



2009

ANNUAL REPORT



“Think Enterprise and Act Boldly”

OUR VISION

To be the first choice for Sailors and Navy families

OUR MISSION

To provide quality goods and services at a savings and to support Navy quality of life programs

OUR CORE VALUES

Caring, Committed, Connected



COMMANDER'S MESSAGE

The mission of the Navy Exchange Service Command (NEXCOM) is to provide quality goods and services at a savings to active duty, reservists, retirees and their families and to support Navy quality of life programs by providing dividends to Navy Morale, Welfare and Recreation (MWR). The Navy Exchange System delivers much more than savings and dividends to our families.

The state of the economy in 2009 continued to make headlines across the nation. Customers reacted by shopping more at their Navy Exchanges (NEXs). We, in turn, were there for them, whether it was through our Best Brands, Best Buys or Price Cut pricing strategies, creating a new Take It Home Today home layaway program for our overseas customers or instituting zero percent interest rate specials through the MILITARY STAR® Card. We were there every step of the way to help our Sailors and their families stretch their dollars even further. Our customers responded, which allowed NEXCOM's financial position to remain strong. In 2009, NEX total annual sales of \$2.5 billion generated \$51.1 million in dividends for MWR quality of life programs. With our net profit exceeding plan by 26 percent, we contributed \$10 million additional funds to MWR.

As our Sailors serve, so do their families. Long deployments and frequent moves are a challenge for families. Navy is committed to providing quality of life programs that help our families and NEX programs are an important part of that commitment.

Our customers see the NEX as more than just a store and the Navy Lodge as more than a room. It is a place where they can go to interact with the military community, particularly for the family whose Sailor is deployed. We are able to provide these critical non-pay benefits, through our 14,000 dedicated associates worldwide, 27 percent of whom are military family members themselves and truly understand what our customers are experiencing.

To be able to support MWR quality of life and to stay relevant in a challenging, highly competitive business climate, NEXCOM continues to grow its business, expand in new areas and modernize its facilities and information technology infrastructure.

Everything we do each and every day is focused on our Sailors and their families. In this annual report, we have highlighted our accomplishments in the context of our six strategic focus areas. As we move forward as a command, we will continually focus efforts on delivering exceptional service to our valued customers.

Sincerely,



Rear Admiral Steven J. Romano
Supply Corps, U. S. Navy
Commander



Rear Admiral Steven Romano
Commander,
Navy Exchange Service Command



NAVY EXCHANGE SYSTEM

Navy Exchanges

Navy Exchanges (NEX) deliver an important non-pay benefit to active duty, retirees, reservists and their families. NEXs offer name brand products at discounted prices as well as quality store brand merchandise offered at a significant savings to all authorized customers. 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.

Ship Stores Program

The Ship Stores Program serves Sailors and Marines through onboard retail ship stores, vending machines, and laundry and barber services on 157 ships. These facilities, although basic, provide a key quality of life service to deployed Sailors and Marines 365 days a year, seven days a week. Ships' stores generate profits which directly support the ship's MWR programs. 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.

Navy Lodge Program

Navy Lodges offer military families and other authorized patrons clean, comfortable, convenient, spacious rooms, and very affordable accommodations worldwide. There are 42 Navy Lodges worldwide with over 3,300 rooms. It is a self-sustaining program, receiving few appropriated funds. Navy Lodges offer all the modern conveniences and amenities guests expect in a mid-tier hotel room. Navy Lodge room rates average 45 percent below per diem rates, which provides direct savings for Navy families and Navy operating expenses.

Navy Uniform Program

The Uniform Program Office (UPMO) is the Program Manager for Navy uniforms for enlisted Sailors, Chief Petty Officers and Officers. UPMO also serves as the Program Manager for all organizational and protective clothing. UPMO has oversight of the development, manufacturing, purchasing, distribution, sale and tailoring for active duty and reserve members of the Navy. Additionally, UPMO provides distribution services to the Marine Corps, Coast Guard and Public Health Service. This is accomplished through 104 globally positioned uniform stores and the Uniform Support Center (USC).

Much research, planning, and preparation goes into designing and producing quality uniforms. The Navy Clothing and Textile Research Facility (NCTRF) in Natick, Mass., is the primary developer of uniforms and protective clothing worn by Navy Sailors. NCTRF's mission includes testing fabrics for fire and heat resistance, water immersion and buoyancy, heat and cold stress, ballistic protection, and overall uniform design and development.



SIX STRATEGIC FOCUS AREA ACCOMPLISHMENTS

NEXCOM has identified six strategic focus areas which help provide a framework in which our command operates. These strategic focus areas compliment the command's guiding principles and strategic plan and drive alignment. To highlight the successes within each focus area this year, the accomplishments and achievements of the Navy Exchange System during 2009 are categorized by focus areas. The six focus areas are:

- Enabling Our Associates
- Expanding Strategic Partnerships
- Improving Processes
- Fostering a Culture of Accountability
- Embracing Customers
- Improving Our Facilities

ENABLING OUR ASSOCIATES

"The greatest asset of this organization is our people," said Deborah York, NEXCOM Director of Organization Development and Training. "In order to continually attract qualified dedicated Associates, we must keep a strong focus on taking care of our people."

To deliver the best customer service and a great shopping experience, we must ensure our Associates are well trained and well equipped to do their jobs. Associates must understand the expectations and possess the tools for success. Accordingly, we have deployed an enhanced customer service training package for our Associates worldwide and have instituted policies and initiatives to ensure NEXCOM is an Employer of Choice.

Train Associates to Better Meet Customers' Needs

A new customer service training program, PREMIER Customer Service, was launched in NEXs. During FY09, the program was rolled out to 22 stores in the continental United States and two stores overseas. To date, approximately 6,000 NEX Associates have completed PREMIER Customer Service Module 1. Currently, the PREMIER Customer Service Suite of Learning Tools also includes three modules which target all supervisors, managers and Associates in specialty sales areas. We anticipate the Suite will grow as we add reinforcement pieces.



