Army & Air Force Exchange Service 2014 Annual Report

On the Eve of 120 Years of Service

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In 2014, the Exchange made major strides in providing the brands, convenience and value our military family deserves

2014 was a terrific year financially for the Exchange as we made major strides in providing the brands, convenience and value our military customers deserve.

Despite troop reductions and a competitive retail landscape, our sales were $7.3 billion and our earnings (earnings subject to dividends) reached a record high of $373.3 million; $76.3 million higher than planned, $41.8 above last year. These are tremendous accomplishments, particularly given the challenges we faced as 2014 began.

From these earnings, the Exchange provided $224 million to the services' morale, welfare and recreation programs for service members and their families. To improve the customer experience in store and online, the Exchange invested $210 million in capital improvements. In 2014, expenses were $72 million below plan.

In this report, you'll see the impacts of our strategic priorities, first implemented in 2012 to strengthen our financial stability and improve service levels for our customers.

Since 2012, the Exchange has reduced operating expenses in every facet of the business. The resulting $207 million reduction has strengthened the Exchange's financial stability.

We continued to bring national brands in every retail category. We opened 295 new branded concept shops—81 more than planned—featuring Ralph Lauren, The North Face, Michael Kors, Calvin Klein, Ellen Tracy, Vince Camuto, Disney, Samsung, Victoria's Secret, Tommy Hilfiger and many more. This intensification of national brands led to $446 million in additional sales.

In addition, the CFI Group reported our overall customer satisfaction scores rose to 80—the fifth straight year of growth. This survey of 43,000 customers increased one point over the previous year. Our scores rose in such areas as "merchandise selection," which indicates that customers are happy with the range of name-brand products we are offering.

A major Exchange accomplishment for 2014 was the relaunch of our online store, shopmyexchange.com, into a sleek, online shopping channel that rivals the private sector and gives customers, such as retirees, National Guard members and Reservists, living far from our brick-and-mortar stores the same access to brand names and value pricing. We also increased by 28 percent, the number of items available online to match what is available in our brick-and-mortar stores, providing customers with new brands not previously available.

2014 was a challenging and exciting year for the Exchange. As we enter our 120th year of serving Soldiers, Airmen and their families wherever they serve, we continue our steadfast efforts to improve their experience in our stores and online, and generate the earnings needed to support their quality of life.

"As we enter our 120th year of supporting Soldiers, Airmen and their families wherever they serve, we continue our steadfast efforts to improve their experience in our stores and online, and generate the earnings needed to support their quality of life."

—Tom Shull, Director/CEO

Tom Shull

WE GO WHERE YOU GO

Bagram Air Base, Afghanistan: Exchange sponsored July 4th event

We go where you go—the first of the three components of the Exchange mission. The mission of the Exchange is to go where Soldiers, Airmen and their families go.

The U.S. military is stationed around the globe, from Germany and England to Japan and South Korea. The Exchange is the retailer for Soldiers and Airmen at those installations. We also operate on Marine installations on Okinawa. The Exchange operates stores in 33 countries, all 50 states and four U.S. territories. Exchange sales in Europe and the Pacific totaled $1.6 billion.

CONTINGENCY SUPPORT

U.S. military units are also deployed across the Middle East. The Exchange operates at nearly all contingency locations, serving Soldiers and Airmen as well as Sailors and Marines. In 2014, the Exchange had more than $186 million in contingency retail sales supporting military operations in Afghanistan, United Arab Emirates, Qatar, Kuwait, Bosnia, Kosovo, Jordan and Romania.

As U.S. military operations have drawn down in Afghanistan, so have Exchange operations. From a peak of 21 in 2010, to 12 at the end of 2014, the Exchange in Afghanistan operated nine tactical field exchanges and one unit-run Imprest Fund. By the end of 2016, the Exchange plans to operate less than seven tactical field exchanges.

With the return of the U.S. military to Iraq under Operation Inherent Resolve (OIR), in January 2015 the Exchange opened two unit-run Imprest Funds. We expect to open four tactical field exchanges in Iraq during 2015.

In spring 2014, the U.S. military deployed to western Africa to build mobile hospitals to combat the Ebola epidemic. The Exchange developed a plan to support the military mission. A staff of 12 would be required to support this mission—more than 400 associates volunteered for the 12 positions, demonstrating the commitment of Exchange associates to support Soldiers and Airmen.

The Exchange has a fleet of 11 53-foot trailers that can deploy within 24 hours to support exercises and relief operations throughout the U.S., as well as overseas. The trailers can begin sales within 48 hours of arrival. In 2014, the Exchange deployed these trailers to 15 exercises in the United States and two exercises in Central America.

SUPPLY CHAIN

To support its worldwide operations, the Exchange operates 10 warehouses, four in the Continental United States, and one each in Germany, Mainland Japan, Okinawa, South Korea, Hawaii and Puerto Rico.

In 2014, the Exchange supply chain drove out more than $27 million in costs, while maintaining high levels of customer service. Distribution Center (DC) operations reduced overall cost by $11 million, a 7 percent reduction in cost per case processing. Reducing transportation costs by $17 million, lowered the cost per mile by 13 percent.

To modernize logistics, the Exchange is planning to implement JDA warehouse management software across the network, beginining with an upgrade at its West Coast Distribution Center (Stockton, Calif.). As the organization moves the distribution center in Germany from Giessen to Germersheim, the new warehouse management software will be introduced. Implementation in the Dan Daniel Distribution Center (Newport News, Va.) will follow in 2017.

To move products from our 10 distribution points to Army posts and Air Force bases, the Exchange operates a private fleet, the 12th largest among U.S. retailers. Exchange trucks navigate some of the most challenging routes in both size and geography around the world.

The transportation of goods to overseas locations is subsidized by appropriated funds, the largest use of appropriated funds to support Exchange operations. Through the careful stewardship of these funds, the Exchange fulfills the Congressional intent of maintaining the military family's quality of life to those authorized service members and their families living overseas by offering for purchase an affordable American lifestyle of U.S.-procured goods at prices comparable to those found stateside. The Exchange reduced the use of appropriated funds for overseas second destination transportation by $25 million for the last two government fiscal years.

BAKERY & WATER PLANTS

Providing Soldiers, Airmen and their families with safe bottled water and fresh-baked products made with U.S. flour is an important ingredient of the Exchange mission. The Exchange operates four overseas bakeries, two bottled water plants, and one ice plant.

Located in Gruenstadt, Germany; Camp Market, Korea; Camp Kinser, Okinawa; and Yokota, Japan; Exchange bakeries annually produce three million loaves of breads, three million hamburger and hot dog buns, tortillas, donuts, pastries, cakes, cookies, muffins, English muffins, pies, croissants, pizza crusts and tortilla chips. The Exchange is the only licensee to produce Wonder products outside the U.S.

These bakeries supply both Exchange and MWR restaurants, including: Burger King, Chili's, Johnny Rockets, Cinnabon and Macaroni Grill, as well as the following overseas: military dining facilities, U.S. naval ships, Commissaries, and Defense Department schools.

The Exchange's bottled water and ice plants are located in Gruenstadt, Germany; and Vicenza, Italy. The water plants produce two brands: Culligan, under license agreement with Culligan Italy/International, and a private label, Nature's Recipe.

$179M in contingency retail sales supporting military operations in conflict zones

15 exercises supporting contingency operations

12TH ranking of the Exchange logistics fleet among U.S. retailers

10 warehouses support worldwide Exchange operations

3M loaves of bread made and shipped by the Exchange for service members overseas

TO IMPROVE THE QUALITY OF YOUR LIVES

Fort Hood, Texas: Soldiers grabbing a snack at the Express

To improve the quality of your lives—the second of the three components of the Exchange mission. Wherever Soldiers, Airmen and their families go, the mission of the Exchange is to improve the quality of their lives.

The Exchange provides convenient on-installation shopping with competitive pricing through main stores, Express convenience stores and fast food restaurants.

MAIN STORES

On most active-duty Army and Air Force installations, the Exchange operates a main store; on a few large installations, there are two. The Exchange also operates main and convenience stores on Marine Corps installations on Okinawa.

In 2014, the Exchange opened one new main store—Fort Meade, and completed four main store image updates, to keep them fresh and modern for military shoppers.

As part of the movement and consolidation of 12,000 troops and their families from Seoul and the area north of Seoul to Camp Humphreys, South Korea, the Exchange, together with the host nation, broke ground on a 301,000 square-foot shopping center. This center and four other new facilities will consolidate 105 existing retail operations, and once complete, be the second largest facility in the Pacific region. (The largest facility is located at Kadena Air Base, Japan.)

Over the past few years, the U.S. Army has reduced its presence in Europe; the Exchange has followed suit. In 2014, the Exchange shuttered 35 facilities to support a smaller Army in Germany, consolidated around Wiesbaden. Construction continued for a new 155,000 square foot Exchange at Wiesbaden, which opened April 2015.

EXPRESS STORES

In addition to main stores, the Exchange operates Express convenience stores on Army posts, Air Force bases, as well as Marine installations on Okinawa. At smaller installations, the Exchange operates an Express; on large installations, it may be a half-dozen or more Expresses. In 2014, the Exchange opened five new Expresses at: Tyndall AFB, Fla.; Homestead ARB, Fla.; Fort Meade, Md.; Moon Township, Pa.; and Wright-Patterson AFB, Ohio.

RESTAURANTS

The Exchange operates 1,798 restaurants, providing service members and their families, convenient on-installation dining options.

In 2014, the Exchange opened 74 new name-brand fast food restaurants, e.g., Boston Market, Denny's Fresh Express and Jimmy John's Gourmet Sandwiches. The Exchange also added Papa John's, Domino's and Pizza Hut pizza delivery locations. The team continued to replace signature house brands with national branded segment leaders, providing more of the options customers want.

THEATERS

The Exchange has always been able to offer first-run movies at overseas theaters. In 2013, Disney, Paramount and Sony began offering first-run movies at 17 select Exchange locations in the United States. In 2014, the Exchange's partnership with these three studios allowed for 13 first-run titles to be shown at U.S. theaters. In total, 25 free advanced screenings were offered in 2014—an increase of 31 percent over the prior year.

