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Madam Chair and Members of the Subcommittee, it is my privilege to appear again before this Subcommittee to update you on the essential service and support the Army and Air Force Exchange Service (AAFES) is providing its stakeholders; the men and women of the Armed Services and their Families throughout the world. First, however, I want to express my gratitude for your steadfast support in preserving a strong and valuable exchange benefit. It has been my pleasure and honor to work with you over this past year to improve the quality of life of Soldiers, Airmen, and their Families.

When I testified last April, I spoke about the challenges AAFES faced in an extremely competitive and ever-changing global marketplace. I reported to you then that AAFES was successfully meeting these challenges during a time that though fast paced, now seems predictable, familiar, and secure. The economic crisis that has emerged over the past few months has made it clear AAFES has entered a time of challenge like none other we have faced as a modern exchange system. The dramatic downturn in the U.S. capital markets has had a striking impact on the retail landscape, resulting in decreasing retail sales and sinking consumer confidence.

In 2008 we set a goal to lay the foundation to enable AAFES to “win the future” by refining our value proposition to be so clear and convincing that every customer accepts AAFES as their first and best choice for quality merchandise and services. As you know, increased selection is key to future success and I thank you for your support in relaxing merchandise restrictions on televisions, diamonds, and finished furniture. As we look to the future, we know the strategic challenges AAFES faces are really opportunities to improve service to stakeholders and accomplish a dual enduring mission nearly 114 years in the making; provide quality goods

and services at competitively low prices and generate dividends to support morale, welfare and recreation (MWR) programs. Today I'll share how strategic planning efforts over the past 18 months are paying off and how the AAFES mission continues to evolve. Recent, deliberate actions by our team have not only buoyed AAFES during this economic storm, but are further underscoring our value proposition to military Families as they look to their exchange to help stretch their limited budgets.

I would like to begin my remarks with a focus on how AAFES is meeting the needs of two groups of patrons that are facing unique challenges; wounded warriors and military Families. AAFES support to combat troops is central to our call to go where troops go, but our efforts do not end on the battlefield. We have taken lessons learned from the war zone and are using them to serve wounded warriors as they recover in military hospitals around the world. At Landstuhl Regional Medical Center in Germany, two full-time AAFES personal shoppers look after the needs of wounded troops evacuated from Afghanistan and Iraq. Once these heroes are out of medical and mortal danger, AAFES becomes an integral part of their rehabilitation. For service members at Brooke Army Medical Center in San Antonio, TX, who are able to leave the hospital, our personal shoppers accompany them to the exchange, helping them pick items from high shelves, load products into cars, and carry sacks of merchandise out to their vehicles. Service members can also request special items that make living with their injuries more comfortable, such as sleeveless shirts for arm and shoulder injuries, loose shorts or zip away pants for leg injuries, and hats or scarves for head injuries. We also offer in-room barber/beauty services at Walter Reed Army Medical Center in Washington, DC.

AAFES support to wounded warriors extends beyond their active military service and continues into their transition to civilian life. AAFES regularly attends the Department of

Defense (DoD)-sponsored Hiring Heroes Career Fairs to recruit for both management and hourly positions and has partnered with numerous other federal, state, and local government agencies that assist wounded veterans to locate employment. Our direct link to the Hiring Heroes website and modifications to the AAFES applicant center that allow former military members to self identify their wounded warrior status, have resulted in the hiring of more than 80 Wounded Warriors worldwide. AAFES has established an aggressive goal to attain one percent of the workforce as Wounded Warriors by 2014.

From the front lines to the home front, AAFES is taking care of military Families through a variety of programs designed to enrich their quality of life. With 25 percent of its approximately 44,600 Associates identifying themselves as military spouses and dependents, AAFES is the largest employer of military Family members in DoD. To attract and retain military Family members, AAFES offers a generous reinstatement program that ensures military dependents who move from installation to installation are eligible to compete with current Associates for in-house jobs. Recognizing those married to an active duty military member are often required to adapt to varied geographic demands, AAFES also offers a Spouse Employment Preference Program that provides additional preferential considerations to military spouses who apply for positions with the exchange.