Grow Careers within the Organization

Twenty-six mid-level managers from the stores and headquarters graduated from the 2009 Executive Skills Development (ESD) program. ESD provides a learning and practice opportunity for selected high potential NF4 and NF5 Associates and NF3 Associates with management responsibilities. In total, 300 Associates have graduated from ESD since 2000. Each year, we offer the New Manager Orientation program for managers who are new to the NEX, but not new to the retail industry. During the program, they meet with NEXCOM subject matter experts to learn about the tools and metrics we use to manage the business. We also offer Manager-in-Training programs for Associates interested in preparing for department and general manager positions.

Leverage and Celebrate Our Diversity

A NEXCOM Director, Workforce Diversity position was established to further the Navy Exchange System's ability to inform Associates about the value of a diverse workforce.

We created the Admiral's Council of Diversity, a council which leads diversity celebrations throughout the year. The council is also a resource for managers and Associates throughout the enterprise.

Become an Employer of Choice

NEXCOM adopted Federal Employees Family Friendly Leave Act (FEFLA) which expanded the use of sick leave for Navy Exchange System Associates worldwide.

Our Associate Satisfaction Index improved three points over the year from 69 to 72.

EXPANDING STRATEGIC PARTNERSHIPS

"Delivering the mission and meeting our strategic objectives requires close collaboration with our partners, with who we share a passion for improving the quality of life of our Sailors and their families," said Capt. Ed Spillman, NEXCOM Deputy Commander, Military Services. "We are engaged in strategic partnerships with Navy and our retailing partners Army Air Force Exchange System (AAFES), Marine Corps Exchange (MCX), Coast Guard Exchange, and we will continue our emphasis on finding collaborative initiatives that enhance the exchanges' ability to deliver the exchange benefit to our military members and their families. One initiative is that we are expanding our joint contracting initiatives, which have lowered our combined spend costs."

Reach Out to Our Exchange Partners through Cooperative Efforts

We engaged in cooperative efforts with Navy and military organizations to include other military exchanges, such as AAFES MCX, Coast Guard Exchange, Defense Commissary Agency (DeCA) and Fleet and Family Service Centers (FFSC) and MWR partners. Cooperative effort partnerships are pursued to improve the service and non-pay benefits to our military members and their families.

One key cooperative effort is executing joint contracts with the other exchanges. "By leveraging our joint purchasing power, we can pursue greater expense reductions as well as reduce the administration costs associated with contract management," says Al Diaz, NEXCOM's Vice President for Contracts. "We have been able to forge a great working relationship between the exchanges contracting departments."

NEXCOM executed joint contracts with the other exchanges to leverage spend across the entities with a projected reduction in operating costs by \$3.75 million between all the exchanges. In addition, the exchanges incorporate contract clauses which allow the other exchanges to utilize the other's contracts for future procurements.

In cooperation with AAFES, NEXCOM implemented the acceptance of the MILITARY STAR® Rewards MasterCard®. In addition, the Exchange Credit Program's Take It Home Today plan, which replaces the NEX Home Layaway Program, was implemented at NEX overseas locations, following implementation at locations in the continental United States in 2008.

In overseas logistics, NEXCOM and AAFES began consolidating and transshipping cargo to retail facilities in Japan and Guam, providing NEXCOM an 8 percent reduction in fees.

Enhance Our Vendor Partnerships

NEXCOM established a partnership with Macy's, a \$24 billion retailer, to sell Macy's private brands, Karen Scott, Charter Club and Style & Co, at prices lower than sold at Macy's. The Macy's brands within NEXs had sales of \$13.5 million in 2009. This partnership was expanded to provide the Macy's brands also to AAFES and MCX.

NEXCOM vending generated approximately \$20,000 in contributions from product



manufacturers for the Navy Marine Corps Relief Society. Over the last 11 years, NEXCOM and its vendor partners have donated over \$425,000 to the Navy Marine Corps Relief Society.

NEXs in the continental United States and Hawaii began selling third-party gift cards from various businesses including Starbucks, Subway and iTunes and financial cards from Visa, Master Card and American Express.

Give Back to our Sailors



For the third year in a row, Nintendo created and donated 20 “Wii Care” kits to Navy medical facilities across the country to help in the recovery of wounded warriors.

NEXCOM and its vendor partners supported wounded warriors through a variety of activities and events including a surf camp for wounded warriors in partnership with Disabled Sports USA, the Wounded Warrior Disabled Project and Billabong.

Expand Cooperation with other Military Commands

In cooperation with the Department of the Navy’s initiative to promote motorcycle safety, NEX Norfolk, Va., and NEX San Diego opened the first motorcycle accessory shops and 32 additional stores now carry a selection of motorcycle safety gear.

Installation level joint events with DeCA, FFSC, MWR and other base departments have resulted in activities that provide a variety of benefits to our military members and their families. These events include Health and Wellness events, safety demonstrations, family information fairs, base level celebrations, family holiday celebrations and welcome home celebrations for deployed Sailors.

IMPROVING PROCESSES

“To ensure that we maintain the highest standards in daily practice, NEXCOM constantly reviews performance and looks for areas where improvement can be made,” noted Charles Vaughan, Vice President, NEXCOM’s Ship Stores Program. “It is the norm at NEXCOM to set and review objectives and lessons learned with a goal of problem elimination and improving how we provide service to our customers. All these factors work together to create and maintain a real difference in the quality we deliver.”

Streamline Distribution

NEXCOM Distribution won the 2009 Military Surface Deployment and Distribution Command (SDDC) Shipper Performance Award in the “large” category. The SDDC Award is in recognition of consistently submitting on-time and error-free data in shipments moving through the Defense Transportation System.

“This achievement was the direct result of constant monitoring of the processes, with improvements and adjustments being made in a ‘real-time’ environment,” stated Tom Williams, NEXCOM’s Vice President, Distribution.