ONLINE SHOPPING

Some Soldiers are posted to large Army posts, complete with a state-of-the-art main store and all of the other Exchange trimmings. Others are assigned to small posts many miles from the nearest town. Similarly, some retirees live near Army posts or Air Force bases, while others are hundreds of miles from the nearest installation.

Transforming the Exchange online store at shopmyexchange.com provides a large main store experience to every Soldier and Airman, active or retired. Our intent is for the main store to be only a mouse click away. A sustained focus on offering assortment parity between brick-and-mortar stores and the Exchange website further enhanced the customer shopping experience; the parity is now 28.9 percent; up from 6 percent in 2012.

In October, the Exchange launched a new shopmyexchange.com, the first major site upgrade in many years. The new site offers improved order tracking, easier checkout, more intuitive navigation, improved delivery and online-exclusive products.

Shopmyexchange.com expanded its offerings to include: gourmet foods, patio furniture and grills, golf equipment, cardio machines, fishing accessories, GoPro cameras and much more.

EXCHANGE CREDIT PROGRAM

MILITARY STAR® is a proprietary in-house credit card tailored for military customers. The card is available to members of all four military services. There are currently 2 million accounts; 1.2 million with activity.

In 2014, the MILITARY STAR® card was cited as having the second lowest interest rate offered by retailers on Creditcards.com, and has been ranked as the number one in-house retail credit card in the U.S. for the past 10 years by the Nilson Report.

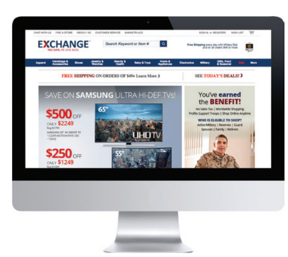
Customer use of the card provided more than $19.2 million in credit card merchant fee relief in 2014, and brought in $1.8 billion in sales. MILITARY STAR® card finance revenue adds a significant amount to the Exchange bottom line, approximately $257 million in 2014.

2,440 number of Exchange facilities worldwide

$3,420B total sales in our Express stores

74 name brand fast food restaurants opened

11.36% increase in earnings with our first-run movies and advanced screenings in theaters



$173M total sales online

THROUGH GOODS & SERVICES WE PROVIDE

Fort Bragg, North Carolina: Associate assisting a soldier in the Military Clothing store

Through goods and services we provide—the third of the three components of the Exchange mission. Wherever Soldiers, Airmen and their families go, the goods and services we offer should improve the quality of their lives.

Wherever Soldiers and Airmen go, the Exchange provides access to the products and services they are accustomed to, at competitive U.S. prices. One such aspiration of the customer is to have access to prestige national brands.

INTENSIFY NATIONAL BRANDS

Intensifying national brands continues to be a key strategy in improving the customer experience both online and in store. Our goal is make name brands available to the customer.

In 2014, we made tremendous strides in transforming the customer experience as we strengthened ties with Michael Kors, Ralph Lauren, Under Armour, Disney and Fossil, just to name a few.

We opened 295 new store-in-store concept shops—81 more than planned, including:

- 33 Kuhl and 16 The North Face shops for men
- 24 Ellen Tracy, 15 Calvin Klein Jeans, 18 Tommy Hilfiger, and 20 Michael Kors Accessories shops for women
- Vince Camuto, Life is good, Denim & Supply Ralph Lauren, Dockers, Columbia, 5.11 Tactical, Adidas and Brighton Accessories shops

Michael Kors is a key driver in softlines, resulting in $48.5 million in sales in 2014, versus $30.1 million in 2013. Silver Jeans and Adrienne Vittadini for women and Adidas and Hanes Underwear for men were added in stores and online, Carters children's brand was added online.

Ashley Furniture, Martha Stewart, Emeril LaGasse and Rachael Ray brands had significant growth in 2014. Online sales of Ashley Furniture grew by 27 percent last year, while our ready-to-assemble furniture sales grew by 115 percent.

Other openings included:

- 26 Victoria's Secret/Bath & Body Works
- 16 Disney
- 16 Cover FX
- 18 Aveda
- 30 Bumble & Bumble
- 1 MAC cosmetics
- 4 Bobbi Brown and 4 bareMinerals

SERVICES, HEALTH CARE AND VENDING

The Exchange's national brand strategy extends into mall services and concessions.

In 2014, a number of popular brands were added, including:

- Pandora
- Rosetta Stone
- Tberries and Floral
- Pro Image Sports
- Kickz Footwear
- Patriot Scuba

Redbox DVD rental machines premiered at 188 Exchange locations. Customers rented more than 2,546,208 movies or games in 2014, a 198 percent ($7.6 million) sales growth.

To support DoD's Healthy Base Initiative and the Exchange "BE FIT" campaign, more Subway and Einstein Bagels locations were added, and Popeyes restaurants added an Exchange-unique salad. The Exchange developed a healthful vending program to fit in the BE FIT category found in the retail stores.

DENTAL CLINICS AND EYE CARE

In 2014, the Exchange received approval to provide dental clinic services in Exchange malls. The first location will be at Fort Hood when the new shopping center opens in 2015. Another clinic is planned for Fort Stewart.

In Overseas New Car Sales, the Exchange was recognized as the #1 dealer in the world for the Ford Mustang, Ford Focus, Ford Fiesta, Dodge Dart and Harley Davidson.

STAYING CONNECTED

One of the challenges of military life is staying connected to friends and family. In 2014, Exchange customers had more mobile and cellular choices than ever before, faster internet speeds, and expanded programming offers, such as DISH and HuluPlus.

Exchange customers purchased nearly 240,000 smartphones from 104 Exchange Mobile Centers worldwide, up from 94 locations in 2013.

One example of the Exchange initiatives to deliver faster, better, smarter internet to every installation worldwide was the award of a contract to Boingo, a leading provider of Wi-Fi based Internet. Exchange CONNECT-branded Boingo Wi-Fi service and Internet Protocol TV launched at 13 military installations in CONUS, with 25 more slated for 2015.

In Europe, the Exchange launched CONNECT Wi-Fi internet, providing service to Italy and much of Germany. In the Pacific, the Exchange upgraded Internet service in Korea by extending high-speed fiber optic cable to 5,000 barracks rooms.

Telecom revenue for 2014 was $240 million from the sale of smartphones and internet services.

$48.5M in sales of Michael Kors

295 nationally branded concept shops opened

2.5M rentals at our Redbox locations

#1 dealer in the world for the Ford Mustang, Ford Focus, Ford Fiesta, Dodge Dart & Harley Davidson

240,000 smartphones purchased from Exchange Mobile Centers

2014 MILESTONES

Moon Township, Pennsylvania: Airmen shops for wireless speakers

FEBRUARY

- Fort Bragg's Papa John's recognized for being only location in restaurant chain to meet an annual sales of $3 million.
- The Exchange is recognized as the largest employer of associates with disabilities and receives the Lex Frieden Employment award from the Vice Chairman of the Governor's Committee on People with Disabilities.
- The Tyndall Express in Florida celebrates its grand opening.

MARCH

- A.T. Kearney concludes 90-day supply chain study to optimize the Exchange's supply chain.
- Twitter debuts for Exchange associates.
- The Fort Meade Express in Maryland opens for business.

APRIL

- The Exchange receives the Military Surface Deployment and Distribution Command Shipper Compliance award for the timeliness and accuracy standards of shipping documentation.

MAY

- Disney at the Exchange stores open in Germany, Japan and Hawaii on May 16; and in CONUS on March 21.

JUNE

- The Exchange is selected a Best for Vets employer for 2014 by Military Times for its commitment to providing job opportunities to veterans. The Exchange was named No. 31 among the top 59 employers for veterans.

JULY

- The Exchange celebrates 119 years of serving Soldiers, Airmen and their families.
- The Exchange ranks 19th in TWICE magazines' annual list of the top 100 consumer electronics retailers.
- The Exchange is listed on Black EOE Journal's Best of the Best, Top Government and Law Enforcement Agencies.

AUGUST

- The Exchange wins top Subway award for restaurant development, customer satisfaction, financial strength, and other categories.
- Camp Humphrey breaks ground on a new 301,000 sq. ft. shopping center.
- The Exchange is selected by LATINA Style magazine as one of the 50 best companies for Latinas to work for in 2014.
- The Exchange is listed in U.S. Veterans Magazine's Best of the Best for: Top Veteran-Friendly Companies, Top Government and Law Enforcement Agencies, and Top Supplier Diversity Programs.
- The Homestead Express in Florida opens on Aug. 20.

SEPTEMBER

- Military-Brat Approved toys debut in time for holiday shopping.
- The Wright-Patterson Express celebrates its grand opening on Sept. 9.

OCTOBER

- Boston Market opens first restaurant on a military installation at the Exchange's Freedom Crossing Lifestyle Center at Fort Bliss, Texas.
- The Exchange launches mobile app "EXTRA" for customer product and savings information.
- Moon Township celebrates its grand opening on Oct. 21.

NOVEMBER

- Victory Media, publisher of G.I. Jobs magazine, names the Exchange to the 2015 Top 100 Military Friendly Employers list.

DECEMBER

- The Exchange named a Top Military Spouse Friendly Employer by Military Spouse Magazine.

JANUARY

- The Exchange opens two Soldier-run stores in Iraq supporting Operation Inherent Resolve.
- Camp Carroll Popeyes in Korea receives the 2014 International Gold Plate Award.