AAFES is keeping deployed troops connected with loved ones back home by proactively partnering with the American public to keep the lines of communication open. With rates as low as 15 cents a minute, Military Exchange Global Prepaid phone cards continue to provide the best value for troops calling from the Middle East to the United States. Today, any American can send a Military Exchange Global Prepaid Phone card to deployed troops, or their Families, through AAFES' "Help Our Troops Call Home" program. Since the program's inception in

April 2004, the American public has sent 335,085 Military Exchange Global Prepaid Phone cards to troops and their Families through AAFES' telecommunication effort.

AAFES is also bringing the exchange benefit to the kitchen table. In addition to supporting overseas Commissary and Exchange activities, AAFES bakeries in Germany, Korea, and Japan are producing fresh whole wheat and whole grain breads for military Families participating in the Women, Infant, and Children (WIC) Overseas Program. When military Families' children go to class overseas, the AAFES School Meal Program is providing wholesome, nutritious meals at DoD schools on a break-even basis. Approved by the U.S. Department of Agriculture, AAFES' school meal program follows the same regulations and guidelines as schools throughout the United States. Before the day is over, AAFES will have served up 25,000 meals to students on Army and Air Force installations in nine countries overseas and will do it all over again tomorrow. Supporting educational programs in 92 schools throughout Europe and the Pacific means that AAFES serves more than 4.4 million school lunches each year. Beyond their bodies, we are encouraging students the world over to feed their minds. In fact, AAFES is moving military students who excel in the classroom to the head of the class with its "You Made the Grade" program. Now in its ninth year, the education rewards initiative recognizes students who maintain a "B" average or better with a complimentary prize booklet for every qualifying report card.

Of course, one of the most important things AAFES does year after year is return the benefit to the military community we support. The majority of earnings are paid in dividends to the services to support Army MWR and Air Force Services programs; dividends to Marines and Navy programs are generated by exchange catalog and internet sales as well as AAFES operations on Okinawa. While we began fiscal year (FY) 2008 with projections for strong sales

and earnings, the dramatic downturn of the capital markets in mid September sent U.S. retail sales into a downward spiral as consumer confidence plummeted to all time lows. Liquidity evaporated as investors and banks became unwilling to commit funds into such an uncertain environment. Due to our remarkable reputation and credit ratings, AAFES has been one of the few entities to weather these financial obstacles and benefit from the market's "flight to quality." This strong financial foundation and our strategic focus on rightsizing inventories, growing sales, and squeezing inefficiencies out of the supply chain have produced an incredible result; 2008 AAFES revenues were \$8.4 billion – a two percent increase over the previous year. After the cost of goods and other expenses are subtracted, AAFES earnings subject to dividends of \$435 million represented a two percent increase from FY 2007. Dividends are projected to be \$263 million.

AAFES is a global multichannel retailer providing the exchange benefit in more than 30 countries, five U.S. territories, and 49 states. Our customers are the 11.6 million active duty, Reserve, National Guard, and retired military members and their Families stationed around the world. Operating in excess of 3,100 facilities worldwide, AAFES provides a wealth of retail and services to the community. In addition to main stores – better known as the BX/PX - AAFES provides a range of convenience and specialty stores such as DVD/video game rentals and military clothing. AAFES also provides car care, gas, movie, vending, and food services, including 1,765 restaurants with familiar names like Burger King, Taco Bell, and Subway. Working with local small businesses and community entrepreneurs, AAFES partners for a host of personal services such as beauty, barber, and dry cleaning services that complement the direct support AAFES provides.

Today's budget-conscious shopper is looking for ways to stretch every dollar. An independent market basket survey confirms what many of us have long known: AAFES is a one-stop solution for thrifty military shoppers as exchange operations offer an overall savings of more than 20 percent compared to the competition. We are spreading the news of this value story through the "Just Compare" program which informs customers about the market basket savings and other low cost "key value items" that represent the savings found at AAFES.

AAFES shoppers are maximizing their exchange benefit as they reach for private label products manufactured under the Exchange Services' Exclusive Label brands. These products not only save shoppers anywhere from approximately 20 to 50 percent when compared to name brand counterparts, but also offer quality that is equal to or better than equivalent national brands. In 2008, the exchanges introduced 36 new items under the "Exchange Select" name including environmentally-friendly laundry detergent and triple blade disposable razors for sensitive skin. The entire portfolio now includes 593 products, all priced to deliver substantial savings.

