the sale of vehicle parts to clients. We recognize revenue from the sale of vehicle parts when the customer takes ownership of the parts.

Our Aviation Group revenues are recognized upon the shipment or delivery of products to customers based on when title or risk of loss transfers to the customer. Sales returns and allowances are not significant.

Substantially all of our Federal Services and IT, Energy and Management Consulting work is performed for our customers on a contract basis. The three primary types of contracts used are time and materials, cost-type, and fixed-price. Revenues result from work performed on these contracts by our employees and our subcontractors and from costs for materials and other work related costs allowed under our contracts.

Revenue recognition methods on fixed-price contracts will vary depending on the nature of the work and the contract terms. Revenues on fixed-price service contracts are recorded as work is performed, typically ratably over the service period. Revenues on fixed-price contracts that require delivery of specific items are recorded based on a price per unit as units are delivered.

Revenues on cost-type contracts are recorded as contract allowable costs are incurred and fees are earned. Our FMS Program contract is a cost plus award fee contract. This contract has terms that specify award fee payments that are determined by performance and level of contract activity. Award fees are made during the year through a contract modification authorizing the award fee that is issued subsequent to the period in which the work is performed. We recognize award fee income on the FMS Program contract when the fees are fixed or determinable. Due to such timing, and to fluctuations in the level of revenues, profits as a percentage of revenues on this contract will fluctuate from period to period.

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Revenues for time and materials contracts are recorded on the basis of contract allowable labor hours worked multiplied by the contract defined billing rates, plus the direct costs and indirect cost burdens associated with materials and subcontract work used in performance on the contract. Generally, profits on time and materials contracts result from the difference between the cost of services performed and the contract defined billing rates for these services.

A summary of revenues for our operating groups, including a summary by contract type for our Federal Services and IT, Energy and Management Consulting groups, for the years ended December 31 is presented below (in thousands).

Contract Type	2015 Revenues	%	2014 Revenues	%	2013 Revenues	%
Supply Chain Management and Aviation Group revenues	$316,501	59.3	$172,482	40.7	$154,702	32.8
Cost-type	100,447	18.8	120,915	28.5	119,350	25.3
Fixed-price	74,490	13.9	87,807	20.7	102,487	21.7
Time and materials	42,544	8.0	42,867	10.1	95,099	20.2
Total Federal Services and IT, Energy and Management Consulting revenues	217,481	40.7	251,589	59.3	316,936	67.2
Total revenues	$533,982	100.0	$424,071	100.0	$471,638	100.0

We will occasionally perform work at risk, which is work performed prior to formalizing contract funding for such work. Revenue related to work performed at risk is not recognized until it can be reliably estimated and its realization is probable. We recognize this "risk funding" as revenue when the associated costs are incurred or the work is performed. We are at risk of loss for any risk funding not received. Revenues recognized as of December 31, 2015 include approximately $1.5 million for which we had not received formalized funding. We believe that we are entitled to reimbursement and expect to receive all of this funding.

Earn-out Obligations

We value our Aviation Acquisition earn-out obligations using a probability-weighted discounted cash flow method. Significant unobservable inputs used to value the contingent consideration include projected earnings before interest, taxes, depreciation and amortization and the discount rate. Interest expense and subsequent changes in the fair value of the earn-out obligations are recognized in earnings for the period of the change.

Goodwill and Intangible Assets

Goodwill is subject to a review for impairment at least annually. We perform an annual review of goodwill for impairment during the fourth quarter and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The impairment assessment requires us to estimate the fair value of our reporting units and involves the use of subjective assumptions. We estimated the fair value of our reporting units using a weighting of fair values derived from the income approach, market approach, and comparative transactions approach with the heaviest weighting placed on the income approach. Under the income approach, we calculate the fair value of a reporting unit based on the present value of estimated future cash flows. Cash flow projections are based on our estimates of revenue growth rates and operating margins, taking into consideration industry and market conditions. The discount rate used is based on a weighted average cost of capital adjusted for the relevant risk associated with the characteristics of the business and the projected cash flows.

In the fourth quarter of 2015, we performed our annual goodwill impairment analysis for each of our reporting units. The results of the impairment analysis indicated that the fair value of our Akimeka reporting unit within our IT, Energy, and Management Consulting Group exceeded its carrying value by approximately 9%. Akimeka has experienced a reduction in services performed due to a decline in services ordered by clients on contracts, contract expirations, and the government's practice of awarding the types of work performed by Akimeka on expiring contracts to small businesses as set-aside contracts. Based on our assessment of these circumstances, we have determined that Akimeka is at risk of a future goodwill impairment if there is further deterioration of projected cash flows or negative changes in market factors. The carrying value of our Akimeka reporting unit included goodwill of approximately $29.8 million as of December 31, 2015.

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As of December 31, 2015, we have no intangible assets with indefinite lives and we had an aggregate of approximately $199 million of goodwill associated with our acquisitions.

Results of Operations

	Revenues (in thousands) Years ended December 31,					
	2015	%	2014	%	2013	%
Supply Chain Management Group	$196,772	36.8	$172,482	40.7	$154,702	32.8
Aviation Group	119,729	22.4	-	-	-	-
Federal Services Group	166,973	31.3	190,761	45.0	242,343	51.4
IT, Energy and Management Consulting Group	50,508	9.5	60,828	14.3	74,593	15.8
	$533,982	100.0	$424,071	100.0	$471,638	100.0

Our revenues increased by approximately $110 million or 26% for the year ended December 31, 2015 as compared to the prior year. The change in revenues for this period resulted from an increase of approximately $120 million due to the inclusion our Aviation Group in our operating results in 2015, an increase in our Supply Chain Management Group of approximately $24 million, a decrease in our Federal Services Group of approximately $24 million, and a decrease in our IT, Energy, and Management Consulting Group of approximately $10 million.

Our revenues decreased by approximately $48 million or 10% for the year ended December 31, 2014 as compared to the prior year. The change in revenues for this period resulted from a decrease in our Federal Services Group of approximately $52 million, a decrease in our IT, Energy, and Management Consulting Group of approximately $14 million, and an increase in our Supply Chain Management Group of approximately $18 million.

	Consolidated Statements of Income (in thousands) Years ended December 31,					
	2015	%	2014	%	2013	%
Revenues	$533,982	100.0	$424,071	100.0	$471,638	100.0
Contract costs	480,155	89.9	383,001	90.3	424,250	90.0
Selling, general and administrative expenses	3,288	0.6	4,140	1.0	3,285	0.7
Operating income	50,539	9.5	36,930	8.7	44,103	9.3
Interest expense, net	9,544	1.8	3,983	0.9	5,789	1.2
Income before income taxes	40,995	7.7	32,947	7.8	38,314	8.1
Provision for income taxes	16,077	3.0	12,458	3.0	14,324	3.0
Income from continuing operations	24,918	4.7	20,489	4.8	23,990	5.1
(Loss) income from discontinued operations, net of tax	-	-	(1,124)	(0.2)	(1,138)	(0.2)
Net income	$24,918	4.7	$19,365	4.6	$22,852	4.9

Contract costs consist primarily of direct costs including inventory, labor, material, and supplies used in the delivery of our products and performance of our work, and indirect costs associated with these direct costs. These costs will generally increase or decrease in conjunction with products sold or the level of work associated with our revenues.

Our contract costs increased by approximately $97 million or 25% in 2015 as compared to 2014. The change in contract costs resulted from an increase of approximately $109 million due to the inclusion our Aviation Group in our operating results, an increase in our Supply Chain Management Group of approximately $19 million, a decrease in our Federal Services Group of approximately $22 million, and a decrease in our IT, Energy, and Management Consulting Group of approximately $8 million.

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Our contract costs decreased by approximately $41 million or 10% in 2014 as compared to 2013. The decrease resulted from a decrease in our Federal Services Group of approximately $45 million, a decrease in our IT, Energy, and Management Consulting Group of approximately $11 million, and an increase in our Supply Chain Management Group of approximately $15 million.

Selling, general and administrative expenses consist primarily of costs and expenses that are not chargeable or reimbursable on our operating unit contracts. These costs decreased by approximately $852 thousand for 2015 as compared to the prior year. These costs included legal, consulting, professional services fees and other costs associated with our acquisitions of approximately $618 thousand in 2015 and approximately $1.1 million in 2014.

Our operating income increased by approximately $13.6 million or 37% in 2015 as compared to 2014. The increase resulted primarily from an increase of approximately $10.6 million due to the inclusion our Aviation Group in our operating results in 2015, an increase in our Supply Chain Management Group of approximately $5.8 million, a decrease in our Federal Services Group of approximately $1.4 million, and a decrease in our IT, Energy, and Management Consulting Group of approximately $1.9 million.

Our operating income decreased by approximately $7.2 million or 16% in 2014 as compared to 2013. The decrease resulted primarily from a decrease of approximately $6 million in our Federal Services Group and a decrease of approximately $2.4 million in our IT, Energy and Management Consulting Group. These decreases were partially offset by an increase in operating income in our Supply Chain Management Group of approximately $2.4 million.

Interest expense increased in 2015 as compared to 2014, primarily due to an increase in borrowing to finance our Aviation Acquisition. Interest expense decreased in 2014 as compared to 2013, due to reductions in our borrowing to pay down our bank debt. Interest expense also includes interest related to our executive and administrative headquarters facility lease. The amount of interest expense associated with capital leases is approximately $1.6 million for 2015, approximately $1.7 million for 2014, and approximately $1.7 million for 2013.

Provision for Income Taxes

Our effective tax rate from continuing operations was 39.2% for 2015, 37.8% for 2014, and 37.4% for 2013. Our tax rate is affected by discrete items that may occur in any given year, but may not be consistent from year to year. In addition to state income taxes, certain tax credits and other items can impact the difference between our statutory U.S. Federal income tax rate of 35% and our effective tax rate. A Canadian tax obligation and approximately $900 thousand of transaction costs that will not be deducted for tax purposes, both associated with our Aviation Acquisition, resulted in an increase to our effective tax rate of approximately 1.3 percentage points for 2015. Other permanent differences and federal and state tax credits such as the work opportunity tax credit and a state educational improvement tax credit provided a benefit to our tax rates of 1.2 percentage points for 2015, 1.7 percentage points for 2014 and 1.9 percentage points for 2013.

Supply Chain Management Group Results

The results of operations for our Supply Chain Management Group are (in thousands):

	Years ended December 31,					
	2015	%	2014	%	2013	%
Revenues	$196,772	100.0	$172,482	100.0	$154,702	100.0
Contract costs	161,124	81.9	142,201	82.5	126,869	82.0
Selling, general and administrative expenses	195	0.1	587	0.3	534	0.4
Operating income	$35,453	18.0	$29,694	17.2	$27,299	17.6

Revenues for our Supply Chain Management Group increased approximately $24 million or 14% for 2015, as compared to the prior year. The revenue increase resulted primarily from increases in WBI's USPS MIP revenues and to DoD and commercial customer revenues and other projects performed for the USPS. Contract costs for our Supply Chain Management Group increased by approximately $19 million or 13% and operating income increased by approximately $5.8 million or 19% for 2015 as compared to the prior year. Contract cost and operating income increases resulted primarily from the increase in USPS MIP revenues. Operating income for this segment was decreased by approximately $527 thousand in 2015 and by approximately $3.1 million in 2014 due to adjustments to the accrued earn-out obligation for our WBI acquisition. The earn-out period for our WBI acquisition ended at June 30, 2015, finalizing the earn-out obligation amount, and the final earn-out payment for this obligation was made in September 2015.