FEBRUARY Fort Bragg's Papa John's meets annual sales of $3 million

MAY Disney at the Exchange stores open in Germany, Japan and Hawaii

OCTOBER Moon Township in Pennsylvania celebrates grand opening

OCTOBER Boston Market opens first restaurant on a military installation

JANUARY Exchange opens two Soldier run stores in Iraq

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Financial Statements

Army and Air Force Exchange Service
Years Ended January 31, 2015 and February 1, 2014
With Report of Independent Auditors

Ernst & Young LLP

Building a better working world

Army and Air Force Exchange Service

Financial Statements

Years Ended January 31, 2015 and February 1, 2014

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Report of Independent Auditors

The Board of Directors
Army and Air Force Exchange Service
Departments of the Army and Air Force

We have audited the accompanying financial statements of Army and Air Force Exchange Service, which comprise the balance sheets as of January 31, 2015 and February 1, 2014, and the related statements of earnings, comprehensive income (loss), changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Army and Air Force Exchange Service at January 31, 2015 and February 1, 2014, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

May 20, 2015

Army and Air Force Exchange Service

Balance Sheets

(Dollars in Thousands, Unless Otherwise Noted)

	January 31, 2015	February 1, 2014
Assets		
Current assets:		
Cash and cash equivalents	**$ 107,735**	$ 119,985
Trade and other accounts receivable, less allowance for uncollectible accounts (at January 31, 2015 – $43,082, at February 1, 2014 – $43,808)	**3,299,040**	3,540,440
Merchandise inventories	**1,293,807**	1,166,311
Short-term investments	**16,994**	21,997
Supplies and other current assets	**53,684**	48,741
Total current assets	**4,771,260**	4,897,474
Buildings and improvements	**3,476,862**	3,436,583
Fixtures and equipment	**1,442,122**	1,527,473
Construction-in-progress	**203,264**	145,796
	5,122,248	5,109,852
Accumulated depreciation	**(3,023,969)**	(2,856,602)
	2,098,279	2,253,250
Other assets	**12,847**	13,107
Long-term investments and supplemental plan assets	**17,700**	16,605
Total assets	**$ 6,900,086**	$ 7,180,436
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 370,260**	$ 383,580
Commercial paper and current maturities of long-term debt	**854,630**	1,646,120
Accrued salaries and other employee benefits	**122,473**	116,886
Dividends payable	**11,270**	38,378
Other current liabilities	**256,482**	243,599
Total current liabilities	**1,615,115**	2,428,563
Long-term debt	**710,351**	265,731
Accrued pension and other benefits	**2,252,156**	999,247
Other noncurrent liabilities	**79,149**	67,501
Total liabilities	**4,656,771**	3,761,042
Net assets:		
Accumulated other comprehensive loss:		
Pension liability	**(2,930,954)**	(1,735,681)
Derivative instruments	**(15,546)**	234
Total accumulated other comprehensive loss	**(2,946,500)**	(1,735,447)
Retained earnings	**5,189,815**	5,154,841
Total net assets	**2,243,315**	3,419,394
Total liabilities and net assets	**$ 6,900,086**	$ 7,180,436

See accompanying notes.

Army and Air Force Exchange Service

Statements of Earnings

(Dollars in Thousands, Unless Otherwise Noted)

	Year Ended January 31, 2015	Year Ended February 1, 2014
Net sales	**$ 7,329,211**	$ 7,782,792
Finance revenue	**273,380**	284,441
Concession income	**196,797**	208,027
Other operating income	**34,874**	32,709
Total revenue	**7,834,262**	8,307,969
Cost of sales and operating expenses:		
Cost of goods sold	**5,555,782**	5,985,378
Selling, general and administrative:		
Employee compensation and benefits	**1,158,270**	1,283,887
Depreciation and amortization	**311,610**	334,117
Other	**516,345**	484,491
Total selling, general and administrative expenses	**1,986,225**	2,102,495
Interest expense	**15,719**	33,661
Bad debt expense	**25,899**	29,627
Total expenses	**7,583,625**	8,151,161
Operating income	**250,637**	156,808
Other income	**8,498**	9,769
Net earnings	**$ 259,135**	$ 166,577

See accompanying notes.

Statements of Comprehensive Income (Loss)

(Dollars in Thousands, Unless Otherwise Noted)

	Year Ended January 31, 2015	February 1, 2014
Net income	**$ 259,135**	$ 166,577
Other comprehensive (loss) income		
Unrealized loss on derivative instruments	**(15,780)**	(7,307)
Pension and postretirement benefits adjustments	**(1,195,273)**	493,002
Other comprehensive (loss) income	**(1,211,053)**	485,695
Comprehensive (loss) income	**$ (951,918)**	$ 652,272

See accompanying notes.

Army and Air Force Exchange Service

Statements of Changes in Net Assets
(Dollars in Thousands, Unless Otherwise Noted)

Years Ended January 31, 2015 and February 1, 2014

	Retained Earnings	Accumulated Other Comprehensive Loss	Net Assets
Balance at February 2, 2013	$ 5,197,346	$ (2,221,142)	$ 2,976,204
Net earnings	166,577	–	166,577
Pension and postretirement benefits adjustments	–	493,002	493,002
Unrealized loss on derivative instruments	–	(7,307)	(7,307)
Dividends to the Central Welfare Funds, Departments of the Army, the Air Force, the Navy and the Marine Corps	(209,082)	–	(209,082)
Balance at February 1, 2014	5,154,841	(1,735,447)	3,419,394
Net earnings	**259,135**	**–**	**259,135**
Pension and postretirement benefits adjustments	**–**	**(1,195,273)**	**(1,195,273)**
Unrealized loss on derivative instruments	**–**	**(15,780)**	**(15,780)**
Dividends to the Central Welfare Funds, Departments of the Army, the Air Force, the Navy and the Marine Corps	**(224,161)**	**–**	**(224,161)**
Balance at January 31, 2015	**$ 5,189,815**	**$ (2,946,500)**	**$ 2,243,315**

See accompanying notes.

Army and Air Force Exchange Service

Statements of Cash Flows

(Dollars in Thousands, Unless Otherwise Noted)

	Year Ended January 31, 2015	Year Ended February 1, 2014
Operating activities		
Net earnings	**$ 259,135**	$ 166,577
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	**345,354**	368,998
Loss on disposal of property and equipment	**1,884**	3,534
Gain on supplemental pension plan assets	**(1,555)**	(1,172)
Bad debt expense	**25,899**	29,627
Changes in operating assets and liabilities:		
Accounts receivable	**215,501**	108,607
Merchandise inventories	**(127,496)**	109,962
Supplies and other assets	**(4,683)**	1,748
Pension assets and liabilities	**82,335**	165,698
Long-term investments and supplemental plan assets	**462**	450
Accounts payable	**(25,499)**	(71,446)
Change in cash overdraft	**344**	9,980
Accrued salaries and other employee benefits	**1,642**	(25,505)
Other liabilities	**(170)**	(4,902)
Net cash provided by operating activities	**773,153**	862,156
Investing activities		
Purchases of property and equipment	**(217,109)**	(265,379)
Proceeds from the sale of property and equipment	**24,842**	3,161
Purchases of investments	**(28,993)**	(21,997)
Proceeds from the disposition of investments	**33,996**	32,263
Net cash used in investing activities	**(187,264)**	(251,952)
Financing activities		
Net repayments under line-of-credit agreements	**(75,000)**	(1,286,000)
Net (repayments) proceeds under commercial paper agreements	**(216,750)**	1,066,000
Proceeds from issuance of long-term debt	**300,000**	–
Repayments of long-term debt	**(355,120)**	(154,874)
Payment of dividends	**(251,269)**	(231,565)
Net cash used in financing activities	**(598,139)**	(606,439)
Net (decrease) increase in cash and cash equivalents	**(12,250)**	3,765
Cash and cash equivalents at beginning of year	**119,985**	116,220
Cash and cash equivalents at end of year	**$ 107,735**	$ 119,985

See accompanying notes.

(Dollars in Thousands, Unless Otherwise Noted)

1. Description of Business and Summary of Significant Accounting Policies

General

The Army and Air Force Exchange Service (the Exchange or the Company) is a joint non-appropriated fund instrumentality (NAFI) of the United States (U.S.) organized under the Departments of the U.S. Army and the U.S. Air Force. The Exchange provides retail services to soldiers, airmen, and their families through a network of stores principally located in the U.S., Europe, the Pacific Rim, and the Middle East, substantially all of which are located on U.S. government installations. Middle East services operating in Afghanistan primarily provide support for Operation Enduring Freedom (OEF). In addition to providing merchandise and services of necessity and convenience to authorized patrons at competitively low prices, the Exchange's mission is to generate reasonable earnings to supplement appropriated funds for the support of Army and Air Force morale, welfare, and recreation programs. The Exchange maintains custody of and control over its nonappropriated funds. Funds that are not distributed as dividends are reinvested in the Exchange's operations. The Exchange is exempt from direct state taxation and from state regulatory laws, whose application would result in interference with the performance by the Exchange of its assigned federal functions. Such laws include licensing and price control statutes.

Net sales by geographic region are summarized below:

	Year Ended January 31, 2015	Year Ended February 1, 2014
Continental U.S., including Alaska and Hawaii	**$ 5,315,630**	$ 5,585,831
Pacific Rim	**793,344**	810,102
Europe, primarily Germany	**828,679**	871,428
Middle East, including OEF and U.S. Mission Iraq	**185,631**	299,087
Other countries	**205,927**	216,344
Total net sales	**$ 7,329,211**	$ 7,782,792

(Dollars in Thousands, Unless Otherwise Noted)

1. Description of Business and Summary of Significant Accounting Policies (continued)

Long-lived assets comprise property and equipment. Long-lived assets, net of accumulated depreciation and amortization, by geographic region are summarized below:

	Year Ended	
	January 31, 2015	**February 1, 2014**
Continental U.S., including Alaska and Hawaii	**$ 1,682,397**	$ 1,831,931
Pacific Rim	**161,248**	165,517
Europe, primarily Germany	**253,077**	254,189
Middle East, including OEF and U.S. Mission Iraq	**1,557**	1,613
Total long-lived assets	**$ 2,098,279**	$ 2,253,250

The Exchange utilizes accounting principles generally accepted in the United States (U.S. GAAP) applicable to "for profit" organizations because of the nature of its commercial-type operations. The Exchange's financial statements include the operations of all exchanges at U.S. Army and Air Force installations throughout the world.

