

# SECURITIES AND EXCHANGE COMMISSION

## FORM DEF 14A

Definitive proxy statements

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### FILER

#### VSE CORP

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#### Mailing Address

2550 HUNTINGTON AVENUE  
ALEXANDRIA VA 22303-1499

#### Business Address

2550 HUNTINGTON AVE  
ALEXANDRIA VA 22303  
7039604600

VSE CORPORATION

2550 Huntington Avenue, Alexandria, Virginia 22303-1499

Notice of 1996  
Annual Meeting of  
Stockholders and  
Proxy Statement

Fellow Stockholders:

You are cordially invited to attend the annual meeting of stockholders of VSE Corporation to be held on Saturday, May 4, 1996, commencing at 10:00 a.m., Washington, D.C. time, at the Value Engineering Building, 2550 Huntington Avenue, Alexandria, Virginia 22303-1499. The matters expected to be considered at the annual meeting are described in the accompanying notice of meeting and proxy statement.

In addition, at the meeting we will review the activities of the company during the past year and its current activities. Stockholders will have an opportunity to ask questions. I hope you will be able to join us.

To ensure that your VSE common stock is voted at the meeting, please promptly sign and date the enclosed proxy card and return it in the enclosed envelope. Your vote is important.

Very truly yours,

VSE CORPORATION

/s/ D. M. Ervine

D. M. Ervine  
Chairman of the Board  
and Chief Executive Officer

April 3, 1996

VSE CORPORATION

2550 Huntington Avenue, Alexandria, Virginia 22303-1499

Notice of Annual Meeting of Stockholders  
to be Held ON May 4, 1996

To the Stockholders of VSE Corporation:

Notice is hereby given that the annual meeting of stockholders of VSE Corporation, a Delaware corporation ("VSE"), will be held on Saturday, May 4, 1996, commencing at 10:00 a.m., Washington, D.C. time, at the Value Engineering Building, 2550 Huntington Avenue, Alexandria, Virginia 22303-1499, for the following purposes:

1. To elect nine directors to serve until the next annual meeting of stockholders and until their successors are duly elected and qualified;
2. To ratify the appointment of Arthur Andersen LLP as VSE's independent certified public accountants for the year ending December 31, 1996;
3. To consider and act on the proposed VSE Corporation 1996 Stock Option Plan; and
4. To transact such other business as may properly come before the meeting or at any adjournment thereof.

Only record holders of VSE common stock as of the close of business on March 20, 1996, will be entitled to notice of, and to vote at, the annual meeting or at any adjournments thereof. The list of stockholders entitled to vote at the meeting or at any adjournments thereof will be open to the examination of any stockholder during the 10 days prior to the meeting at VSE's offices located at 2550 Huntington Avenue, Alexandria, Virginia 22303-1499, during ordinary business hours.

The VSE Corporation 1995 Annual Report to Stockholders, which contains consolidated financial statements and other information of interest to stockholders, accompanies this proxy material.

Whether or not you expect to attend the meeting, please promptly complete, sign, date and return the enclosed proxy. To return your proxy you may use the self-addressed envelope, which requires no postage if mailed within the United States of America. If you attend the meeting, you may, if you wish, withdraw your proxy and vote your shares personally.

By Order of the Board of Directors,

/s/ C. S. Weber

C. S. Weber  
Secretary

April 3, 1996

VSE CORPORATION

## PROXY STATEMENT

Annual Meeting of Stockholders  
to be held on May 4, 1996

## INTRODUCTION

### General

This proxy statement is being furnished to the stockholders of VSE Corporation, a Delaware corporation ("VSE"), in connection with the solicitation of proxies by the board of directors of VSE (the "Board") for use at VSE's annual meeting of stockholders to be held on Saturday, May 4, 1996, commencing at 10:00 a.m., Washington, D.C. time, at the Value Engineering Building, 2550 Huntington Avenue, Alexandria, Virginia 22303-1499, and at any adjournments thereof (the "Meeting") for the purposes specified in the accompanying notice of meeting.

The mailing address of VSE's principal executive office is 2550 Huntington Avenue, Alexandria, Virginia 22303-1499. VSE's telephone number is (703) 960-4600. This proxy statement and the accompanying notice and form of proxy are first being provided to the holders of VSE common stock, par value \$.05 per share (the "stockholders"), on or about April 3, 1996.

The close of business on March 20, 1996, is the record date for the determination of stockholders entitled to notice of, and to vote at, the Meeting. Holders of a majority of the outstanding VSE common stock, par value \$.05 per share (the "Stock" or "VSE Stock"), as of March 20, 1996, must be present at the Meeting, either in person or represented by proxy, to constitute a quorum for the transaction of business. As of the close of business on March 20, 1996, there were 869,167 shares of Stock outstanding

and approximately 320 stockholders of record. Each stockholder is entitled to one vote for each share of Stock held of record as of the close of business on March 20, 1996, on all matters which may be submitted to the stockholders at the Meeting.

#### Voting and Revocation of Proxies

All Stock represented by valid proxies will be voted at the Meeting in accordance with the directions on the proxies. If no direction is indicated on a proxy, the Stock represented thereby will be voted for (a) the election as VSE directors of the nine nominees listed below under "Election of Directors," (b) the ratification of the appointment of Arthur Andersen LLP as VSE's independent certified public accountants for the year ending December 31, 1996, and (c) the adoption of the VSE Corporation 1996 Stock Option Plan, all as discussed below.

Votes cast by proxy or in person at the Meeting will be tabulated by the inspectors of election appointed for the Meeting. The inspectors of election will treat abstentions as Stock that is present and entitled to vote for purposes of determining the presence of a quorum, but as unvoted for purposes of determining the approval of any matter submitted to stockholders for a vote. If a broker indicates on a proxy that such broker does not have discretionary authority as to certain Stock to vote on a particular matter, such shares will not be considered as present and entitled to vote with respect to such matter.

As of the date of this proxy statement, the Board does not intend to present, and has not been informed that any other person intends to present, any matter for action at the Meeting other than those specifically referred to herein. If, however, any other matters are properly presented to the Meeting for action, the proxy holders will vote the proxies, which confer authority on such holders to vote on such matters, in accordance with their best judgment. The persons named as attorneys-in-fact in the proxies are VSE officers.

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

<TABLE>

#### SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding beneficial ownership of Stock, as of March 20, 1996, (a) by each person known by VSE to beneficially own more than 5% of the then outstanding Stock, (b) by each VSE director, (c) by each of the named VSE executive

officers, and (d) by all VSE directors and executive officers as a group. The voting and investment powers of the Stock listed below are held solely by the reported owner unless otherwise indicated.

<CAPTION>

Name of Beneficial Owner -----	Amount of Beneficial Ownership (Shares) (1) -----	Percent of Outstanding Stock -----
<S>	<C>	<C>
VSE Corporation		
ESOP/401(k) Plan	345,573 (2)	39.8%
B. S. Bartholomew	6,255 (3)	*
Sarah Clements	0	0
D. M. Ervine	12,204	1.4%
R. J. Kelly	500	*
C. S. Koonce	155,552 (4)	17.9%
J. M. Knowlton	6,076	*
J. M. Marchello	2,100	*
R. B. McFarland	3,865	*
D. M. Osnos	0	0
J. D. Ross	0	0
B. K. Wachtel	11,300	1.3%
C. S. Weber	19,912 (3)	2.3%
All directors and executive officers as a group (5)	280,915	32.3%

<FN>

\* Represents less than 1% of outstanding Stock.

