

# **/NEXCOM**

**2012**  
ANNUAL  
REPORT



**/WELCOME  
ABOARD**

## **/NEX**

RETAIL GOODS  
AND SERVICES  
AT A SAVINGS



## **/NAVY LODGE**

AFFORDABLE PCS  
ACCOMMODATIONS  
WORLDWIDE



## **/UPMO**

UNIFORM PROGRAM  
MANAGEMENT OFFICE



## **/TPO**

TELECOMMUNICATIONS  
PROGRAM OFFICE



## **/SHIPS STORE**

155 SHIP STORES AFLOAT SUPPORTING  
DEPLOYED FORCES WORLDWIDE



## **/NCTRF**

NAVY CLOTHING AND  
TEXTILE RESEARCH FACILITY

# FROM THE CEO



*“While we are a retailer, we are first and foremost a military command and our priority is to support our men and women in uniform.”*

The  
NEXCOM  
Enterprise  
financial  
position  
remained  
strong in  
2012

As the economy slowly started to regain its footing in 2012, NEXCOM continued to provide quality, value and savings along with PREMIER customer service and a sense of community to our customers and guests around the world.

The NEXCOM Enterprise consists of 100 Navy Exchange (NEX) facilities and nearly 300 stores worldwide, 40 Navy Lodges, 158 ships stores, the Uniform Program Management Office (UPMO), the Navy Clothing Textile and Research Facility (NCTRF) and the Telecommunications Program Office (TPO). Our worldwide Enterprise boasts 14,000 associates, 23 percent of whom are military family members.

NEXCOM associates worked hard throughout the year to ensure NEXs and Navy Lodges were foremost in our customers' and guests' minds. Their hard work and diligence paid off. Our NEX Customer Satisfaction Index (CSI) survey results showed a two point increase to 85, based on a 100 point scale. The most recent industry average for the CSI is 76. This puts NEXs at the satisfaction level as some of America's most customer focused retailers such as Nordstrom and Kohl's. The Navy Lodge Guest Comment Rating remained high at 4.81 out of 5.00. Our associates have really embraced the PREMIER Customer Service training and it shows in these consistently high scores from our customers and guests.

As a Navy command, we also worked with the U.S. Navy on several initiatives to improve the quality of life for our active duty and Reserve Sailors. Some of those include opening a joint uniform shop at Walter Reed National Military Medical Center in Bethesda, Md., selling books and advertising the Chief of Naval Operations' Professional Reading Program and aligning the products we sell with the Secretary of the Navy's 21's Century Sailor and Marine initiative. While we are a retailer, we are first and foremost a military command and our priority is to support our men and women in uniform.

The NEXCOM Enterprise's financial position remained strong in 2012. Total annual sales were \$2.8 billion with a net profit of \$64.8 million which generated \$45.9 million in dividends for Morale, Welfare and Recreation (MWR) programs. It also generated \$74.2 million for reinvestments in NEXs to improve our customers' shopping experience and to remain competitive within the retail market. Total annual sales for Navy Lodges were \$75.1 million with a net profit of \$11.8 million. Ships store sales were \$73.9 million with profits of \$12.7 million.

NEXCOM is on a steady course and we are gaining traction and moving forward. We have a solid plan for the future, and as we remain on this path with a renewed focus on our mission and goals, we will continue to achieve our objectives and remain a critical element in sustaining the readiness and retention of our Sailors, their families and our Navy.

/s/

**R. J. BIANCHI**  
Rear Admiral, SC, USN (Ret)  
Chief Executive Officer  
Navy Exchange Service Command

## MISSION:

To provide quality goods and services at a savings and support Navy quality of life programs; and to provide quality, iconic brands to customers at a savings.

## ACCOMPLISHMENTS:

Revised and refreshed the approach to the traditional sales events for the holiday season so customers wouldn't feel obligated to get up early and leave their families to go shopping. Calling it the "Navy Blue Holiday," it emphasized Navy core values, Navy family and preserving the holiday's cultural values. NEXs offered sales and specials throughout the holiday season instead of starting off the season with a big sale the day after Thanksgiving. The sale prices were available for the duration of the sale and were not limited to a certain day or time period. NEX worldwide retail sales were \$267 million for the holiday season.



