



2010

ANNUAL REPORT



FROM THE COMMANDER



Rear Adm. (Sel) Glenn C. Robillard
U.S. Navy, Supply Corps
Commander

The Navy Exchange System was established in 1946 with the objective of improving Sailors' quality of life and providing a non-pay benefit. Today, we continue to meet that objective by providing quality merchandise at a savings and supporting Navy quality of life programs. Our Sailors and their families greatly value this benefit and consider Navy Exchanges (NEXs) essential to

retention and readiness.

Along with NEXs, Navy Exchange Service Command (NEXCOM) provides oversight to 104 NEX complexes with nearly 300 stores as well as 40 Navy Lodges, 161 ships stores and the Uniform Program Management Office (UPMO). Our Sailors and families expect us to deliver value and savings in these tough economic times. In fact, surveys have shown that 75 percent of our customers cite savings as a major reason for shopping NEX. We also know that value is important to them. NEX is proud to offer both the brands our customers want at the savings they deserve.

The Navy Exchange System's financial position remained strong in 2010. Total annual sales for NEX were \$2.6 billion with a net profit of \$68.8 million which generated \$48.4 million in dividends for Morale, Welfare and Recreation (MWR) quality of life programs. Total annual sales for Navy Lodge were \$66.7 million with a net profit of \$9.3 million.



NEX Djibouti, Africa

NEXs and Navy Lodges deliver much more than savings. These are places where our customers can go for that sense

of community, particularly for the family whose Sailor is deployed and for those who live overseas. With the support of our industry partners, we offer many programs and activities focused on military families, including celebrity appearances, homecoming events,

health and safety awareness programs, bridal fairs, back-to-school events, A-OK Student Reward Program and joint events with MWR and the Defense Commissary Agency (DeCA).

We also place great importance on staying connected with the Sailors we serve. This year we partnered with the Naval Safety Center and Commander, Navy Installations Command to provide discounts on protective motorcycle gear to Sailors who attended motorcycle safety training.

Our stores worldwide assisted in collecting funds for the Combined Federal Campaign and Navy Marine Corps Relief Society (NMCRS). We also support our wounded warriors through



NEX Guam

a Wounded Warrior Hiring Program in the Navy Exchange System and over 13,000 Navy Lodge room nights. Finally, with our vendor partner, we again donated 20 game system packages to military hospitals to help wounded warriors recover.

As we continue our focus on delivering the benefit today, we are also working to sustain and improve our future viability. We will continue to strive to be responsible stewards of our Sailors money, grow the benefit and build towards the future. The essence of these three priorities is further defined by my Six Strategic Focus areas: strengthen our Navy connection; seek efficiencies in everything we do; enhance our customers' experience; leverage technology to improve our bottom line; take care of our associates; and build for the future. Our vision is to become our customers' first choice with NEXs and Navy Lodges that reflect the spirit of our Navy, our Sailors and their families. With our priorities in place, dedicated associates working for the system and customers who rely on us, I know we will make that happen.

A handwritten signature in black ink that reads "Glenn C. Robillard".

Rear Adm. (Sel) Glenn C. Robillard
U. S. Navy, Supply Corps
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The Navy Exchange Program

NEXs deliver an important benefit to military active duty, retirees, reservists and their families. NEXs offer name

brand products and quality store brand merchandise at an average savings of 22 percent, not including sales tax. In addition,

there are over 1,200 service operations such as gas stations, food outlets, laundry/dry cleaning, barber/beauty salons, flower shops, tailor shops, optical and optometry services and complete vending services.



NEX Great Lakes, Ill., Student Store

Highlights

Several NEXs held grand opening ceremonies in 2010. NEX San Diego held a grand re-opening in June. The additional 50,800 sq. ft. of space is tailored to provide greater merchandise selection targeted toward families. Sales on opening day were \$1.2 million with sales through the weekend over \$4.5 million. NEX Atsugi, Japan, held its grand reopening in November after 18 months of construction in six phases. The new NEX boasts a total of 33,000 sq. ft. and consolidates many departments that were originally housed in outlying locations.