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Revenues for our Supply Chain Management Group increased approximately $18 million or 11% for 2014, as compared to the prior year. The revenue increase resulted primarily from an increase in WBI's USPS MIP revenues and to additional revenues associated with other projects performed for the USPS and revenues from new customers. DoD revenues for this group declined slightly in 2014 as compared to the prior year. Contract costs for our Supply Chain Management Group increased by approximately $15 million or 12% and operating income increased by approximately $2.4 million or 9% for 2014 as compared to the prior year. Contract cost and operating income increases resulted primarily from the increase in USPS MIP revenues. Operating income for this segment was decreased by approximately $3.1 million in 2014 and by approximately $183 thousand in 2013 due to adjustments to the accrued earn-out obligation for our WBI acquisition.

Aviation Group Results

The results of operations for our Aviation Group since the acquisition date of January 28, 2015 are as follows (in thousands):

	Year ended December 31,	
	2015	%
Revenues	$119,729	100.0
Contract costs	108,813	90.9
Selling, general and administrative expenses	281	0.2
Operating income	$10,635	8.9

Contract costs for this group include expense for amortization of intangible assets associated with the Aviation Acquisition, allocated corporate costs, and a valuation adjustment to the accrued earn-out obligation associated with the acquisition. Expense for amortization of intangible assets was approximately $6.1 million, allocated corporate costs were approximately $4.5 million, and the valuation adjustment to earn-out obligation decreased these costs by $101 thousand. We finalized the purchase price accounting of our Aviation Acquisition during the fourth quarter of 2015. As such, we determined during the fourth quarter that approximately $700 thousand of indirect costs expensed in previous quarters was required to be capitalized as inventory.

Federal Services Group Results

The results of operations for our Federal Group are (in thousands):

	Years ended December 31,					
	2015	%	2014	%	2013	%
Revenues	$166,973	100.0	$190,761	100.0	$242,343	100.0
Contract costs	164,314	98.4	186,690	97.9	231,538	95.5
Selling, general and administrative expenses	588	0.4	619	0.3	1,336	0.6
Operating income	$2,071	1.2	$3,452	1.8	$9,469	3.9

Revenues for our Federal Services Group decreased approximately $24 million or 12% and contract costs decreased approximately $22 million or 12% for 2015, as compared to the prior year. Revenues for this group decreased approximately $52 million or 21% and contract costs decreased approximately $45 million or 19% for 2014, as compared to the prior year.

Significant items affecting changes in our revenues and contract costs for 2015 included a decrease in revenue of approximately $15.2 million associated with a reduction in our Army Reserve vehicle refurbishment work, a decrease in revenue of approximately $9.9 million associated with a reduction in our FMS Program services, a decrease in revenue of approximately $9.3 million associated with the completion of our U.S. Treasury Seized Assets Program in March 2014, and an increase in revenue of approximately $8.5 million associated with the start of our Ft. Benning Logistics Support Services Program.

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Operating income and profit percentage decreases for 2015 resulted primarily from the decrease in revenues and to certain facility and infrastructure costs that could not be reduced as rapidly as the decline in the revenues on the programs that these costs supported. We have reduced costs in this group and believe that we are achieving balance between revenue levels and the supporting cost structure. These cost reductions and increased revenues have resulted in the improvement in operating income in the second half of 2015.

The decrease in revenues and contract costs for 2014 was primarily attributable to a decrease in revenue of approximately $27 million associated with the completion of our U.S. Treasury Seized Assets Program in March 2014, to a reduction in our Army Reserve vehicle refurbishment work of approximately $12 million, to a decrease in revenue of approximately $9 million on our FMS Program, and to smaller revenue decreases in our CFT Program services and other work.

Operating income for our Federal Services Group decreased by approximately $6 million or 64% for 2014, as compared to the prior year. The decrease in operating income for 2014 was primarily attributable to a decrease of approximately $3.5 million associated with the completion of our U.S. Treasury Seized Assets Program in March 2014, a reduction of profits on our U.S. Army Reserve vehicle refurbishment program of approximately $1 million due to the reduction in revenues on this program, and to the continuation of fixed infrastructure costs during the time that revenue levels declined. Our operating income was reduced in 2014 by a charge of approximately $398 thousand for a Department of Treasury claim for an inventory shortage, and was reduced in 2013 by a charge of approximately $1.2 million associated with idle warehouse facilities associated with our Seized Asset Programs.

Profit margins in this group can vary due to fluctuations in contract activity and the timing of contract award fees associated with our FMS Program. Award fee evaluations on our FMS Program occur three times per year and we recognize award fee revenue and income in the period we receive contractual notification of the award. We recognized award fee revenue and income in 2015 from three award fee notifications.

IT, Energy and Management Consulting Group Results

The results of operations for our IT, Energy and Management Consulting Group are (in thousands):

	Years ended December 31,					
	2015	%	2014	%	2013	%
Revenues	$50,508	100.0	$60,828	100.0	$74,593	100.0
Contract costs	45,713	90.5	54,119	89.0	65,359	87.6
Selling, general and administrative expenses	64	0.1	75	0.1	173	0.2
Operating income	$4,731	9.4	$6,634	10.9	$9,061	12.2

Revenues for our IT, Energy and Management Consulting Group decreased approximately $10 million or 17% for 2015, as compared to the prior year. Contract costs decreased approximately $8 million or 16% for 2015, as compared to the prior year. The revenue and contract cost decreases resulted primarily from a decline in services ordered by clients, contract expirations, and a loss of work performed by this group on expiring contracts for which the follow-on work was awarded to small businesses on set-aside contracts. Operating income for this segment decreased approximately $1.9 million or 29% for 2015, as compared to the prior year. The decrease in operating income is primarily attributable to the decrease in revenue and lower profit margins resulting from cost balancing challenges associated with the lower revenue levels

Revenues for our IT, Energy and Management Consulting Group decreased approximately $14 million or 18% for 2014, as compared to the prior year. Contract costs for this group decreased approximately $11 million or 17% for 2014, as compared to the prior year. The decreases in revenues and contract costs were due primarily to a decline in services ordered by clients on continuing contracts and the expiration of a contract in the fourth quarter of 2013. Revenue on the expired contract was approximately $7.6 million for 2013. Operating income for this segment decreased approximately $2.4 million, or 27% for 2014, as compared to the prior year. The decrease in operating income is primarily attributable to the decrease in revenues and lower profit margins associated with new contracts that replaced predecessor contracts, which were partially offset by indirect cost reductions and efficiencies.

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Financial Condition

There has been no material adverse change in our financial condition in 2015. Our capital structure has changed as a result of our Aviation Acquisition in January 2015 and associated bank financing. Our bank debt increased by approximately $186 million during this period. Changes to asset and liability accounts were due primarily to our earnings, our level of business activity, the timing of inventory purchases, contract delivery schedules, subcontractor and vendor payments required to perform our contract work, the timing of associated billings to and collections from our customers, and the Aviation Acquisition.

Liquidity and Capital Resources

Cash Flows

Cash and cash equivalents increased by approximately $477 thousand during 2015.

Cash provided by operating activities decreased by approximately $12.1 million in 2015 as compared to 2014. The change is attributable to a decrease of approximately $19.2 million due to changes in the levels of operating assets and liabilities; an increase of approximately $5.6 million in cash provided by net income; and an increase of approximately $1.5 million in depreciation and amortization and other non-cash operating activities.

Our inventories and accounts receivable represent a significant amount of our assets, and our accounts payable represent a significant amount of our operating liabilities. Cash used related to increases in inventory was approximately $10.4 million and cash used related to increases in accounts receivable was approximately $8.1 million for 2015. Inventory levels and accounts payable may fluctuate depending on the timing and amounts of inventory purchases. A significant portion of our accounts receivable and accounts payable result from the use of subcontractors to perform work on our contracts and from the purchase of materials to fulfill our contract obligations. Accordingly, our levels of accounts receivable and accounts payable may fluctuate depending on the timing of services ordered and products sold, government funding delays, the timing of billings received from subcontractors and materials vendors, and the timing of payments received for services. Such timing differences have the potential to cause significant increases and decreases in our inventory, accounts receivable, and accounts payable in short time periods, and accordingly, can cause increases or decreases in our cash provided by operations.

Cash used in investing activities increased approximately $202 million in 2015 as compared to 2014. Cash used in investing activities for 2015 included approximately $195 million for acquisitions and approximately $11 million for purchases of property and equipment primarily related to the expansion of our WBI facilities.

Cash provided by financing activities was approximately $168 million in 2015 as compared to cash used in financing activities of approximately $46 million in 2014. This difference was primarily due to bank borrowing to finance our acquisitions in 2015. We used approximately $12 million for earn-out obligation payments.

Cash provided by operating activities decreased by approximately $6.9 million in 2014 as compared to 2013. The change is attributable to a decrease of approximately $8.4 million due to changes in the levels of operating assets and liabilities; an increase of approximately $5 million in depreciation and amortization and other non-cash operating activities; and a decrease of approximately $3.5 million in cash provided by net income.

Cash used in investing activities decreased approximately $1.0 million in 2014 as compared to 2013. Cash used in investing activities consisted of purchases of property and equipment.

Cash used in financing activities decreased approximately $7.2 million in 2014 as compared to 2013. Cash used in financing activities consisted primarily of repayments on our bank loan, earn-out obligation payments, and dividends.

We paid cash dividends totaling approximately $2.3 million or $0.42 per share during 2015. Pursuant to our bank loan agreement, our payment of cash dividends is subject to annual restrictions. We have paid cash dividends each year since 1973 and have increased our dividend each year since 2004.

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Liquidity

Our internal sources of liquidity are primarily from operating activities, specifically from changes in our level of revenues and associated inventory, accounts receivable, and accounts payable, and from profitability. Significant increases or decreases in revenues and inventory, accounts receivable, and accounts payable can impact our liquidity. Our inventory and accounts payable levels can be affected by the timing of large opportunistic inventory purchases. Our accounts receivable and accounts payable levels can be affected by changes in the level of contract work we perform, by the timing of large materials purchases and subcontractor efforts used in our contracts, and by delays in the award of contractual coverage and funding and payments. Government funding delays can cause delays in our ability to invoice for revenues earned, presenting a potential negative impact on our days sales outstanding.

We also purchase property and equipment; invest in expansion, improvement, and maintenance of our operational and administrative facilities; and invest in the acquisition of other companies. In 2015, our acquisitions required a significant use of cash.

Our external financing consists of an amended loan agreement with a bank group that provides for a term loan, revolving loans, and letters of credit, all with a termination date of January 2020. The amended agreement was implemented in January 2015 concurrent with our Aviation Acquisition.

The term loan requires quarterly installment payments. Our scheduled term loan payments after December 31, 2015 are $17.8 million in 2016, $21.6 million in 2017, $28.1 in 2018, $30 million in 2019, and $36.3 million in 2020. The amount of our term loan borrowings outstanding as of December 31, 2015 was $133.8 million.