(1) Excludes the following shares that may be acquired within 60 days pursuant to outstanding option grants. The grants are subject to stockholder approval of the VSE Corporation 1996 Stock Option Plan (see "Item No. 3" below): Mr. Bartholomew, 1,708 shares; Mrs. Clements, 469 shares; Mr. Ervine, 3,941 shares; Mr. Kelly, 469 shares; Mr. Koonce, 469 shares; Mr. Knowlton, 1,051 shares; Mr. Marchello, 469 shares; Mr. McFarland, 2,233 shares; Mr. Osnos, 469 shares; Mr. Ross, 469 shares; Miss Wachtel, 469 shares; Mr. Weber, 1,051 shares, and all directors and executive officers as a group, 16,432 shares.

(2) These shares are held in trust for the benefit of the participants of the Plan. Three VSE officers serve as trustees of the Plan. The participants of the Plan have voting power over 286,159 shares allocated to their respective ESOP accounts, while the Plan trustees share voting and investment power over the remaining 59,414 shares. The mailing address for the Plan is 2550 Huntington Avenue, Alexandria, Virginia 22303-1499.

(3) Excludes 59,414 shares beneficially owned or controlled as a trustee of the ESOP/ 401(k) Plan.

(4) Mr. Koonce's mailing address is 6550 Rock Spring Drive, Suite 600, Bethesda, Maryland 20817. Excludes 29,800 shares owned by members of his family. Mr. Koonce disclaims any beneficial interest in the shares owned

by his family.

(5) The group, including the trustees of the ESOP/401(k) Plan, consists of 16 persons. The 280,415 shares beneficially owned include 59,414 shares beneficially owned or controlled by the trustees of the ESOP/401(k) Plan.

</FN>

</TABLE>

Item No. 1

Election of Directors

Nominees

At the Meeting, stockholders will elect, by a plurality of the votes cast, nine VSE directors, who will constitute the entire Board. Each nominee listed below is currently serving as a VSE director and was elected by the stockholders at the last annual meeting of stockholders, except for Robert J. Kelly, who was appointed as a director by the Board in December 1995, effective as of January 1, 1996. Each nominee elected as a director will serve until the next annual meeting of stockholders and until his or her successor is elected and qualified. If any nominee should become unable to serve for any reason, the proxies will be voted for such substitute nominee as shall be designated by the Board.

Harold P. Weinberg, who served as a VSE director from 1961 through 1995, retired from the Board as of December 31, 1995, and accordingly, is not seeking reelection.

<TABLE>

The nine nominees for election as VSE directors and certain information regarding them are as follows:

<CAPTION>

Name and Principal Occupation	Age	Director since
-----	-----	-----
<S>	<C>	<C>
David M. Osnos	64	1968
Senior partner of Arent Fox Kintner Plotkin & Kahn, attorneys-at-law (for more than the past five years); also a director of EastGroup Properties and Washington Real Estate Investment Trust.		

Name and Principal Occupation	Age	Director since
-----	-----	-----
<S>	<C>	<C>
Sarah Clements	85	1987
Private consultant and formerly Deputy for Material		

Acquisition Management in the Office of the Assistant Secretary of the Army (RDA) (1975 to 1981). Before retiring in 1981, she served for 35 years in the Federal Aviation Administration and the Department of the Army.

Donald M. Ervine 59 1987  
VSE Chairman of the Board and Chief Executive Officer since 1992, VSE President and Chief Operating Officer from 1988 to 1992, and prior thereto, senior program manager, vice president, senior vice president, and executive vice president since 1983.

Richard B. McFarland 62 1988  
VSE President and Chief Operating Officer since February 1993 and a private consultant to VSE from 1988 to 1993; formerly executive director of the Navy Ships Parts Control Center (1982 to 1988). Before retiring in 1988, he served for 25 years in the Department of the Navy.

Joseph M. Marchello 62 1990  
Professor at Old Dominion University in Norfolk, Virginia, chemical engineering; Chancellor of the University of Missouri-Rolla from 1976 to 1985 and President of Old Dominion University from 1985 to 1988.

Bonnie K. Wachtel 40 1991  
Vice President and General Counsel, Wachtel & Co. Inc., Brokers and Underwriters (for more than the past five years). Also a director of Integral Systems Inc. and Information Analysis Inc.

Calvin S. Koonce 58 1992  
President, Koonce Securities, Inc., a securities broker/dealer firm (for more than the past five years). Also a director of Exotech Inc.

Jimmy D. Ross 59 1994  
General, U. S. Army (Ret.), formerly Commanding General, U. S. Army Materiel Command. Since retiring in 1994, General Ross has served as Senior Vice President, Biomedical Services, for the American Red Cross.

Robert J. Kelly 58 1996  
Admiral, U.S. Navy (Ret.), formerly Commander in Chief of the U. S. Pacific Fleet. Since retiring in 1994, Admiral Kelly has served as Director of International Operations for The Wing Group, a developer of large-scale energy projects, and since August 1995 as Chairman of the Board of Energetics Incorporated, a VSE subsidiary.

</TABLE>

## Committees of the Board

Audit Committee. The audit committee met three times during 1995 and consists of all non-employee directors including Mr. Kelly, Chairman, Mrs. Clements, and Mr. Osnos. The audit committee is primarily concerned with the effectiveness of VSE accounting policies and practices, financial reporting, and internal controls. The committee recommends to the Board the firm to be appointed as VSE's independent certified public accountants, subject to ratification by the stockholders, and reviews the scope of the annual examination of VSE's books and records. The committee also reviews the audit findings and recommendations of the independent public accountants, considers the organization and work of VSE's internal audit function, and monitors the extent to which the findings and recommendations of these groups have been implemented.

Compensation Committee. The compensation committee met three times during 1995 and consists of all non-employee directors including Mr. Ross, Chairman, Mr. Koonce, Mr. Marchello, and Miss Wachtel. The committee is primarily concerned with corporate compensation policies, including incentive compensation, the compensation of the chief executive officer, and the compensation of certain other executive officers and employees.

Nominating Committee. The nominating committee met three times during 1995 and consists of all non-employee directors including Mr. Koonce, Chairman, and Mr. Osnos. The committee is primarily concerned with making recommendations to the Board with respect to nominees to be proposed for election as directors. Stockholders of VSE may recommend persons to be nominated for election as directors of VSE at the Meeting. To be considered, such recommendation must be submitted in accordance with VSE's by-laws and must be received in writing by the secretary of VSE generally by February 15th, but in any event no later than 90 days before the date in the current year which corresponds to the date on which the Meeting was held during the immediate prior year.

Planning Committee. The planning committee met two times during 1995 and consists of Mr. McFarland, Chairman, Mr. Marchello, Mr. Ross, and Miss Wachtel. The committee is primarily concerned with making recommendations to the Board with respect to business development and opportunities, including acquisitions.

Finance Committee. A finance committee was established in late 1995 and met once. The committee consists of Mr. Osnos, Chairman, Mr. Ervine, Mr. Koonce, and Miss Wachtel. The committee is primarily concerned with making recommendations to the Board with respect to VSE's capitalization and long-term funding requirements.

VSE's chairman and chief executive officer (Mr. Ervine) is an ex officio member of all standing committees of the Board. Mr. Ervine does not participate in meetings or discussions of the compensation committee concerned with establishing his salary or bonus.