NEX Atsugi, Japan

NEX Pearl Harbor Fleet Store, which also opened in November, combines the mini mart, barber shop and Uniform Shop and features a four-segment food court, laundry and tailor shop. NEX Memphis, Tenn., gas station minimart reopened

in December after a seven month closure due to a flood in May.

Social Media, including Facebook, Twitter, YouTube and e-mails, became an important way to communicate with customers. The NEX Facebook page had over 80,000 fans at the end of 2010. Navy customers who become NEX Facebook fans can find out about upcoming sales, promotions and store events as well as ask questions and participate in surveys. NEX response rates to fans requesting additional feedback averaged 90 percent within two hours. These social media forums help spread the word about the NEX benefit and keep customers connected.

In response to customer feedback, NEXCOM lowered its children's clothing prices by 20 percent in key areas. Strong unit sales occurred in girls and boys with the new pricing initiative,

"You Asked, We Listened, Kids Lower Prices."



NEX San Diego, Calif.

To ensure all customers

have access to the NEX benefit, NEXCOM launched a web-based store, myNavyExchange.com. The web-based store carries 10,000 products, with new items added regularly, as well as product and food court nutritional information. The web-based store is especially helpful for those customers who don't live near a NEX, like many reservists, retirees and deployed active duty. Web store sales for 2010 reached slightly over \$3 million with nearly 20,000 orders placed from around the world and ships at sea.

Twelve NEXs joined with DeCA in coordinating the Family Fun and Fitness Festival to emphasize customer involvement, fitness events and sale events at both the NEX and Commissary.

NEXCOM Vending generated approximately \$40,000

in contributions for NMCRS. Product manufacturers who have supported the NEXCOM / NMCRS initiative contributed \$435,000 over the last 11 years.

Two E85 alternative fuel facilities were opened, one at NEX Whidbey Island, Wash., and NEX Norfolk, Va. Operated by the NEXs, these facilities serve the Navy's fleet of flex fuel vehicles as well as privately owned flex fuel vehicles.



NEX Norfolk, Va.

A Wounded Warrior Hiring Program was implemented to hire former military members into the Navy Exchange System. In 2010, NEXCOM hired two wounded warriors, one at NEX Guam and one at NEX New London, Conn.

NEXCOM, in partnership with the Naval Safety Center and Commander, Navy Installations Command, began offering a discount coupon on motorcycle protective gear for all Sailors who complete the Motorcycle Safety Course at their base. The coupon entitles the Sailor to receive 25 percent off their entire purchase of motorcycle protective equipment sold at select NEXs as well as online at www.myNavyExchange.com.

NEXCOM awarded \$44,000 in savings bonds to students of military families through the NEX A-OK Student Reward Program. Now in its 13th year, the program has awarded \$548,000 to military family members. This program is fully funded by NEX business partners.



NEX Mayport, Fla.

In an effort to protect the environment, NEXCOM instituted several new programs in regards to plastic bag usage. A five cent reusable bag credit program for

each eco-friendly reusable bag used by a customer at point-of-sale was implemented in April. During the year, this program issued \$5,623 in credits toward customer purchases resulting in the usage/purchase reduction of over one million plastic bags. A new plastic bag contract was awarded for NEXs worldwide. These new NEX disposable plastic bags now contain up to 35 percent recycled material and can also be recycled.

In partnership with its supplier EURPAC, the GameExchange program to buy/trade/sell used video games was introduced in nine NEXs. This program generated nearly \$1.3 million in sales based on over 50,000 used unit sales and over 17,000 used units bought back. Due to its success, GameExchange will be added to 12-15 additional NEXs in 2011.



NEX Norfolk, Va.