The maximum amount of credit available to us from the banking group for revolving loans and letters of credit as of December 31, 2015 was $150 million. We may borrow and repay the revolving loan borrowings as our cash flows require or permit. We pay an unused commitment fee and fees on letters of credit that are issued. We had approximately $101 million in revolving loan amounts outstanding and no letters of credit outstanding as of December 31, 2015. The timing of certain payments made and collections received associated with our inventory, subcontractor, and materials requirements and other operating expenses can cause fluctuations in our outstanding revolving loan amounts. Delays in government funding of our work performed can also cause additional borrowing requirements.

Under the loan agreement we may elect to increase the maximum availability of the term loan facility, the revolving loan facility, or a combination of both facilities up to an aggregate additional amount of $75 million.

We pay interest on the term loan borrowings and revolving loan borrowings at LIBOR plus a base margin or at a base rate (typically the prime rate) plus a base margin. As of December 31, 2015, the LIBOR base margin was 2.5% and the base rate base margin was 1.25%. At inception of the amended and restated loan agreement the LIBOR base margin is 2.25% and the base rate base margin was 1.00%. The base margins increase or decrease in steps as our Total Funded Debt/EBITDA Ratio increases or decreases.

The terms of the loan agreement require us to have interest rate hedges on a portion of the outstanding term loan for the first three years of the agreement. We executed such compliant interest rate hedges in February 2015. After taking into account the impact of hedging instruments, as of December 31, 2015, interest rates on portions of our outstanding debt ranged from 2.82% to 4.75%, and the effective interest rate on our aggregate outstanding debt was 3.29%.

The loan agreement contains collateral requirements to secure our loan agreement obligations, restrictive covenants, a limit on annual dividends, and other affirmative and negative covenants, conditions and limitations. Restrictive covenants include a maximum Total Funded Debt/EBITDA Ratio, which decreases over time, and a minimum Fixed Charge Coverage Ratio. We were in compliance with the financial covenants and other terms and conditions at

December 31, 2015.

	Current Maximum Ratio	Actual Ratio
Total Funded Debt/EBITDA Ratio	3.25 to 1	2.97 to 1

	Minimum Ratio	Actual Ratio
Fixed Charge Coverage Ratio	1.20 to 1	1.71 to 1

We currently do not use public debt security financing.

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Contractual Obligations

Our contractual obligations as of December 31, 2015 are (in thousands):

	Payments Due by Period				
Contractual Obligations	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Bank loan debt	$234,724	$17,812	$49,688	$167,224	$-
Operating leases, net of non-cancelable sublease income	6,859	3,287	2,888	677	7
Corporate headquarters lease, net of non-cancelable sublease income	52,754	3,410	8,441	9,035	31,868
Purchase obligations	1,228	850	378	-	-
Total	$295,565	$25,359	$61,395	$176,936	$31,875

Estimated cash requirements for interest on our bank loan debt are approximately $6.6 million for 2016 and $5.2 million for 2017.

Operating lease commitments are primarily for leased facilities for office, shop, and warehouse space. Equipment and software leases are also included in these amounts.

We have a 15-year lease agreement related to our executive and administrative headquarters facility. Terms of our lease agreement have required us to capitalize the construction costs of the leased building and account for the lease upon occupancy in May 2012 under the finance method of lease accounting rules.

Purchase obligations consist primarily of contractual commitments associated with our information technology systems. The table excludes contractual commitments for materials or subcontractor work purchased to perform government contracts. Such commitments for materials and subcontractors are reimbursable when used on the contracts, and generally are also reimbursable if a contract is "terminated for convenience" by the government pursuant to federal contracting regulations.

Inflation and Pricing

Most of our contracts provide for estimates of future labor costs to be escalated for any option periods, while the non-labor costs in our contracts are normally considered reimbursable at cost. Our property and equipment consists principally of land, buildings and improvements, shop and warehouse equipment, computer systems equipment, and furniture and fixtures. We do not expect the overall impact of inflation on replacement costs of our property and equipment to be material to our future results of operations or financial condition.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risks

Interest Rates

Our bank loans provide available borrowing to us at variable interest rates. Accordingly, future interest rate changes could potentially put us at risk for a material adverse impact on future earnings and cash flows. To mitigate the risks associated with future interest rate movements we have employed interest rate hedges to fix the rate on a portion of our outstanding borrowings for various periods. The resulting fixed rates on this portion of our debt are higher than the variable rates and have increased our net effective rate, but have given us protection us against interest rate increases.

In February 2015, we entered into a LIBOR based interest rate swap on our term loan for a term of four years with a notional amount of $100 million. The swap amount on our term loan decreases in increments on an annual basis. With the term loan swap in place, we pay an effective rate of 1.129% plus our base margin. Also in February 2015, we entered into a LIBOR based interest rate swap on our revolving loan for a term of three years with a notional amount of $25 million. With the revolving loan swap in place, we pay an effective rate of 0.95% plus our base margin. In February 2016, the rate on both the term loan swap and the revolving loan swap will increase to 1.25% plus our base margin.

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ITEM 8. Financial Statements and Supplementary Data

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of VSE Corporation

We have audited the accompanying consolidated balance sheets of VSE Corporation and Subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of VSE Corporation and Subsidiaries at December 31, 2015 and 2014, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), VSE Corporation and Subsidiaries' internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) and our report dated March 3, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

McLean, Virginia
March 3, 2016

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VSE Corporation and Subsidiaries
Consolidated Balance Sheets

(in thousands, except share and per share amounts)

	As of December 31,	
	2015	2014
Assets		
Current assets:		
Cash and cash equivalents	$740	$263
Receivables, net	78,471	59,391
Inventories	109,123	49,363
Deferred tax assets	3,613	1,834
Other current assets	9,423	11,517
Total current assets	201,370	122,368
Property and equipment, net	64,308	52,911
Intangible assets, net	143,043	72,209
Goodwill	198,545	92,052
Other assets	14,868	15,790
Total assets	$622,134	$355,330
Liabilities and Stockholders' equity		
Current liabilities:		
Current portion of long-term debt	$17,557	$24,837
Accounts payable	40,084	29,424
Current portion of earn-out obligations	9,678	9,455
Accrued expenses and other current liabilities	29,067	23,245
Dividends payable	591	536
Total current liabilities	96,977	87,497
Long-term debt, less current portion	216,125	23,563
Deferred compensation	11,169	12,563
Long-term lease obligations, less current portion	23,251	24,584
Earn-out obligations, less current portion	10,166	-
Deferred tax liabilities	35,137	1,634
Total liabilities	392,825	149,841
Commitments and contingencies		
Stockholders' equity:		
Common stock, par value $0.05 per share, authorized 15,000,000 shares; issued and outstanding 5,375,532 and 5,358,261 respectively	269	268
Additional paid-in capital	21,637	20,348
Retained earnings	207,478	184,873
Accumulated other comprehensive loss	(75)	-
Total stockholders' equity	229,309	205,489
Total liabilities and stockholders' equity	$622,134	$355,330

The accompanying notes are an integral part of these financial statements.

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VSE Corporation and Subsidiaries
Consolidated Statements of Income

(in thousands, except share and per share amounts)

	For the years ended December 31,		
	2015	2014	2013
Revenues:			
Products	$318,141	$172,986	$157,332
Services	215,841	251,085	314,306
Total revenues	533,982	424,071	471,638
Contract costs:			
Products	271,901	142,997	129,027
Services	208,254	240,004	295,223
Total contract costs	480,155	383,001	424,250
Selling, general and administrative expenses	3,288	4,140	3,285
Operating income	50,539	36,930	44,103
Interest expense, net	9,544	3,983	5,789
Income from continuing operations before income taxes	40,995	32,947	38,314
Provision for income taxes	16,077	12,458	14,324
Income from continuing operations	24,918	20,489	23,990
Loss from discontinued operations, net of tax	-	(1,124)	(1,138)
Net income	$24,918	$19,365	$22,852
Basic earnings per share:			
Income from continuing operations	$4.64	$3.83	$4.50
Loss from discontinued operations	-	(0.21)	(0.21)
Net income	$4.64	$3.62	$4.29
Basic weighted average shares outstanding	5,373,613	5,353,912	5,329,208
Diluted earnings per share:			
Income from continuing operations	$4.62	$3.82	$4.49
Loss from discontinued operations	-	(0.21)	(0.21)
Net income	$4.62	$3.61	$4.28
Diluted weighted average shares outstanding	5,393,635	5,371,200	5,343,267

The accompanying notes are an integral part of these financial statements.

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VSE Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income
(in thousands)

	For the years ended December 31,		
	2015	2014	2013
Net income	$24,918	$19,365	$22,852
Change in fair value of interest rate swap agreements	(75)	201	536
Other comprehensive (loss) income, net of tax	(75)	201	536
Comprehensive income	$24,843	$19,566	$23,388

The accompanying notes are an integral part of these financial statements.

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VSE Corporation and Subsidiaries
Consolidated Statements of Stockholders' Equity

(in thousands except per share data)

	Common Stock		Additional Paid-In	Retained	Accumulated Other Comprehensive Income (Loss)	Total Stockholders'
	Shares	Amount	Capital	Earnings		Equity
Balance at December 31, 2012	5,293	$ 265	$ 18,193	$ 146,614	$ (737)	$ 164,335
Net income	-	-	-	22,852	-	22,852
Stock-based compensation	40	2	946	-	-	948
Change in fair value of interest rate swap agreements, net of tax	-	-	-	-	536	536
Dividends declared ($0.35 per share)	-	-	-	(1,868)	-	(1,868)
Balance at December 31, 2013	5,333	267	19,139	167,598	(201)	186,803
Net income	-	-	-	19,365	-	19,365
Stock-based compensation	25	1	1,209	-	-	1,210
Change in fair value of interest rate swap agreements, net of tax	-	-	-	-	201	201
Dividends declared ($0.39 per share)	-	-	-	(2,090)	-	(2,090)
Balance at December 31, 2014	5,358	268	20,348	184,873	-	205,489
Net income	-	-	-	24,918	-	24,918
Stock-based compensation	17	1	1,289	-	-	1,290
Change in fair value of interest rate swap agreements, net of tax	-	-	-	-	(75)	(75)
Dividends declared ($0.43 per share)	-	-	-	(2,313)	-	(2,313)
Balance at December 31, 2015	5,375	$ 269	$ 21,637	$ 207,478	$ (75)	$ 229,309

The accompanying notes are an integral part of these financial statements.