## Board Meetings

During 1995 the Board held six regular meetings. No director attended fewer than 75% of the aggregate of (a) the total number of Board meetings held (during the period during which he or she has been a director) and (b) the total number of meetings held by all committees of the Board on which he or she served.

## 1995 Director Compensation

Directors of VSE, excluding directors who are also VSE officers, receive an annual retainer of \$10,000 plus \$600 per meeting for each regular Board meeting or committee attended, not to exceed an aggregate of \$17,200 in retainer and meeting fees for the year. Directors who are also VSE officers (Mr. Ervine and Mr. McFarland) are compensated at a rate equal to one-half of the rate of non-employee directors, not to exceed an aggregate of \$8,600 for the year.

Pursuant to a consulting agreement between Mrs. Clements and VSE, Mrs. Clements agreed to provide technical and management consulting services to VSE. VSE agreed to pay consulting fees at the rate of \$60 per hour and to reimburse certain related out-of-pocket expenses.

Pursuant to a consulting agreement between JMM Corporation ("JMM"), which is wholly owned by Mr. Marchello, and VSE, JMM agreed to provide technical and management consulting services to VSE. VSE agreed to pay consulting fees at the rate of \$150 per hour for up to the first 20 hours of consulting services rendered in any one month and at the rate of \$50 per hour for each hour in excess of 20 hours in any month, and to reimburse certain related out-of-pocket expenses. No services were rendered to VSE pursuant to this agreement in 1995.

Pursuant to a consulting agreement between Mr. Ross and VSE, Mr. Ross agreed to provide technical and management consulting services to VSE. VSE agreed to pay consulting fees at the rate of \$100 per hour, not to exceed \$50,000 per year.

For services rendered to VSE during 1995, Mrs. Clements and Mr. Ross received consulting fees and reimbursements for certain related out-of-pocket expenses in the aggregate amounts of approximately \$15,125 and \$6,400, respectively. VSE believes that the fees paid under the consulting agreements are no more than would be paid for similar services to non-affiliated parties.

## Changes in Director Compensation

Effective January 1, 1996, the Board made the following changes in compensating VSE directors. Each non-employee director will be compensated at an annual rate of \$17,200, prorated for a partial year of service. Directors who are employees of VSE will receive no additional compensation for service as a director. In addition, no compensation

will be paid to a director for personal services rendered to VSE pursuant to a consulting services agreement between the director and VSE or any of VSE's subsidiaries or divisions, unless authorized as a special assignment by the Board. The foregoing changes do not restrict reimbursement for expenses incurred by a director for attending meetings of the Board or its authorized committees.

Also effective in 1996, directors may be awarded stock option grants, subject to stockholder approval of the VSE Corporation 1996 Stock Option Plan (see "Item No. 3").

#### Certain Relationships and Related Transactions

Pursuant to an agreement dated as of January 1, 1996, Donald M. Ervine serves as the Chief Executive Officer of VSE. Mr. Ervine is paid a base salary of \$225,000 per annum and is employed for a term ending on January 1, 1999. This term is automatically extended for successive one-year periods unless notice to terminate is given at least 90 days prior to the expiration of the term or any such one-year extension of the term. Mr. Ervine's base salary shall be subject to review in January of each year in which the agreement is in effect, provided that the base salary shall not be less than \$225,000 per annum. Mr. Ervine shall also be eligible to receive an annual performance bonus each year as determined by the Board or its compensation committee. Mr. Ervine's employment may be terminated by the Board for willful and gross misconduct and in the case of death or disability which prevents Mr. Ervine from substantially fulfilling his duties for a period in excess of six months. If Mr. Ervine's employment is terminated because of death or illness or disability, he or his beneficiary, as the case may be, will be paid his annual base salary then in effect for one full year from the date of death or disability. Mr. Ervine's employment may also be terminated without cause on 60 days prior notice and on payment of a lump sum severance compensation payment equal to two times his base salary then in effect. The agreement includes a covenant by Mr. Ervine not to be involved, directly or indirectly, in a business enterprise that competes with VSE during the term of his employment and for two years thereafter. Under the terms of the agreement, Mr. Ervine will be nominated to serve as a director and will be elected Chairman of the Board during the term of his employment. In the event of a change of control of VSE, as defined, and without his consent, Mr. Ervine is assigned duties materially inconsistent with his position and status with VSE, Mr. Ervine may terminate the agreement and will be entitled to a lump sum severance compensation payment equal to three times his annual base salary then in effect.

Pursuant to an agreement dated as of January 1, 1996, Richard B. McFarland serves as the President and Chief Operating Officer of VSE. The terms and conditions of Mr. McFarland's agreement are in all respects identical to those of Mr. Ervine's agreement except that (a) Mr. McFarland is employed at a minimum base salary of \$175,000 per annum, (b) in the event of termination without cause, the lump sum severance compensation payment

shall equal his annual base salary then in effect, (c) Mr. McFarland will be nominated to serve as a director of VSE during the term of the agreement, and (d) in the event of a change of control of VSE, as defined, Mr. McFarland may terminate the agreement and will be entitled to a lump sum severance compensation payment equal to two times his annual base salary then in effect.

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

The law firm of Arent Fox Kintner Plotkin & Kahn, of which Mr. Osnos is a senior partner, has represented and is expected to continue to represent VSE on various legal matters.

See "1995 Director Compensation" above for a description of certain individual consulting agreements between VSE and Mrs. Clements, Mr. Marchello, and Mr. Ross which were effective in 1995 and were canceled as of January 1, 1996.

VSE and the trustees of its employee benefit plans effect certain of their transactions in VSE stock and employee benefit plan investments, respectively, through Wachtel & Co., Inc., of which Ms. Wachtel is a director, officer and shareholder, and through Koonce Securities, Inc., which is wholly owned by Mr. Koonce.

The Board recommends a vote FOR the proposal to elect each of the nine persons nominated to serve as a director for the ensuing year, and your proxy will be so voted unless you specify otherwise.

## Item No. 2

### APPOINTMENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Base on the recommendation of its audit committee, the Board has appointed the firm of Arthur Andersen LLP to be VSE's independent certified public accountants for the year ending December 31, 1996, and recommends to stockholders that they vote for ratification of that appointment. Although not required to do so, the Board has determined that it would be desirable to request approval of this appointment by stockholders. The ratification of the appointment of VSE's independent certified public accountants will require the affirmative vote by the holders of a majority of the outstanding Stock present in person or represented by proxy at the Meeting. If such approval is not received, the Board will reconsider the appointment. In 1995 Arthur Andersen LLP services included an examination of VSE's consolidated financial statements, the financial statements of certain subsidiaries and benefit plans, and tax consulting.

A representative of Arthur Andersen LLP is expected to attend the Meeting, will have an opportunity to make a statement, if he or she desires to do

so, and will be available to respond to appropriate questions.

The Board recommends a vote FOR the proposal to ratify the appointment of Arthur Andersen LLP to serve as VSE's independent certified public accountants for the year 1996, and your proxy will be so voted unless you specify otherwise.

Item No. 3

VSE CORPORATION 1996 STOCK OPTION PLAN

The stockholders are asked to consider and vote on a proposal to adopt the VSE Corporation 1996 Stock Option Plan (the "Plan"), which was adopted by the Board on February 6, 1996. Adoption of the Plan will require the affirmative vote by the holders of a majority of the outstanding Stock present in person or represented by proxy at the Meeting. If such approval is not received, the Board will reconsider the Plan. (The following summary of the Plan is qualified in its entirety by reference to the text of the Plan which is set forth as Exhibit A to this Proxy Statement.)