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NEX Bethesda, Md., opened its new 150,000 sq. ft., 2-story store on November 10, 2012. The store features an expanded assortment of iconic brands including Ralph Lauren, Michael Kors, Apple and Sony concept shops, Ted Baker, Brahmin, Bobby Brown, Kate Spade and Brooks Brothers. The new store has wider aisles for easier access as well as lower fixture profiles for better visibility and to accommodate all shoppers.

Opened the first electric vehicle charging station at NEX Bethesda, Md. The NEX charges \$.48 per kilowatt hour to its customers to charge their cars. Customers pay for the service at the charging station by either using radio frequency identification (RFID) credit or a ChargePoint® key fob card, which acts as a debit card.

The NEX made a number of changes to its policies to make shopping easier for its customers. Customer information, such as name, address and telephone number, is no longer collected when requesting a refund with a receipt. The NEX return policy was changed so that merchandise purchased at a NEX or from myNavyExchange.com can be returned to any NEX store within 45 days of purchase for a refund or even exchange. Finally, NEX customers who make a purchase for \$25 or less using a Visa, MasterCard, Discover or MILITARY STAR® Card no longer need to sign a sales receipt.



The NEX online store, [www.myNavyExchange.com](http://www.myNavyExchange.com), had sales of \$9.7 million, up 22.0 percent to 2011. New products launched during the year included Coach handbags, shoes, watches, fragrances and toys for all age groups as well as diamond, gemstone, gold and silver jewelry.



Opened a new state-of-the art Northeast Distribution Center (NEDC) at CenterPoint Intermodal Center, Suffolk, Va. The 350,000 sq. ft. warehouse space is the distribution and freight consolidation point for 152 NEX and Marine Corps Exchange outlets located in the Mid-Atlantic and Europe/Africa/Southwest Asia regions. The NEDC handles approximately \$140 million of merchandise, at cost, per year.

The NEX online store began offering flat rate shipping on all merchandise. Customers pay \$5.95 for standard delivery (7-10 business days); \$12.95 for priority delivery (3-5 business days); and \$17.95 for express delivery (1-3 business days).

Launched sales of 18 books approved for the new Chief of Naval Operations (CNO) Professional Reading Program. This program provides Navy personnel recommended independent reading to contribute to both professional and personal growth, education and development within the Navy community.

In support of the Secretary of the Navy's 21st Century Sailor and Marine Initiative, NEX tobacco product prices were aligned to parity with local competitors on September 25, 2102. Ships stores aligned tobacco product prices based on the market survey tobacco price changes at home port locations.

Opened a Subway restaurant at Camp Lemonnier, Djibouti, Africa. It is the first Subway restaurant in Djibouti and the first Subway restaurant located within a military base in Africa.



Renovations were completed at NEX San Diego, Calif., mini mart; NEX Sasebo, Japan, barber/beauty shop; NEX Jacksonville, Fla., car care center; NEX Nimitz, Calif., car care center; NEX San Diego, Naval Medical Center Optical Shop; NEX Yokosuka, Japan, barber shop; NEX Ikego, Japan, mini mart; NEX Kingsville, Texas; NEX Rome, Italy, Embassy store; NEX Great Lakes, Ill.; NEX Seal Beach, Calif., mini mart; NEX Pearl Harbor optical shop; NEX Mayport, Fla., optical shop; and NEX Sherman Field,

Pensacola, Fla.

NEX Joint Expeditionary Base Little Creek-Fort Story, Va., opened a new mini mart/gas station. It includes wider aisles, an expanded coffee bar as well as an expanded food and snack assortment with a healthy snack program. The mini mart also features eight fuel islands and two ethanol blender pumps.

The NEDC handles approximately \$140 million of merchandise, at cost, per year

# /SHIPS STORE

## MISSION:

To provide quality goods at a savings; to provide quality services necessary for day to day living; and provide funding for afloat recreation needs and promote good morale.

## ACCOMPLISHMENTS:

Ships store sales were \$73.9 million. Ships retained a profit of \$10.9 million for its individual MWR programs and contributed \$1.8 million in profits to central MWR for Fleet-wide recreational programs aboard ships.