Operationalize New Technology

NEXs had a very successful after Thanksgiving weekend with sales of \$52.6 million, exceeding prior year of \$51.3 million. E-mail, videos and social media initiatives significantly boosted NEX reach to customers over Black Friday weekend, resulting in approximately two million digital flyer page views by a total of 175,000 unique visitors.

Ship Logistics Process

The ship stores system became almost “cash free” with an additional 13 ships installing the Navy’s debit card system, Navy Cash.

Two new afloat laundry technology initiatives (ozone cleaning and ventless dryers) were submitted, approved and funded by the Naval Supply Systems Command (NAVSUP) through the Navy's Logistics R&D program.



The Fleet's special orders workload was moved ashore to the Ship Stores Program's office, which allowed the Fleet Sailor to send an e-mail describing what was needed and a central buying agent to execute the procurement. During 2009, the Ship Stores Program handled 3,029 different transactions worth over \$1.6 million.

Commitment to Continuous Process Improvement (CPI)

NEXCOM's Payment Card Industry (PCI) Compliance Project Team received the Department of the Navy Information Technology/Information Management Excellence Award for exemplary execution of measures to meet the PCI Data Security Standards compliance requirements.

There is a significant amount of work being conducted to explore ways to streamline the logistics chain with our industry partners.

We implemented an action plan from December 2008 CPI Project: Category Management & Plan-o-grams, creating and standardizing a large process throughout Merchandising, including metrics and communication to field scheduled category reviews.

Implemented a NEXCOM CPI Green Belt Handbook to standardize CPI process. A full-time CPI position was established and staffed with NEXCOM's first black belt.

FOSTERING A CULTURE OF ACCOUNTABILITY

"We are committed to refining our fiscal accountability," according to Laurie Hasten, NEXCOM Senior Vice President, Chief Financial Officer. "The issue of financial accountability and management is of paramount importance today. We have instituted many improved internal control initiatives."

Focus on Fraud Campaign

NEXCOM instituted a Stop Fraud Campaign aimed at improving Associate awareness and training, expanding process reviews looking for vulnerabilities and using continuous process improvements to mitigate risks.

Reduce Shrink

NEXCOM's inventory shrink rate reached an all time low in FY09 of 0.33 percent of sales. This rate is 78 percent below national average of 1.51 percent, according to the 2008 University of Florida National Retail Security Survey.



"Reducing shrink to below one percent for eight consecutive years is a tremendous achievement," said Fritz Hirschert, NEXCOM Vice President, Director of Loss Prevention and Safety. "This could not have been achieved were it not for every Associates' diligent focus on shrink reduction and Rear Adm. Romano's campaign to Focus on Fraud."

Cost Saving Initiatives

FY09 total expenses for distribution, information technology and head-quarters overhead were 2.5 percent below last year. Our management

team is working on many cost savings initiatives that, when implemented, will further reduce worldwide operating expenses. These efforts include such items as implementing energy programs and “green” initiatives at our retail facilities, automating merchandise supplier invoicing and receiving processes, tightly controlling discretionary spending in the areas of travel, training and relocation, optimizing treasury management and foreign currency transactions and overall rigorous accountability for adhering to budgetary spending guidelines.

EMBRACING CUSTOMERS

Customer Centric Philosophy

Strengthening our customer segmentation this year by personalizing each of our segments by name connects our buying/marketing team to our NEX shopper. Collaborating with various market research houses, along with joint innovation with our top tier supplier community allowed us to tailor assortment, marketing and in-store experience which will ultimately drive customer loyalty.

“We want our NEX shopper to think of us first. Our buying team uses extensive data to make smart buying decisions,” according to Tess Paquette, NEXCOM’s Senior Vice President, Chief Merchandise Officer. “This not only helps us today, but prepares us for the future growth and sustainability as a ‘first choice’ retailer.”

Cross Channel

The launch of myNavyExchange.com allowed NEX to enter into the cross channel market. While still in its infancy stage, it is our intent to create a seamless shopping experience for our customers.

Social Media

We accelerated our efforts in growing our social media presence. Using Facebook, Twitter and YouTube allows us to engage ourselves with our customers. Our fan base of 50,000 friends provides us feedback on a daily basis. NEX is developing capabilities to leverage Facebook feedback.

Private and Exclusive Brand Growth

We leveraged collaborative efforts with key retailers by offering private brand products at a savings. Some include Victoria Secret apparel, Macy’s private brand merchandise, Martha Stewart home goods and Tommy Hilfiger brands. These private or exclusive brands offer our shoppers fashion at a savings.

Customer Satisfaction



Our annual Customer Satisfaction Index survey increased 2 points for a total command score of 82. The scores reflect increase in satisfaction in virtually all areas including merchandise, pricing and advertising. Navy Lodge guest satisfaction exceeded the ranking of 95 as compared to hotel industry average of 65.

Supply Chain

CPI has been the key driver of lowering our costs while optimizing our resources. We converted 90 suppliers to Advance Shipping Notice, realizing up to 75 percent improvement in processing time. In addition, we converted all stores to automated point-of-sale percent off, thereby improving the shopping experience for our customer.



Ship Stores Excellence

Twenty-nine ships achieved the Ship Stores Excellence Award status for providing outstanding service to its shipmates. Of those 29 ships, 13 were recognized as "Best of Class."

To lend support to ships in the Far East, Fleet Industrial Supply Center Guam was established to increase support to our customers with the addition of ship's store specific merchandise.

Navy Lodge Support

Our Navy Lodge Program implemented "Breakfast to Go" so all guests would receive breakfast every morning. Navy Lodge Bethesda, Md., provided over 11,520 room nights to wounded service members and their families.



Navy Uniforms

Our UPMO continued to execute three overlapping uniform rollouts, the physical training (PT) uniform, Navy Working Uniform (NWU) and Service Dress Uniform (SDU) in support of Task Force Uniform, a \$420 million Chief of Naval Operations initiative. Our NCTRF provided research and development efforts for the PT running suit.