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VSE Corporation and Subsidiaries
Consolidated Statements of Cash Flows

(in thousands)

	For the years ended December 31,		
	2015	2014	2013
Cash flows from operating activities:			
Net income	$24,918	$19,365	$22,852
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	25,541	18,770	20,016
Deferred taxes	84	3,083	(874)
Stock-based compensation	2,081	1,739	1,576
Earn-out obligation adjustment	426	3,059	183
Impairment of goodwill and intangible assets	-	-	790
Changes in operating assets and liabilities, net of impact of acquisitions:			
Receivables, net	(8,139)	18,996	14,130
Inventories	(10,381)	(10,048)	2,240
Other current assets and noncurrent assets	6,031	(627)	(3,798)
Accounts payable and deferred compensation	(362)	(1,224)	1,922
Accrued expenses and other current liabilities	1,919	(1,024)	(597)
Long-term lease obligations	(1,275)	(1,107)	(1,826)
Earn-out obligations	(3,269)	-	-
Other liabilities	-	(1,267)	(16)
Net cash provided by operating activities	37,574	49,715	56,598
Cash flows from investing activities:			
Purchases of property and equipment	(10,562)	(3,414)	(4,416)
Proceeds from the sale of property and equipment	507	-	-
Cash paid for acquisitions, net of cash acquired	(195,135)	-	-
Net cash used in investing activities	(205,190)	(3,414)	(4,416)
Cash flows from financing activities:			
Borrowings on loan agreement	519,313	295,513	290,137
Repayments on loan agreement	(333,222)	(336,601)	(340,627)
Earn-out obligation payments	(11,713)	(1,972)	(180)
Payment of debt financing costs	(2,699)	-	-
Payments on capital lease obligations	(986)	(850)	(725)
Payment of taxes for equity transactions	(342)	(314)	(257)
Dividends paid	(2,258)	(2,034)	(1,811)
Net cash provided by (used in) financing activities	168,093	(46,258)	(53,463)
Net increase (decrease) in cash and cash equivalents	477	43	(1,281)
Cash and cash equivalents at beginning of year	263	220	1,501
Cash and cash equivalents at end of year	$740	$263	$220

Supplemental cash flow disclosures:

Cash paid for:			
Interest	$6,621	$2,135	$ 4,192
Income taxes	$15,949	$9,934	$15,638

The accompanying notes are an integral part of these financial statements.

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VSE Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2015

(1) Nature of Business and Significant Accounting Policies

Nature of Business

The term "VSE," the "Company," "us," "we," or "our" means VSE and its subsidiaries and divisions unless the context indicates operations of only VSE as the parent company.

Our operations include supply chain management solutions and parts supply for vehicle fleets; maintenance, repair, and overhaul ("MRO") services and parts supply for aviation clients; vehicle and equipment maintenance and refurbishment; logistics; engineering; energy and environmental services; IT and health care IT solutions; and consulting services. We provide logistics services for legacy systems and equipment and professional and technical services to the United States Government (the "government"), including the United States Postal Service ("USPS"), the United States Department of Defense ("DoD"), federal civilian agencies, commercial customers, and to other customers.

Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements consist of the operations of our parent company, our wholly owned subsidiaries, Energetics Incorporated ("Energetics"), Akimeka, LLC ("Akimeka"), Wheeler Bros., Inc. ("WBI") and VSE Aviation, Inc. ("VAI"), and our unincorporated divisions. All intercompany transactions have been eliminated in consolidation. These consolidated financial statements also account for the classification of the Infrastructure Group as discontinued operations of our subsidiary Integrated Concepts and Research Corporation ("ICRC") and therefore any financial impact of such group has been presented as discontinued operations in the 2014 and 2013 reporting periods.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates affecting the financial statements include accruals for contract disallowance reserves, recoverability of goodwill and intangible assets and earn-out obligations.

Stock-Based Compensation

We account for share-based awards in accordance with the applicable accounting rules that require the measurement and recognition of compensation expense for all share-based payment awards based on estimated fair values. The compensation expense, included in contract costs, is amortized over the requisite service period. See Note 9, Stock-Based Compensation Plans, for further discussion of our stock-based compensation plans and related activity.

Earnings Per Share

Basic earnings per share ("EPS") is computed by dividing net income by the weighted average number of shares of common stock outstanding during each period. Shares issued during the period are weighted for the portion of the period that they were outstanding. Our calculation of diluted earnings per common share includes the dilutive effects for the assumed vesting of restricted stock awards.

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	Years Ended December 31,		
	2015	2014	2013
Basic weighted average common shares outstanding	5,373,613	5,353,912	5,329,208
Effect of dilutive shares	20,022	17,288	14,059
Diluted weighted average common shares outstanding	5,393,635	5,371,200	5,343,267

Cash and Cash Equivalents

We consider all highly liquid investments with an original maturity of three months or less to be cash equivalents. Due to the short maturity of these instruments, the carrying values on our consolidated balance sheets approximate fair value.

Property and Equipment

Property and equipment are recorded at cost. Depreciation of computer equipment, furniture, other equipment is provided principally by the straight-line method over periods of 3 to 15 years. Depreciation of buildings and land improvements is provided by the straight-line method over periods of approximately 15 to 20 years. Amortization of leasehold improvements is provided by the straight-line method over the lesser of their useful life or the remaining term of the lease.

Concentration of Credit Risk/Fair Value of Financial Instruments

Financial instruments that potentially subject us to concentration of credit risk consist primarily of cash, cash equivalents and trade receivables. Contracts with the government, either as a prime or subcontractor, accounted for approximately 76% of revenues for the year ended December 31, 2015 and 99% of revenues for the years ended December 31, 2014 and 2013. We believe that concentrations of credit risk with respect to trade receivables are limited as they are primarily government receivables. We believe that the fair market value of all financial instruments, including debt, approximate book value.

Revenues

Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the fee is fixed or determinable, and collectability is probable.

Substantially all of our Supply Chain Management Group revenues result from the sale of vehicle parts to clients. We recognize revenue from the sale of vehicle parts when the customer takes ownership of the parts.

Our Aviation Group revenues are recognized upon the shipment or delivery of products to customers based on when title or risk of loss transfers to the customer. Sales returns and allowances are not significant.

Substantially all of our Federal Services and IT, Energy and Management Consulting work is performed for our customers on a contract basis. The three primary types of contracts used are time and materials, cost-type, and fixed-price. Revenues result from work performed on these contracts by our employees and our subcontractors and from costs for materials and other work related costs allowed under our contracts.

Revenue recognition methods on fixed-price contracts will vary depending on the nature of the work and the contract terms. Revenues on fixed-price service contracts are recorded as work is performed, typically ratably over the service period. Revenues on fixed-price contracts that require delivery of specific items are recorded based on a price per unit as units are delivered.

Revenues on cost-type contracts are recorded as contract allowable costs are incurred and fees are earned. Our FMS Program contract is a cost plus award fee contract. This contract has terms that specify award fee payments that are determined by performance and level of contract activity. Award fees are made during the year through a contract modification authorizing the award fee that is issued subsequent to the period in which the work is performed. We recognize award fee income on the FMS Program contract when the fees are fixed or determinable. Due to such timing, and to fluctuations in the level of revenues, profits as a percentage of revenues on this contract will fluctuate from period to period.

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Revenues for time and materials contracts are recorded on the basis of contract allowable labor hours worked multiplied by the contract defined billing rates, plus the direct costs and indirect cost burdens associated with materials and subcontract work used in performance on the contract. Generally, profits on time and materials contracts result from the difference between the cost of services performed and the contract defined billing rates for these services.

Revenue related to work performed on government contracts at risk, which is work performed at the customer's request prior to the government formalizing funding, is not recognized until it can be reliably estimated and its realization is probable.

A substantial portion of contract and administrative costs are subject to audit by the Defense Contract Audit Agency. Our indirect cost rates have been audited and approved for 2009 and prior years with no material adjustments to our results of operations or financial position. While we maintain reserves to cover the risk of potential future audit adjustments based primarily on the results of prior audits, we do not believe any future audits will have a material adverse effect on our results of operations or financial position.

Receivables and Allowance for Doubtful Accounts

Receivables are recorded at amounts earned less an allowance for doubtful accounts. We review our receivables regularly to determine if there are any potentially uncollectible accounts. The majority of our receivables are from government agencies, where there is minimal credit risk. We record allowances for bad debt as a reduction to receivables and an increase to bad debt expense. We assess the adequacy of these reserves by considering general factors, such as the length of time individual receivables are past due and historical collection experience.

Inventories

Inventories for our Supply Chain Group are stated at the lower of cost or market using the first-in, first-out ("FIFO") method. Included in inventory are related purchasing, storage, and handling costs. Our inventory primarily consists of vehicle replacement parts.

Inventories for our Aviation Group are stated at lower of cost or market. Inventories for our Aviation Group primarily consist of general aviation jet aircraft engines and engine accessories and parts. The cost for purchased engines and parts is determined by the specific identification method. Included in inventory are related purchasing, overhaul labor, storage, and handling costs. We also purchase aircraft engines for disassembly into individual parts and components.

Deferred Compensation Plans

We have a deferred compensation plan, the VSE Corporation Deferred Supplemental Compensation Plan ("DSC Plan"), to provide incentive and reward for certain management employees based on overall corporate performance. We maintain the underlying assets of the DSC Plan in a Rabbi Trust and changes in asset values are included in contract costs on the accompanying consolidated statements of income. We invest the assets held by the Rabbi Trust in both corporate owned life insurance ("COLI") products and in mutual funds. The COLI investments are recorded at cash surrender value and the mutual fund investments are recorded at fair value. The DSC Plan assets are included in other assets and the obligation to the participants is included in deferred compensation on the accompanying consolidated balance sheets.

Deferred compensation plan expense recorded as contract costs in the accompanying consolidated statements of income for the years ended December 31, 2015, 2014, and 2013 was approximately $1.9 million, $1.3 million, and $1.4 million, respectively.

Impairment of Long-Lived Assets

Long-lived assets include property and equipment to be held and used. We review the carrying values of long-lived assets other than goodwill for impairment if events or changes in the facts and circumstances indicate that their carrying values may not be recoverable. We assess impairment by comparing the estimated undiscounted future cash flows of the related asset to its carrying value. If an asset is determined to be impaired, we recognize an impairment charge in the current period for the difference between the fair value of the asset and its carrying value.

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No impairment charges related to intangible assets, other than goodwill, were recorded in the years ended December 31, 2015, December 31, 2014 and December 31, 2013.

Income Taxes

Income taxes are accounted for under the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. This method also requires the recognition of future tax benefits, such as net operating loss carryforwards, to the extent that realization of such benefits is more likely than not. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The carrying value of net deferred tax assets is based on assumptions regarding our ability to generate sufficient future taxable income to utilize these deferred tax assets.

Goodwill

We test goodwill for impairment annually during the fourth quarter and whenever events or changes in circumstances indicate the carrying value of goodwill may not be recoverable. The goodwill impairment test involves a two-step process. In the first step, we compare the fair value of each reporting unit to its carrying value. If the fair value of the reporting unit exceeds its carrying value, goodwill is considered not impaired and no further testing is required. If the fair value of the reporting unit is less than the carrying value, we must perform the second step of the impairment test to measure the amount of the goodwill impairment loss. In the second step, the reporting unit's fair value is allocated to all of the assets and liabilities of the reporting unit, including any unrecognized intangible assets, in a hypothetical analysis that calculates the implied fair value of goodwill in the same manner as if the reporting unit was being acquired in a business combination. If the implied fair value of the reporting unit's goodwill is less than the carrying value, the difference is recorded as an impairment loss. Based on our annual goodwill impairment analysis we performed during the fourth quarter of 2015, the fair value of our reporting units exceeded their carrying values.

Intangibles

Intangible assets consist of the value of contract-related intangible assets, trade names and acquired technologies acquired in acquisitions. We amortize on a straight-line basis intangible assets acquired as part of acquisitions over their estimated useful lives unless their useful lives are determined to be indefinite. The amounts we record related to acquired intangibles are determined by us considering the results of independent valuations. Our contract-related intangibles are amortized over their estimated useful lives of approximately seven to 16 years with a weighted-average life of approximately 12.6 years as of December 31, 2015. We have four trade names that are amortized over an estimated useful life of approximately nine years. We have an acquired technologies intangible asset that is amortized over an estimated useful life of 11 years. The weighted-average life for all amortizable intangible assets is approximately 12.2 years as of December 31, 2015.