Working with the Naval Supply Systems Command (NAVSUP), the Ships Stores Program embarked on a rapid development and deployment of a new point-of-sale system for Fleet ships. Named ROM 3, the new system features a web based application that will simplify workload afloat, move workload from the ship to shore and be easier to maintain with lower sustainment costs. Deployment of ROM 3 is projected for 2014.



A change was made in the ships store supply chain to consolidate and streamline stock replenishment. Items previously ordered by Fleet Logistic Centers in Yokosuka, Japan, and Guam are now sourced from the NEX. Benefits from this initiative include reduced logistics cost, improved in-stocks for ships stores, reduced inventory losses and overall inventory reduction as well as fresher merchandise. This initiative leverages an existing, robust supply chain, saves money and improves the quality of life for forward deployed Sailors.

As part of the NEXCOM Enterprise branding initiative, the Ships Stores Program successfully branded the USS HARRY S. TRUMAN's ships store. The USS HARRY S. TRUMAN's ships store now resembles a NEX. The new elements

include a mural of President Harry S. Truman with a quote as well as blue banding and fixture "re-skin" applications to revive existing fixtures. NEXCOM associates also worked with the ship's SH personnel to incorporate current retail industry reset and merchandising standards. During its first underway period after the renovation, sales in the ships store increased significantly from its previous underway period.



As part of the  
NEXCOM  
Enterprise  
branding  
initiative, the  
Ships Stores  
Program  
successfully  
branded the  
USS HARRY S.  
TRUMAN's  
ship store

# /SHIPS STORE

The Ships Stores Program implemented two prototype programs to provide greater benefits to females afloat. The first was a cosmetic program featuring Cover Girl products that met with success on prototype carrier and amphibious ships. The second was allowing ships to authorize the use of its barber shop by other crewmembers during underway periods for additional hair care services that are not otherwise available during regular shop hours such as female hair styling and braiding.

For the first time, the Ships Stores Program offered a special Thanksgiving sales event for deployed ships as part of Navy Blue holiday events. The sale featured special merchandise identified just for the afloat Sailor and Marine. It allowed deployed military members to order items afloat and have the merchandise delivered to their homes. The sale generated over 800 orders for a total of \$425,900.



The Special Order Program processed 1,271 different purchase order transactions with a total of over \$5.3 million in retail merchandise purchased for ships stores. The Ships Stores Program also processed 589 transactions for over \$818,000 for ships store retail merchandise; it processed 422 transactions for over \$313,000 in vending machine repairs and minor equipment purchases and processed 24 transactions for \$4,000 in office operating supplies in support of Fleet operations.

The Commander, Naval Installations Command (CNIC) directed the transition of afloat coffee bar operations to the Ships Stores Program. A NEXCOM Instruction was developed to provide Afloat Coffee Bar Management and Policy and assumed responsibility for procurement of equipment and coordinating repairs to existing equipment. As part of the agreement, CNIC agreed to waive the five percent portion of the General Fund Assessment. As a result, NEXCOM returned \$14,000 in grants to the ships. By the end of 2012, there were eight afloat coffee bars in operation.



By the end of 2012, there were eight afloat coffee bars in operation

# /NAVY LODGE

## **MISSION:**

The Navy Lodge Program provides safe, clean and affordable permanent change of station (PCS) accommodations worldwide.

## **ACCOMPLISHMENTS:**

The Navy Lodge Program started 2012 with 40 operations and 3,318 rooms. It closed the year with 40 operations and 3,380 rooms.

Reset projects were completed on a total of 972 rooms at Naval Submarine Base Bangor, Wash.; Naval Station Everett, Wash.; Naval Air Station Corpus Christi, Texas; Naval Air Station Joint Reserve Base Fort Worth, Texas; Joint Base Pearl Harbor-Hickam, Hawaii; Naval Station Great Lakes, Ill.; Naval Air Station Jacksonville, Fla.; Joint Expeditionary Base Little Creek-Fort Story, Va.; Naval Station Norfolk, Va.; Naval Air Station Whidbey Island, Wash.; and Fleet Activities Yokosuka, Japan. Family suites were added to Naval Submarine Base Bangor, Wash.; Naval Station Great Lakes, Ill.; and Naval Air Station Jacksonville, Fla.; for a total of 12 new family suites.