IMPROVING OUR FACILITIES

"NEXCOM has both a responsibility and an opportunity to be a leader in sustainability," stated Capt. Rob Fetter, NEXCOM Deputy Commander, Facilities. "As we build and renovate our exchanges, we are focused on more energy efficient operations."

Deliver World Class Facilities

Navy Lodge renovation projects completed in 2009 with a total of 870 rooms out of 3,335 at National Naval Medical Center Bethesda, Md.; Naval Station Guantanamo Bay, Cuba; Navy Construction Battalion Center Gulfport, Miss.; Naval Air Station Key West, Fla.; Naval Station Mayport, Fla.; Naval Station Norfolk, Va.; Naval Air Station North Island, Calif.; Naval Air Station Patuxent River, Md.; and Naval Air Station Whidbey Island, Wash.

Navy Lodge Norfolk, Va., completed a \$30 million renovation which included family suites, extended stay guest rooms as well as business class guest rooms, fitness center, meeting rooms, social networking area, a business center and a NEX gift shop. With 292 rooms, Navy Lodge Norfolk is the largest property within the Navy Lodge Program. NEXCOM Commander reopened the Navy Lodge in November 2009.

Navy Lodge Reservation Center in Jacksonville, Fla., was renamed the DoD Lodging Reservation Center to reflect expanded DoD services. DoD Lodging Reservation Center began taking reservations for over 98 hotels including all Navy Lodge, numerous Navy Gateway Inns and several Suites and Army. During 2009, the DoD Lodging Reservation Center handled 416,000 calls.



Continually Improve Existing Facilities

At Naval Station Norfolk, Va., a new mini-mart gas station was constructed to include Subway, a four-chair barber shop and a pay-at-the-pump gas station.

At Stennis Space Center, Miss., a 4,300 square foot mini mart was constructed with a pay-at-the-pump gas station with 10 regular gas and two diesel pumps.

At NEX Gulfport, Miss., a 55,000 square foot store was constructed that consolidated three facilities following hurricane Katrina (APF funded).

NEX expanded and remodeled the package store at Oceana, Va., to include a 1,100 square foot chill box and remodeled 4,650 square feet of sales floor.



A new NEX at Souda Bay, Crete, was constructed to consolidate off-site receiving and warehouse operations. The 6,450 square foot NEXMart was also remodeled.

A new garden center/home center was constructed at NEX Jacksonville, Fla.

The 41,200 square feet NEX Port Hueneme, Calif., was expanded and remodeled.

Sustainability Initiatives

Our assortment of “green” products for our environment-conscious patrons has been expanded in our stores.

Renovation and new construction of NEX facilities, such as NEX San Diego; NEX Bethesda and NEX Annapolis, Md.; NEX New London, Conn.; and Navy Lodge North Island, Calif., are examples of Leadership in Energy and Environmental Design (LEED) Silver Certification. LEED Certification means using low to no VOC materials, e.g. paints, carpet, flooring; recyclable products; bicycle racks; special dedicated parking for fuel efficient vehicles; EnergyStar products; storm water collection; green roofs; concrete products using fly ash, slag, and/or silica fume; indoor air quality; and water efficient products leading to measurable green building design, construction, operations and maintenance solutions.



NEX DISTRICT HIGHLIGHTS

CUSTOMER AND COMMUNITY ENGAGEMENT

Customer Appreciation Days are hosted at two overseas NEX locations a year. May's event was held in Yokosuka, Japan, and October's event was in Guantanamo Bay, Cuba. These events rotate between overseas locations to provide our customers with a great sales event coupled with entertainment, contests and give-aways and to provide a significant sales lift to the NEX location. The event includes door busters, contests, free t-shirts and, if possible, entertainment right in front of the store. This program highlights NEXs commitment to the best customers in the world.

The Tidewater District was the first to rollout the new working uniform, requiring precise planning and anticipation of the demand on inventory and customer service. The results were outstanding. The District's L-1 uniform sales were \$24.5 million versus \$6.8 million the prior year. The District outfitted approximately 45,000 Sailors with the new uniform. Another key to the success of the rollout was the Tailor Shop execution. The Tailor Shop volume increased significantly in 2009, but processing times were maintained and Sailors were able to get their uniforms ready to wear in a very timely manner. The Tidewater District L-1 volume was 34 percent of the worldwide total for 2009.



In response to concerns over the cleanliness of the area drinking water, NEX Naples, Italy, responded to a command request for support and distributed 437,976 2-liters of bottled water from September 2008 thru July 2009 to eligible personnel. This was an important quality of life support initiative and exemplifies the crucial support role that NEXs in the continental United States and overseas provide to our Navy communities.

In support of the Combined Federal Campaign (CFC), NEX Hawaii contributed \$112,500 to various non-profit organizations. All managers performed the duties as a key person responsible for contacting Associates and educating them about the CFC. Ninety percent or 1,085 full-time exempt Associates made payroll contributions totaling \$80,500. In addition, various departments held fund-raisers generating a total of \$32,000. The NEX was recognized with the "Platinum" award for excellence in support of the CFC for 2009.



Tidewater District NEXs consistently participated in Motorcycle Safety events at their bases, including the annual Motorcycle Rodeos. Efforts continue with a program officering motorcycle riders with a 25 percent off coupon on the purchase of motorcycle protective gear in stores and on-line. NEX is committed to keeping our Sailors safe.

NEXs Oceana, Little Creek and Norfolk, Va., hosted Congressman Glenn Nye on several occasions at his request. He enjoyed the opportunity to hold "meet and greet" events at our NEXs, allowing military constituents a forum to express their concerns about important issues, such as the health care bill.