NEXs achieved a 0.34 percent inventory shrink in FY10, 76 percent below the national average of 1.44 percent, according to the 2009 University of Florida National Retail Security Survey. Primary focus was on improving the execution of the physical inventory process, developing improved information reporting and product protection.

The calling rates from various locations around the Middle East, including Iraq, Afghanistan and Bahrain, were reduced by 21 percent.

National Industries for the Blind and NEXCOM signed a memorandum of understanding to generate mutually beneficial business development initiatives through strategic sourcing of existing and new operational supplies, retail products, services and contract management support.

NEX Ingleside, Texas, closed its doors on January 28 due to a Base Realignment and Closure (BRAC) initiative.



For the fourth year in a row, NEXCOM and a vendor partner donated gaming systems to support wounded warriors. This year, the Video Game Wounded Warrior program was sponsored by Microsoft Corporation and Pioneer Distributors. The 20 packages included



Naval Medical Center Portsmouth, Va.

XBOX360 consoles with Kinect sensor, Kinect Sports, Kinect Joy Ride and Game Party in Motion.

NEXCOM Logistics won the Military Surface Deployment and Distribution Command's 2010 Shipper Performance of the Year Award in the "large" category for the second year in a row. This award is for timely and error-free submission of documentation for shipments moving through the Defense Transportation System.

The annual Customer Satisfaction Index survey (CSI) continues to increase with total-company score of



NEX Bahrain

83, up one point from last year. The scores reflect increase in satisfaction on virtually all areas including merchandise, pricing and advertising.

NEXCOM Training continued the implementation of the PREMIER Customer Service Suite of Learning Tools. In 2010, a "PREMIER Customer Service Touchpoints" job aide was created as a reinforcement tool and an "Introduction to PREMIER Customer Service" DVD was produced for use in new hire orientation. In the 2010 CSI scores, the largest increase in scores came in the area of problem resolution, which rose seven points. The PREMIER module "Making it Right" is designed to teach associates how

to effectively address customer complaints. This year, 6,619 associates attended PREMIER training.

NEXCOM's Continuity of Employment Program placed 57 associates in new Navy Exchange System positions. The Continuity of Employment Program allows a Navy Exchange System associate to move into another position when transferring with an active duty spouse. Military family members comprise 27 percent of the Navy Exchange System workforce.

Customer Appreciation Weekends were held at NEX Guantanamo Bay, Cuba, and Guam. Customer Appreciation Weekends were



Naval Station Guantanamo Bay, Cuba

created to thank service members and their families for continued support of their NEX and to give back to people serving in isolated locations.



Ships Store Program

The Ships Store Program serves Sailors and Marines through onboard retail ships stores, vending machines, laundry facilities and barber services on 161 ships. These facilities provide a key quality of life service to deployed Sailors and Marines 365 days a year, seven days a week, and in some cases, 24 hours a day. As an added benefit, profits generated by the sale of products from the ships store are used by the Commanding Officer to provide morale and recreation programs to the ship's crew. In addition, the afloat program generates profit used by the fleet's central MWR program to fund recreation programs of ships that do not have a ships store such as submarines, tugboats or ships in shipyards.

Highlights

Total sales were \$71.9 million with retained profits of \$11.9 million. Ships provided \$1.4 million to central MWR for recreation uses for ships without ships stores.

Three new ships stores opened in 2010 aboard USS DEWEY (DDG 105), USS JASON DUNHAM (DDG 109) and USS GRAVELY (DDG 107).

Navy Cash was installed aboard USS GEORGE H.W. BUSH (CVN 77), USS MONTEREY (CG 61), USS THACH (FFG 43), USS FRANK CABLE (AS 40), USS JASON DUNHAM (DDG 109) and USS GRAVELY (DDG 107). This brings the total to 153 active ships with Navy Cash.

