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Mr. Chairman and Members of the Subcommittee, thank you for the opportunity to testify today about the Army and Air Force Exchange Service (AAFES) and all we do to enhance the probability of mission success for members of the Armed Services, their families and military departments. Before I proceed with my remarks, I would like to thank the Committee for its commitment and dedication to supporting and defending the exchange benefit for service members around the world.

I am the son of a career Army officer. I served more than a decade as an Army officer myself before embarking on a business career, primarily in retail. In the past, I have served as CEO of a major retailer, a large direct marketing corporation and a top regional packaged goods company. I joined AAFES in June of last year as the first civilian Director/Chief Executive Officer, following a long and distinguished line of military commanders. Being both an Army dependent and a graduate of the U.S. Military Academy at West Point, joining AAFES has been like a homecoming. I am deeply honored to be part of this great organization and serve those who defend our country. It is truly an honor to serve those who serve.

Growing up as a dependent living on Army posts and later as an active duty soldier, I viewed AAFES simply as the PX and on-post movie theater. After 17 months with this outstanding team, I have realized just how much more AAFES does for soldiers, airmen, retirees and their families.

While AAFES exists to make military life better for those Americans who wear the uniform, our two-fold mission guides everything we do: to provide quality merchandise and services at competitive prices and generate earnings that support the Services' morale, welfare and recreation programs.

AAFES is a multi-channel retailer, providing a seamless customer experience online, downrange and within 3,700 brick-and-mortar facilities in 33 countries, all 50 states and five U.S. territories. AAFES operations are currently comprised of: 131 main stores; 167 Military Clothing locations; more than 550 specialty stores; (Express convenience stores, car care centers, Class Six, barber/beauty shops, and book stores); 187 troop stores; 65 movie theaters; nearly 1,600 fast food restaurants (offered through franchise and concession agreements with 45 name brand providers such as Taco Bell, Burger King and Pizza Hut).

AAFES is unlike any other retailer as all offerings are unique to the local mission with a focus on recruitment, retention and supporting the military. This customized experience is recognized by shoppers as a recent study by the Center for Strategic and Budgetary Assessments on military compensation stated, "...a majority of service members from all ranks and age groups value the exchanges as much or more than they cost to provide."

Whether it's an airman in Thule, Greenland or a soldier in Afghanistan, AAFES goes where service members go to make their lives better. While no other retailer can make that statement, the value of AAFES extends far beyond service.

We are bringing a fresh approach to the 118-year-old exchange benefit. Our passion for serving the military family and saving the American taxpayer money remains steadfast. AAFES saves taxpayer dollars by ensuring less than 3% of all operating expenses are supported by appropriated funds.

Beyond a self-sufficient structure, AAFES continues to be a good steward of funding and provides support in the form of: at-cost DoD school meals, overseas bakery plants, capital improvement expenditures and contingency operations. In addition, AAFES generates monies

that benefit military families the world over. In the past ten years, AAFES has contributed more than \$2.4 billion to Morale, Welfare and Recreation (MWR) programs. Just last year, AAFES provided nearly \$224 million in dividends back to the services to support critical quality of life efforts. In addition to providing a large financial dividend, AAFES assists MWR with expanded marketing and communication as well as its expanded online reach for programs such as information, ticketing and registration. In a time of constrained budgets and funding, the value provided by exchanges and AAFES, for taxpayers and our military personnel, is even more imperative.

Like any commercial entity worthy of an investor's hard earned money, AAFES operations anticipate future challenges and adapt to current circumstances. As such, the organization has taken a proactive approach to reducing costs. In the last 17 months, AAFES has lowered overhead expenses by more than \$100 million. We have decreased full-time staffing by more than 3,000 while simultaneously reducing costs related to transportation, utilities, travel, supplies and personnel moves.

AAFES has partnered with the Army to reduce second destination transportation funding by at least \$21 million for 2013. AAFES also conducted a thorough review of its supply chain resulting in the realignment of distribution centers. As part of ongoing efficiency efforts related to transportation, the National Defense and Transportation Association formally recognized AAFES, on Sept. 18, with its Innovative Logistics Service award.

On the capital improvement front, we took a hard look at long range capital construction plans for the coming years and reduced expenditures from \$86 million in 2012 to \$29 million planned for 2013.

Drawing upon commercial best practices, dividends to support installation morale, welfare, recreation and quality of life programs have gone up approximately 10% over last year as AAFES expenses, especially overhead, continue to decrease. In an environment of tightening budgets, we remain focused on continuing the trend of reduced costs and maximized returns for airmen, soldiers, retirees and their families.

As we improve efficiencies, AAFES continues to exceed shoppers' performance standards. AAFES received an overall score of 75 from the 2012 American Customer Satisfaction Index (ACSI), with rankings higher than or equal to the industry average for perceived and service quality as well as customer expectations. AAFES has also been working on improving the online shopping experience; our ACSI score for website satisfaction was a 77, a nine-point increase from 2011.