The Navy  
Lodge Program  
provides safe,  
clean and  
affordable PCS  
accommoda-  
tions worldwide

Navy Lodge Gulfport, Miss., opened a new building which added 50 new guest rooms and family suites. The Navy Lodge now has a total of 80 rooms. The new Navy Lodge also offers wounded warrior facilities, free Wi-Fi, a fitness center and expanded work spaces with jack packs.

A groundbreaking ceremony was held at Navy Lodge Joint Expeditionary Base Little Creek-Fort Story, Va., for an 11,000 sq. ft., 26-room expansion. Once completed, the new lodge will have one and two bedroom suites with a kitchen and a bathroom for every bedroom as well free Wi-Fi, a concierge style front desk, large social meeting space, exercise room, self-service laundry and a playground.



Over 50 percent of all Navy Lodge associates have completed the American Hotel & Lodging Association Educational Institute (AHLAEI) professional certifications in their department or cross certified in a different department. Six Navy Lodge General Managers completed AHLAEI's Certified Lodging Manager or Certified Hotel Administrator certifications, bringing Navy Lodge Program professional certifications for management to 43 percent.

# /NAVY LODGE

Navy Lodge Lemoore, Calif., was awarded the AHLAEI Meritorious Award, its highest award. Navy Lodge Yokosuka, Japan, was awarded the AHLAEI's Golden Pineapple Award, its second highest award. Finally, Navy Lodge Naples, Italy, was awarded the AHLAEI's Silver Pineapple Award, its third highest award.



The DoD Lodging Reservation Center booked reservations for over 90 hotels including Navy Lodge, Marine Corps and Army. During the year, it also began booking reservations for the Marine Corps "Inns of the Corps." Effective March 2012, the DoD Reservation Center no longer handled calls for Navy Gateway Inn and Suites. During 2012, the center received 349,000 calls to DoD Lodging Reservation Center.

Navy Lodges provided support to wounded service members and their families. During the year, over 15,000 room nights were utilized at locations worldwide.

The 2012 Navy Lodge of the Year for the Carlson Award was given to Navy Lodge New London, Conn. Other winners were Navy Lodge Everett, Wash., in the medium category and Navy Lodge Naples, Italy, in the large category. The Carlson Award is given to a Navy Lodge for its achievements in guest satisfaction, associate experience, commitment to quality and focus on providing outstanding value to the Navy.

The 2012 Navy Lodge Hospitality Award, presented to the Navy Lodges that are rated the highest by guests in a variety of areas of guest service, was given to Navy Lodge Corpus Christi, Texas. Other Hospitality Award winners were Navy Lodge Fort Worth, Texas, for the medium category and Navy Lodge Bethesda, Md., for the large category.

The 2012 Navy Lodge PCS Award was given to Navy Lodge Norfolk, Va., for the Navy Lodge with the greatest increase in permanent change of station (PCS) room nights and Navy Lodge Guantanamo Bay, Cuba, for the Navy Lodge with the greatest increase in percentage.

The 2012 Outstanding Associate Satisfaction Award, which is presented to the Navy Lodge with the highest Associate Satisfaction Index score, was given to Navy Lodge Little Creek-Fort Story, Va.



Navy Lodge  
Bethesda, Md.,  
provided  
support to  
wounded  
service  
members and  
their families



TPO is the  
Navy's  
program  
manager for  
all unofficial  
ashore and  
afloat personal  
telecommuni-  
cations.

## **MISSION:**

The Telecommunications Program Office (TPO) is the Navy's program manager for all unofficial ashore and afloat personal telecommunications.

## **ACCOMPLISHMENTS:**

TPO received approval from DoD to sole source re-award a personal telecommunications contract to AT&T. This contract is effective from December 2012 until December 2017 and provides for afloat personal telephone calling, prepaid telephone cards, pay phones, Wi-Fi service at various locations and Brig telephone calling services.

Transitioned NEXCOM from a direct run wireless cellular service program to a third party solution. Partnering with Wireless Advocates, NEX Mobile Centers were opened at select NEXs in the continental United States. They offer customers wireless products, accessories and services from a variety of service providers including AT&T, Boost Mobile, T-Mobile and Verizon Wireless. Thirteen NEX Mobile Centers were successfully opened during 2012.