Moving the fleet's "special orders" workload ashore



USS CARL VINSON (CVN 70)

to the Ships Store Program headquarters meant the fleet Sailor only had to send an e-mail describing what was needed and the program did the associated work. In 2010, the Ships Store Program

processed more than 920 purchase orders and modifications for fleet and ashore ships stores for \$4 million, a 14 percent increase over the previous year.

In keeping with its Global Distance Support role, the Ships Store Program continued collaborative efforts in support of PMS 500 to provide quality on board services at the lowest cost.

Because of DDG 1000's reduced crew size, including lack of an assigned Disbursing Officer, use of cash or Navy Cash for financial trans-



USS GEORGE H.W. BUSH (CVN 77)

actions on the ship is not an option. NEXCOM's Ships Store Program and the Naval Supply Systems Command (NAVSUP) are working to provide cost effective options in all ship areas which require a financial transaction to ensure accountability and afford high levels of quality of life to Sailors.

Ships stores afloat provide a much appreciated service at the deck plate level to Sailors and Marines. The excellence in providing that service was recognized by 10 ships being recognized as the "Best of Class." They are: USS CHANCELLORSVILLE (CG 62); USS ABRAHAM LINCOLN (CVN 72); USS JOHN PAUL JONES (DDG 53); USS RODNEY M. DAVIS (FFG 60); USS COMSTOCK (LSD 45); USS BONHOMME RICHARD (LHD 6); USS LEYTE GULF (CG 55); USS GEORGE H. W. BUSH (CVN 77); USS PORTER (DDG 78); and USS OAK HILL (LSD 51).

Ships Store Program took a proactive stance to protect the Navy's information infrastructure by upgrading all of the Atlantic Fleet's point-of-sale cash registers with a new "baseline image" that meets all Department of Defense (DoD) Information Assurance requirements. In 2011, system upgrades will begin with the Pacific Fleet.

Navy Lodge Program

Founded in 1969, the Navy Lodge Program offers military families and other authorized patrons clean, comfortable, convenient, oversized rooms and very affordable accommodations worldwide. There are over 40 Navy Lodges worldwide serving the military lodging community. Navy Lodge guests save an average of 40 percent compared to civilian hotels.

Highlights

The Navy Lodge Program started 2010 with 42 operations and 3,335 rooms.

Renovation projects were completed on a total of 651 rooms at National Naval Medical Center Bethesda, Md.; Naval Station Great Lakes, Ill.; Naval Construction



Navy Lodge Washington, DC

Battalion Center Gulfport, Miss.; Naval Air Station Jacksonville, Fla.; Naval Support Activity Mid-South (Navy Inn Millington), Tenn.; Naval Base Coronado North Island, Calif.; Naval Air Station Patuxent River, Md.; Joint Base Anacostia-Bolling, Washington, DC; Naval Air Station Whidbey Island, Wash; Naval Station Rota, Spain; and Fleet Activities Yokosuka, Japan.

Due to BRAC, Navy Lodge Willow Grove, Joint Reserve Base Willow Grove, Pa., closed on January 17. Navy Lodge New Orleans, Naval Support Activity New Orleans, La., was closed on July 20.

This brings the number of Navy Lodges in operation to 40 with 3,169 rooms at the end of 2010.

The DoD Lodging Reservation Center handles reservations for over 99 hotels including Navy Lodge, Navy Gateway Inns and Suites (NGIS) and Army Lodging

Facilities. During 2010, it received 482,092 calls. In addition, its Overflow Lodging Program expanded to support every Navy installation where a Navy Lodge is located.

Edward E. Carlson Awards for excellence through Navy Lodge operations and guest service were given to Navy Lodge Atsugi, Japan; Navy Lodge Whidbey Island, Wash.; and Navy Lodge Little Creek-Fort Story, Va.

Navy Lodge Bethesda, Md., provided over 13,562 room nights to support wounded service members and their families.

The American Hotel and Lodging Association Educational Institute (AHLA EI) awarded its Meritorious Award, the highest award given, to Navy Lodge North Island, Calif. Navy Lodge Atsugi, Japan, was awarded AHLA EI's Golden Pineapple Award, the second highest award it presents. Navy Lodges compete against civilian hotels across the United States.