VSE does not currently have a stock option plan. Under the proposed five-year Plan, an aggregate of up to 109,479 shares of Stock (representing approximately 12.5% of the currently outstanding Stock) may be purchased pursuant to the grant of options. Approximately 20% of the shares covered by the Plan will be available for grants to non-employee directors of VSE, and approximately 80% of the shares will be available for grants to executive officers and key employees. Options under the Plan are not intended to qualify as "incentive stock options" under Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"). (See "Federal Income Tax Consequences" below). The Plan will terminate on the earliest of February 5, 2006, or the date on which all options under the Plan have been exercised or terminated.

The purpose of the Plan is to make awards to non-employee directors, executive officers, and key employees of VSE and its subsidiaries and divisions, and thereby, to further VSE's growth by providing long-term incentives and an identity of interests with VSE's stockholders. (Initially, approximately 15 persons will be eligible to receive options under the Plan.) VSE operates in a highly specialized field in which success is substantially dependent on the expertise of qualified and highly motivated key personnel. Management believes that adoption of the Plan will be of material assistance in recruiting, motivating, and retaining key personnel.

The Board is authorized, subject to the provisions of the Plan, to construe and interpret the Plan, and to make all determinations necessary or advisable for the administration of the Plan. The Board may designate persons other than Board members to carry out its responsibilities under the Plan, under such conditions and limitations

as it may prescribe, except that the Board may not delegate its authority with respect to the grant of options under the Plan. The portion of the Plan which relates to the grant of options will be administered by the Board, provided that a majority of the Board and a majority of the members acting on the matter are non-employee directors. Alternatively, if the Board shall not satisfy the foregoing provisions, or if the Board shall otherwise so specify, the portion of the Plan which relates to the grant of options shall be administered by a committee of at least three directors, all of whom must be non-employee directors. In administering the Plan, the Board may (but is not required to) consider the recommendations of its compensation committee.

Under the Plan, the option price per share shall not be less than the fair market value of the Stock as of the date each option is granted. The fair market value of the Stock, as defined in the Plan, means on any given date the average closing price of the Stock as reported on the consolidated transaction reporting system for the National Association of Securities Dealers for such of the 30 calendar days prior to the date of the award during which trades of the Stock occurred. The closing price of the Stock on March 21, 1996, was \$27 per share.

Options will be exercisable over the exercise period specified by the Board, but in no event will such period exceed five years from the date of grant. Options will terminate upon voluntary termination of employment, except (i) if the participant dies while an employee, vested options may be exercised within one year after the participant's death (but not after the option termination date), (ii) upon the participant's retirement, vested options may be exercised within three years after the retirement date (but not after the option termination date), and (iii) if the participant's employment is terminated for disability or due to a lay off by VSE, vested options may be exercised within one year after termination (but not after the option termination date). Also, if a participant's employment is terminated for cause (as defined in the Plan), all of his or her options will terminate on the date of such termination for cause.

The option price shall be paid in full at the time of exercise in cash or, with the Board's approval, Stock held by the participant for at least six months having an aggregate fair market value equal to the aggregate option price of the options exercised or in a combination of cash and Stock.

Each option granted under the Plan will vest 25% immediately on the date of the grant and 25% on each successive anniversary date after the date of the grant (100% vested after three years). In the event of a "change of control" of VSE (as defined in the Plan), all options granted under the Plan which have not terminated and are held by participants will become immediately vested and may be exercised without regard to any vesting period.

Subject to stockholder approval of the Plan, it is anticipated that grants

covering approximately 65,690 shares of Stock will be awarded, effective as of February 7, 1996, as follows: (a) each of the seven non-employee directors who has been nominated to serve as a director of VSE for the ensuing year (see "Election of Directors" above) will receive an option grant for 1,877 shares and (b) individual option grants will be made to each of eight key executives, as follows: Mr. Ervine (15,765 shares), Mr. McFarland (8,934 shares), Mr. Bartholomew (6,832 shares), and Messrs. Corridon, Karl, Knowlton, Robin and Weber (4,204 shares each). The fair market value of the Stock on February 7, 1996, as defined, was \$27.28 per share. After giving effect to the foregoing grants, an aggregate of 43,789 shares will remain available for purchase pursuant to the grant of options during the remaining life of the Plan. Under the Plan, each year commencing with 1997, each then outside director, as defined, will be granted an option to purchase 300 shares.

#### Federal Income Tax Consequences

The following is a brief summary of certain federal income tax consequences relating to options granted under the Plan. This summary is solely for general information and does not make specific representations to any participant. Therefore, each participant is urged to consult with his or her own tax adviser regarding the exercise of options and the sale of Stock acquired under the Plan regarding federal, state, and local tax consequences.

The grant of stock options will have no immediate tax consequences to VSE or the optionee. If Stock received on the exercise of an option is not subject to a substantial risk of forfeiture, the optionee will recognize ordinary income equal to the excess, if any, of the fair market value of the shares at the time of exercise over the exercise price. It is not contemplated that VSE will, upon the exercise of an option, issue or deliver Stock that is subject to a substantial risk of forfeiture, except as noted in the next paragraph.

Stock received on the exercise of an option will be treated as subject to a substantial risk of forfeiture for up to a six month period if the sale of the shares at a profit during such six months could subject the optionee to suit under Section 16(b) of the Securities Exchange Act of 1934, as amended ("Section 16(b)"). Under these circumstances, however, the optionee has a right to elect, within a 30-day period from the date of transfer of the shares, to include in his or her taxable income for the taxable year of exercise an amount equal to the excess of the fair market value of such shares at the time of the exercise over the exercise price. If the optionee does not make the preceding election, the optionee will recognize ordinary income upon the expiration of the above-referenced six month period. The amount of such income will be equal to the excess of the fair market value of the shares at that time over the exercise price, and the holding period for determining whether any capital gain or loss on the subsequent sale or exchange of the shares is long-term or short-term capital gain or loss will commence at that time.

Where ordinary income is recognized by an optionee as described above in

connection with shares received on the exercise of an option, VSE will be entitled to a deduction in the amount of ordinary income so recognized by the optionee, provided appropriate tax withholding procedures are implemented or VSE otherwise establishes that the optionee has reported the income on his or her tax return. The Plan requires the employee to pay or make arrangements acceptable to the Board regarding withholding taxes due upon exercise of an option. With the Board's approval, the optionee may make such payments in whole or in part by surrendering Stock.

## Section 16

Approval of the Plan by the stockholders will exempt the acquisition pursuant to the Plan of a stock option by a VSE director or officer from the provisions of Section 16(b). Section 16(b) provides, among other things, that a director or officer who, within a six-month period, purchases and sells (or sells and purchases) the stock of a corporation which employs him or her is liable to the corporation for the difference between the purchase price and the sale price. Rule 16b-3 under the Exchange Act provides that the acquisition of a stock option by a director or officer of a corporation pursuant to a stock option plan which meets certain requirements (one of which is stockholder approval of the plan) is not subject to Section 16(b).

The Board recommends a vote FOR the proposal to adopt the VSE Corporation 1996 Stock Option Plan, and your proxy will be so voted unless you specify otherwise.

## COMPENSATION COMMITTEE REPORT

The Board has established a compensation committee to (a) review corporate compensation policies, including incentive compensation, (b) set the compensation of the chief executive officer (the "CEO"), and (c) review the compensation of certain other executive officers and employees. The committee is composed entirely of non-employee directors (see "Committees of the Board" above).