In June, the USS DWIGHT D. EISENHOWER (CVN 69), became the first-ever aircraft carrier to visit Bahrain. The NEX Bahrain Team coordinated with the NEXCOM buying staff and local distributors to ensure that the store was well stocked and prepared to support the large influx of Fleet patrons without sacrificing support for the local community. Sales for the two days that the USS DWIGHT D. EISENHOWER was in port totaled \$1.1 million.

The 14th annual Navy Run was held in conjunction with NEX Jacksonville, Fla., MWR, and the Commissary. The three day athletic footwear event culminated with a 10K run with 450 participants. NEXs worldwide routinely participate with our MWR and installations partners on a wide range of command events.

NEX Kings Bay, Ga., developed a partnership with the Camden County Department of Education's Transition Acquired through a Supportive Community (T.A.S.C.) Force Program to provide students with disabilities an opportunity to experience and perform meaningful social and vocational practice skills in a natural work environment.

NEX Whidbey Island, Wash., partnered with Naval Air Station hospital partners for Heart Health Month including on-site blood pressure checks for patrons as well as for "Crews Into Shape" providing info/literature to help associates think healthy. This is just one example of the many Navy community events that NEXs sponsor or participate each year.

"GREEN" INITIATIVES

At NEX Whidbey Island, Wash., a new compostable/recyclable program was instituted for food during April where 99 percent of all items were compostable. NEX Whidbey Island Fleet Store generated 274-lbs of compostable waste the first week of program.

As part of the region's sustainability efforts, NEXs Bangor and Bremerton, Wash., partnered with local base recycling to install a recycling center and solar powered trash compactor in front of the main stores.

NEX Pearl Harbor re-lamped its parking lot pole lights, which constituted taking existing 1000 volt metal Halide lights to 450 volt metal Halide. Approximately 800 bulbs were changed out as part of this process. NEX Pearl Harbor also re-lamped the main store's 2,400 light fixtures. Existing light fixtures were taken from the 4-tube and retrofitted to 2-tube fixtures. Lighting levels remained the same or increased in the quality of light provided.

NEXs working with our military resale partners, we hope to reduce the consumption of plastic bags in the future by selling reusable bags. NEXs have also begun offering a five cent credit to customers using a reusable bag. NEXCOM awarded a new plastic shopping bag contract, which will utilize plastic bags containing up to 35 percent recycled material. Select NEXs will also participate in Bag-2-Bag program which will allow the stores to collect used plastic bags and have the vendor recycle them into new plastic bags.



PROCESS IMPROVEMENT INITIATIVES

NEX Pearl Harbor installed price scanners as part of a pilot program. The program was piloted in response to a customer demand for a convenient way to check prices. Benefits have included quicker and more accurate information for customers and increased Associate productivity.

A significant response and support to the command came in the form of NEX Bangor, Wash.'s, work to finally add credit and debit transaction acceptance to its Delta Pier food service operation. This was a highly requested, highly visible item for the pier and was immediately well received by command upon completion, the transactions immediately accounted for over 25 percent of its total transactions.

NEX Monterey, Calif., migrated NPS Monterey's text book ordering process on-line. Previously, this was a cumbersome, manual, labor intensive process that NEX Monterey was able to coordinate with NEXCOM's buying office to migrate to a fully on-line ordering process.

NEX Little Creek and Oceana, Va., were the first to pilot a new project which harvested space from down trending departments and allocated the space to high performance departments. The expansion departments were personal care, mass cosmetics, ready-to-assemble furniture and home storage while the downsized departments were greeting cards, books and magazines and giftware. The rollout involved installing new, specialty fixtures for the new businesses, determining and executing new adjacencies, new visual elements and merchandising techniques. The project resulted in a significant sales increase in the expanded departments in both stores totaling \$380,000.

2009 BINGHAM AWARD WINNERS

Sales Group	Winner
Superstores (over \$100 million)	Naval Station Norfolk, Va.
U.S. Sales (\$40- \$100 million)	Joint Expeditionary Base Little Creek/Fort Story, Va.
U.S. Sales (\$20 - \$40 million)	Naval Weapons Station Charleston, S. C.
U.S. Sales (\$5 - \$20 million)	Naval Air Station Whiting Field, Fla.
U.S. Sales (\$2 - \$5 million)	Naval Support Activity Panama City, Fla.
U.S. Sales (up to \$2 million)	Navy Information Operations Command Sugar Grove, W.Va.
Overseas Sales (Over \$20 million)	Naval Station Rota, Spain and Naval Station Guantanamo Bay, Cuba
Overseas Sales (\$2 - \$20 million)	Navy Region Center Singapore
Overseas Sales (up to \$2 million)	Naval Station Rota, Spain, for Madrid, Spain, Embassy

The Bingham Award is named after the late Capt. W.H. Bingham, Supply Corps, U. S. Navy Reserve. Bingham was the Chief Executive Officer of the R.H. Macy’s company and was appointed by the Secretary of the Navy in 1946 to lead an advisory board for the establishment of the Navy Exchange System.



NAVY EXCHANGE SYSTEM ASSOCIATES

ALEX DOUVRES

Alex Douvres, Director of NEXCOM's Washington D.C., office, passed away on July 29, 2009. Douvres' career with NEXCOM spanned 35 years, having started as a contracts specialist at Navy Resale and Services Office in Brooklyn, N.Y. The Commander, Naval Supply Systems Command (NAVSUP) named Alex as an Honorary Supply Corps Officer on December 16, 2009.



2009 ASSOCIATES OF THE YEAR



NEXCOM Headquarters Associate of the Year

Jack Fyfe
NEXCOM Merchandise
Analyst



Navy Exchange System Worldwide Associate of the Year

Donna Jorgensen
Branch Exchange Manager
NEX Sugar Grove, W. Va.