The Afloat Personal Telecommunications Service division of TPO completed 11 shipboard systems rooms, two installations and one removal. It also continued to work with various Navy commands to gain approval for installation on board the new LPD 17 class ships.

More than 30,000 AT&T prepaid phone cards were provided to deployed ships during the December holidays as well as winners of the Ships Store Best in Class Award.

Free Wi-Fi service was installed in 30 of 32 Navy Lodges in the continental United States. New customer pay Wi-Fi service was completed in 69 percent of all Bachelor Quarters in the continental United States while new installations/system upgrades were completed in more than 60 Navy Gateway Inn and Suites. Wi-Fi service for Camp ISA Bahrain was installed and activated for the military members' living quarters.



UPMO  
provides 100  
percent  
availability of  
approved,  
certified,  
highest-quality  
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military  
customer

## **MISSION:**

Uniform Program Management Office (UPMO) provides, in cooperation with its business partners, 100 percent availability of approved, certified, highest-quality uniforms and professional tailoring at the lowest possible price for the military customer.

## **ACCOMPLISHMENTS:**

UPMO opened the first Joint Service Uniform Shop at Walter Reed National Military Medical Center in Bethesda, Md. The floor plan, designed with the joint service customers in mind, incorporates the blended command atmosphere.



The optional All Weather coat was introduced at 27 Uniform Shops as well as the Uniform Support Center in less than 60 days from approval authority. It also introduced the optional Gor-Tex Navy Working Uniform Type I trouser to 15 Uniform Shops within four months of approval authority.

NEX NROTC/NJROTC Program continued to support over 6,017 midshipmen at 90 universities and over 83,692 cadets at 639 high schools which represented \$8.4 million in sales, a 13 percent increase for the year. UPMO introduced a new item, ball caps, for the NJROTC resulting in \$144,090 in sales.

UPMO was given program management responsibilities for the Navy standard cover and cold weather parka. As program managers, UPMO coordinated and assisted in the fitting of test participants in prototype garments, assisted in the development of a mid-term and final assessment surveys and aided in determining questions to be posed to the focus groups.

UPMO supported 4,743 Chief Petty Officer selectees at 335 events worldwide at NEXs and several AAFES locations.



The Uniform Support Center continued to provide uniform support for the Armed Forces Mortuary at Dover, Del., and to the service members forward deployed and away from a NEX Uniform Shop.

The Uniform Support Center answered 117,527 phone calls, processed 406,327 orders, including 221,992 web orders, and answered 6,820 e-mails. It generated \$21.6 million in total sales.

NCTRF  
conducts  
research,  
development,  
test, evaluation  
and engineer-  
ing support for  
Navy uniforms  
and personal  
protective  
clothing

## **MISSION:**

The Navy Clothing and Textile Research Facility (NCTRF), co-located at the Natick Soldier Systems Center in Natick, Mass., conducts research, development, test, evaluation and engineering support for Navy uniforms and personal protective clothing. NCTRF also provides similar support to other military services, governmental agencies, and industry partners on a reimbursable basis.

## **ACCOMPLISHMENTS:**

Continued to develop a prototype of the woman's slack design with a lower waist profile, improved fit and a reduced schedule of sizes. The commercial designs were further refined resulting in two body fits - regular and curvy. A full size run of both fits (in regular length only) was manufactured and a second round of fit clinics was conducted at Natick, Mass., and Newport, R.I. The overall design and fit were well received by the participants. Further modifications to the curvy fit are underway.

In response to the Secretary of the Navy's vision for a gender neutral Navy, the concept of outfitting Navy junior enlisted personnel in the male version of the Service Dress Blue uniform, NCTRF developed a women's Service Dress Blue uniform based upon the men's jumper and 13-button trouser design and evaluated the acceptability of its design, fit and appearance. In September 2012, 16 female participants were issued the prototype female Service Dress Blues to be worn in conjunction with the Navy standard cover. The wear evaluation is scheduled for completion in 2013.



Fit nearly 1,000 female participants of the US Naval Academy Band, Annapolis, Md.; US Fleet Forces Band, Norfolk, Va.; Navy Band Southwest, San Diego, Calif.; and Ceremonial Guard, Washington, DC, in the men's combination cover or the men's enlisted service hat, as appropriate for their rank/rate. The evaluation began in April 2012. Participant evaluations and feedback for overall design, specific design feature preferences, appearance, and fit continue to be gathered through focus groups and surveys.