### Compensation Philosophy

VSE's overall compensation philosophy is based on aligning employee compensation with industry standards and with financial performance objectives established by the Board. Under the supervision of the committee, VSE has established compensation policies which are designed to (a) attract and retain qualified executive and corporate officers and (b) link total executive compensation to corporate goals and to specific individual goals appropriate for each executive and corporate officer.

The key elements of VSE executive compensation are base salary and an annual performance bonus. VSE does not have a long-term incentive plan. During 1995 the committee retained an independent, professional compensation firm to review VSE compensation policies and to make

recommendations with respect to a long-term incentive plan. Subject to stockholder approval, the committee recommended and the Board adopted on February 6, 1996, the VSE Corporation 1996 Stock Option Plan (see "Item No. 3" above).

#### Base Salary

The base salaries for executive officers and other corporate officers are based primarily on comparability to the range of compensation paid by companies of similar size and industry, based on commercially available wage and salary surveys. Size is determined primarily by reference to annual revenues and number of employees. VSE's industry group is engineering and technical services (SIC Code 8711). National and geographic differences in compensation are considered based on the executive's primary area of operations and responsibility. VSE targets a salary range generally between the 25th and the 50th percentile indicated by such surveys.

During 1993 the committee approved a compensation plan whereby salary ranges and ceilings were set for each of six specified executive and corporate officer pay grades. The intent of this policy was to enhance corporate competitiveness by (a) holding base salaries within a fixed salary range and (b) emphasizing the compensation incentive provided by the performance bonus program.

#### Performance Bonus

Consistent with the emphasis placed on competitiveness by holding salary increases in check, the committee approved a performance bonus plan in 1993 based on achieving corporate and business unit goals. This plan provides for the payment of a performance bonus, generally not to exceed 30% of base salary, on meeting certain specified performance criteria. A performance bonus in excess of 30% of base salary may be authorized when required to comply with incentives established pursuant to a written acquisition or employment agreement and as authorized by the Board.

The performance criteria or factors used to administer the incentive bonus program are established with the executive officer or manager at the beginning of each year. The performance factors are weighted approximately as follows: 20% on achieving corporate revenue and profit targets, 20% on achieving business unit revenue and profit targets, 15% on achieving budgeted efficiency ratios or cost reduction targets within a business unit, and 45% on achieving specified performance objectives within the business unit, such as proposals submitted and won, new business development, and total quality management.

Except for the 20% weighting factor assigned for corporate revenue and profit goals, the factors and weightings used to measure the performance of an individual executive or corporate officer depend on the conditions and corporate objectives with respect to the business unit or administrative function in which the executive or corporate officer works.

## All Other Compensation

All VSE officers are entitled to participate in all company fringe benefit programs, including the VSE ESOP/401(k) plan, which is an IRS qualified plan available to all eligible employees. Amounts contributed to the VSE ESOP/401(k) on behalf of the named executive officers are included in the "Summary Compensation Table."

During 1994 the Board adopted a non-qualified Deferred Supplemental Compensation Plan (the "DSC Plan") for all VSE officers to replace the former deferred compensation plan (the "DCU Plan"). The DSC Plan provides, at the Board's discretion, for an annual bonus pool not to exceed 12% of consolidated net income for the year. The annual bonus pool is allocated to the participant accounts of corporate officers in proportion to the ratio of the officer's performance bonus for the year (see "Performance Bonus" above) to total officer performance bonuses for the year. Pursuant to the DSC Plan, a bonus pool of approximately \$165,000 was authorized for 1995 for allocation to 27 participant officer accounts. Benefits under the DSC Plan and predecessor DCU Plan are payable to the participant on retirement or resignation, subject to a vesting schedule, non-competition agreement, and other plan provisions, or in the event of a change of control of VSE. Amounts contributed to the DSC Plan during 1995 and 1994 and to the DCU Plan during 1993 on behalf of the named executive officers are included in the Summary Compensation Table.

## Chief Executive Officer Compensation

During 1995, 1994 and 1993, VSE's chairman and chief executive officer ("CEO") (Mr. Ervine) was compensated in a manner consistent with the foregoing. The committee recommended a base salary of approximately \$200,000 per annum for the CEO based on the salaries paid to CEO's at similarly situated companies. See "Base Salary" discussion.

The CEO's performance bonus for each of the years presented was determined by the committee on the basis of five factors of approximately equal weight: revenue growth, return on equity, return on sales, leadership, and long-term shareholder goals. The first three factors are measured based on interim consolidated financial statements or management reports which are subject to adjustment based on annual audited financial statements. The last two factors are subjective measures evaluated by the committee in executive session. Based on its evaluation, and giving consideration to the CEO's contribution and leadership in the award of a major, ten-year contract to VSE and the timely completion of two significant corporate acquisitions, the committee recommended a CEO performance bonus of \$200,000 for 1995.

The performance bonus for VSE's president and chief operating officer ("COO") (Mr. McFarland) was similarly based. See "Performance Bonus" discussion.

## Employment Agreements

The committee also considered the performance of the CEO and COO (Mr. Ervine and Mr. McFarland) in managing the growth and operations of VSE during the prior three year period of industry consolidation, Government downsizing, and spending restraint. In the opinion of the committee, the retention of the CEO and COO and their continued motivation to manage VSE growth and lead the VSE management team are essential to maintaining corporate momentum and increasing shareholder value in the years immediately ahead. Accordingly, the committee recommended and the Board approved employment agreements with Mr. Ervine and Mr. McFarland effective January 1, 1996 (see "Certain Relationships and Related Transactions" above for a description of the employment agreements).

### COMPENSATION COMMITTEE:

Jimmy D. Ross (Chair)  
Calvin S. Koonce  
Joseph M. Marchello  
Bonnie K. Wachtel

### Compensation Committee Interlocks and Insider Participation

The compensation committee consists of four non-employee directors, including two directors (Messrs. Marchello and Ross) who had consulting services agreements with VSE in 1995. See "1995 Director Compensation" and "Changes in Director Compensation" above.

Mr. Koonce is a major stockholder of VSE. See "Security Ownership of Certain Beneficial Owners and Management." The trustees of VSE's employee benefit plans effect certain of their transactions through Koonce Securities, Inc., which is wholly owned by Mr. Koonce, and through Wachtel & Co., Inc., of which Ms. Wachtel is a director, officer, and shareholder.

Mr. Osnos is a senior partner of the law firm of Arent Fox Kintner Plotkin & Kahn, which firm has represented and is expected to continue to represent VSE on various legal matters. See "Certain Relationships and Related Transactions."

VSE's chairman and chief executive officer (Mr. Ervine) is an ex officio member of all Board committees, including the compensation committee. Mr. Ervine does not participate in meetings or discussions of the compensation committee concerned with establishing his salary or bonus.

<TABLE>

### Summary Compensation Table

The following table reports the compensation paid for the past three years for each of the five most highly compensated VSE executive

officers, including the chief executive officer (1) (2).