Appropriated Funds

In accordance with applicable U.S. Army and Air Force regulations, the Exchange is not required to pay rent for the use of properties owned by the U.S. government or utility costs associated with overseas exchanges. Permanent structures that are constructed by the Exchange and paid for from Exchange funds become the property of the U.S. government; however, the Exchange has the right to occupy and use the structures. The structures cannot be used for other than the Exchange's purposes without prior approval by the Exchange Director/Chief Executive Officer and the relevant department of the U.S. government. As such, the Exchange has included the cost of the structures on its balance sheet and depreciates the cost of the structures on a straight-line basis over their estimated useful lives. Services, such as ocean transportation of merchandise to certain locations on U.S. chartered vessels and performance of administrative and supervisory functions by military personnel, have been provided without charge to the Exchange.

1. Description of Business and Summary of Significant Accounting Policies (continued)

Management has estimated the value of transportation costs provided by the U.S. government for Exchange materials shipped to and from overseas Exchange facilities to be approximately $113,803 and $128,563 for fiscal years 2014 and 2013, respectively. In addition, OEF and U.S. Mission Iraq transportation costs of $37,647 and $170,224 were paid by the U.S. government for fiscal years 2014 and 2013, respectively.

The Exchange receives reimbursements of certain incremental costs incurred by the Exchange in relation to support provided to contingency operations. Appropriated fund (APF) reimbursements are recorded when an incremental cost that qualifies for reimbursement has been incurred and reimbursement by responsible agency is reasonably assured. In fiscal year 2014, the Exchange received reimbursement of certain incremental costs incurred within U.S Army Central Command Area of Responsibility (USARCENT AOR) from Army Central Command (ARCENT). In fiscal year 2013, the Exchange received reimbursement in relation to the U.S. Mission Iraq from the Department of State APFs, as well as the Department of the Army and Office of Security Cooperation Iraq (OSC-I) APFs. Such APF reimbursement receivables are classified as trade and other accounts receivable in the accompanying balance sheets and are recorded as an offset to the related expenses (as described below) in the statement of earnings. In fiscal years 2014 and 2013, the Exchange recorded APF reimbursements of $22,483 and $63,447, respectively. These amounts include expenses related to inventory markdowns and shortages, personnel costs, in-theater transportation and other expenses.

Fiscal Year

The Exchange's fiscal year end is the Saturday nearest January 31. References to fiscal 2014 and fiscal 2013 herein are to the fiscal years ended January 31, 2015 and February 1, 2014, respectively.

Dividends

The Exchange is required, under various agreements, to distribute a portion of each year's net earnings in the form of dividend payments to the Central Welfare Funds, Departments of the Army, the Air Force, the Navy and the Marine Corps.

1. Description of Business and Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the accompanying financial statements and accompanying notes. Key estimates made by Company management include the level of allowance needed for potentially uncollectible accounts receivable and discount rates used to discount the future obligations associated with pension plans and postretirement benefit plans.

In pension accounting, the most significant actuarial assumptions are the discount rate, the long-term rate of return on plan assets, and mortality. In determining the long-term rate of return on plan assets, the Company considers the nature of the plans' investments, an expectation of the plans' investment strategies and the expected rate of return. Pension assets include investments in limited partnerships, real estate properties, private equity, timber, agriculture and debt, which do not have readily available market values. In these instances, management reviews and takes responsibility for assessing, concluding on, and recording the fair market values for investments provided by the general partner, investment manager or appraiser, as appropriate. Management believes estimated fair values have been reported in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, but may differ materially from the values that would have been used had a ready market for these investments existed.

Remeasurement of Foreign Currencies

The Exchange maintains foreign currencies only to the extent necessary to pay local current liabilities. Current liabilities are recorded daily and remeasured to U.S. dollars at "pegged" rates.

Payments of current liabilities are recorded based on the "pegged" rate. At year-end, the current liabilities are remeasured from the pegged rates to the end-of-period market rates. The majority of such resulting gain or loss is recorded as foreign currency gain or loss with the remainder to the expense or asset account that gave rise to the current liability (e.g., payroll expense or inventory). The Company recognized a net gain on foreign currency of approximately $5,521 and $5,883 for the fiscal years ended January 31, 2015 and February 1, 2014, respectively, excluding the impact of the Company's foreign currency hedging contracts. In addition, the noncurrent liability for local national separation pay as of January 31, 2015 and February 1, 2014, has been remeasured to end-of-period market rates as of those respective dates.

1. Description of Business and Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

Cash equivalents represent cash on hand in stores, deposits in banks, and third-party credit card receivables. Cash and cash equivalents are carried at cost, which approximates fair value. Book overdraft balances of $344 and $9,979 have been reclassified to accounts payable at January 31, 2015 and February 1, 2014, respectively.

Investments in Debt Securities

Investments in debt securities have original maturities of greater than 90 days. These investments are typically held to maturity and are classified as such because the Company has the intent and ability to hold them to maturity. Held-to-maturity securities are carried at amortized cost.

Accounts Receivable, Finance Revenue and Provisions for Credit Losses

As of January 31, 2015 and February 1, 2014, approximately $2,514,191 and $2,645,913, respectively, of the accounts receivable balance represents amounts due to the Exchange under its in-house credit program, the MILITARY STAR® Card. The MILITARY STAR® Card program extends credit to eligible Exchange customers for the purchase of retail goods at Exchange stores worldwide.

Minimum payments are calculated based on 2.777% of the unpaid balance as of the customer's last purchase. These payments are applied in accordance with the Credit CARD Act of 2009. Payments are recorded against outstanding receivable balance and debited to cash accounts.

Customer accounts receivable are classified as current assets and include some amounts that are due after one year. Concentrations of credit risk, with respect to customer receivables, are limited due to the large number of customers comprising the Company's credit card base and their dispersion throughout the world. The Company believes the carrying value of existing customer receivables is the best estimate of fair value due to the short-term nature of those receivables.

The Company's trade and accounts receivable balance also includes $164,666 and $177,951 of receivables from the Marine Exchange (MCX) for Marine MILITARY STAR® Card outstanding balances and related processing fees as of January 31, 2015 and February 1, 2014, respectively.

1. Description of Business and Summary of Significant Accounting Policies (continued)

Finance revenue is calculated based upon the customer account balance outstanding during the period after consideration of the applicable grace period, typically 30 days following the billing date. The finance rate charged is a variable interest rate calculated at a variable amount above the U.S. Prime Rate reported in *The Wall Street Journal*. The standard APR for fiscal years 2014 and 2013 was 10.24%. Beginning at 90 days past due, the delinquency rate of 18.24% applies. Finance charges are recorded unless an account balance has been outstanding for more than 150 days. Customer receivables past due 90 days or more and still accruing interest were approximately $46,032 and $47,263 as of January 31, 2015 and February 1, 2014, respectively.

Accounts past due for 30 days or more are considered delinquent. Accounts delinquent for 150 days are submitted to the Collection Department. The Exchange utilizes various means to collect past-due accounts, as well as accounts written off, including some methods not available to other retail organizations. The Exchange has agreements with other U.S. government entities that allow the Exchange to garnish wages of service personnel, as well as claim the debtors' future payments from such U.S. government entities, including U.S. Treasury income tax refunds. Personal contact, external collection agencies, and letters to service personnel superiors are also used to pursue delinquent accounts. The outstanding receivable related to accounts previously written off (previously submitted to the Collections Department) was $350,237 and $364,140 at January 31, 2015 and February 1, 2014, respectively. These accounts are at least 150 days past due and are generally outstanding for one to five years.

A provision for possible credit loss is recorded related to the Exchange's current credit card portfolio based on a percentage of total projected charge-offs that are considered uncollectible. Additionally, the Exchange records a net receivable related to accounts previously written off based upon estimated ultimate recoveries.

The Exchange periodically evaluates the adequacy of the provision using such factors as prior account loss experience, changes in the volume of the account portfolio, changes in the estimates of anticipated recoveries on delinquent or written off balances, and changes in credit policy. These factors were considered in establishing the Exchange's allowance for doubtful accounts, and the net receivable related to accounts previously written off, as of January 31, 2015 and February 1, 2014. It is reasonably possible that the amounts the Exchange will ultimately recover on delinquent balances could differ materially in the near term from the amounts assumed in arriving at the allowance for doubtful accounts and net receivable related to accounts previously written off.

1. Description of Business and Summary of Significant Accounting Policies (continued)

Collections on accounts previously written off and submitted to U.S. government entities totaled approximately $187,073 and $183,798 in fiscal years 2014 and 2013, respectively. Bad debt expense of $25,899 recorded in 2014 is primarily related to the Exchange's current credit card portfolio. This is compared to $26,005 in bad debt expense recorded in 2013. The Exchange uses a portfolio approach pooled by year to record the net receivable related to accounts previously written off, whereby finance income is no longer accrued and cash collections are applied to outstanding principal until 100% of the portfolio has been collected. Subsequent cash collections in excess of amounts previously written off are recorded as finance revenue. Finance revenue recognized in fiscal year 2014 related to accounts previously written off totaled approximately $16,355 compared to approximately $15,898 in fiscal year 2013.

The following table sets forth the age of the Exchange's current credit card receivables that have not yet been submitted to U.S. government entities for collection.

	January 31, 2015		**February 1, 2014**	
	Amount	**Percent of Receivables**	**Amount**	**Percent of Receivables**
	(In Millions)		*(In Millions)*	
Current	**$ 2,180**	**81.4%**	$ 2,253	79.8%
1-29 days past due	**268**	**10.0**	319	11.3
30-59 days past due	**117**	**4.3**	131	4.6
60-89 days past due	**68**	**2.6**	74	2.6
90+ days past due	**46**	**1.7**	47	1.7
Period-end gross credit card receivables	**$ 2,679**	**100.0%**	$ 2,824	100.0%

1. Description of Business and Summary of Significant Accounting Policies (continued)

The following table sets forth the provision for possible credit loss related to the Exchange's current credit card portfolio and does not include the net receivable related to accounts submitted to U.S. government entities for collection. In addition, this table does not include the provision for bad debt for other trade accounts receivable that are unrelated to the Exchange's credit card portfolio.