Managed 297 uniform items and fabrics and over 2,700 insignia items through the Navy Uniform Certification Program, ensuring that uniform items sold via NEX Uniform Shops or Uniform Support Center met or exceeded Navy quality requirements and were domestically produced. Since the inception of the Quality Assurance Program in 2001, defects per unit inspected have been reduced by over 74 percent and the cost of each lot inspection has been reduced by over 80 percent. NCTRF completed 12,464 shade swatch evaluations, representing 2,646,581 yards of uniform fabric.

# /NEXCOM ENTERPRISE

## MISSION:

To provide authorized customers quality goods and services at a savings and to support quality of life programs for active duty military, retirees, reservists and their families.

## ACCOMPLISHMENTS:

In an effort to cement the value and relevancy of the organization and its products and services in its customers' and guests' minds, NEXCOM undertook a rebranding effort across the entire Enterprise. Branding involved every touch point of the organization including NEXCOM Headquarters, NEX locations, Navy Lodges, ships stores, UPMO, TPO and NCTRF. At the Headquarters level, rebranding included updating and redesigning a number of communications pieces and documents used throughout the Enterprise with a new look and feel complete with standardized graphics and color, including advertising and internal communications. At NEX locations, testing of new branding elements was conducted at Norfolk and Oceana, Va., and Bethesda, Md., with excellent customer acceptance. Research with customers showed the new signs, murals, store layout, wider aisles, improved directional signs and other branding enhancements have strongly connected with the mission of the base and the Navy as well as achieving a meaningful personal connection.



NEXCOM's Human Resources Department installed the Taleo Automated Hiring System throughout the Enterprise. Taleo transforms the hiring process from being paper-driven to technology-driven. All job candidates can now search for and apply for vacancies on-line at [www.navyexchange.jobs](http://www.navyexchange.jobs).

NEXCOM received the American Society for Training and Development (ASTD) Excellence in Practice citation in the Sales Enablement category for its PREMIER Customer Service Suite of Learning Tools. The ASTD Excellence in Practice citation recognizes results achieved through the use of practices and solutions from the entire scope of workplace learning and performance.



LATINAStyle Magazine named NEXCOM as one of the top 50 companies for providing the best career opportunities for Hispanic women. Of NEXCOM's nearly 14,000 associates worldwide, over 11 percent are Hispanic and seven percent are Hispanic women.

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# **/NEXCOM ENTERPRISE ASSOCIATES OF THE YEAR**



**Jenny Zack**  
**Afloat Program**  
**Telecommunications Program Office**  
**NEXCOM Headquarters**  
**Associate of the Year**



**Elaine Noza**  
**Supervisory Sales Clerk**  
**NEX Coronado, Calif.**  
**NEXCOM Enterprise**  
**Associate of the Year**



**Brandon Kala**  
**General Manager**  
**Navy Lodge Yokosuka, Japan**  
**Navy Lodge Program**  
**Manager of the Year**



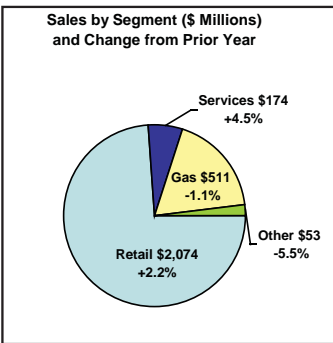
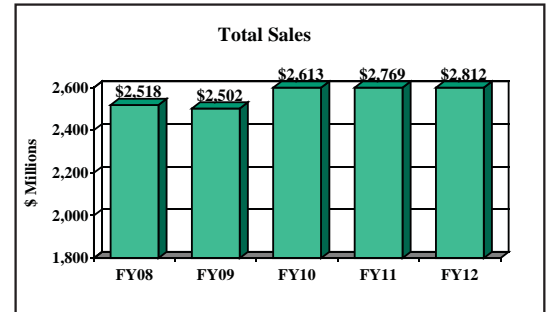
**Zenaida Purcell**  
**Front Desk Clerk**  
**Navy Lodge North Island, Calif.**  
**Navy Lodge Program**  
**Associate of the Year**

# 2012 FINANCIAL REVIEW

## NEX

During fiscal year 2012, the NEX remained focused on initiatives to drive sales growth, increase gross margin, improve expense management and spend capital funds wisely. Total sales increased by 1.6 percent when compared to the prior year. The core retail store business remains strong with sales exceeding last year by 2.2 percent and service sales increasing by 4.5 percent. Gas sales decreased by 1.1 percent compared to FY11. Net income was \$64.8 million.