<CAPTION>

Name and Principal Position	Year	Annual Compensation Salary	Bonus	All Other (3) Compensation
<S>	<C>	<C>	<C>	<C>
Donald M. Ervine	1995	\$203,700	\$200,000	\$62,400
Chairman of the Board and	1994	203,700	59,100	35,600
Chief Executive Officer	1993	203,700	47,700	30,400
Richard B. McFarland	1995	\$146,500	\$160,000	\$51,300
President and	1994	146,500	49,400	30,200
Chief Operating Officer	1993	139,500	37,000	21,900
Byron S. Bartholomew	1995	\$139,400	\$12,700	\$31,100
Executive Vice President	1994	139,400	15,600	11,900
and Marketing Director	1993	139,400	16,500	24,200
James M. Knowlton	1995	\$101,400	\$45,000	\$14,300
Senior Vice President	1994	97,800	13,800	7,100
and General Manager	1993	89,800	13,500	10,400
Craig S. Weber	1995	\$114,000	\$30,000	\$21,400
Senior Vice President,	1994	108,200	13,100	11,700
Chief Financial Officer,	1993	108,200	14,400	18,500
Secretary and Treasurer				

<FN>

(1) The column "Other Annual Compensation" has been omitted because the amounts paid by VSE, if any, aggregate less than the minimum disclosure levels.

(2) The column "Long-Term Compensation" has been omitted because VSE has no long-term compensation plan (see "Item No. 3" above).

(3) The column headed "All Other Compensation" includes contributions made to two "defined contribution" employee benefit plans: (a) the VSE ESOP, which is generally available to all VSE employees, and (b) the DSC Plan or its predecessor (see plan description in "All Other Compensation" in the "Compensation Committee Report"). This column also includes (c) Board and committee meeting fees paid to named executive officers (see "1995 Director Compensation" and "Changes in Director Compensation" above). The component amounts for 1995 for the named executive officers in the order listed above were approximately as follows: (a) \$3,000, \$3,000, \$3,000, \$2,935, and \$3,000; (b) \$50,814, \$40,651, \$25,530, \$11,433, and \$14,189; and (c) \$8,600, \$7,700, \$2,650, \$0, and \$4,300.

</FN>

</TABLE>

## Performance Graph

Set forth below is a line graph comparing the cumulative total return of VSE Stock with (a) a performance index for the broad market in which VSE Stock is traded and (b) a published industry index. VSE Stock is traded on the Nasdaq Stock Market, and VSE's 4-digit industry SIC Code is 8711, Engineering Services. Accordingly, the performance graph compares the cumulative total return for VSE Stock with (a) an index for the Nasdaq Stock Market (U. S. companies) ("Nasdaq Index") and (b) a published industry index for SIC Code 8711 ("Industry Index").

### Total Return to Stockholders\*

[insert graph]

\* Total return assumes reinvestment of dividends and assumes \$100 invested on January 1, 1990, in VSE Stock, the Nasdaq Index, and the Industry Index.

### Performance Graph Table

	1990	1991	1992	1993	1994	1995
VSE Stock	100	78	125	163	202	392
Nasdaq Index	100	128	130	155	163	212
Industry Index	100	122	101	96	67	85

### Stockholder Proposals

Proposals of stockholders intended to be presented at VSE's 1997 annual meeting of stockholders must be received by VSE's secretary at its principal executive offices, 2550 Huntington Avenue, Alexandria, Virginia 22303-1499, by no later than the close of business on December 5, 1996, to be considered for inclusion in VSE's proxy material relating to such meeting.

### Other Matters

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

reasonable expenses for completing the mailing of such materials to the beneficial owners.

Please sign and promptly return your proxy in the enclosed envelope. Your vote is important.

By Order of the Board of Directors,

C. S. Weber, Secretary

April 3, 1996

## VSE CORPORATION 1996 STOCK OPTION PLAN

Section 1 Purpose. The purpose of the VSE Corporation 1996 Stock Option Plan (the "Plan") is to promote the interests of VSE Corporation, its Subsidiaries and divisions (the "Company") and its stockholders by (a) providing incentives for executives, other key employees, and Outside Directors of VSE Corporation and its Subsidiaries, (b) encouraging stock ownership to such individuals by providing them with a means to acquire a proprietary interest in the Company, and (c) aiding in attracting and retaining individuals of the caliber necessary for the continued growth and profitability of the Company.

Section 2 Definitions. For purposes of the Plan, the following terms shall have the meanings set forth below:

(a) "Award" or "Awards" means an award or grant of Non-qualified Stock Options made to a Participant under Section 4 of the Plan.

(b) "Board" means the Board of Directors of VSE Corporation.

(c) A "Change of Control" shall be deemed to have occurred if (i) the Company shall be merged or consolidated with another corporation and, as a result of such merger or consolidation, less than 75% of the outstanding voting securities of the surviving or resulting corporation shall be owned directly or indirectly in the aggregate by the former owner or affiliate of the Company, or any party to such merger or consolidation, as the same shall have existed immediately prior to such merger or consolidation, (ii) the Company shall sell all or substantially all of its assets to another corporation which is not a wholly owned subsidiary of VSE or an affiliate thereof, or (iii) a person, within the meaning in Section 3(a)(9) or of Section 13(d)(3) (as in effect on the date hereof) of the Exchange Act, shall acquire 50% or more of the outstanding voting securities of the Company (whether directly, indirectly, beneficially or of record). For purposes hereof, ownership of voting securities shall take into account and shall include ownership as determined by applying the provision of Rule 13d 3(d)(1)(i) (as in effect on the date hereof) pursuant to the Exchange Act.

(d) "Code" means the Internal Revenue Code of 1986, as in effect from time to time or any successor thereto, together with rules, regulations and interpretations promulgated thereunder.

(e) "Common Stock" means the Common Stock of VSE Corporation, par value of \$.05 per share, or any security of the Company issued in substitution, exchange, or in lieu thereof.

(f) "Disability" means disability as determined by the Board in accordance with standards and procedures similar to those under the Company's long term disability plan.

(g) "Discretionary Option" means a Non-qualified Stock Option to purchase Common Stock that is granted to a Participant who is not an Outside Director.

(h) "Exchange Act" means the Securities Exchange Act of 1934, as amended and in effect from time to time, or any successor statute.

(i) "Fair Market Value" means on any given date, the average closing price of the Common Stock as reported on the consolidated transaction reporting system for the National Association of Securities Dealers for such of the 30 calendar days prior to the award during which reported trades of Common Stock occurred.

(j) "Insider" means a Participant who is subject to the reporting requirements of Section 16 of the Exchange Act with respect to the Company.

(k) "Nondiscretionary Option" means a Non-qualified Stock Option to purchase Common Stock that is granted to Outside Directors pursuant to Section 7 hereof.

(l) "Non-qualified Stock Option" means an option to purchase shares of stock during such specified time as the Committee may determine, not to exceed five (5) years, that is granted pursuant to Section 4 hereof, that does not meet the requirements of Code Section 422, or if meeting those requirements, is not intended to be an incentive stock option under Code Section 422.

(m) "Outside Directors" means any member of the Board who, on the date of the granting of an option hereunder, is not an officer or employee of the Company. Outside Directors shall not be eligible to receive Discretionary Options.

(n) "Participant" means any person who is employed by the Company or is an Outside Director and who is granted an Award under the Plan.

(o) "Retirement" means retirement from active employment with the Company or active as a member of the Board of Directors on or after the normal retirement date specified in the Company's retirement plan or such earlier retirement date as approved by the Committee for purposes of this Plan.

(p) "Subsidiary" shall mean a subsidiary corporation of the Company, whether now or hereafter existing, and whether direct or indirect, as

defined in Section 424(f) of the Code.