	2014	2013
	(In Millions)	
Allowance at beginning of period	**$ 39**	$ 42
Provision for bad debt	**24**	26
Write-offs (net of recoveries)	**(26)**	(29)
Allowance at end of period	**$ 37**	$ 39

The following table sets forth the credit card quality of the Exchange's current credit card portfolio.

	January 31, 2015	February 1, 2014
	(In Millions)	
Nondelinquent accounts (Current and 1-29 days past due):		
FICO score of 700 or above	**$ 718**	$ 734
FICO score of 600 to 699	**1,295**	1,356
FICO score below 600	**435**	482
Total nondelinquent accounts	**2,448**	2,572
Delinquent accounts (30+ days past due)	**231**	252
Period-end gross credit card receivables	**$ 2,679**	$ 2,824

Merchandise Inventories

The Exchange inventories are valued at the lower of cost or market, as determined primarily by the retail inventory method of accounting (RIM), except for distribution center inventories, which are based on the first-in, first-out inventory method. Certain warehousing and distribution

1. Description of Business and Summary of Significant Accounting Policies (continued)

expenses are included in the cost of inventory. For the years ended January 31, 2015 and February 1, 2014, $12,320 and $11,440 of these expenses were included in merchandise inventory, respectively. For discussions of risk related to inventory in the Middle East, including OEF and U.S. Mission Iraq, refer to Note 10.

Inherent in the RIM calculation are certain significant management judgments and estimates, including, among others, merchandise markons, markups, markdowns and shrinkage, which significantly impact the ending inventory valuation at cost, as well as resulting gross margins. The methodologies utilized by the Exchange in the application of the RIM are consistent for all periods presented. Such methodologies include the development of the cost-to-retail ratios, the groupings of homogenous classes of merchandise, the development of shrinkage and obsolescence reserves, and the accounting for price changes.

Buildings and Improvements

Buildings and improvements primarily represent permanent structures constructed by the Exchange and owned by the U.S. government. These assets are recorded at cost with depreciation provided using the straight-line method over the estimated useful lives of the assets. The useful lives are governed, to a large extent, by the deployment of Army and Air Force personnel and, to some extent, by the requirements of the Departments of the Army and the Air Force with respect to space occupied by the Exchange. Buildings are generally depreciated over 30 years, and improvements are depreciated from 7 to 15 years. The Exchange loses its rights to buildings and improvements in the event of base closures and accelerates depreciation of its assets when such closures are probable.

As part of the Exchange's mission, "We Go Where You Go", there are facilities built to serve the military community regardless of its ability to generate a profit. With all construction projects, these service (Quality of Life) projects must go through the Board and Finance Committee for review and approval prior to construction. Projected returns of less than 7% internal rate of return are considered service projects and are segregated during the asset impairment review process. Although these facilities are segregated from the fixed asset portfolio, the Exchange closely monitors operations to ensure the highest level of efficiencies can be maintained while maximizing profits.

1. Description of Business and Summary of Significant Accounting Policies (continued)

In accordance with accounting standards governing the impairment or disposal of long-lived assets, the carrying value of long-lived assets, including property and equipment and definite-lived intangible assets, is evaluated whenever events or changes in circumstances indicate that a potential impairment has occurred relative to a given asset or assets. Factors that could result in an impairment review include, but are not limited to, a current-period cash flow loss combined with a history of cash flow losses or a projection that demonstrates continuing losses associated with the use of a long-lived asset, significant changes in the manner of use of the assets, or significant changes in business strategies. An impairment loss is recognized when the estimated undiscounted cash flows expected to result from the use of the asset plus net proceeds expected from disposition of the asset (if any) are less than the carrying value of the asset. When an impairment loss is recognized, the carrying amount of the asset is reduced to its estimated fair value as determined based on quoted market prices or through the use of other valuation techniques. The Company has not recorded any long-lived asset impairment charges during fiscal years 2014 or 2013.

Fixtures and Equipment

Fixtures and equipment are carried at cost with depreciation provided using the straight-line method over the estimated useful lives of the assets. Depreciable lives used are as follows:

	Depreciable Life
Asset type:	
Motor vehicles	5 to 10 years
Equipment	2 to 15 years
Software	3 to 10 years

Base Realignment

Congress has not authorized a Base Realignment and Closure (BRAC) since 2005. In the event of closure of certain military bases around the world or a reduction in military forces, a decrease in sales at Exchange stores and a related decrease in the use of MILITARY STAR® Card due to the reduction of the customer base would likely occur.

1. Description of Business and Summary of Significant Accounting Policies (continued)

Self-Insurance

The Exchange acts as self-insurer for property, automobile, public liability, workers' compensation, comprehensive casualty losses, ocean marine, and other casualty losses. However, the Exchange has commercial property insurance covering the buildings, contents, and inventories at certain locations. The provision for certain self-insurance losses is based on calculations performed by the Exchange's independent actuarial consultants using loss development factors to estimate ultimate loss. The Company's self-insurance reserves were $79,725 and $67,865 as of January 31, 2015 and February 1, 2014, respectively. Workers' compensation reserves were discounted at a weighted-average rate of 3.25% and 4.11% as of January 31, 2015 and February 1, 2014, respectively. Property and liability reserves were discounted at a rate of 1.78% and 1.81% as of January 31, 2015 and February 1, 2014, respectively. General liability reserves were discounted at a weighted-average rate of 1.69% and 1.25% as of January 31, 2015 and February 1, 2014, respectively.

Separation Pay and Vacation Leave Accruals

Separation pay and vacation leave for local national employees in foreign countries are accrued as earned based upon the labor laws of host countries and upon agreements between the U.S. and foreign governments. In order to estimate this liability, the Company and its actuaries make certain assumptions, including the amounts considered recoverable from foreign governments under existing agreement terms. Actual results may vary from these assumptions (see Note 7). Additionally, the liability for vacation leave earned by U.S. citizens is accrued as earned.

Advertising Costs

Advertising costs are expensed when the advertisement first occurs. Advertising expense was $42,941 and $56,562 for the years ended January 31, 2015 and February 1, 2014, respectively, and is included in selling, general, and administrative expenses. The Exchange's cooperative advertising allowances are generally accounted for as a reduction in the purchase price of inventory.

1. Description of Business and Summary of Significant Accounting Policies (continued)

Revenue Recognition

Revenue from retail sales is recognized at the time of sale. Revenue from sales made under a layaway program is recognized upon delivery of the merchandise to the customer. With respect to sales returns, a significant portion of the Company's products are consumables or perishables and are not subject to return by customers. Additionally, sales returns of products subject to the Company's return policy represent an insignificant portion of overall sales. Finance revenue includes finance charges and administrative fees on credit sales. Concession income includes fees charged to concessionaires based on a percentage of their sales and is recognized at the time of sale. Other operating income includes fees received from sources such as Western Union, delivery services, gift card breakage and indirect retail income.

Income Taxes

The Exchange is a nonappropriated fund instrumentality of the U.S. and, as such, is not subject to the payment of income taxes.

401(k)

The Company has a 401(k) voluntary savings and investment plan open to regular full- and part-time employees who meet certain minimum requirements. Effective fiscal 2013, new hire associates will be automatically enrolled in the 401(k) savings plan after a 30 day waiting period during which they may opt out. The employees can make voluntary contributions to the plan not to exceed the lesser of 99% of eligible participant compensation or the applicable 401(k) maximum deferral contribution limit for the year.

Foreign Currency Hedging

As part of an overall risk management strategy, the Company uses foreign currency exchange contracts to hedge exposures to changes in foreign currency rates on the Company's payroll and foreign vendor obligations denominated in foreign currencies. These derivative instruments are accounted for in accordance with ASC 815, *Derivatives and Hedging*. ASC 815 requires that all derivative financial instruments be recognized in the financial statements and measured at fair value. Derivatives that are not hedges must be adjusted to fair value through earnings. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of

1. Description of Business and Summary of Significant Accounting Policies (continued)

derivatives will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in net assets until the hedged item is recognized in earnings. Hedged items are reclassified from accumulated other comprehensive income (loss) and into earnings using the specific identification method. The Company's policy is that it does not speculate in hedging activities. The maximum length of time over which the Company is hedging its exposure to the variability of future cash flows for forecasted transactions is one year.

Fair Value Measurements

The Exchange records financial instruments at fair value in accordance with ASC 820, *Fair Value Measurements and Disclosures*. Under ASC 820, fair value is considered to be the exchange price in an orderly transaction between market participants to sell an asset or transfer a liability at the measurement date. The fair value definition under ASC 820 focuses on an exit price, which is the price that would be received to sell an asset or paid to transfer a liability versus an entry price, which would be the price paid to acquire an asset or received to assume a liability. See Note 3 for further information regarding fair value measurements.

Financial instruments that potentially subject the Exchange to concentrations of credit risk consist principally of investments held by the supplemental plan (Supplemental Plan) and derivative financial instruments. The Company uses high credit quality counterparties when executing derivative transactions.

Recent Accounting Pronouncements

In November 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-16 (ASU 2014-16), *Derivatives and Hedging (Topic 815) Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity*. The amendments in this ASU do not change the current criteria in U.S. GAAP for determining when separation of certain embedded derivative features in a hybrid financial instrument is required. The amendments clarify that an entity should consider all relevant terms and features, including the embedded derivative feature being evaluated for bifurcation, in evaluating the nature of the host contract. The ASU applies to all entities that are issuers of, or investors in, hybrid financial instruments that are issued in the form of a share and is effective for non-public companies for fiscal years beginning after 15 December 2015. The provisions of ASU 2014-16 are not expected to have a material impact on the Company's financial statements.

1. Description of Business and Summary of Significant Accounting Policies (continued)

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, issued as a new Topic, ASC Topic 606. This ASU is a comprehensive new revenue recognition model that requires a company to recognize revenue when it transfers promised goods or service to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. For non-public companies, this ASU is effective for reporting periods after 15 December 2018 The Company is currently assessing the impact of the adoption of ASU 2014-09 and has not determined the effect of the standard on the Company's ongoing financial reporting.