The biggest contributor to net income was the retail segment, accounting for 74 percent of total sales. Profit generated from the retail business increased by 3.0 percent, aided by a low inventory shortage result of 0.23 percent of retail sales. Gross profit margin on retail sales increased to 24.27 percent compared to 24.05 percent in FY11, an increase of \$15.4 million. Sales from the services segment rose 4.5 percent from the prior year with the largest increases occurring in Custom Services and Financial Services. Gasoline sales declined 1.1 percent due to a 3.9 percent decrease in the number of gallons sold. The average price per gallon was \$3.90 in FY12 compared to \$3.79 last year.



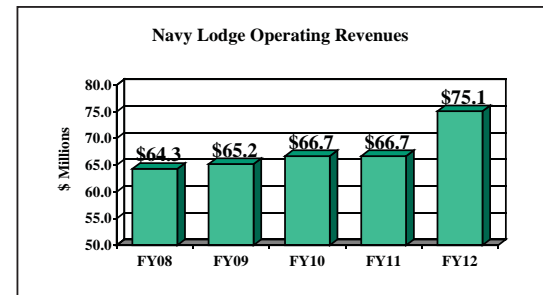
NEXCOM continues to provide a significant dividend to the Navy's MWR funds. Based on the FY12 profits, dividends declared were \$45.9 million. From this amount, \$22.2 million will be paid to local installation MWR funds.

The financial condition of the NEX, as reflected in the Balance Sheet and Statement of Cash Flows, remains strong. Cash flow from operations was \$181.1 million this year. NEXCOM continues to fund its store modernization program from the operating cash flow. During FY12, \$74.2 million was spent on capital expenditures.

## Navy Lodge Program

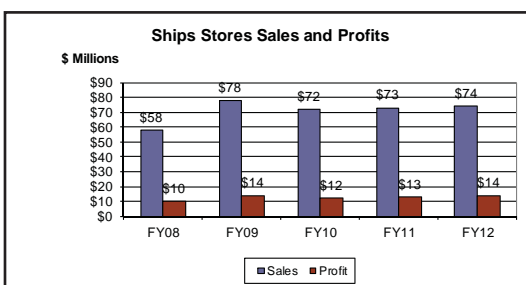
The Navy Lodge Program operates worldwide with 39 Navy Lodges and a Navy Inn. The overall occupancy rate for 2012 increased to 77.8 percent compared to 76.3 percent in the prior year. The average room rate increased to \$76.48 in FY12 compared to the rate of \$75.04 in FY11.

The Navy Lodge Program continues to save travel dollars while generating increased cash flow for remodeling existing facilities and building new facilities. In FY12, the Navy Lodge Program managed the challenges of the evolving economic environment with operating revenues staying ahead of the prior year level at \$75.1 million. In addition, net income of \$11.8 million was up 4.6 percent from last year. The Navy Lodge Program continues to deliver a solid quality of life benefit to military members and their families.



## Ships Stores Program

Ship stores are operated aboard 158 commissioned Navy ships. The program generated \$74.0 million in total sales and \$13.9 million in profit during FY12. Profits generated by each ships store are used by their Commanding Officer to procure new equipment for the stores and to provide direct support to the ship's MWR programs. In FY12, a total of \$11.6 million was distributed to local shipboard MWR funds. In addition, assessments of \$1.8 million paid to Commander, Naval Installations Command (CNIC) 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  
February 2, 2013                      January 28, 2012