Recently Issued Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, Leases (Topic 842) Leases: Amendments to the FASB Accounting Standards Codifications, to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The ASU will become effective for us in January

2019. Early adoption of the ASU is permitted. We currently are assessing the impact, if any that this standard will have on our consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes, which amends the current requirement for organizations to present deferred tax assets and liabilities as current and noncurrent in a classified balance sheet. Organizations will now be required to classify all deferred tax assets and liabilities as noncurrent. The ASU will become effective for us on January 2017. Early adoption of the ASU is permitted. We currently are assessing the impact, if any that this standard will have on our consolidated financial statements.

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In September 2015, the FASB issued ASU No. 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments, which eliminates the requirement to account for measurement-period adjustments retrospectively. The ASU instead requires an acquirer to recognize a measurement-period adjustment during the period in which it determines the amount of the adjustment. We adopted the standard on January 1, 2015 and will prospectively apply the standard to business combination adjustments identified after the date of adoption.

In April 2015, the FASB issued ASU No. 2015-03, Simplifying the Presentation of Debt Issuance Costs. Under the new standard, debt issuance costs related to a recognized debt liability are required to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The guidance in ASU 2015-03 is effective for the fiscal year, and interim periods within that fiscal year, beginning after December 15, 2015. We currently are assessing the impact that this standard will have on our consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The ASU is based on the principle that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to fulfill a contract. The effective date of the ASU was recently deferred for one year to the interim and annual periods beginning on or after December 15, 2017. Early adoption is permitted as of the original effective date – interim and annual periods beginning on or after December 15, 2016. We currently are assessing the impact that this standard will have on our consolidated financial statements.

(2) Receivables, net

Total receivables, net of allowance for doubtful accounts of approximately $100 thousand and $0 as of December 31, 2015 and 2014, respectively, were as follows (in thousands):

	2015	2014
Billed	$43,503	$26,709
Unbilled	34,968	32,682
Total receivables	$78,471	$59,391

The unbilled balance includes certain costs for work performed at risk but which we believe will be funded by the government totaling approximately $1.5 million and $2.9 million as of December 31, 2015 and 2014, respectively. We expect to invoice substantially all unbilled receivables during 2016.

(3) Other Current Assets and Other Assets

At December 31, 2015 and 2014, other current assets primarily consisted of vendor advances, prepaid rents and deposits, prepaid income taxes, software licenses, prepaid maintenance agreements and deferred contract costs. At December 31, 2015 other assets primarily consisted of deferred compensation plan assets and capitalized loan fees. At December 31, 2014 other assets primarily consisted of deferred compensation plan assets and cash surrender value of life insurance policies.

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(4) Property and Equipment

Property and equipment consisted of the following as of December 31, 2015 and 2014 (in thousands):

	2015	2014
Buildings and building improvements	$51,148	$45,825
Computer equipment	27,504	25,327
Furniture, fixtures, equipment and other	27,384	17,603
Leasehold improvements	2,036	3,567
Land and land improvements	4,214	3,410
	112,286	95,732
Less accumulated depreciation and amortization	(47,978)	(42,821)
Total property and equipment, net	$64,308	$52,911

Depreciation and amortization expense for property and equipment for the years ended December 31, 2015, 2014 and 2013 was approximately $9.1 million, $7.9 million and $9 million, respectively.

(5) Acquisitions

VSE Aviation

On January 28, 2015, we acquired 100% of the voting interests of four related businesses that specialize in maintenance, repair and overhaul ("MRO") services and parts supply for general aviation jet aircraft engines and engine accessories. The businesses acquired include Air Parts & Supply Co., Kansas Aviation of Independence, L.L.C., Prime Turbines LLC (including both U.S. and German-based operations), and CT Aerospace LLC (collectively, the "Aviation Acquisition"). These four businesses are operating as a combined group managed by our wholly owned subsidiary VSE Aviation, Inc. ("VAI"). The Aviation Acquisition provides diversification by adding service offerings and broadening our client base.

The initial purchase consideration paid at closing for the Aviation Acquisition was approximately $189 million, which included an estimated net working capital adjustment of approximately $5 million. We may also be required under an earn-out obligation to make additional purchase price payments of up to $40 million if the acquired businesses meet certain financial targets during the first two post-closing years. An additional purchase price consideration of $5 million was paid to the sellers in September 2015 because certain of the acquired businesses surpassed agreed upon financial targets during a 12- consecutive month period in 2014 and 2015. Of the payment made at closing, $18 million was deposited into an escrow account to secure the sellers' indemnification obligations (the "Indemnification Amount"). Any remaining Indemnification Amount at the end of the indemnification period not encumbered as a result of any then pending indemnification claims will be distributed to the sellers. VAI's results of operations are included in the accompanying consolidated financial statements beginning on the acquisition date of January 28, 2015. VAI had revenues of approximately $120 million and operating income of approximately $10.6 million from the acquisition date through December 31, 2015. VAI's operating income includes amortization of intangible assets of approximately $6.1 million.

The fair values assigned to our earn-out obligation and intangible assets acquired were based on estimates, assumptions, and other information compiled by management, including independent valuations that utilized established valuation techniques. Based on the Company's valuation, the total consideration of approximately $192 million (excluding any earn-out payments), which includes a final cash and net working capital consideration of $2.4 million, has been allocated to assets acquired (including identifiable intangible assets and goodwill) and liabilities assumed (including deferred taxes on identifiable intangible assets that are not deductible for income tax purposes), as follows (in thousands):

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Description	Fair Value
Cash	$502
Accounts receivable	10,627
Inventories	49,000
Prepaid expenses and other assets	3,436
Property and equipment	10,725
Customer relationships	78,500
Trade name	6,400
Goodwill	104,549
Accounts payable	(9,435)
Accrued expenses and other current liabilities	(4,719)
Long-term deferred tax liability	(32,773)
	$216,812
Cash consideration	$191,867
Acquisition date fair value of earn-out obligation	24,945
Total	$216,812

The value attributed to customer relationships is being amortized on a straight-line basis using weighted average useful lives of approximately 14 years. The value attributed to trade name is being amortized on a straight-line basis over nine years. None of the value attributed to goodwill, customer relationships and trade name is deductible for income tax purposes. The amount of goodwill recorded for the Aviation Acquisition was approximately $104 million and reflects the strategic advantage of expanding our supply chain management and MRO capabilities through the addition of new service offerings to new markets.

We incurred approximately $528 thousand of acquisition-related expenses during the year ended December 31, 2015 which are included in selling, general and administrative expenses.

The following VSE unaudited consolidated pro forma results are prepared as if the Aviation Acquisition had occurred on January 1, 2014. This information is for comparative purposes only and does not necessarily reflect the results that would have occurred or may occur in the future. The following unaudited consolidated pro forma results of operations are as following (in thousands except per share amounts):

	Years ended December 31,	
	2015	2014
Revenue	$541,387	$536,867
Income from continuing operations	$25,267	$26,040
Basic earnings per share	$4.70	$4.86
Diluted earnings per share	$4.68	$4.85

Ultra Seating

On December 31, 2015, we acquired 100% of the voting interest in Ultra Seating Company ("Ultra Seating") for an initial purchase price of approximately $3.8 million (subject to adjustment). Ultra Seating provides specialized seating for heavy duty and light duty commercial trucks. Ultra Seating will be included in our Supply Chain Management Group and complements our WBI subsidiary by expanding our current supply chain markets and establishing a distribution channel to better serve mission critical vehicle fleets. We are in the process of finalizing our valuation of the assets acquired and liabilities assumed. Based on preliminary estimates, we recorded $1.9 million of goodwill and $1.5 million of intangible assets primarily related to customer relationships and a trade name.

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(6) Goodwill and Intangible Assets

Changes in goodwill for the years ended December 31, 2015 and 2014 are as follows (in thousands):

	Supply Chain Management	IT, Energy and Management Consulting	Aviation	Total
Balance as of December 31, 2013	$ 61,169	$ 30,883	$-	$92,052
Balance as of December 31, 2014	$ 61,169	$ 30,883	$-	$92,052
Increase from acquisitions	1,944	-	104,549	106,493
Balance as of December 31, 2015	$ 63,113	$ 30,883	$104,549	$198,545

The results of our annual goodwill impairment testing indicated that the fair value of our reporting units exceeded their carrying values as of October 1, 2015.

Intangible assets consist of the value of contract-related assets, technologies and trade names. Amortization expense for the years ended December 31, 2015, 2014 and 2013 was approximately $15.6 million, $10 million and $10.2 million, respectively.

Intangible assets were composed of the following (in thousands):

	Cost	Accumulated Amortization	Accumulated Impairment Loss	Net Intangible Assets
December 31, 2015				
Contract and customer-related	$173,084	$ (46,611)	$ (1,025)	$125,448
Acquired technologies	12,400	(5,151)	-	7,249
Trade names	16,730	(6,384)	-	10,346
Total	$202,214	$ (58,146)	$ (1,025)	$143,043
December 31, 2014				
Contract and customer-related	$93,304	$ (33,840)	$ (1,025)	$58,439
Acquired technologies	12,400	(4,024)	-	8,376
Trade names	10,100	(4,706)	-	5,394
Total	$115,804	$ (42,570)	$ (1,025)	$72,209

Future expected amortization of intangible assets is as follows for the years ending December 31, (in thousands):

	Amortization
2016	$ 16,130
2017	16,080
2018	16,080
2019	16,016
2020	15,425
Thereafter	63,312
Total	$ 143,043

(7) Debt

We have a loan agreement with a group of banks. In January 2015, we amended the loan agreement to fund our Aviation Acquisition, provide working capital for our continuing operations, and retire our existing debt. Both the former and the amended loan agreements are comprised of a term loan facility and a revolving loan facility. The revolving loan facility provides for revolving loans and letters of credit. The amended loan agreement expires in January 2020. Financing costs associated with the inception of the amended loan agreement of approximately $2.7 million were capitalized and are being amortized over the five-year life of the loan.

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The term loan requires quarterly installment payments. Our scheduled term loan payments after December 31, 2015 are $17.8 million in 2016, $21.6 million in 2017, $28.1 million in 2018, $30 million in 2019, and $36.3 million in 2020. The amount of our term loan borrowings outstanding as of December 31, 2015 was $133.8 million.

The maximum amount of credit available to us from the banking group for revolving loans and letters of credit as of December 31, 2015 was $150 million. We may borrow and repay the revolving loan borrowings as our cash flows require or permit. We pay an unused commitment fee and fees on letters of credit that are issued. We had approximately $101 million in revolving loan amounts outstanding and no letters of credit outstanding as of December 31, 2015. We had approximately $23.6 million in revolving loan amounts outstanding and no of letters of credit outstanding as of December 31, 2014.

Under the loan agreement we may elect to increase the maximum availability of the term loan facility, the revolving loan facility, or a combination of both facilities up to an aggregate additional amount of $75 million.