In April 2014, the FASB issued ASU 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*. This ASU amends the requirements for reporting discontinued operations and requires additional disclosures about discontinued operations. Under the new guidance, only disposals representing a strategic shift in operations or that have a major effect on the Company's operations and financial results should be presented as discontinued operations. This new accounting guidance is effective for annual periods beginning after 15 December, 2015. We do not expect the adoption of this standard to have a material impact on our financial condition, results of operations or cash flows.

Reclassifications

Certain reclassifications have been made to the accompanying 2013 financial statements and notes to conform to the 2014 presentation.

Subsequent Events

The Exchange has evaluated subsequent events through May 20, 2015, the date at which the financial statements were available to be issued, and determined that no additional disclosures to those presented were necessary.

2. Investments in Debt Securities

As of January 31, 2015, the Company held an investment carried at $5,000 (Federal Home Loan Bank Bond which matures April 17, 2015), in support of non-German, Local National separation pay. Investments are classified as “held-to-maturity” in accordance with ASC 320-10, *Investments – Debt and Equity Securitie*s, and are classified on the accompanying balance sheets in short-term investments. Additionally, as of January 31, 2015, the Company held a $12,000 Freddie Mac investment to support the liability for German Local National separation pay. The bond matured on March 10, 2015, and is classified as short-term investments on the accompanying balance sheet.

3. Fair Value Measurements

The FASB ASC 820, *Fair Value Measurements and Disclosures*, established a framework for measuring fair value. The inputs used to measure fair value are prioritized based on a three-level hierarchy as follows:

> Level 1 – Quoted prices in active markets for identical assets or liabilities. The Exchange uses the unadjusted quoted prices in active markets for identical assets or liabilities to which the Exchange has access. An active market for the asset or liability is one in which transactions for the asset or liability occur with sufficient frequency and volume to provide ongoing pricing information.
>
> Level 2 – Observable inputs other than quoted prices in Level 1. The Exchange determines the value of the investment holdings by evaluating its pro rata share of investments where it does not own the underlying securities but rather a proportional share of the fund, such as mutual fund and common collective trusts. Significant inputs, other than quoted market prices included in Level 1 that are observable, impact either directly or indirectly, the asset or liability. Level 2 inputs include, but are not limited to, quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs other than quoted market prices that are observable for the asset or liability, such as interest rate curves and yield curves observable at commonly quoted intervals, volatilities, credit risk, and default rates.

(Dollars in Thousands, Unless Otherwise Noted)

3. Fair Value Measurements (continued)

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Inputs are unobservable for the assets or liabilities. The Exchange invests only with managers that provide financial statements that are independently audited at least once a year. The statements are accompanied by a report from the auditing firm, which discloses the accounting basis as well as an opinion regarding the reliability of the financial statements. In addition to the audited statements, the fund managers have provided the type of investments as well as the methods used to value and appraise all investments in the fund's portfolio. The Company's benefit plan Level 3 assets and liabilities are measured at fair value on a recurring basis.

Cash and cash equivalents, accounts payable, and accrued liabilities are reflected in the balance sheet at cost, which approximates fair value due to the short-term nature of these instruments. Trade and other accounts receivable are reflected in the balance sheet at cost less a provision for credit losses, which approximates market value due either to the short-term nature of the instruments or the variable market rate of interest that is charged on outstanding credit card balances. The fair value of the Company's debt is disclosed in Note 4.

The following table sets forth by level, within the fair value hierarchy, the Company's assets and liabilities, except for pension and post retirement assets and debt which are disclosed later, that are measured at fair value as of January 31, 2015 and February 1, 2014:

	Fair Value as of January 31, 2015			
	Total	**Level 1**	**Level 2**	**Level 3**
Assets:				
Collective investment funds[(1)]	**$ 17,690**	**$ –**	**$ 17,690**	**$ –**
Due from broker	**10**	**10**	**–**	**–**
Short-term investments	**16,994**	**16,994**	**–**	**–**
Total assets	**$ 34,694**	**$ 17,004**	**$ 17,690**	**$ –**
Liabilities				
Foreign currency derivatives[(2)]	**15,546**	**15,546**	**–**	**–**
Total liabilities	**$ 15,546**	**$ 15,546**	**$ 17,690**	**$ –**

(Dollars in Thousands, Unless Otherwise Noted)

3. Fair Value Measurements (continued)

	Fair Value as of February 1, 2014			
	Total	**Level 1**	**Level 2**	**Level 3**
Assets:				
Collective investment funds[(1)]	$ 16,589	$ –	$ 16,589	$ –
Due from broker	16	16	–	–
Short-term investments	21,997	21,997	–	–
Foreign currency derivatives	234	–	234	–
Total assets	$ 38,836	$ 22,013	$ 16,823	$ –

(1) Holdings consist of a Blackrock equity fund (approximately 40% in fiscal 2014 and 2013), which is passive in nature and employs a strategy to closely follow the S&P 500 index, and a Blackrock U.S. Debt Index fund (approximately 60% in fiscal 2014 and 2013), which employs a strategy that seeks to match the performance of the Barclays Capital Aggregate Bond Index by investing in a diversified sample of the bonds that make up the index.

(2) Derivatives are included on the balance sheet in 2014 and 2013 in accounts payable and accrued salaries, separation pay, and other employee benefits.

The Company holds investments related to the Supplemental Plan totaling $17,700 and $16,605 at January 31, 2015 and February 1, 2014, respectively, which are included in long-term investments and Supplemental Plan assets on the balance sheet. Supplemental Plan assets are classified as trading securities since gains and losses from these investments are intended to offset the cost of the Supplemental Plan. Net income on trading securities was $1,555 and $1,172 in fiscal 2014 and 2013, respectively. The cost of securities sold is determined primarily on a specific identification method. (Refer to Note 7 for further discussion of the Supplemental Plan, and refer to Note 5 for further discussion of the Company's derivative positions.)

The allocation of Supplemental Plan assets at January 31, 2015 and February 1, 2014, by asset category, is as follows:

	2014	**2013**
Domestic equity securities	**47%**	47%
Investment-grade fixed income	**53**	53
Total	**100%**	100%

4. Indebtedness

Committed Lines of Credit

The Exchange maintains two committed lines of credit aggregating to $2,000,000. The first is an unsecured revolving line of credit that is facilitated by a 13-bank syndicate led by Wells Fargo Bank, N.A. aggregating to $1,500,000 that was entered into on June 24, 2014 and expires on June 24, 2019. In addition, the Exchange has a committed line of credit for $500,000 with Installation Management Command G-9 (IMCOM G-9). This agreement was renewed on June 27, 2014 for a five-year term; however, borrowings against the line of credit cannot have repayment terms that exceed 365 days. Renewal reviews will take place 24 months prior to expiration in order to have the renewal of future agreements in place prior to the one year expiration timeframe. During fiscal 2014, daily borrowings were generally due within 30 to 260 days. As of January 31, 2015, there is $0 and $150,000 outstanding under the Wells Fargo Bank, N.A. Syndication and IMCOM G-9 line of credit, respectively. There were no borrowings under the Wells Fargo Bank, N.A. syndication in 2014; during fiscal 2014, borrowings under the IMCOM G-9 line of credit had interest rates ranging from 0.10% to 0.43%. and 0.40% to 0.85% during fiscal 2013.

Commercial Paper

In June 2013, the Exchange implemented a Commercial Paper (CP) program. The five dealers are JPMorgan, Wells Fargo, Bank of America, Williams Capital and SunTrust Bank. As of January 31, 2015, the outstanding commercial paper obligations, inclusive of original issue discount, are $849,250 and $1,066,000 as of February 1, 2014. This is an open-ended agreement; however, outstanding balances as of January 31, 2015 have maturity dates that range from 1 to 265 days. During fiscal 2014, borrowings under the commercial paper program had interest rates ranging from 0.07% to 0.33% and 0.07% to 0.33% during fiscal 2013.

Senior Notes

In December 2011, the Exchange completed a private placement debt offering of $200,000 in senior notes due February 2017. A delayed funding option was utilized allowing the Exchange to receive funding of the senior notes in February, 2012.

In October 2009, the Exchange completed a private placement debt offering of $90,000 in senior notes (the 2024 senior notes), which comprise a 15-year amortizing principal. As of January 31, 2015, these senior notes have a total remaining obligation of $65,731.

4. Indebtedness (continued)

In June 2009, the Exchange completed a $650,000 offering of debt in a private placement. This offering provided the Exchange with $650,000 in fixed-rate, committed senior notes (the Series A, B, and C senior notes), which were issued in three tranches. The Series A, Series B, and Series C senior notes matured in June 2012, June 2013, and June 17, 2014, respectively.

Term Loans

In fiscal 2014, the Exchange signed four term loan agreements in an aggregate amount of $300,000 as of January 31, 2015, with the following banks: (1) Branch Banking & Trust, (2) Bank of Tokyo – Mitsubishi UFJ, Ltd., (3) Regions Bank and (4) Fifth Third Bank. Both Regions Bank and Bank of Tokyo – Mitsubishi UFJ, Ltd. have a term of two years expiring January 6, 2017 and bear interest at the London Interbank Offered Rate (LIBOR) plus 0.46%. The Branch Banking & Trust and Fifth Third Bank have a term of three years expiring December 31, 2017 and bear interest of at LIBOR plus 0.50%.

The average interest rate for all indebtedness, including lines of credit (both committed and uncommitted), commercial paper, senior notes and term loan was 0.77% for the year ended January 31, 2015.