In these turbulent times of diminishing consumer credit, the Exchange Credit Program (ECP) is providing credit services to military members and their Families that are unmatched in the private sector. Operated on behalf of all military exchange services, ECP credit products deliver competitive interest rates; no annual, late, or over limit fees; online and call center account management, as well as an unmatched deployment policy. Younger troops are building their financial futures with the MILITARY STAR card as ECP approves starter accounts for new enlisted military members and provides "credit wise" educational materials. Deployed MILITARY STAR card holders have two options; six percent interest with or without payments. Since September 11, 2001, more than 355,270 MILITARY STAR card holders have had their

accounts flagged as being deployed and elected one of the two options. Since the beginning of the global war on terror, AAFES has also forgiven the debt in excess of \$2.07 million from more than 1,290 card holders killed in action while deployed.

While the majority of AAFES earnings are distributed to the Military Services in the form of dividends, the remainder is used for capital improvement programs that enhance the shopping experience. Over the past several years, AAFES focused on planning, developing, building, and maintaining facilities at gaining Base Realignment and Closure (BRAC) and Global Defense Posture and Realignment (GDPR) installations. In addition to these ongoing initiatives, the Army announced their “Grow the Army” plan in December 2007, which will add a significant number of troops and Families to the current force. We are currently managing a \$1.2 billion, 5-year capital investment program of development, design, construction, and sustainment of facilities which addresses BRAC and GDPR force structure changes and stimulates job growth in local economies. Between FY 2005 and 2008, AAFES completed 50 construction projects valued at \$441.6 million with 10 projects worth \$173 million currently under construction and another 35 in design/development worth \$517 million. These efforts are critical to AAFES' ability to have facilities in place at installations worldwide to support and serve troops and their Families impacted by military transformation.

To better meet the needs of a changing military, AAFES is designing its next generation shopping center with the customer in mind. These new centers include concept optimization, execution excellence, and enterprise agility. A key element in the next generation shopping center is “customer centricity” which will focus on delivering value through products, services, experience, and marketing based on customer insight. New emerging technologies will deliver solutions in areas of tailored offerings, on-demand expertise, engaging experiences, and

convenience. Our “Fit Just Right” and “Talk-to-Me-TV” smart shelf sensors, mobile coupon applications, and social network websites will tailor the retail experience to customers.

The Community Development Initiative is creating contemporary retail “Lifestyle Center” developments featuring a traditional AAFES main store, concessions (laundry, dry cleaning, barber shop), and military clothing sales store along with other complementary retailers, casual dining, and entertainment venues. These facilities will create a “downtown” community atmosphere where military members and their Families shop, relax and socialize. In coordination with the Family Morale, Welfare, and Recreation Command (FMWRC) at Army locations, we will be providing Name Brand Casual Dining venues within each Lifestyle Center location to provide an expanded “eatertainment” experience for our customers. We are also collaborating with the Defense Commissary Agency to offer complementary projects to enhance the community atmosphere. I am proud to announce we are ready to execute our first Lifestyle Center at Fort Bliss which will provide a new community center integrating and expanding branded concepts in retail, food, and services to create a new sense of place and act as a destination location.

During 2008, AAFES focused on its commitment to winning the future by refining strategic goals that capture the essence of Thinking BIG and acting small. Thinking BIG allows AAFES to build on past successes and at the same time continue to pursue customer loyalty, ownership, and improvement. Thinking BIG is about changing the productivity performance curve in a way that drives earnings and dividends to historic levels. It is also about imagining the possibilities of a new future, setting BIG goals, and holding personnel accountable for delivering results. Even as I have challenged the AAFES team to think BIG, military and civilian leadership understand that strategies must be turned into executable tactics to produce

desired results. As a result, we have redesigned our planning process by developing long-term strategic objectives that drive annual operating and financial plans. Our success is measured using a new balanced scorecard defining metrics that cascade throughout the organization down to individual Associates' goals. Because we know all retailing is local, these "goals to go" support Associates as they "act small" to take immediate proactive steps to deliver store level results. The following five-year goals will guide our efforts as we move through 2009 and beyond: develop a lifelong emotional connection with our customers; build a culture of loyalty, ownership, sustainability, and continuous improvement; provide expeditionary and mission support capabilities to "go where you go;" collaborate with our federal partners and commercial entities; and finally communicate the benefit, value, and capabilities of AAFES.