Total bank loan borrowed funds outstanding as of December 31, 2015, including term loan borrowings and revolving loan borrowings, were approximately $234.7 million. Total bank loan borrowed funds outstanding as of December 31, 2014 were $48.6 million. The fair value of outstanding debt under our bank loan facilities as of December 31, 2015 approximates its carrying value using Level 2 inputs based on market data on companies with a corporate rating similar to ours that have recently priced credit facilities.

We pay interest on the term loan borrowings and revolving loan borrowings at LIBOR plus a base margin or at a base rate (typically the prime rate) plus a base margin. As of December 31, 2015, the LIBOR base margin was 2.5% and the base rate base margin was 1.25%. The base margins increase or decrease in increments as our Total Funded Debt/EBITDA Ratio increases or decreases.

The terms of the loan agreement require us to have interest rate hedges on a portion of the outstanding term loan for the first three years of the agreement. We executed interest rate hedges in February 2015 that complied with these terms. The amount of swapped debt outstanding as of December 31, 2015 was $125 million.

After taking into account the impact of hedging instruments, as of December 31, 2015, interest rates on portions of our outstanding debt ranged from 2.82% to 4.75%, and the effective interest rate on our aggregate outstanding debt was 3.29%.

Interest expense incurred on bank loan borrowings and interest rate hedges was approximately $7.3 million and $2 million during the years ended December 31, 2015 and 2014, respectively.

The loan agreement contains collateral requirements to secure our loan agreement obligations, restrictive covenants, a limit on annual dividends, and other affirmative and negative covenants, conditions and limitations. Restrictive covenants include a maximum Total Funded Debt/EBITDA Ratio, which decreases over time, and a minimum Fixed Charge Coverage Ratio. We were in compliance with the financial covenants and other terms and conditions at December 31, 2015.

(8) Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist primarily of accrued compensation and benefits of approximately $19.2 million and $16.7 million as of December 31, 2015 and 2014, respectively. The accrued compensation and benefits amounts include bonus, salaries and related payroll taxes, vacation and deferred compensation.

(9) Stock-Based Compensation Plans

In 2006, our stockholders approved the VSE Corporation 2006 Restricted Stock Plan for its directors, officers and other employees (the "2006 Plan"). On May 6, 2014, the stockholders approved amendments to the 2006 Plan extending the term thereof until May 6, 2021 and authorized an additional 250,000 shares of our common stock for issuance under the 2006 Plan. Under the 2006 Plan terms, we are authorized to issue up to 500,000 shares of our common stock and, as of December 31, 2015, 261,880 shares remained available for issuance under the 2006 Plan. The Compensation Committee is responsible for the administration of the 2006 Plan, and determines each recipient of an award under the 2006 Plan, the number of restricted shares of common stock subject to such award and the period of continued employment required for the vesting of such award. These terms are included in award agreements between us and the recipients of the award.

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During 2015 and 2014, Non-employee directors were awarded 9,000 and 10,800 shares of restricted stock, respectively, under the 2006 Plan. The weighted average grant-date fair value of these restricted stock grants was $68.58 per share and $47.22 per share for the shares awarded in 2015 and 2014, respectively. The shares issued vested immediately and cannot be sold, transferred, pledged or assigned before the second anniversary of the grant date. Compensation expense related to these grants was approximately $617 thousand and $510 thousand during 2015 and 2014, respectively.

In January of every year since 2007, we have notified certain employees that they are eligible to receive awards of VSE stock under our 2006 Plan, based on our financial performance for the respective fiscal years. These restricted stock awards are expensed and a corresponding liability is recorded on an accelerated basis over the vesting period of approximately three years. Upon issuance of shares on each vesting date, the liability is reduced and additional paid-in capital is increased. The date of award determination is expected to be in March 2016 for the 2015 awards. The date of award determination for the 2014 awards and the 2013 awards was March 2, 2015 and March 2, 2014, respectively. On each vesting date, 100% of the vested award is paid in our shares. The number of shares issued is based on the fair market value of our common stock on the vesting date. The earned amount is expensed on an accelerated basis over the vesting period of approximately three years. On March 2, 2015, the employees eligible for the 2014 awards, 2013 awards and 2012 awards received a total of 7,602 shares of common stock. The grant-date fair value of these awards was $83.20 per share.

The total stock-based compensation expense related to restricted stock awards for the years ended December 31, are as follows (in thousands):

	2015	2014	2013
Employees	$1,423	$1,104	$1,163
Non-employee Directors	617	510	413
Total	$2,040	$1,614	$1,576

Employees are permitted to use a certain number of shares of restricted stock to cover their personal tax liability for restricted stock awards. We paid approximately $342 thousand, $314 thousand and $257 thousand, to cover this liability in the years ended December 31, 2015, 2014 and 2013, respectively. These payments are classified as financing cash flows on the consolidated statements of cash flows. As of December 31, 2015, the total compensation cost related to non-vested awards not yet recognized was approximately $962 thousand with a weighted average amortization period of 1.9 years.

Stock-based compensation consisted of restricted stock awards, was included in contract costs and the following line items on the accompanying statements of income for the years ended December 31, 2015, 2014 and 2013 (in thousands):

	2015	2014	2013
Stock-based compensation included in contract costs	$2,081	$1,739	$1,576
Income tax benefit recognized for stock-based compensation	(800)	(669)	(606)
Total stock-based compensation expense, net of income tax benefit	$1,281	$1,070	$970

(10) Income Taxes

We are subject to U.S. federal income tax as well as income tax in multiple state and local jurisdictions. We have concluded all U.S. federal income tax matters as well as material state and local tax matters for years through 2011.

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We file consolidated federal income tax returns that include all of our subsidiaries. The components of the provision for income taxes from continuing operations for the years ended December 31, 2015, 2014 and 2013 are as follows (in thousands):

	2015	2014	2013
Current			
Federal	$13,641	$7,889	$12,654
State	2,352	1,486	2,544
	15,993	9,375	15,198
Deferred			
Federal	73	2,595	(848)
State	11	488	(26)
	84	3,083	(874)
Provision for income taxes	$16,077	$12,458	$14,324

The differences between the amount of tax computed at the federal statutory rate of 35% and the provision for income taxes from continuing operations for the years ended December 31, 2015, 2014 and 2013 are as follows (in thousands):

	2015	2014	2013
Tax at statutory federal income tax rate	$14,348	$11,531	$13,410
Increases (decreases) in tax resulting from:			
State taxes, net of federal tax benefit	1,683	1,486	1,630
Permanent differences, net	88	(516)	(685)
Other, net	(42)	(43)	(31)
Provision for income taxes	$16,077	$12,458	$14,324

The tax effect of temporary differences representing deferred tax assets and liabilities as of December 31, 2015 and 2014 are as follows (in thousands):

	2015	2014
Gross deferred tax assets		
Deferred compensation and accrued paid leave	$6,943	$6,992
Accrued expenses	2,228	1,276
Stock-based compensation	765	592
Interest rate swaps	47	-
Reserve for contract disallowances	119	287
Acquisition-related expenses	503	982
Capitalized inventory	1,080	589
Other	3	5
Total gross deferred tax assets	11,688	10,723
Gross deferred tax liabilities		
Depreciation	(3,912)	(2,830)
Deferred revenues	(2,189)	(2,676)
Goodwill and intangible assets	(37,111)	(5,017)
Total gross deferred tax liabilities	(43,212)	(10,523)
Net deferred tax (liabilities) assets	$(31,524)	$200

(11) Commitments and Contingencies

(a) Leases and Other Commitments

We have various non-cancelable operating leases for facilities, equipment, and software with terms between two and 15 years. The terms of the facilities leases typically provide for certain minimum payments as well as increases in lease payments based upon the operating cost of the facility and the consumer price index. Rent expense is recognized on a straight-line basis for rent agreements having escalating rent terms. Lease expense for the years ended December 31, 2015, 2014 and 2013 was as follows (in thousands):

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	Operating Lease Expense	Sublease Income	Net Expense
2015	$ 5,824	$ 506	$ 5,318
2014	$ 6,576	$ 119	$ 6,457
2013	$ 9,826	$ 531	$ 9,295

Future minimum annual non-cancelable commitments as of December 31, 2015 are as follows (in thousands):

	Operating Leases		
	Lease Commitments	Sublease Income	Net Commitments
2016	$ 3,341	$ 54	$ 3,287
2017	2,113	50	2,063
2018	854	29	825
2019	510	-	510
2020	167	-	167
Thereafter	7	-	7
Total	$ 6,992	$ 133	$ 6,859

We signed a lease in 2009 for a building to serve as our headquarters with a rent commencement date of May 1, 2012. Certain terms in the lease agreement resulted in the capitalization of construction costs due to specific accounting rules. We recorded a construction asset and corresponding long-term liability of approximately $27.3 million on May 1, 2012, which represents the construction costs incurred by the landlord as of that date. According to accounting rules, we have forms of continuing involvement that require us to account for this transaction as a financing lease upon commencement of the lease period. The building and building improvements will remain on our consolidated balance sheet and will be depreciated over a 15-year period. Payments made under the lease agreement are applied to service the financing obligation and interest expense based on an imputed interest rate amortizing the obligation over the life of the lease agreement.

Future minimum annual non-cancelable commitments under our headquarters lease as of December 31, 2015, which are not included in the table above, are as follows (in thousands):

	Lease Commitments	Sublease Income	Net Commitments
2016	$ 4,104	$ 694	$ 3,410
2017	4,221	116	4,105
2018	4,336	-	4,336
2019	4,456	-	4,456
2020	4,579	-	4,579
Thereafter	31,868	-	31,868
Total	$ 53,564	$ 810	$ 52,754

(b) Contingencies

We are one of the primary defendants in a multiple plaintiff wrongful death action in Hawaii related to a fireworks explosion that occurred in April 2011 at a facility operated by one of our subcontractors, which resulted in the death of five subcontractor employees. The litigation is expected to proceed to trial in 2017. While the results of litigation cannot be predicted with certainty, we do not anticipate that this litigation will have a material adverse effect on our results of operations or financial position.

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On or about March 8, 2013, a lawsuit, Anchorage v. Integrated Concepts and Research Corporation, et al., was filed in the Superior Court for the State of Alaska at Anchorage by the Municipality of Anchorage, Alaska against our wholly owned subsidiary Integrated Concepts and Research Corporation ("ICRC") and two former subcontractors of ICRC. With respect to ICRC, the lawsuit asserts, among other things, breach of contract, professional negligence and negligence in respect of work and services ICRC rendered under the Port of Anchorage Intermodal Expansion Contract with the Maritime Administration, a federal agency with the United States Department of Transportation. ICRC did not have a contract with the Municipality of Anchorage. In April 2013, ICRC removed the case to the United States District Court for the District of Alaska. ICRC's contract with the Maritime Administration expired on May 31, 2012. The litigation is expected to proceed to trial in early 2017. Currently, we cannot predict whether this litigation will have a material adverse effect on our results of operations or financial position.

On or about August 21, 2015, a lawsuit, The Charter Oak Fire Insurance Company, The Travelers Indemnity Company of Connecticut and Travelers Property Casualty Company of America v. Integrated Concepts and Research Corporation, VSE Corporation and Municipality of Anchorage, was filed against VSE and ICRC in the United States District Court for the District of Alaska. The plaintiff insurance companies are seeking, among other things, (a) a declaration by the court that there is no defense or indemnity coverage available to ICRC and VSE for the Anchorage Lawsuit under the insurance policies issued by the plaintiffs and (b) reimbursement of defense fees and costs incurred by the plaintiffs in the defense of uncovered claims in respect of the Anchorage Lawsuit.