Navy Lodge North Island, Calif., held a ground breaking ceremony on April 6 for its new 146,000 sq. ft., 4-story, 205-room addition. The new addition replaces the original 90-room Navy Lodge that was built in 1969.

Navy Lodge Norfolk, Va., held its grand re-opening on January 27. The over \$30 million renovation includes family suites, extended stay guest rooms as well



Navy Lodge Norfolk, Va.

as business class guest rooms, fitness center, meeting rooms, social networking area, a business center and NEX gift shop. Navy Lodge Norfolk is now the largest Navy Lodge facility in the world with 292 rooms.

Uniform Program Management Office

Since 1976, the UPMO has served as NEXCOM's Program Manager for Navy uniforms. UPMO is a vital cog in development, manufacturing, purchasing, distribution, sale and tailoring of Navy uniforms. Additionally, NEXCOM provides distribution services to the Marine Corps, Coast Guard and Public Health Service. This is accomplished through 103 globally positioned Uniform Shops and the Uniform Support Center (USC).

The Navy Clothing and Textile Research Facility (NCTRF) continued to develop uniform and personal protection ensembles for Sailors and other war fighters through research, development, test and evaluation. NCTRF also continued to provide technical support for current Navy items.

Highlights

UPMO served as the Execution Command Center for Task Force Uniform (TFU), a \$420 million Chief of Naval Operations (CNO) new uniform initiative. TFU (Phase 1) completed in January, nine months early, with the successful rollout Navy Working Uniform (NWU).

NCTRF supported the NWU Type II/III uniform development by providing both technical and acquisition support to the Navy.



NEX Yokosuka, Japan

A CPO (Sel) MILITARY STAR® Card Deferred Payment Plan was created to allow newly selected Chief Petty Officers

to charge their required uniforms. This plan provides zero percent interest for 12 monthly payments with no minimum purchase amount.

NEX NJ/NROTC Program supported over 5,500 midshipmen at 90 universities and over 83,600 cadets at

633 high schools representing \$5.9 million in sales.

The New Balance optional physical training uniform (PTU) yielded \$1.8 million in sales during its first full year of availability.

Burlington Industries, the lone domestic supplier of poly-wool fabrics for the Service Uniform, reduced production levels and frequency for poly-wool fabrics due to declining demand from both Defense Logistics Agency and commercial suppliers. This resulted in longer lead times throughout the supply chain. To date this has not affected availability.

NCTRF managed nearly 340 uniform items and fabrics and over 2,600 insignia items through the Navy Uniform Certification Program ensuring that uniform items sold via NEX Uniform Shops meet or exceeded Navy quality requirements.



Naval Station Norfolk, Va.

USC continued to provide uniform support for the Armed Forces Mortuary at Dover, Del., and Sailors and Marines deployed worldwide.

During 2010, USC answered 254,137 phone calls, processed 519,310 orders, including 152,956 web orders and answered 15,320 e-mails. USC generated \$26.7 million in total sales in 2010.

**NEXCOM Headquarters
Associate of the Year**



Paz Sta. Maria
Lead Senior Auditor
Office of Internal Audit

**Navy Lodge Program
Managers of the Year**



Linda Bird
Navy Lodge Kings Bay, Ga.



Maria Gonzalez
Navy Lodge San Diego, Calif.

**Navy Exchange System
Associate of the Year**



Catrice Davis
Supervisory Sales Clerk
NEX Mid-South, Memphis, Tenn.