As the premier provider of merchandise and services to the military consumer, exchanges not only have an obligation to know their customers, but to establish a lifelong relationship that transcends the entire military spectrum...from new recruits to career commissioned and noncommissioned officers and retirees to military Families. After more than a century of service, we know in order to connect, we have to anticipate unique wants and needs. By consistently surveying, tracking trends, and bearing in mind where customers are in their life cycle, we will be able to anticipate and fulfill wants and needs with a high degree of accuracy. Since 1996, AAFES has participated as a subscribing organization in the American Customer Satisfaction Index (ACSI) published annually by the University of Michigan. In 2008 AAFES gained one point to a score of 73 in the ACSI survey comparing favorably with the industry average of 74 which also rose by one point from last year.

Developing lifelong connections also means creating multi-channel avenues to reach customers across the globe or miles away from the local exchange. In addition to brick and

mortar stores and catalogs, AAFES offers online shopping, chat rooms, and an electronic community. With the click of a mouse, exchange patrons can gain easy access to virtual aisles of merchandise, discounts, weekly specials, and rebates. Visitors to the all-exchange website can also enter seasonal sweepstakes, sign up for e-newsletters and mailings, and buy gifts for deployed Soldiers and Airmen. The Exchange Mall is a concession mall offering online services and merchandise to military members around the world. Today, more than 100 third party sites, including online book store, Books A Million; music download site, Napster; and tactical gear for those deployed from Patriot Outfitters, strengthen the exchange benefit through their active support of the Exchange Online Mall.

Furthering our commitment to customer focus, AAFES has entered into some exciting partnerships with name brand partners including Macy's, Apple, and Dell. These retailers recognize what AAFES brings to the market and its unique relationship with the military shopper. We anticipate Macy's exclusive private label clothing labels (Style & Co. and INC.), which are scheduled to arrive at 29 targeted locations during the March/April time frame, will be top sellers. Apple computers continue to be a success story with 69 certified Main Stores and a planned roll out of three brand new Apple "Store in Store" concept shops later this year at Ft. Lewis, Ft. Hood, and the new Kaiserslautern Military Community Center locations. Another success story is our on line partnership with Dell computers. Name brand recognition, excellent customer service, and competitive price points continue to drive AAFES customer demand for this popular electronic product.

AAFES is working to build a culture of loyalty, ownership, sustainability and continuous improvement. Customers are the owners of the Exchange and it is our duty to offer the best service possible. To do that, we must empower Associates to communicate, collaborate and

continuously improve store operations. We also recognize that a diverse team leads to success. AAFES is focused on increasing the diversity of our workforce, particularly in the management ranks, because we know that organizations that value differences of gender, ethnicity, background, and perspective clearly outperform companies that do not.

In addition to a diverse labor force, AAFES is diligently pursuing a diverse product mix for our stores. Having the right product, at the right price, at the right time is what our customers expect and what they deserve. AAFES' Supplier Diversity Program has been in existence for more than 20 years and plays a key role in identifying business opportunities, particularly in the diverse communities we serve. In 2008, AAFES increased spending with diverse business owners in excess of \$50 million dollars. The value that is added to AAFES by Veteran-owned, women-owned, and minority-owned companies cannot be overemphasized. The best way to meet our customers' needs is by entering into business with the very people we serve. Our growing diversity efforts have also been recognized by industry as AAFES has accepted a number of honors including America's Top Government Agency for Diverse Business Opportunities awarded by Diversity Business.com and Federal Employer of the Year, awarded by the Texas Governor's Committee on People with Disabilities.