(Dollars in Thousands, Unless Otherwise Noted)

4. Indebtedness (continued)

Debt obligations as of January 31, 2015 and February 1, 2014, consisted of the following:

	2014	2013
Outstanding debt principal balances:		
IMCOM G-9 committed line of credit	**150,000**	225,000
5.74% Series C senior notes due 2014	**–**	350,000
2.50% senior notes due 2017	**200,000**	200,000
4.95% senior notes due 2024	**65,731**	70,851
Term Loan – Branch Banking & Trust	**100,000**	–
Term Loan – Bank of Tokyo – Mitsubishi UFJ, Ltd.	**100,000**	–
Term Loan – Regions Bank	**50,000**	–
Term Loan – Fifth Third Bank	**50,000**	–
Commercial Paper – JP Morgan	**–**	270,000
Commercial Paper – Wells Fargo	**241,250**	268,000
Commercial Paper – Bank of America	**–**	263,000
Commercial Paper – Williams Capital	**307,000**	265,000
Commercial Paper – SunTrust Bank	**301,000**	–
Total debt obligations	**1,564,981**	1,911,851
Current maturities	**(854,630)**	(1,646,120)
Total long-term debt obligations	**$ 710,351**	$ 265,731

The Exchange believes that the carrying values of amounts outstanding under the Company's line of credit, commercial paper, and term loan agreements approximate fair value given the term of the debt and floating interest rates. As of January 31, 2015, the estimated fair value for the 2017 senior notes and 2024 senior notes are $202,574 and $72,696, respectively. Fair value is calculated using a discounted cash flow analysis with estimated interest rates offered for notes with similar terms and maturities.

Cash paid for interest for fiscal years 2014 and 2013, was approximately $18,009 and $38,130, respectively. The Exchange has complied with all financial and nonfinancial covenants per loan agreements as of January 31, 2015.

(Dollars in Thousands, Unless Otherwise Noted)

4. Indebtedness (continued)

Principal maturities of debt obligations as of January 31, 2015, are as follows:

2015	$ 854,630
2016	155,652
2017	355,938
2018	6,239
2019	156,555
Thereafter	35,967
	$ 1,564,981

The Company has historically regularly extended or replaced its line of credit facilities with similar short-term borrowings and on similar terms and conditions. The Company believes it has the ability and intent to renew its existing facilities coming due in 2015 or replace such facilities on substantially the same or better terms and conditions.

5. Derivative Financial Instruments

Forward and option collar foreign exchange contracts are used primarily to hedge the risk of the Company's euro-denominated payroll and foreign vendor obligations against adverse changes in foreign currency exchange rates. Under the foreign exchange contracts, the Company agrees to pay an amount equal to a specified exchange rate multiplied by a Euro notional principal amount, and to receive in return an amount equal to a specified monthly pegged exchange rate multiplied by the same euro notional principal amount. No other cash payments are made under the contracts, and the contracts cannot be terminated. Under the option collar contracts (effectively the simultaneous purchase of a call option and sale of a put option for the same notional amount and maturity, with the put being the floor strike rate and the call being the ceiling strike rate) the user maintains full protection against adverse movements, but gains due to favorable exchange rate moves are limited to the strike price of the sold option.

The Company has designated the forward and option collar foreign exchange contracts as cash flow hedges of its exposure to changes in its functional currency-equivalent cash flows on the associated payroll and foreign vendor obligations. Accordingly, the changes in the fair value of the Company's forward and option collar foreign exchange contracts are recorded in the Company's balance sheet as an asset or liability and in net assets (as a component of

(Dollars in Thousands, Unless Otherwise Noted)

5. Derivative Financial Instruments (continued)

accumulated other comprehensive loss). As the notional amounts and terms of each forward and option collar foreign exchange contract match those of its liability counterpart at maturity, any ineffectiveness is immaterial in the foreign exchange contracts.

Upon expiration of the hedge contracts, the amount of the hedged item that affects earnings is reclassified from accumulated other comprehensive loss.

As of January 31, 2015, the Company had various foreign exchange contracts (forwards and option collars) outstanding related to approximately $134,369 (€105,200) of its forecasted payroll and inventory purchase liabilities. As of January 31, 2015, the notional value of the outstanding forward contracts was $20,688 (€16,500) with a corresponding loss of $2,046. The notional value of outstanding option collar contracts was $113,681 (€88,700) with a corresponding loss of $13,500. The net loss of $15,546 is included in accrued salaries, separation pay, and other benefits and accounts payable on the accompanying balance sheet and is included as a component of accumulated other comprehensive loss. The balance of $15,546 in accumulated other comprehensive loss is expected to be reclassified into earnings within the next 12 months. The effects of outstanding derivatives are revalued periodically. The Company has recognized approximately $3,914 in losses on foreign currency hedge transactions settled during fiscal 2014, compared to $2,128 in gains during fiscal 2013.

Unrealized gains and losses on foreign exchange hedges that are included in accumulated other comprehensive loss are recognized into earnings as the related payroll expenses are paid or the related inventory is purchased.

	Derivative Assets		
		Fair Value	
	Balance Sheet Location	**January 31, 2015**	**February 1, 2014**
Derivatives designated as hedging instruments			
Foreign currency exchange contracts	Accounts payable	**$ (11,660)**	$ 175
	Accrued salaries, separation pay, and other employee benefits	**(3,886)**	59
Total derivatives designated as hedging instruments		**$ (15,546)**	$ 234

(Dollars in Thousands, Unless Otherwise Noted)

5. Derivative Financial Instruments (continued)

Reclassifications from accumulated other comprehensive loss are recognized in selling, general, and administrative other expense in the statement of earnings.

6. Lease and Rental Obligations

The Company's operating lease and rental commitments primarily include real estate and information technology leases. The Company recorded rent expense of $4,428 and $6,419 for the fiscal years ended January 31, 2015 and February 1, 2014, respectively. The following is a schedule, by year, of the future minimum rental payments required under all leases as of January 31, 2015:

2015	$ 4,333
2016	4,276
2017	4,190
2018	122
2019	122
Thereafter	3,368
	$ 16,411

7. Benefit Plans

The Exchange has a defined benefit pension plan, the Retirement Annuity Plan (the Basic Plan), covering regular full-time civilian employees of the Company who are citizens or residents of the U.S. In addition, a noncontributory supplemental deferred compensation plan (the Supplemental Plan) provides for selected benefits to employees in the Executive Management Program. The Exchange's policy is to annually fund actuarially determined postretirement expense unless the respective plan is fully funded or unless an asset-liability model has shown the respective plan will likely become fully funded even in the absence of future contributions. The benefits are based on years of service and the employees' highest three-year average compensation. Assets of the plans consist primarily of marketable debt and equity securities.

7. Benefit Plans (continued)

In addition to the Exchange's pension plan, certain medical and dental (health care) and life insurance benefits are also provided to retired employees through the Postretirement Medical/Dental and Life Insurance (Postretirement) plans for employees of the Exchange. All regular full-time U.S. civilian employees who are paid on the U.S. dollar payroll may become eligible for these benefits if they satisfy eligibility requirements during their working lives. The Exchange's policy is to annually fund actuarially determined Postretirement expense unless the respective plan is fully funded or unless an asset-liability model has shown the respective plan will likely become fully funded, even in the absence of future contributions.

The Exchange also provides certain life insurance and other disability benefits for active employees. Benefits are paid from a Voluntary Employee Beneficiary Association (VEBA) trust maintained by the Exchange and to which the Company contributes each year. As of January 31, 2015, the Company recorded a liability of approximately $31,911, which represents an estimated liability of $37,877 less trust assets of $5,966. At February 1, 2014, the Company recorded a liability of $32,613, which represents an estimated liability of $41,764 less trust assets of $9,151.

In addition, the Company provides a noncontributory defined benefit pension plan to its employees in the United Kingdom (UK Plan). With the UK Plan, the Exchange also provides postemployment benefits (e.g., separation pay) through its Local National benefit plans to employees in Germany, Japan, Okinawa, Azores, Italy, and Turkey (collectively, referred to as Foreign Plans).

The Exchange measures the cost of its pension plans and other benefit plans in accordance with ASC 715, *Compensation – Retirement Benefits*. In addition, assets of the Supplemental Plan do not qualify as plan assets as defined in ASC 715 and, as a result, are accounted for in accordance with ASC 320, *Investments-Debt and Equity Securities*.

7. Benefit Plans (continued)

The following table provides a reconciliation of the changes in the plans' benefit obligations and fair value of assets for the years ended January 31, 2015 and February 1, 2014. Amounts are stated in millions.

	Pension Benefits				Other Benefits			
	The Basic Plan		Supplemental Plan		Postretirement		Foreign Plans	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
Change in projected benefit obligations (PBO)								
PBO at prior measurement date	**$ 4,174**	$ 4,249	**$ 15**	$ 18	**$ 2,155**	$ 2,208	**$ 82**	$ 84
Service cost	**84**	99	**1**	1	**22**	27	**3**	3
Interest cost	**203**	194	**1**	1	**106**	99	**3**	3
Plan participants' contributions	**4**	4	**–**	–	**–**	–	**–**	–
Change in assumptions	**–**	–	**–**	–	**–**	–	**11**	2
Actuarial loss (gain)	**880**	(135)	**8**	(5)	**491**	(73)	**2**	(1)
Foreign exchange impact	**–**	–	**–**	–	**–**	–	**(10)**	–
Benefits paid	**(253)**	(221)	**(1)**	–	**(108)**	(100)	**(12)**	(5)
Administrative expenses paid	**(17)**	(16)	**–**	–	**(7)**	(6)	**–**	–
Other	**–**	–	**–**	–	**–**	–	**5**	(4)
PBO at current measurement date	**$ 5,075**	$ 4,174	**$ 24**	$ 15	**$ 2,659**	$ 2,155	**$ 84**	$ 82
Change in plan assets								
Fair value of assets at prior measurement date	**$ 3,803**	$ 3,716	**$ –**	$ –	**$ 1,561**	$ 1,448	**$ 43**	$ 38
Actual return on assets	**330**	320	**–**	–	**143**	165	**7**	2
Employer contributions	**–**	–	**–**	–	**34**	54	**3**	3
Plan participants' contributions	**4**	4	**–**	–	**–**	–	**–**	–
Benefits paid	**(254)**	(221)	**–**	–	**(108)**	(100)	**(2)**	(2)
Administrative expenses paid/foreign exchange impact	**(17)**	(16)	**–**	–	**(7)**	(6)	**(4)**	2
Fair value of assets at current measurement date	**$ 3,866**	$ 3,803	**$ –**	$ –	**$ 1,623**	$ 1,561	**$ 47**	$ 43
Funded status at fiscal year end	**$ (1,209)**	$ (371)	**$ (24)**	$ (15)	**$ (1,036)**	$ (594)	**$ (37)**	$ (39)

7. Benefit Plans (continued)

Supplemental assets do not qualify as plan assets.