*In Thousands of Dollars*

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### Navy Exchange Program

#### Income Statement:

Total Sales	\$2,812,474	\$2,769,468
Income from Concessions, net	44,051	42,864
Contributed Services	<u>92,707</u>	<u>95,640</u>
Total revenues	2,949,232	2,907,972
Cost of Sales	2,209,627	2,185,488
Selling, General and Administrative Expenses	<u>682,476</u>	<u>668,151</u>
Operating Income	57,129	54,333
Other Income - Net	<u>7,643</u>	<u>6,798</u>
Net Income	<u>\$64,772</u>	<u>\$61,131</u>

#### Profit Distribution:

Dividends declared	\$45,938	\$43,146
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#### Assets, Liabilities and Program Equity:

##### Assets:

Cash & Accounts Receivable	\$350,365	\$281,626
Merchandise Inventories & Other Current Assets	451,289	455,560
Property/Equipment & Other long-term Assets	<u>555,727</u>	<u>533,812</u>
Total Assets	<u>\$1,357,381</u>	<u>\$1,270,998</u>

##### Liabilities:

Trade Accounts Payable & Accrued Liabilities	\$307,319	\$291,903
Other Current Liabilities	154,636	146,986
Long-term liabilities	259,476	314,609
Program Equity	<u>635,950</u>	<u>517,500</u>
Total Liabilities & Equity	<u>\$1,357,381</u>	<u>\$1,270,998</u>

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### Navy Lodge Program

#### Income Statement:

Operating Revenue	\$75,099	\$66,655
Contributed Services	<u>5,857</u>	<u>5,804</u>
Total Revenue	80,956	72,459
General and Administrative Expenses	<u>69,257</u>	<u>61,240</u>
Operating Income	11,699	11,219
Other Income - Net	<u>124</u>	<u>82</u>
Net Income	<u>\$11,823</u>	<u>\$11,301</u>

#### Assets, Liabilities and Program Equity:

##### Assets:

Cash and Other Current Assets	\$99,411	\$89,841
Property and Equipment, net	<u>157,330</u>	<u>152,454</u>
Total Assets	<u>\$256,741</u>	<u>\$242,295</u>

##### Liabilities:

Accounts Payable	\$6,876	\$4,253
Program Equity	<u>249,865</u>	<u>238,042</u>
Total Liabilities & Equity	<u>\$256,741</u>	<u>\$242,295</u>

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### Ship's Stores Program

For the Fiscal Years ended  
September 30, 2012                      September 30, 2011

Ship's Stores Sales	\$63,607	\$62,569
Vending Sales	<u>10,354</u>	<u>10,492</u>
Total Sales	<u>\$73,961</u>	<u>\$73,061</u>

Net Profit from Operations	<u>\$13,852</u>	<u>\$12,854</u>
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#### Profit Distribution:

Assessment for CNIC	\$1,793	\$1,775
Equipment for Ships Stores	\$450	\$348
Profits retained for Morale, Welfare and Recreation	\$11,609	\$10,731

# **/NEXCOM**

The mission of Navy Exchange Service Command (NEXCOM) is to provide authorized customers with quality goods and services at a savings and to support Navy quality of life programs. NEXCOM, headquartered in Virginia Beach, VA, oversees six business lines:

## **/NEX**

- Retail goods and services
- Savings of over 20% on average
- No sales tax
- 70% of profits are given to MWR
- Over \$2.3 billion to MWR since 1946

## **/NAVY LODGE**

- Affordable PCS accommodations worldwide
- Clean, comfortable, convenient
- Family oriented, safe and secure environment

## **/NCTRF**

- Navy Clothing And Textile Research Facility
- Develops and improves Navy uniforms and protective clothing
- Conducts testing and evaluation of uniforms
- Maintains and enforces Navy quality standards
- Located in Natick, MA

## **/TPO**

- Telecommunications Program Office
- Navy's program manager for unofficial personal telecommunications
- Worldwide services including calling cards, prepaid cards, Navy Lodge and Bachelor Quarters in-room service, Wi-Fi service
- Personal calling on Navy Ships via satellite

## **/SHIPS STORES**

- 155 ships stores afloat supporting deployed forces worldwide
- Profits provide funding for afloat MWR programs
- Responsible for afloat vending machines, barber shops and laundry services

## **/UPMO**

- Uniform Program Management Office
- Provides uniform policy recommendations, product improvement, design change and Fleet introduction
- Oversees all uniform items sold in NEXs worldwide