Sustainability is not just a corporate buzz-word, but an essential objective for any retailer who hopes to be competitive in the 21st century. AAFES is focused on corporate sustainability goals to "Win the Future" by lowering energy operating costs, reducing the carbon footprint, and marketing energy-efficient products. Three exchange shopping center projects have been accepted into the Leadership in Energy and Environmental Design (LEED) Pilot test program with the goals of influencing LEED retail policy, helping to decrease operating costs, and positively impacting the environment and local community. AAFES is developing programs to

eliminate energy waste in existing facilities, ensure energy efficient new construction, and meet or exceed energy reduction goals of Executive Order 13423 and the 2005 Energy Policy Act. These include managing utility costs with the new Web-based AAFES Utility Tracking System (WATTS), conducting utility audits and lighting upgrade programs, implementing an Energy Star product program, and maturing AAFES-wide recycling programs. Our distribution centers are also achieving energy and water reduction goals. We are improving the fuel efficiency of our fleet through utilization of bio fuels, improved driver training, and increased use of auxiliary power units as well as hybrid power train technology. In addition, AAFES has installed an oil purification system which reduces the number of oil changes per tractor from eight to one annually and cuts oil usage for each tractor by an average 70 gallons a year.

In addition to our internal improvements, AAFES is partnering with vendors and suppliers to increase the use of electronic recycling opportunities for our customers. The first major venture will take place at Fort Sam Houston in April as part of Sony Corporation's consumer electronic "take back" program. We are also committed to broadening AAFES' Energy Star appliance assortment and product awareness. We established a baseline set of Energy Star rated appliances which equated to 19.27 percent of our total appliances in 2007. By 2008, we increased the stock to 34.69 percent and our 2009 goal is to achieve a ratio of 50 percent Energy Star rated appliances verses non-Energy Star rated appliances.

Since 1895, AAFES has been there to support our troops on the front lines. Today, deployment of mobile field exchanges (MFE) provides immediate support for conflict areas abroad and natural disasters at home. AAFES currently supports deployed service members with 89 BX/PXs, 228 name brand fast food outlets, as well as about 600 concession operations throughout Iraq, Afghanistan, Kuwait, Qatar, the United Arab Emirates, Kyrgyzstan, and Cyprus.

AAFES helps deployed service members keep in touch with home through a variety of telecommunication services to troops downrange including 72 telephone calling centers and 12 Internet cafés. To help ease the challenges of family separations, AAFES is putting the finishing touches on the Patriot Family Deployment Passbook which is a comprehensive coupon book featuring unique money savings at AAFES retail, food and services locations.

In situations such as natural disasters and contingency operations, these MFEs are quickly dispatched, providing expeditionary support to meet troop needs. When Hurricane Ike hit the Texas Gulf Coast, 7,500 National Guard members and other troops deployed to the Houston area to help millions of people who were evacuated to safer places further inland. AAFES was also there. Associates from Texas exchanges moved into action the day after the hurricane struck to set up and operate a 53-foot MFE to support local troops, members of the Air, Army and Texas National Guards, Marine and Navy Reserves, and the Coast Guard, who picked up drinks and grabbed snacks after long days of recovery operations. AAFES Associates and their MFEs also supported troops participating in humanitarian missions in Peru, Trinidad and Tobago and battling wildfires in Northern California.

When troops are called to serve, we go with them to deliver goods, services, and an unmistakable “taste of home.” Since the start of the global war on terror, more than 4,500 AAFES Associates have deployed to the Middle East, some more than once. At any given time about 400 Associates are deployed throughout the region. I salute these Associates who leave their families and the comforts of home to deploy to dangerous locations in the world’s hot spots, where long hours and risks await them. Without their devotion, AAFES could not fulfill its mission to serve America’s troops, regardless of where they are called to serve.

AAFES has prepared to support new Forward Operating Bases (FOB) and Imprest Sites in Afghanistan by opening an Imprest Fund warehouse in Afghanistan. We will meet the need of these isolated forward deployed locations through air assault rodeos, where we “sling load” a 10 by 10 foot container underneath a CH-47 (Chinook) helicopter and air lift them from mountain top to mountain top throughout Afghanistan. AAFES is equipped and organized to support the drawdown in Iraq and potential build up in Afghanistan. As part of these plans, AAFES will staff a military officer who will be in charge of tracking troop movements and communicating this information in accordance with proper classification level. Rest assured that any site that is part of the drawdown in Iraq will continue to receive full AAFES support until the military completes closure actions.

Because of our commitment to serving troops, AAFES has become more intently focused than ever on closing the innovation gap. A key part of that effort is to become the “go-to” partner to increase collaborative partnerships with all sources. By expanding partnerships with FMWRC, Air Force Services, the Defense Commissary Agency, our sister exchanges, and other DoD entities, we strengthen our position as a key provider of goods and services and that of the entire military resale system.