(q) "Termination for Cause" means termination of the Participant's employment by the Company by written notice to the Participant, specifying the event relied upon for such termination, due to (i) the Participant's willful misconduct in respect of his or her duties for the Company, (ii) conviction for a felony or perpetration of a common law fraud, (iii) failure to comply with applicable laws or corporate policies with respect to the execution of the Company's business operations, (iv) theft, fraud, embezzlement, dishonesty or other conduct which has resulted or is likely to result in economic damage to the Company, or (v) the failure by the Participant to substantially perform the Participant's duties and obligations as determined by his or her supervisor, other than any such failure resulting from the Participant's incapacity due to physical or mental illness.

(r) "Vesting" or "vest" means the ability to exercise the stock option at one time or in such installments over the balance of the vesting period as may be provided in the stock option agreement.

(s) "Voluntary Termination" means the voluntary termination of a Participant who chooses to cease employment.

Section 3 Administration. The portion of the Plan which relates to the grant of Discretionary Options shall be administered by the Board, provided that a majority of the members of the Board and a majority of the members of the Board acting on the matter are Outside Directors. Alternatively, if the Board shall not satisfy the foregoing provisions or if the Board shall otherwise so specify, the portion of the Plan which relates to the grant of Discretionary Options shall be administered by a committee of at least three directors, all of whom must be Outside directors. In any event, the portion of the Plan which relates to the grant of Nondiscretionary Options shall be administered by the Board. To administer the Plan, the Board may consider, but is not required to consider, the recommendations of the Board's Compensation Committee.

(a) The Board is authorized, subject to the provisions of the Plan, to construe and interpret the Plan, to promulgate, amend and rescind rules and regulations relating to the implementation of the Plan, and to make all other determinations necessary or advisable for all the administration of the Plan. The Board may designate persons other than members of the Board to carry out its responsibilities under such conditions and limitations as it may prescribe, except that the Board may not delegate its authority with regard to selection for participation of and the granting of Discretionary Options to persons subject to Section 16(a) and 16(b) of the Exchange Act, except as specified herein. Any determination, decision or action of the Board in connection with the construction, interpretation, administration, or application of the Plan shall be final, conclusive and binding upon all Participants in the Plan. The Company shall effect the granting of Awards under the Plan in accordance with the determinations made by the

Board, by execution of instruments in writing in such form as approved by the Board ( stock option agreement ).

(b) The granting of Nondiscretionary Options under the Plan and the amount, price, vesting and timing of Nondiscretionary Option shall be automatic, as described in Section 7 hereof. All questions of interpretation of the Plan with respect to Nondiscretionary Options will be determined by the Board.

Section 4 Grants. Grants under the Plan are in the form of Non qualified Stock Options to purchase shares of Common Stock. Non-qualified Stock Options are herein called "stock options." Stock options may be granted from time to time under the Plan for up to one hundred and nine thousand four hundred and seventy nine (109,479) shares in the aggregate of Common Stock. Of these aggregate shares, 21,896 shares are reserved for Nondiscretionary Options and 87,583 shares are reserved for Discretionary Options. Either authorized but unissued shares or reacquired shares may be used for grants. The Company may purchase shares required for this purpose. If any outstanding stock option for any reason expires or is terminated without having been exercised in full, the Common Stock allocable to the unexercised portion of such stock option shall (unless the Plan shall have been terminated) become available for subsequent grants of stock options. In no event will the determination of the number of shares available be calculated in a manner inconsistent with applicable laws and regulations as in effect from time to time.

Section 5 Participation. Employees eligible for Discretionary Options shall be selected by the Board from time to time from among those executives and other key employees of the Company who are in a position to contribute materially to the success of the Company. Participants who are Outside Directors shall only be eligible to receive Nondiscretionary Options under the Plan.

(a) No Participant shall have any rights as a stockholder with respect to any shares subject to his or her stock options prior to the date as of which he or she is actually recorded as the holder of the Common Stock covered by such stock options upon the stock records of the Company.

(b) Nothing in the Plan or any stock option granted hereunder shall confer upon any employee any right to continue in the employ of the Company or interfere in any way with the right of the Company to terminate his or her employment at any time.

(c) No stock option granted under the Plan shall be transferable other than by will or by the laws of descent and distribution.

Section 6 Conditions of Discretionary Options.

(a) Discretionary Options shall be evidenced by stock option agreements, which shall be subject to the applicable provisions of the Plan and

contain such other provisions as the Board shall determine from time to time, such as a defined vesting period with respect to the initial exercisability of the Discretionary Option. A Discretionary Option may be exercised at one time or in such installments over the balance of the vesting period as may be provided in the stock option agreement.

(b) The Discretionary Option price per share shall be not less than the Fair Market Value of the Common Stock as of the date each Discretionary Option is granted.

(c) The Board may permit the voluntary surrender of all or a portion of any Discretionary Option to be conditioned upon the granting of a new stock option.

(d) If a Change of Control of the Company occurs, then notwithstanding any provision of this section or of any provisions of any option agreements to the contrary, all Awards which have not terminated and which are then held by any Participant shall, as of such Change of Control, become immediately vested and exercisable without regard to the exercise period specified in any relevant stock option agreement.

(e) The obligation of the Company to issue, transfer or deliver Common Stock under the Plan shall be subject to (i) the effectiveness of a registration statement under the Securities Act of 1933, as amended, with respect to such issue, transfer or delivery, if deemed necessary or appropriate by counsel for the Company, (ii) the condition that the shares of Common Stock reserved for issuance, if any, shall have been eligible for trading on the Nasdaq National Market System, or as the case may be, listed (or authorized for listing upon official notice of issuance) upon each stock exchange on which outstanding shares of the same class may then be listed and (iii) all other applicable laws, regulations, rules and orders which shall then be in effect.

(f) If the Board determines that a Participant is incapacitated and unable to exercise the Discretionary Options granted under the Plan and has not designated a legal representative, the Board, in its discretion, may authorize the assignment of the power to exercise such stock options to a fiduciary, legal guardian or other individual whom the Board deems appropriate based on the applicable facts and circumstances. Due consideration shall be given to any such assignment provided by the Participant prior to the incapacity.

(g) The Company will withhold applicable taxes required by law from all amounts paid in satisfaction of an Award. A Participant may satisfy the withholding obligation by (i) paying the amount of any taxes in cash, (ii) with the approval of the Board at the time applicable taxes are due or as provided in the stock option agreement, shares of Common Stock may be deducted from the payment to satisfy the obligation in full or in part, or (iii) with the approval of the Board at the time applicable withholding taxes are due, deliver already owned Common Stock to satisfy the obligation in full or in part. The amount of the withholding and

the number of shares to be deducted shall be determined by the Committee with reference to the Fair Market Value of the Common Stock as of the date when the withholding is required to be made. Any use of Common Stock by an Insider for payment of applicable withholding taxes shall be subject to the provisions of Rule 16b 3 of the Exchange Act as to the manner and timing of the election.

(h) Caption preceding the sections hereof are inserted solely as a matter of convenience and in no way define or limit the scope or intent of any provisions hereof.

#### Section 7 Conditions of Nondiscretionary Options.

(a) Grant of Options. Except as provided below and subject to the total number of shares reserved for Nondiscretionary Options in Section 4 of the Plan, each Outside Director as of February 6, 1996, will be granted an option to purchase one thousand, eight hundred and seventy seven (1,877) shares of Common Stock. Each year thereafter, commencing January 1, 1997, each then serving Outside Director will be granted an option to purchase three hundred (300) shares of Common Stock. If a sufficient number of shares is unavailable in any year to provide for the total Nondiscretionary awards, the number of shares in such year shall be prorated accordingly. The foregoing number of shares shall be adjusted in accordance with the principles of Section 10 if an event described therein occurs. Notwithstanding anything in the Plan to the contrary, the provisions of this Section 7(a) shall not be amended more than once every six months, other than to comport with changes in the Code, the Employee Retirement Income Security Act, or the rules thereunder.