On or about February 27, 2015, a lawsuit, Heritage Disposal and Storage v. VSE Corporation, was filed against VSE in the United States District Court for the District of Nebraska. The litigation subsequently was transferred to the Eastern District of Virginia on November 9, 2015. The lawsuit asserts, among other things, breach of contract for services rendered related to the storage and manipulation of fireworks. The services relate to a prime contract that VSE maintains with the U.S. Bureau of Alcohol Tobacco, Firearms and Explosives. The complaint alleges that VSE has not paid Heritage the full charge for services rendered. Currently, we cannot predict whether this litigation will have a material adverse effect on our results of operations or financial position.

In addition to the three above-referenced litigations, we have, in the normal course of business, certain claims against us and against other parties and we may be subject to various governmental investigations. In our opinion, the resolution of these litigations, claims and investigations will not have a material adverse effect on our results of operations or financial position. However, the results of any legal proceedings cannot be predicted with certainty, therefore, the amount of loss, if any, cannot be reasonably estimated.

(12) Business Segments and Customer Information

Segment Information

Management of our business operations is conducted under four reportable operating segments:

Supply Chain Management Group – Our Supply Chain Management Group supplies vehicle parts primarily through a Managed Inventory Program ("MIP") and direct sales to the United States Postal Service ("USPS") and to other customers.

Aviation Group - Our Aviation Group, formed in January 2015 when we completed the Aviation Acquisition, provides MRO services, parts supply and distribution, and supply chain solutions for general aviation jet aircraft engines and engine accessories.

Federal Services Group - Our Federal Services Group provides engineering, industrial, logistics, foreign military sales, and legacy equipment sustainment services to the United States Department of Defense ("DoD") and other government agencies.

IT, Energy and Management Consulting Group – Our IT, Energy and Management Consulting Group provides technical and consulting services primarily to various DoD and civilian government agencies.

These segments operate under separate management teams and financial information is produced for each segment. The entities within the IT, Energy and Management Consulting Group reportable segment meet the aggregation of operating segments criteria as defined by the accounting standard for segment reporting. We evaluate segment performance based on consolidated revenues and operating income. Net sales of our business segments exclude intersegment sales as these activities are eliminated in consolidation.

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Our segment information is as follows (in thousands):

For the years ended December 31,	2015	2014	2013
Revenues			
Supply Chain Management Group	$196,772	$172,482	$154,702
Aviation Group	119,729	-	-
Federal Services Group	166,973	190,761	242,343
IT, Energy and Management Consulting Group	50,508	60,828	74,593
Total revenues	$533,982	$424,071	$471,638
Operating income:			
Supply Chain Management Group	$35,453	$29,694	$27,299
Aviation Group	10,635	-	-
Federal Services Group	2,071	3,452	9,469
IT, Energy and Management Consulting Group	4,731	6,634	9,061
Corporate	(2,351)	(2,850)	(1,726)
Operating income	$50,539	$36,930	$44,103
Depreciation and amortization expense:			
Supply Chain Management Group	$7,074	$5,373	$4,265
Aviation Group	5,865	-	-
Federal Services Group	10,635	11,320	13,356
IT, Energy and Management Consulting Group	1,967	2,077	2,387
Total depreciation and amortization	$25,541	$18,770	$20,008
Capital expenditures:			
Supply Chain Management Group	$7,544	$2,524	$895
Aviation Group	959	-	-
Federal Services Group	78	230	1,447
IT, Energy and Management Consulting Group	16	199	71
Corporate	1,965	461	2,003
Total capital expenditures	$10,562	$3,414	$4,416

	December 31, 2015	2014
Total assets:		
Supply Chain Management Group	$189,654	$192,720
Aviation Group	264,160	-
Federal Services Group	38,626	36,225
IT, Energy and Management Consulting Group	47,107	49,790
Corporate	82,587	76,595
Total assets	$622,134	$355,330

Revenues are net of inter-segment eliminations. Corporate/unallocated expenses are primarily selling, general and administrative expenses not allocated to segments. Corporate assets are primarily cash and property and equipment.

Customer Information

Our revenues are derived from contract services performed for DoD agencies or federal civilian agencies and from the delivery of products to our clients. The USPS, U.S. Army and Army Reserve, and U.S. Navy are our largest customers. Our customers also include various other government agencies and commercial entities. Our revenue by customer is as follows for the years ended December 31, (in thousands):

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Revenues by Customer
(dollars in thousands)
Years ended December 31,

Customer	2015	%	2014	%	2013	%
U. S. Postal Service	$184,876	34.6	$167,268	39.4	$142,203	30.1
U.S. Army	80,086	15.0	101,714	24.0	101,736	21.6
U.S. Navy	98,887	18.5	88,007	20.7	123,307	26.1
U.S. Air Force	3,558	0.7	3,323	0.8	3,625	0.8
Total - DoD	182,531	34.2	193,044	45.5	228,668	48.5
Commercial Aviation	119,729	22.4	-	-	-	-
Other Commercial	4,653	0.9	3,680	0.9	2,250	0.5
Total - Commercial	124,382	23.3	3,680	0.9	2,250	0.5
Department of Energy	16,020	3.0	19,000	4.5	20,124	4.3
Social Security Administration	9,666	1.8	10,153	2.4	12,981	2.8
Department of Treasury	1,405	0.3	10,897	2.6	35,929	7.6
Other Government	15,102	2.8	20,029	4.7	29,483	6.2
Total - Other Civilian Agencies	42,193	7.9	60,079	14.2	98,517	20.9
Total	$533,982	100.0	$424,071	100.0	$471,638	100.0

We do not measure revenue or profit by product or service lines, either for internal management or external financial reporting purposes, because it would be impractical to do so. Products offered and services performed are determined by contract requirements and the types of products and services provided for one contract bear no relation to similar products and services provided on another contract. Products and services provided vary when new contracts begin or current contracts expire. In many cases, more than one product or service is provided under a contract or contract task order. Accordingly, cost and revenue tracking is designed to best serve contract requirements and segregating costs and revenues by product or service lines in situations for which it is not required would be difficult and costly to both us and our customers.

(13) Capital Stock

Common Stock

Our common stock has a par value of $0.05 per share. Proceeds from common stock issuances that are greater than $0.05 per share are credited to additional paid in capital. Holders of common stock are entitled to one vote per common share held on all matters voted on by our stockholders. Stockholders of record are entitled to the amount of dividends declared per common share held.

(14) 401(k) Plan and Profit Sharing Plan

We maintain a defined contribution plan under Section 401(k) of the Internal Revenue Code of 1986, as amended, that covers substantially all of our employees. Under the provisions of our 401(k) plan, employees' eligible contributions are matched at rates specified in the plan documents. Our expense associated with this plan was approximately $4.8 million, $4 million and $3.7 million for the years ended December 31, 2015, 2014, and 2013, respectively.

Energetics maintains a profit sharing plan for its employees. All employees who have completed at least two years of service are members of the profit sharing plan. At our discretion, we may make contributions to the Energetics plan. Total expense for the years ended December 31, 2015, 2014, and 2013 was $0, $190 thousand, and $175 thousand, respectively.

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(15) Fair Value Measurements

The accounting standard for fair value measurements defines fair value, and establishes a market-based framework or hierarchy for measuring fair value. The standard is applicable whenever assets and liabilities are measured at fair value.

The fair value hierarchy established in the standard prioritizes the inputs used in valuation techniques into three levels as follows:

Level 1 – Observable inputs – quoted prices in active markets for identical assets and liabilities;

Level 2 – Observable inputs other than the quoted prices in active markets for identical assets and liabilities – includes quoted prices for similar instruments, quoted prices for identical or similar instruments in inactive markets, and amounts derived from valuation models where all significant inputs are observable in active markets; and

Level 3 – Unobservable inputs – includes amounts derived from valuation models where one or more significant inputs are unobservable and require us to develop relevant assumptions.

The following table summarizes the financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2015 and December 31, 2014 and the level they fall within the fair value hierarchy (in thousands):

Amounts Recorded at Fair Value	Financial Statement Classification	Fair Value Hierarchy	Fair Value December 31, 2015	Fair Value December 31, 2014
Non-COLI assets held in Deferred Supplemental Compensation Plan	Other assets	Level 1	$ 264	$ 253
Interest rate swaps	Accrued expenses	Level 2	$ 123	-
Earn-out obligations - current	Current portion of earn-out obligations	Level 3	$ 9,678	$ 9,455
Earn-out obligations - long-term	Earn-out obligations	Level 3	$ 10,166	-

Changes in the fair value of the Non-COLI assets held in the deferred supplemental compensation plan are recorded as selling, general and administrative expenses.

We account for our interest rate swap agreements under the provisions of ASC 815, and have determined that our swap agreements qualify as highly effective hedges. Accordingly, the fair value of the swap agreements, which is a liability of approximately $123 thousand at December 31, 2015, has been reported in accrued expenses. We had no interest rate swaps in place at December 31, 2014. The offset, net of an income tax effect of approximately $48 thousand is included in accumulated other comprehensive loss in the accompanying balance sheets as of December 31, 2015. The amounts paid and received on the swap agreements are recorded in interest expense in the period during which the related floating-rate interest is incurred. We determine the fair value of the swap agreements based on a valuation model using market data inputs.

We utilized a probability-weighted discounted cash flow method to determine the fair value of our Aviation Acquisition earn-out obligations. Probabilities were applied to each potential pay-out scenario and the resulting values were discounted using a rate that considered our weighted average cost of capital as well as a specific risk premium associated with the riskiness of the earn out itself, the related projections, and the overall business. Significant unobservable inputs used to value the contingent consideration include projected earnings before interest, taxes, depreciation and amortization and the discount rate. If significant increases or decreases in the inputs occurred in isolation, the result could be a significantly higher or lower fair value measurement.

Our acquisition of Wheeler Bros., Inc. ("WBI") in 2011 required us to make additional payments to the sellers of up to a total of $40 million over a four-year post-acquisition period that ended June 30, 2015 if WBI achieved certain financial performance. WBI's sellers earned approximately $10 million, $2.7 million, $219 thousand, and $7.1 million based on WBI's financial performances for the earn-out years ended June 30, 2015, 2014, 2013 and 2012, respectively. WBI's final earn-out payment of approximately $10 million for the earn-out period ended June 30, 2015 was made in September 2015. Changes in the fair value of the earn-out obligations were recorded as contract costs in the period of change through settlement.

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The fair value of all earn-out obligations increased approximately $426 thousand and $3.1 million for the years ended December 31, 2015 and December 31, 2014, respectively. (see Note 5, Acquisitions, for further discussion of the Aviation Acquisition earn-out obligation).

The following table provides a reconciliation of the beginning and ending balance of the earn-out obligations measured at fair value on a recurring basis that used significant unobservable inputs (Level 3).

	Current portion	Long-term portion	Total
Balance as of December 31, 2014	$9,455	$ -	$9,455
Earn-out payments	(14,982)	-	(14,982)
Fair value adjustment included in earnings	527	(101)	426
Additional earn-out obligations	14,678	10,267	24,945
Balance as of December 31, 2015	$9,678	$ 10,166	$19,844

(16) Discontinued Operations

During 2012 we discontinued the construction management operations of our wholly owned subsidiary Integrated Concepts and Research Corporation ("ICRC").