With that said, we have a variety of programs in place to keep shoppers happy for many years to come. For example, we are developing opportunities to call out brand exclusivity and first-to-market assortments while launching store-in-store concept shops that drive brand awareness. Our team continues to review store assortments to deliver an even better shopping experience. As part of this process, we have made significant category moves as main stores are repositioned to optimize space with best-selling commodities and trend-right categories are placed in highly visible positions.

For busy military families on the go, AAFES is offering expanded healthy eating options and creating new in-store food preparation concepts in its Express convenience stores. Our commitment to improvement extends to concession operations as we work to add regional and national name brands, seasonal pop-up stores and store-in-store concepts. Regardless of how a shopper interacts with their exchange benefit, AAFES is determined to incentivize repeat visits

through the development of a loyalty program that will inform customers about special promotions.

Online, we are updating shopmyexchange.com to include most main store assortment items, offer consistent and fast processing and shipping as well as provide for no-hassle returns. On August 1st, AAFES announced a major investment in an enhanced website with improved order fulfillment capabilities that, by this spring, will deliver a main store experience that is only a click away.

Shoppers utilizing their exchange benefit virtually, or at a brick and mortar facility, will notice AAFES is intensifying the presence of national brands such as Michael Kors, Ralph Lauren, Apple, Under Armour, Estee Lauder, New Balance and Walt Disney. As of August 9th, AAFES offers first-run movies in the continental United States for the first time in the organization's history, thanks to a recent agreement with Walt Disney Studios.

Whether serving popcorn to an Air Force family taking in a new movie, providing healthy choices for school lunches, pouring a cup of Starbucks coffee for a soldier far from home or outfitting a spouse for that special night out, people are at the core of all we do. AAFES associates bring a special skill set and passion to our theaters, restaurants and stores as many have a direct connection with those they serve. Today, more than 14,000 of approximately 40,000 AAFES associates have a military connection, including spouses, veterans, reservists and active duty members. AAFES aggressively recruits veterans through initiatives such as "Feds Hire Vets" and its "Detail to Retail" management trainee program, where veterans learn how to become future leaders in a retail setting.

Since 2010, AAFES has hired 434 Wounded Warriors. Our “Operation War Fighter” program provides internships designed for wounded, ill and injured service members to assist in their development of skills needed for transition into the civilian workforce while undergoing treatment. In addition, our Wounded Warrior hiring program includes partnerships with the Wounded Warrior Project as well as other military hiring agencies.

Commitment to Wounded Warriors extends beyond jobs. In partnership with the Army, AAFES not only provides free alterations worldwide for these special shoppers, but has also taken Wounded Warrior support to another level with the first-ever Wounded Heroes Service Center at Kleber Kaserne, Germany. This handicap-accessible center, designed especially for Landstuhl military hospital patients, provides personal shopping and alteration services along with a full assortment of uniforms, hats, boots and gloves made for Wounded Warriors’ specific needs. As a result of the special connection we share with those who serve, AAFES was recently selected as a 2014 Military Friendly Employer and will be featured in the December editions of both *G.I. Jobs* and *Military Spouse* magazines as well as a variety of third-party media outlets.

Our team’s devotion to service knows no geographic boundary as demonstrated by the fact that more than 4,300 AAFES associates have deployed to combat zones since 2001. I salute these Americans who have left the comforts of home and family to voluntarily go to sometimes dangerous and austere locations, where long hours and risks await them. Without the devotion of these everyday heroes AAFES could not operate 41 facilities throughout the contingency theater, in countries like Afghanistan, Kuwait, Kyrgyzstan, Oman and the United Arab Emirates, and provide critical logistical support to our military members.

Closer to home, AAFES has played a vital role in mission support in the aftermath of Superstorm Sandy and numerous other support operations in the United States. Our commitment to go where soldiers and airmen go, and support commanders on the ground, helps enhance the readiness of the military.

Wherever soldiers and airmen are called to serve, AAFES partners with Defense Logistics Agency Troop Support to provide official one-stop service for all military uniform and accessory needs, at cost.

From uniforms to food, AAFES' commitment to service extends to every member of the military family. Our organization ensures service members, spouses and children have access to healthy and safe sustenance through bakeries and bottled water plants in both Europe and the Pacific. These operations not only support AAFES facilities, but also deliver products to Navy and Marine Corps Exchange and DeCA shelves as well as U.S. Army Installation Management Command (IMCOM) facilities and DoD schools.

Fresh baked goods and safe water are reminders of the importance and, in today's constrained fiscal environment, necessity of collaboration and cooperation. We continue to actively work with the Cooperative Efforts Board to identify opportunities that enhance efficiencies for all military resale entities including our sister exchanges and DeCA. Additionally, AAFES proactively partners with Army and Air Force MWR to pursue cross-marketing and telecommunications initiatives and has even embarked on a pilot program to share facility space and create synergies at installations we both serve.

Quite simply, AAFES is a force multiplier enabling military departments, families and service members to focus on their core missions and, ultimately, enhance the entire community's quality of life and readiness.

In closing, Mr. Chairman, I would like to again thank you and the members of the committee for your continued support of the military exchanges. Together, we ensure that wherever service members are, AAFES is there to support them because we know that these operations increase the combat potential of America's forces and enhance the probability of mission success for our troops and our country.

I look forward to your questions.