(b) Nondiscretionary Options shall be evidenced by stock option agreements, which shall be subject to the applicable provisions of the Plan. Each Nondiscretionary Option shall be vested as follows: 25% immediately upon date of grant, and 25% on each successive anniversary date after the date of grant (100% vested after three years). The Nondiscretionary Option shall be exercised only to purchase whole shares, and in no case may a fraction of a share be purchased. The right of the Participant to purchase shares of Common Stock with respect to which this option has become exercisable as herein provided may be exercised in whole or in part at any time, prior to the fifth anniversary of the date of grant.

(c) The Nondiscretionary Option price per share shall be not less than the Fair Market Value of the Common Stock as of the date each Nondiscretionary Option is granted.

(d) The Board may permit the voluntary surrender of all or a portion of any Nondiscretionary Option to be conditioned upon the granting of a new stock option.

(e) If a Change of Control of the Company occurs, then notwithstanding any provision of this section or of any provisions of any stock option

agreements to the contrary, all Awards which have not terminated and which are then held by any Participant shall, as of such Change of Control, become immediately vested and exercisable without regard to the exercise period specified in any relevant stock option agreement.

(f) The obligation of the Company to issue, transfer or deliver Common Stock under the Plan shall be subject to (i) the effectiveness of a registration statement under the Securities Act of 1933, as amended, with respect to such issue, transfer or delivery, if deemed necessary or appropriate by counsel for the Company, (ii) the condition that the Common Stock reserved for issuance, if any, shall have been eligible for trading on the Nasdaq National Market System, or as the case may be, listed (or authorized for listing upon official notice of issuance) upon each stock exchange on which outstanding shares of the same class may then be listed and (iii) all other applicable laws, regulations, rules and orders which shall then be in effect.

(g) If the Board determines that a Participant is incapacitated and unable to exercise the Nondiscretionary Options granted under the Plan and has not designated a legal representative, the Board, in its discretion, may authorize the assignment of the power to exercise such stock options to a fiduciary, legal guardian or other individual whom the Board deems appropriate based on the applicable facts and circumstances. Due consideration shall be given to any such assignment provided by the Participant prior to the incapacity.

(h) The Company will withhold applicable taxes required by law from all amounts paid in satisfaction of an Award. A Participant may satisfy the withholding obligation by (i) paying the amount of any taxes in cash, (ii) with the approval of the Committee at the time applicable taxes are due or as provided in the stock option agreement, Common Stock may be deducted from the payment to satisfy the obligation in full or in part, or (iii) with the approval of the Board at the time applicable withholding taxes are due, deliver already owned Common Stock to satisfy the obligation in full or in part. The amount of the withholding and the number of shares to be deducted shall be determined by the Board with reference to the Fair Market Value of the Common Stock on that date when the withholding is required to be made. Any use of Common Stock by an Insider for payment of applicable withholding taxes shall be subject to the provisions of Rule 16b 3 of the Exchange Act as to the manner and timing of the election.

(i) Caption preceding the sections hereof are inserted solely as a matter of convenience and in no way define or limit the scope or intent of any provisions hereof.

## Section 8 Exercise of Awards.

(a) Subject to Sections 6 and 7, each stock option will be exercisable in whole or in part from time to time, prior to its cancellation or termination, by written notice to the Company specifying the number of shares, with respect to which it is being exercised. If any stock

option is being exercised, such notice shall be accompanied by payment in full of the purchase price by cash or check or in other form acceptable to the Board including Common Stock or partly in cash or check and partly in such shares, except that the Board may, from time to time, impose limits and conditions on the use of such shares for payment. The Board may alternatively permit, under such terms and conditions as it may establish from time to time, payment methods for option exercises which will enable a Participant (other than a Participant who, at the time of exercise, is subject to Section 16(b) of the Exchange Act) to pay the exercise price of a stock option, and any applicable withholding taxes, from the proceeds of the sale of shares received as a result of the exercise of such stock option, through the delivery of a properly executed exercise notice together with such other documentation as the Board and the broker, if applicable, shall require to effect an exercise of the stock option and delivery to the Company of the amount of sale or loan proceeds required to pay the exercise price. Certificates for shares to be received upon the exercise of stock options will be delivered in regular course. All fractional shares are payable in cash.

(b) Except as provided in Section 9, a stock option may be exercised during the lifetime of the Participant only by the Participant, and after his or her death by the persons to whom the stock option has been transferred by will or by laws of descent and distribution. Stock options are not otherwise transferable.

Section 9 Termination of Stock Options. Each stock option will terminate upon the earlier of (a) or (b) below.

(a) The date fixed by the Board when the stock option is granted as set forth in the relevant stock option agreement, not to exceed five years from date of grant.

(b) Voluntary termination of employment, in which the Participant shall forfeit all rights and Awards for unexercised and nonvested options under the Plan, except as follows:

(i) If the Participant dies while an employee, vested options may be exercised within one year from death of Participant, not to exceed the stock option termination date.

(ii) Upon the Participant's Retirement vested shares may be exercised within three years after the date of such Retirement, not to exceed the stock option termination date.

(iii) If the Participant's employment is terminated for Disability or due to a lay off by the Company, vested options may be exercised within one year after termination, not to exceed the stock option termination date.

(iv) If the Board determines that the stock option may be exercised (whether or not it was fully exercisable) for a longer period of time.

(v) In the event of a Change-of-Control, all stock options shall vest immediately and may be exercised within one year thereafter, not to exceed the stock option terminate date.

Notwithstanding anything hereinabove to the contrary, if a Participant's employment is terminated by reason of Termination for Cause, his or her ability to exercise any stock option shall terminate on the date of such termination of employment. For this purpose, the determination of the Board as to whether a Participant's employment was terminated for reason of Termination for Cause is final and binding on the Participant.

Section 10 Adjustments. In the event of any change in the Common Stock, through the declaration of stock dividends, through recapitalization resulting in stock splits, reverse stock splits, or combinations of shares, or as the result of similar events, pro rata adjustment shall be automatically made in the number of shares available for issuance pursuant to the exercise of Options under the Plan, in the number of shares and price per share of all shares subject to outstanding stock options.

Section 11 Amendment and Termination. The Board may alter, suspend or terminate the Plan. Except as provided in Sections 6, 7, and 10, the Board may not, however, increase the maximum number of shares of Common Stock which may be issued under the Plan in the aggregate, materially increase or decrease the benefits accruing to Participants under the Plan or materially modify the requirements regarding eligibility for participation in the Plan or, without the written consent of the holder thereof, alter or impair any stock option previously granted under the Plan. No stock option may be granted after the termination of the Plan, but stock options previously granted may vest and be exercised in accordance with their terms.

Section 12 Term. The Plan shall be adopted by the Board effective as of February 6, 1996, subject to approval by the Company's stockholders. The Plan shall remain in effect until all Awards under the Plan have been exercised or terminated under the Plan or February 5, 2006, whichever occurs first.

Section 13 Governing Law. The Plan and all determinations made and actions taken pursuant thereto shall be governed by the laws of the State of Delaware and construed in accordance therewith.