As of December 31, 2015, one of the bonded projects had not yet been completed and the aggregate bonded amount on this project was approximately $3 million. Our bonded projects are the subject of claims and disputes involving the subcontractors associated with the projects. We recorded an expense of approximately $1.1 million, net of tax, which was included in loss from discontinued operations for the year ended December 31, 2014 primarily related to these claims and disputes. We expect the remaining bonded project to be completed in 2016.

Revenues and costs of ICRC have been reclassified as discontinued operations for all periods presented. The major categories included in discontinued operations on the consolidated statements of income are as follows (in thousands):

	Year ended December 31,		
	2015	2014	2013
Revenues	$-	$-	$225
Loss before income taxes	$-	$(1,807)	$(1,818)
Income benefit		(683)	(680)
Loss from discontinued operations, net	$-	$(1,124)	$(1,138)

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(17) Selected Quarterly Data (Unaudited)

The following table shows selected quarterly data for 2015 and 2014, in thousands, except earnings per share.

	2015 Quarters			
	1st	2nd	3rd	4th
Revenues	$120,791	$131,126	$137,396	$144,669
Contract costs	$108,948	$118,672	$123,652	$128,883
Operating income	$10,684	$11,496	$13,243	$15,116
Income from continuing operations	$5,220	$5,479	$6,474	$7,745
Net income	$5,220	$5,479	$6,474	$7,745
Basic earnings per share:				
Income from continuing operations	$0.97	$1.02	$1.20	$1.44
Net income	$0.97	$1.02	$1.20	$1.44
Basic weighted average shares outstanding	5,370	5,375	5,375	5,375
Diluted earnings per share:				
Income from continuing operations	$0.97	$1.02	$1.20	$1.43
Net income	$0.97	$1.02	$1.20	$1.43
Diluted weighted average shares outstanding	5,380	5,391	5,396	5,407

	2014 Quarters			
	1st	2nd	3rd	4th
Revenues	$ 119,409	$ 107,962	$ 101,749	$ 94,951
Contract costs	$ 107,611	$ 96,481	$ 93,388	$ 85,521
Operating income	$ 11,357	$ 10,703	$ 7,183	$ 7,687
Income from continuing operations	$ 6,269	$ 5,944	$ 3,887	$ 4,389
Loss from discontinued operations	$ (615)	$ (279)	$ (4)	$ (226)
Net income	$ 5,654	$ 5,665	$ 3,883	$ 4,163
Basic earnings per share:				
Income from continuing operations	$ 1.17	$ 1.11	$ 0.73	$ 0.82
Loss from discontinued operations	$ (0.12)	$ (0.05)	$ 0.00	$ (0.04)
Net income	$ 1.05	$ 1.06	$ 0.73	$ 0.78
Basic weighted average shares outstanding	5,347	5,356	5,356	5,356
Diluted earnings per share:				
Income from continuing operations	$ 1.17	$ 1.11	$ 0.72	$ 0.82
Loss from discontinued operations	$ (0.12)	$ (0.05)	$ 0.00	$ (0.04)
Net income	$ 1.05	$ 1.06	$ 0.72	$ 0.78
Diluted weighted average shares outstanding	5,364	5,368	5,372	5,380

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ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

ITEM 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management has evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15(d)-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act)). Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of such date, our disclosure controls and procedures were effective to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2015 based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework). Based on our assessment under the framework in Internal Control – Integrated Framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2015. Ernst & Young LLP, our independent registered public accounting firm, has issued an opinion on our internal control over financial reporting. This opinion appears in the Report of Independent Registered Public Accounting Firm under Item 9(a) of this Form 10-K.

On January 28, 2015, we acquired four related businesses that specialize in maintenance, repair and overhaul services and parts supply for general aviation jet aircraft related engines and engine accessories. The businesses acquired include Air Parts & Supply Co., Kansas Aviation of Independence, L.L.C., Prime Turbines LLC (including both U.S. and German-based operations), and CT Aerospace LLC. These four businesses are operating as a combined group managed by our wholly owned subsidiary VSE Aviation, Inc. ("VAI"). VAI represents approximately 13.7% of total assets as of December 31, 2015, and 22.4% and 20.7% of revenues and operating income, respectively, for the year then ended. As is consistent with interpretive guidance provided by the SEC's staff, management excluded the acquired businesses from its assessment of the effectiveness of our internal control over financial reporting as of December 31, 2015.

Change in Internal Controls

During the fourth quarter of fiscal year 2015, there were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended) that have materially affected these controls, or are reasonably likely to materially affect these controls subsequent to the evaluation of these controls.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of VSE Corporation

We have audited VSE Corporation and Subsidiaries' internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) (the COSO criteria). VSE Corporation and Subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Management's Report on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of VSE Aviation, Inc., which is included in the 2015 consolidated financial statements of VSE Corporation and Subsidiaries and constituted approximately 13.7% of total assets as of December 31, 2015 and approximately 22.4% and 20.7% of revenues and operating income, respectively, for the year then ended. Our audit of internal control over financial reporting of VSE Corporation and subsidiaries also did not include an evaluation of the internal control over financial reporting of VSE Aviation, Inc.

In our opinion, VSE Corporation and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of VSE Corporation and Subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2015 of VSE Corporation and Subsidiaries and our report dated March 3, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

McLean, Virginia
March 3, 2016

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ITEM 9B. Other Information

None.

PART III

Except as otherwise indicated below, the information required by Items 10, 11, 12, 13 and 14 of Part III of Form 10-K has been omitted in reliance of General Instruction G(3) to Form 10-K and is incorporated herein by reference to our definitive proxy statement to be filed with the SEC not later than 120 days after December 31, 2015 in respect to the Annual Meeting of VSE's stockholders scheduled to be held on May 3, 2016 (the "Proxy Statement").

ITEM 10. Directors, Executive Officers and Corporate Governance

See Item 4 under the caption "Executive Officers of Registrant," and the remaining information required by this Item is incorporated by reference to the Proxy Statement.

ITEM 11. Executive Compensation

The information required by this Item is incorporated by reference to the Proxy Statement.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Except for the "Equity Compensation Plan Information" disclosed in Item 5(e) above, the information required by this Item is incorporated by reference to the Proxy Statement.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item is incorporated by reference to the Proxy Statement.

ITEM 14. Principal Accountant Fees and Services

The information required by this Item is incorporated by reference to the Proxy Statement.

PART IV

ITEM 15. Exhibits and Financial Statement Schedules

1. Financial Statements

The consolidated financial statements are listed under Item 8 of this Form 10-K.

2. Supplemental Financial Statement Schedules

All schedules have been omitted because they are not applicable, not required, or the information has been otherwise supplied in the financial statements or notes to the financial statements.

3. Exhibits

See "Exhibit Index" hereinafter contained and incorporated by reference.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

		VSE CORPORATION
Date: March 3, 2016	By:	/s/ M. A. Gauthier
		M. A. Gauthier
		Director, Chief Executive Officer, President and Chief Operating Officer

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Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of Registrant and in the capacities and on the dates indicated.

Name	Title	Date
/s/ Maurice A. Gauthier Maurice A. Gauthier	Director, Chief Executive Officer, President and Chief Operating Officer	March 3, 2016
/s/ Thomas R. Loftus Thomas R. Loftus	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 3, 2016
/s/ Clifford M. Kendall Clifford M. Kendall	Chairman/Director	March 3, 2016
/s/ Calvin S. Koonce Calvin S. Koonce	Director	March 3, 2016
/s/ James F. Lafond James F. Lafond	Director	March 3, 2016
/s/ Bonnie K. Wachtel Bonnie K. Wachtel	Director	March 3, 2016
/s/ Ralph E. Eberhart Ralph E. Eberhart	Director	March 3, 2016
/s/ Jack C. Stultz Jack C. Stultz	Director	March 3, 2016

/s/ John E. Potter John E. Potter	Director	March 3, 2016
/s/ John C. Harvey John C. Harvey	Director	March 3, 2016

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EXHIBIT INDEX

Reference No. Per Item 601 of Regulation S-K	Description of Exhibit	Exhibit No. In this Form 10-K	
	Certificate of incorporation and by-laws		
3.1	Restated Certificate of Incorporation of VSE Corporation dated as of February 6, 1996 (Exhibit 3.2 to Form 10-K405 dated March 25, 1996)	*	
3.2	By-Laws of VSE Corporation as amended through December 17, 2008 (Exhibit 3.1 to Form 8-K dated December 17, 2008)	*	
	Instruments defining the rights of security holders, including indentures		
4.1	Specimen Stock Certificate as of May 19, 1983 (Exhibit 4 to Registration Statement No. 2-83255 dated April 22, 1983 on Form S-2)	*	+
10.1	Material contracts		
10.2	Employment Agreement dated as of July 1, 2004, by and between VSE Corporation and Thomas R. Loftus (Exhibit 10.1 to Form 10-Q dated July 30, 2004)	*	+
10.3	Amended and Restated Employment Agreement dated as of December 6, 2013, by and between VSE Corporation and Maurice A. Gauthier (Form 8-K dated December 9, 2013)	*	+
10.4	Severance and Mutual Protection Agreement dated as of November 7, 2008, by and between VSE Corporation and Thomas M. Kiernan (Exhibit 10.3 to Form 10-K dated March 3, 2009)	*	+
10.5	Third Amended and Restated Business Loan and Security Agreement dated January 28, 2015 among VSE Corporation and its wholly owned subsidiaries, Citizens Bank of Pennsylvania and a syndicate of five other banks (Exhibit 10.1 to Form 8-K dated January 30, 2015)		
10.6	Lease Agreement by and between Metropark 7 LLC and VSE Corporation (Exhibit 10.2 to Form 8-K dated November 4, 2009)	*	+
10.7	VSE Corporation Deferred Supplemental Compensation Plan effective January 1, 1994 as amended by the Board through March 9, 2004 (Exhibit 10.2 to Form 10-Q dated April 28, 2004)	*	+

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10.8	VSE Corporation 2004 Non-Employee Directors Stock Plan (Appendix B to Registrant's definitive proxy statement for the Annual Meeting of Stockholders held on May 6, 2014)	* +
13.1	Annual report to security holders, Form 10-Q or selected quarterly data	Exhibit 13
21.1	Subsidiaries of the Registrant	Exhibit 21
23.1	Consent of Ernst & Young LLP, independent registered public accounting firm	Exhibit 23.1
31.1	Section 302 CEO Certification	Exhibit 31.1
31.2	Section 302 CFO and PAO Certification	Exhibit 31.2
32.1	Section 906 CEO Certification	Exhibit 32.1
32.2	Section 906 CFO and PAO Certification	Exhibit 32.2
99.1	Audit Committee Charter (as adopted by the Board Of Directors of VSE Corporation on March 9, 2004)(Appendix A to Registrant's definitive proxy statement for the Annual Meeting of Stockholders held on May 3, 2004)	*
101.INS	XBRL Instance Document	
101.SCH	XBRL Taxonomy Extension Schema Document	
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	

*Document has been filed as indicated and is incorporated by reference herein.
+Indicates management contract or compensatory plan or arrangement.