Navy Lodge Manager of the Year

Kathy Olow
Navy Lodge
Naples, Italy



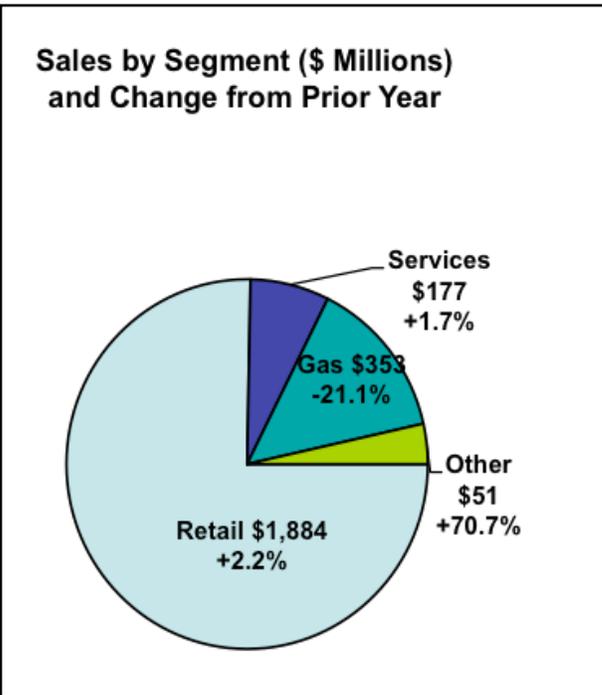
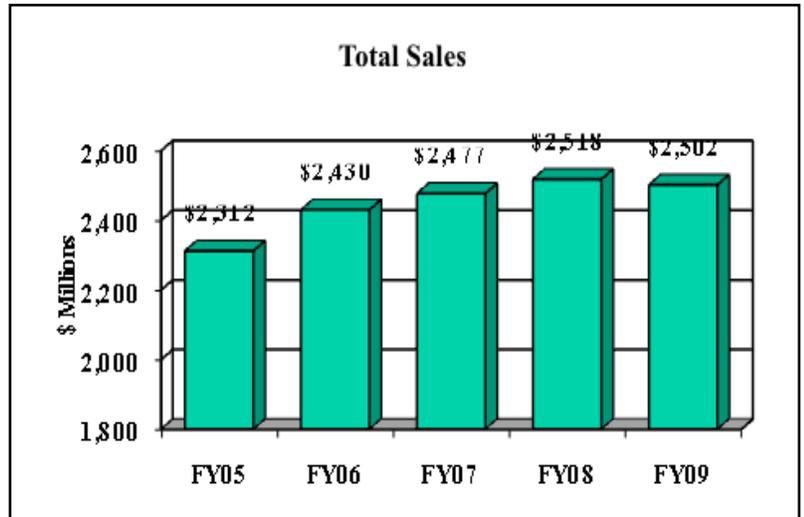
Navy Lodge Associate of the Year

Yvette Manzanales
Navy Lodge
Corpus Christi, Texas

Navy Exchange System Fiscal Year 2009 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. Although total sales declined slightly from the prior year because of lower gas prices, the core retail store business remains strong with sales exceeding last year by 2.1 percent. Net income was \$72.6 million, an increase of 12.8 percent over the prior year. As a result, NEXCOM declared \$51.1 million in dividends to Navy Morale, Welfare and Recreation (MWR) funds, a significant increase over recent years.



The biggest contributor to the bottom line was the retail segment, accounting for 75 percent of total sales and a 2.2 percent increase over last year. Profit generated from the retail business increased by 4.8 percent as a result of lower markdowns and a record-low inventory shortage result of 0.33 percent of retail sales. Gross profit margin in our retail stores increased to 23.68 percent compared to 23.50 percent in FY08, an increase of \$12.6 million. The services segment also finished the year with a sales gain of 1.7 percent from our direct-run operations and 3.6 percent from concession sales. Gasoline sales declined significantly (-21.1 percent), even as total gallons dispensed increase by 2.6 percent, due to a drop in the retail selling price from a high of \$4 per gallon during the prior year. Sales of Government Issue uniform items increased, due to the roll out of the new Task Force Uniforms, by \$36.6 million or 105 percent compared to FY08.

Our overhead (Distribution Center, Headquarters and Information Technology) expenses were tightly controlled yielding a savings of \$3.6 million or 2.5 percent when compared to prior year.

We continue to provide a significant dividend to the Navy's MWR funds. The increase in our profits resulted in an overall dividend declaration of \$51.1 million, a 12.6 percent increase over last year. From this amount, \$24.3 million are paid to local installation MWR funds, an increase of 18.5 percent over last year.

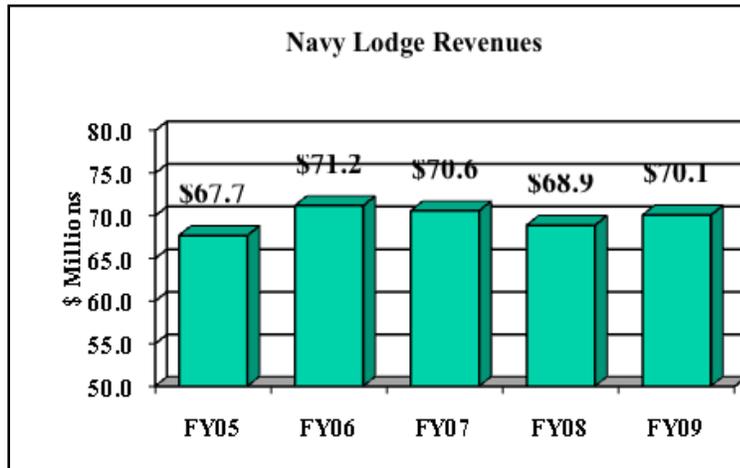
The financial condition of the Navy Exchange Program, as reflected in our balance sheet and statement of cash flows, remains strong. Cash flow from operations was \$169.8 million, a \$16.5 million or 10.8 percent increase over the prior year. We continue to fund our store modernization program from our operating cash flow. Capital spending of \$92.7 million exceeded the prior year by 71.3 percent. Retained earnings increased to \$495.7 million, a 14.1 percent growth over the prior year.