**Navy Lodge Program
Associate of the Year**

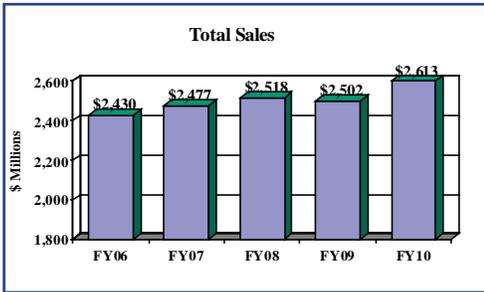


Daniel Colon
Facility Manager
Navy Lodges Bethesda, Md., and Washington, DC.

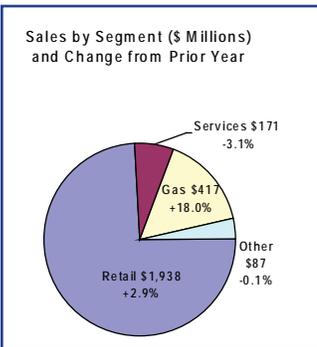
Navy Exchange System Fiscal Year 2010 Financial Review

Navy Exchange Program

Despite the continuing economic uncertainty, the Navy Exchange Program remained focused on initiatives to drive sales growth, increase gross margin, improve expense management and spend capital funds wisely. Total sales increased 4.4 percent compared to the prior year. The core retail store business remains strong with sales exceeding last year by 2.9 percent. Gas sales increased 18.0 percent compared to last year, mostly due to the higher selling price per gallon in FY10. Net income was \$68.8 million.



The biggest contributor was the retail segment, accounting for 74 percent of total sales with a 2.9 percent increase over last year. Profit generated from the retail business increased by 6.0 percent, aided by a low inventory shortage result of 0.34 percent of retail sales. Gross profit margin on retail sales increased to 24.11 percent compared to 23.68 percent in FY09, an increase of \$21.2 million. Although sales from the services segment declined from the prior year, the net profit was \$725,000 higher due to an increase in concession income. Gasoline sales increased significantly (18.0 percent) due to a steady rise in the retail selling price during the year. The average price per gallon was \$2.99 in FY10 compared to \$2.60 in FY09.



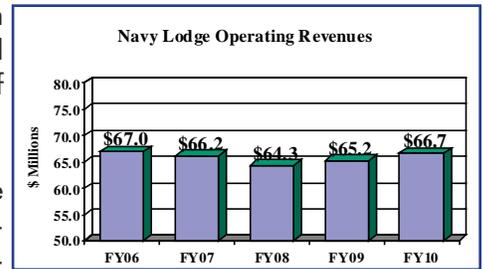
NEXCOM continues to provide a significant dividend to the Navy's MWR funds. Based on the FY10 profits, dividends declared were \$48.4 million. From this amount, \$24.0 million will be paid to local installation MWR funds.

The financial condition of the Navy Exchange Program, as reflected in the Balance Sheet and Statement of cash flows, remains strong. Cash flow from operations was \$116.7 million this year. NEXCOM contin-

ues to fund its store modernization program from its operating cash flow. During FY10, \$75.7 million was spent on capital improvements. Unrestricted Net Assets/Equity increased to \$590.7 million, a 19.2 percent growth over the prior year.

Navy Lodge Program

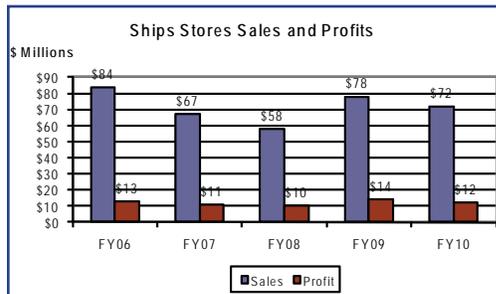
The Navy Lodge Program operates 40 Navy Lodges worldwide. The overall occupancy rate for FY10 increased to 75.1 percent compared to 74.4 percent in the prior year. The average room rate increased slightly to \$74.70 in FY10 compared to the rate of \$73.95 in FY09.