The military exchanges continue to build upon the many years of collaborative initiatives, most recently focusing on the mutual benefits and cost savings associated with supply chain management, indirect procurement (IP) opportunities, and systems enterprise architecture (EA) projects. Supply chain management initiatives continue to allow the exchanges to leverage efficiencies across the exchanges to strategically remove costs and achieve business imperatives. The IP team is working collaborative efforts projected to enhance efficiency and reduce operating costs by approximately \$4.8 million based on combining spending and negotiating

more favorable terms and cost prices. Perhaps more importantly, the IP team has established the platform for all future procurement actions by adopting standard commodity codes across the exchanges which will enable the exchanges to align requirements and enable detailed spend analysis. This year the cross exchange EA team developed a methodology focused on streamlining the identification, execution, and governance of future cooperative efforts.

AAFES and FMWRC recently finalized a partnership to provide personal information services including telephone, internet, wireless, and television services to patrons on Army installations. We've made excellent progress in developing a program that will make the best use of Army and AAFES resources while providing the customer the best value proposition for these emerging consumer technologies. The "Fit for Life" partnership with FMWRC will assist and deploy an integrated health and wellness program that drives growth and helps maximize an individual's potential at work, home, and play. Targeted to customers and Associates alike, this program supports the overall sustainability paradigm, which includes people, processes and products.

Today more than ever, the "fitness" and efficiency of warehouse operations is critical to managing our supply chain and achieving peak performance. As we diligently manage our share of the Second Destination Transportation (SDT) budget, we are implementing the latest warehouse management technology to significantly improve warehouse operations, employee productivity, and customer satisfaction. The Warehouse Management Suite will bring all AAFES logistics systems under a common platform allowing for a reduction in labor costs and inventory cycle times while bolstering flexibility and responsiveness.

One hallmark of an innovative retailer is the ability to leverage technology to meet business and customer needs. The implementation of Oracle Retail completes a four year endeavor to replace nearly all of AAFES merchandise and order systems. This initiative allows AAFES to make sound business decisions based on worldwide inventory information and have distinct stock assortments and pricing strategies by business type. In addition to sales and logistics initiatives, AAFES is transforming procurement processes to automate workflow, approvals, issuances, and storage of contracts. And finally, AAFES is committed to safeguarding sensitive data by implementing payment card industry data security standards and other personal identifiable information of shoppers and Associates alike.

AAFES provides tremendous support to quality of life programs, value to military Families, and unparalleled support to MWR efforts, but we must also ensure we have effective communications so our customers know and understand the value of their exchange benefit. AAFES is working hard to “tell our story” and convey what we have to offer - communicating the exchange benefit to customers and stakeholders because we know effective communication leads to better satisfaction.

In 2008, AAFES made a concerted effort to build awareness among the National Guard and Reservists, which represents about 25 percent - or nearly 3 million - of authorized exchange patrons. This unique customer base of brave citizen-warriors may not be fully aware of their exchange benefit. Getting this group of potential customers to visit www.aafes.com is critically important, because more than half of National Guard members and Reservists don't live near a BX or PX and usually don't frequent the military installations except for battle assembly weekends or when mobilized. To address this issue, AAFES is partnering with Northern Command to support National Guard members and Reservists with the deployment of MFEs in

any homeland disaster relief response, where they would be called upon to support relief and, likewise, at Guard and Reserve locations that are distanced far from active installations. Special promotions, target marketing, and a visible presence at major Guard and Reserve conferences and conventions help us tell the AAFES story and build enduring relationships with Guard and Reserve component organizations. AAFES is also an active supporter of the Employee Support for the Guard and Reserve Program and personnel who work for AAFES. AAFES guarantees their civilian jobs are still available upon the completion of their deployment obligations.

The challenge of the future is not accomplished in one giant leap, but rather through many measured steps along a well planned path. Reaching aggressive goals will require teamwork throughout the organization in a way that rewards excellent customer service, innovation, and results. I am confident AAFES is on the right course to remain a viable force in the lives of our customers and the military communities we serve. Again I want to thank this committee for its support, not only for AAFES and the entire military resale system, but for the brave men and women of our armed forces.

I look forward to your questions.