Navy Lodge Program

The Navy Lodge Program (NLP) operates 42 Navy Lodges and Navy Inn worldwide and had 3,335 available rooms at the end of the FY09. Renovations were completed in 475 rooms at Overall occupancy rate for 2009 dropped percent compared to 77.59 per- the prior year, as the economy impacted official and unofficial The average room rate increased to \$73.95.

The NLP continues to save travel and provide an excellent qual- benefit to Navy families while ing increased cash flow for reno- and new facilities. In FY09, total increased by \$1.2 million or 1.8

to \$70.1 million. NLP Net Income of \$6.1 million was down 58.6 percent from last year primarily due to the write down of facilities as a result of BRAC, reduction in interest income and the introduction of "Breakfast To Go" program. Expense ratios were maintained at historical levels in relationship to room revenues. Due to lower interest rates, the NLP generated only \$0.1 million in interest income vs. \$3.6 million in FY 08.



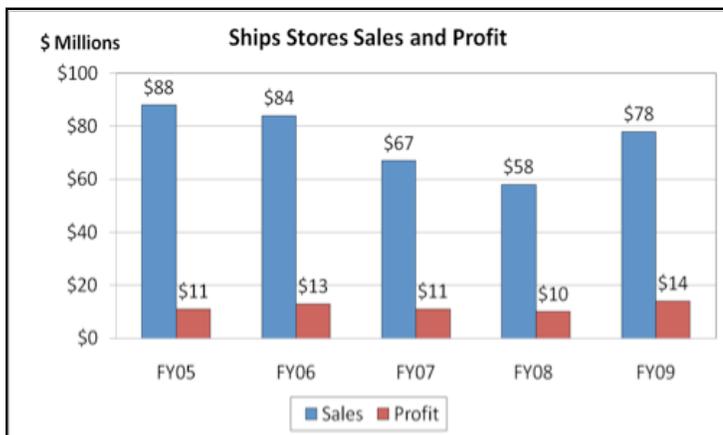
to 74.4 cent in negatively travel. by \$3.67 dollars ity of life generat- ions revenues percent

While 2010 looks to be a stabilizing year for the lodging industry and military travel budgets; the industry is not predicted to return to normal levels for some time. NLP's financial conservatism and strength in operations management will help the Program weather the current economic downturn and preserve the Navy Lodges' reputation as being an outstanding value and one of the most important Quality of Life benefits the Navy offers.

Ships Store Program

Ships Stores are operated aboard 160 commissioned Navy ships, as two new stores opened during the year. The program generated \$78.3 million in total sales during FY09. Reported sales for 2009 reflect an approximate \$10 million increase over FY08 due to the inclusion of sales which missed the FY08 fiscal end of year cutoff. Program profits of \$13.7 million exceeded the prior year by 33.1 percent. Profits were in line with expectations and are the direct result of increased sales.

Profits generated by each ships store are used by the Commanding Officer to procure new equipment for the stores and to provide direct support to the ship's MWR programs. In addition, assessments paid to central morale and recreation funds allow for the distribution of funds to ships without a ships store such as submarines, mine- sweeps, etc. In FY09, a total of \$11.5 million were distributed to local shipboard MWR funds, an increase of 32.5 percent over the prior year.



FINANCIAL REVIEW

For the Fiscal Years ended
January 30, 2010 January 31, 2009

In Thousands of Dollars

Navy Exchange Program

Income Statement:		
Total Sales	\$2,501,880	\$2,517,968
Income from Concessions, net	39,726	37,565
Contributed Services	<u>89,915</u>	<u>92,784</u>
Total revenues	2,631,521	2,648,317
Cost of Sales	1,952,367	1,983,417
Selling, General and Administrative Expenses	<u>614,651</u>	<u>607,207</u>
Operating Income	64,503	57,693
Post Allowance Expense	0	0
Other Income - Net	<u>8,119</u>	<u>6,698</u>
Net Income	<u><u>\$72,622</u></u>	<u><u>\$64,391</u></u>

Profit Distribution:		
Dividends declared	\$51,138	\$45,397

Assets, Liabilities and Program Equity:

<u>Assets:</u>		
Cash & Accounts Receivable	\$263,807	\$228,409
Merchandise Inventories & Other Current Assets	459,669	477,496
Property/Equipment & Other long-term Assets	<u>592,677</u>	<u>485,359</u>
Total Assets	<u><u>\$1,316,153</u></u>	<u><u>\$1,191,264</u></u>
<u>Liabilities:</u>		
Trade Accounts Payable & Accrued Liabilities	\$331,743	\$328,504
Other Current Liabilities	155,242	143,324
Long-term liabilities	333,441	285,096
Program Equity	<u>495,727</u>	<u>434,340</u>
Total Liabilities & Equity	<u><u>\$1,316,153</u></u>	<u><u>\$1,191,264</u></u>

Navy Lodge Program

Income Statement:		
Total Revenue	\$70,086	\$68,858
General and Administrative Expenses	<u>64,087</u>	<u>57,705</u>
Operating Income	5,999	11,153
Other Income - Net	<u>113</u>	<u>3,628</u>
Net Income	<u><u>\$6,112</u></u>	<u><u>\$14,781</u></u>

Assets, Liabilities and Program Equity:

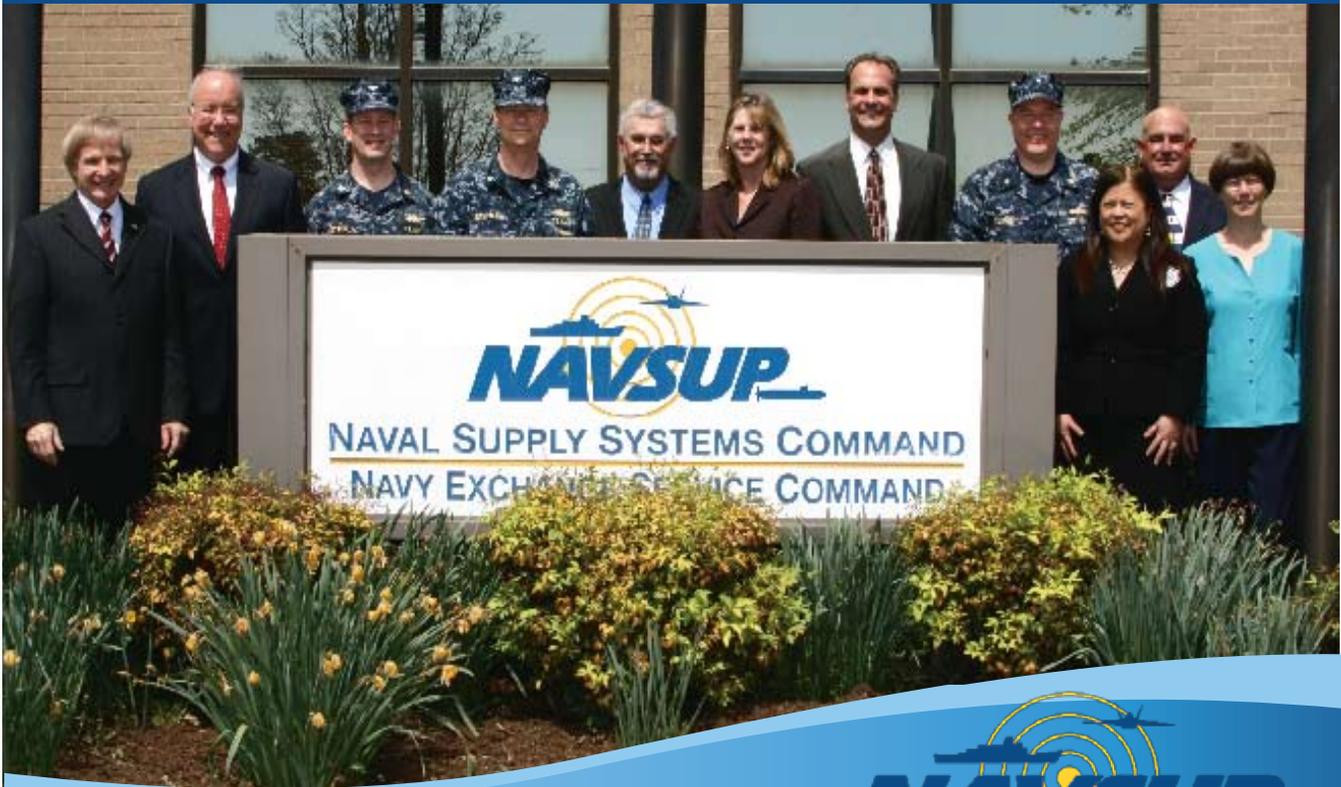
<u>Assets:</u>		
Cash and Other Current Assets	\$97,834	\$89,707
Property and Equipment, net	<u>121,608</u>	<u>124,583</u>
Total Assets	<u><u>\$219,442</u></u>	<u><u>\$214,290</u></u>
<u>Liabilities:</u>		
Accounts Payable	\$3,608	\$4,568
Program Equity	<u>215,834</u>	<u>209,722</u>
Total Liabilities & Equity	<u><u>\$219,442</u></u>	<u><u>\$214,290</u></u>

Ship's Stores Program

For the Fiscal Years ended
September 30, 2009 September 30, 2008

Ship's Stores Sales	\$65,263	\$48,663
Vending Sales	<u>13,007</u>	<u>9,474</u>
Total Sales	<u><u>\$78,270</u></u>	<u><u>\$58,137</u></u>
Net Profit from Operations	<u><u>\$13,694</u></u>	<u><u>\$10,292</u></u>
Profit Distribution:		
Assessment for Bureau of Naval Personnel	\$1,762	\$1,383
Equipment for Ships Stores	\$466	\$261
Profits retained for Morale, Welfare and Recreation	\$11,466	\$8,648

EXECUTIVE COMMITTEE

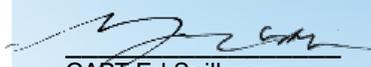


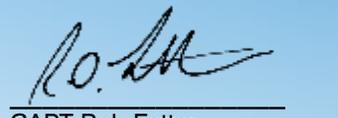
Our Commitment

We all have an opportunity to enable the Navy Exchange Service Command to meet its future objectives. We must take action and bold steps to position ourselves to compete in the future. Our Associates are the key and we must strive to engage with you so that we are all aligned with this strategic plan. Working together, we can make a difference and improve the quality of service and the lives of our Sailors, families, Navy community and our Associates.

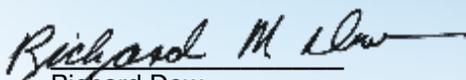

RDML Steven J. Romano
Commander

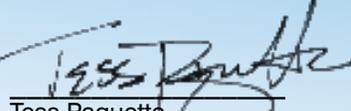

Michael Good
EVP, Chief Operating Officer

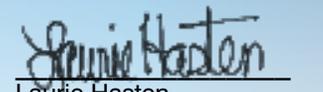

CAPT Ed Spillman
Deputy Commander

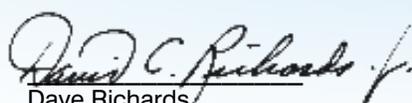

CAPT Rob Fetter
Deputy Commander Facilities

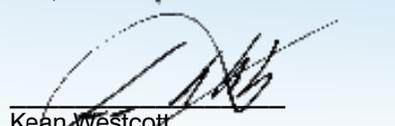

Ellen Bennett
SVP, Chief of Staff


Richard Dow
SVP, Store Operations


Tess Paquette
SVP, Chief Merchandise Officer


Laurie Hasten
SVP, Chief Financial Officer


Dave Richards
SVP, Human Resources


Kean Westcott
SVP, Command Information Officer


Tom Williams
SVP, Logistics