The Navy Lodge Program continues to save travel dollars while generating increased cash flow for renovations and new facilities. In FY10, operating revenues increased by \$1.5 million, or 2.3 percent, to \$66.7 million. Net Income of \$9.3 million was higher than last year due to the write down of facilities as a result of BRAC in FY09 which was adjusted to actual in FY10 and the write-off of a cancelled project in Hawaii. Expense ratios were maintained at historical levels in relationship to room revenues.

Ships Store Program

Ships stores are operated aboard 161 commissioned Navy ships. The program generated \$71.9 million in total sales and \$11.9 million in profit during FY10. Profits generated by each ships store are used by its Commanding Officer to procure new equipment for the stores and to provide direct support to the ship's MWR programs. In FY10, a total of \$9.9 million was



distributed to local ship-board MWR funds. In addition, assessments of \$1.4 million paid to Bureau of Naval Personnel

allowed for the distribution of funds for recreational purposes to ships without a ships store, such as submarines.

FINANCIAL REVIEW

For the Fiscal Years ended

January 29, 2011 January 30, 2010

In Thousands of Dollars

Navy Exchange Program

Income Statement:

Total Sales	\$2,612,897	\$2,501,880
Income from Concessions, net	41,632	39,810
Contributed Services	<u>94,910</u>	<u>89,915</u>
Total revenues	2,749,439	2,631,605
Cost of Sales	2,042,198	1,952,367
Selling, General and Administrative Expenses	<u>646,830</u>	<u>614,735</u>
Operating Income	60,411	64,503
Other Income - Net	<u>8,379</u>	<u>8,119</u>
Net Income	<u>\$68,790</u>	<u>\$72,622</u>

Profit Distribution:

Dividends declared	\$48,433	\$51,138
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Assets, Liabilities and Program Equity:

Assets:

Cash & Accounts Receivable	\$265,468	\$272,272
Merchandise Inventories & Other Current Assets	467,196	459,669
Property/Equipment & Other long-term Assets	<u>674,052</u>	<u>584,212</u>
Total Assets	<u>\$1,406,716</u>	<u>\$1,316,153</u>

Liabilities:

Trade Accounts Payable & Accrued Liabilities	\$299,401	\$331,743
Other Current Liabilities	165,987	155,242
Long-term liabilities	350,641	333,441
Program Equity	<u>590,687</u>	<u>495,727</u>
Total Liabilities & Equity	<u>\$1,406,716</u>	<u>\$1,316,153</u>

Navy Lodge Program

Income Statement:

Operating Revenue	\$66,729	\$65,229
Contributed Services	<u>4,588</u>	<u>4,857</u>
Total Revenue	71,317	70,086
General and Administrative Expenses	<u>62,133</u>	<u>64,087</u>
Operating Income	9,184	5,999
Other Income - Net	<u>106</u>	<u>113</u>
Net Income	<u>\$9,290</u>	<u>\$6,112</u>

Assets, Liabilities and Program Equity:

Assets:

Cash and Other Current Assets	\$104,037	\$97,834
Property and Equipment, net	<u>130,122</u>	<u>121,608</u>
Total Assets	<u>\$234,159</u>	<u>\$219,442</u>

Liabilities:

Accounts Payable	\$9,035	\$3,608
Program Equity	<u>225,124</u>	<u>215,834</u>
Total Liabilities & Equity	<u>\$234,159</u>	<u>\$219,442</u>

Ship's Stores Program

For the Fiscal Years ended

September 30, 2010 September 30, 2009

Ship's Stores Sales	\$61,313	\$65,263
Vending Sales	<u>10,571</u>	<u>13,007</u>
Total Sales	<u>\$71,884</u>	<u>\$78,270</u>

Net Profit from Operations	<u>\$11,861</u>	<u>\$13,694</u>
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Profit Distribution:

Assessment for Bureau of Naval Personnel	\$1,438	\$1,762
Equipment for Ships Stores	\$546	\$466
Profits retained for Morale, Welfare and Recreation	\$9,877	\$11,466