The following table reflects amounts recognized in the balance sheets as of January 31, 2015 and February 1, 2014. Amounts are stated in millions.

	Pension Benefits				**Other Benefits**			
	The Basic Plan		**Supplemental Plan**		**Postretirement**		**Foreign Plans**	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Amounts recognized in the balance sheets								
Other current liabilities	**$ –**	$ –	**$ –**	$ –	**$ 70**	$ 38	**$ 4**	$ 3
Accrued pension and other benefits liability	**1,209**	371	**24**	15	**966**	556	**33**	36
Accumulated other comprehensive loss	**(1,794)**	(1,028)	**(14)**	(7)	**(1,100)**	(681)	**(23)**	(19)

A summary of the components of net periodic benefit cost (income) for the benefit plans is as follows for the years ended January 31, 2015 and February 1, 2014. Amounts are stated in millions.

	Pension Benefits				**Other Benefits**			
	The Basic Plan		**Supplemental Plan**		**Postretirement**		**Foreign Plans**	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Net periodic cost								
Service cost	**$ 84**	$ 99	**$ 1**	$ 1	**$ 23**	$ 27	**$ 3**	$ 3
Interest cost	**203**	194	**1**	1	**106**	99	**3**	3
Expected return on assets	**(288)**	(274)	**–**	–	**(119)**	(109)	**(2)**	(2)
Prior service cost amortization	**–**	–	**–**	–	**–**	–	**–**	–
Other Adjustments	**–**	–	**–**	–	**–**	–	**7**	(3)
Net loss amortization	**72**	112	**1**	1	**48**	62	**1**	1
Net periodic benefit cost	**$ 71**	$ 131	**$ 3**	$ 3	**$ 58**	$ 79	**$ 12**	$ 2

7. Benefit Plans (continued)

Information for benefit plans with an accumulated benefit obligation in excess of plan assets is as follows. Amounts are stated in millions.

	Pension Benefits				Other Benefits			
	The Basic Plan		Supplemental Plan		Postretirement		Foreign Plans	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Projected benefit obligation	**$ 5,075**	$ 4,174	**$ 24**	$ 15	**$ 2,659**	$ 2,155	**$ 84**	$ 82
Accumulated benefit obligation	**4,738**	3,913	**9**	8	**2,659**	2,155	**73**	69
Fair value of plan assets	**3,866**	3,803	**–**	–	**1,623**	1,561	**47**	43

Amounts included in accumulated other comprehensive income for all plans at January 31, 2015, consist of net actuarial losses of $2,930,954. Amortization of this amount expected to be recognized in fiscal year 2015 is $210,586.

Actuarial Assumptions

Actuarial weighted-average assumptions used in determining plan liabilities are as follows:

	Pension Benefits		Pension Benefits		Other Benefits	
	The Basic Plan		Supplemental Plan		Postretirement	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
Assumptions used to determine expense:						
Discount rate	**5.01%**	4.62%	**5.01%**	4.62%	**5.10%**	4.68%
Long-term rate of return on assets	**8.25**	8.25	**–**	–	**8.75**	8.75
Compensation increase rate	**4.77**	4.30	**9.74**	9.00	**–**	–
Assumptions used at disclosure:						
Discount rate	**3.99**	5.01	**3.99**	5.01	**4.09**	5.10
Compensation increase rate	**4.77**	4.30	**9.95**	9.00	**–**	–

(Dollars in Thousands, Unless Otherwise Noted)

7. Benefit Plans (continued)

	Other Benefits		Other Benefits	
	UK Plan		Local National Plan	
	2014	**2013**	**2014**	**2013**
Assumptions used to determine expense:				
Discount rate	**4.30%**	4.50%	**2.31%**	2.36%
Long-term rate of return on assets	**6.00**	6.00	**-**	–
Compensation increase rate	**3.20**	3.20	**2.49**	2.33
Assumptions used at disclosure:				
Discount rate	**3.00**	4.30	**1.14**	2.14
Compensation increase rate	**2.80**	3.20	**2.49**	2.33

Actuarial assumptions are based on management's best estimates and judgment. The Exchange reassesses its benefit plan assumptions on a regular basis. The expected rate of return for the pension plans represents the average rate of return to be earned on the plan assets over the period that the benefits included in the benefit obligation are to be paid. In developing the expected rate of return, the Exchange considers the impact of long-term compound annualized returns on the plan assets.

Pension Plan Assets

The Exchange's investment objectives for the benefit plans are designed to generate asset returns that will enable the plans to meet their future benefit obligations. The precise amount for which these obligations will be settled depends on future events, including interest rates, salary increases and the life expectancy of the plans' members. The obligations are estimated using actuarial assumptions, based on the current economic environment.

The benefit plans seek to achieve total returns sufficient to meet expected future obligations, as well as returns greater than their policy benchmark reflecting the target weights of the asset classes used in their targeted strategic asset allocation. The plans' targeted strategic allocation to each asset class was determined through an asset-liability modeling study.

(Dollars in Thousands, Unless Otherwise Noted)

7. Benefit Plans (continued)

The following table sets forth the target allocations of plan assets:

	Pension Benefits		Other Benefits		Other Benefits	
	The Basic Plan		Postretirement Plan		UK Plan	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
Domestic equity securities	**12%**	12%	**13%**	13%	**26%**	26%
International equity securities	**11**	11	**11**	11	**35**	35
Emerging market equity securities	**3**	3	**4**	4	**4**	4
Low_Vol Global Equity	**9**	9	**10**	10	**–**	–
Investment-grade fixed income	**16**	16	**12**	12	**35**	35
High-yield fixed income	**10**	10	**10**	10	**–**	–
Treasury inflation protected securities (TIPS)	**5**	5	**5**	5	**–**	–
Real estate – private	**5**	5	**5**	5	**–**	–
Real estate – public	**2**	2	**2**	2	**–**	–
Private equity	**9**	9	**10**	10	**–**	–
Commodities	**5**	5	**5**	5	**–**	–
Alternative debt	**5**	5	**5**	5	**–**	–
MLP's	**5**	5	**5**	5	**–**	–
Timber/Farmland	**3**	3	**3**	3	**–**	–
Total	**100%**	100%	**100%**	100%	**100%**	100%

(Dollars in Thousands, Unless Otherwise Noted)

7. Benefit Plans (continued)

The Exchange's benefit plan actual asset allocations at January 31, 2015 and February 1, 2014, by asset class category are as follows:

	Pension Benefits		Other Benefits		Other Benefits	
	The Basic Plan		Postretirement Plan		UK Plan	
	2014	2013	2014	2013	2014	2013
Domestic equity securities	**11%**	19%	**15%**	24%	**25%**	26%
International equity securities	**11**	14	**17**	19	**34**	35
Emerging market equity securities	**5**	5	**4**	4	**4**	4
Low-Val Global Equity	**9**	–	**10**	–	**–**	–
Investment-grade fixed income	**19**	16	**13**	11	**37**	35
High-yield fixed income	**11**	10	**9**	10	**–**	–
TIPS	**4**	4	**4**	5	**–**	–
Real estate – private	**9**	9	**8**	8	**–**	–
Real estate – public	**3**	3	**3**	2	**–**	–
Private equity	**9**	9	**10**	10	**–**	–
Commodities	**6**	8	**4**	4	**–**	–
Alternative debt	**3**	3	**3**	3	**–**	–
Total	**100%**	100%	**100%**	100%	**100%**	100%

Equity securities are diversified across various industries and comprise common and preferred stocks of U.S. and international companies and equity positions in privately held companies controlled through limited partnerships. Common and preferred stocks are based on market quotations and are classified as Level 1 in the fair value hierarchy. The estimated fair values of the investments in the collective investment funds represent the underlying net asset values of the shares or units of such funds as determined by the issuer. Limited partnerships are valued at the plans' proportionate share of the estimated fair value of the underlying net assets as determined by the general partners. The limited partnerships are valued based on purchase price when recently acquired; valuation models such as discounted cash flows or market multiples; financial

7. Benefit Plans (continued)

measures, such as free cash flow or earnings before interest, taxes, depreciation and amortization (EBITDA); or market comparisons for similar assets and are classified as Level 3 investments. Foreign obligations are foreign equities traded on U.S. exchanges as American Depository Receipts (ADRs), are valued based on market quotations, and are classified as Level 1 investments.

Debt securities comprise corporate bonds, government securities, and asset-backed or collective investment funds and limited partnerships with underlying debt securities. U.S. Government obligations are valued at the closing price reported on the active market on which the individual securities U.S. government obligations are valued at the closing price reported on the active market on which the individual securities are traded. U.S. government agency securities are usually traded in active markets; however, they may not trade with sufficient frequency to rely on a single price of the same security. As such, broker quotes may be used based on similar assets in active markets. U.S. government obligations are valued as Level 1 investments. Corporate bonds are usually traded in active markets; however, they may not trade with sufficient frequency to rely on a single price of the same security. As such, broker quotes may be used based on similar assets in active markets. Asset-backed securities are publicly traded securities with coupon payments based on the performance of the underlying assets and are usually traded in active markets; however, they may not trade with sufficient frequency to rely on a single price of the same security. As such, broker quotes may be used based on similar assets in active markets. Corporate bonds and asset-backed securities are classified as Level 2 investments. Registered investment companies are valued based on the net asset value held at year-end and are classified as Level 2 investments.

Real estate and commodities comprise investments whose underlying value is based on real estate or commodities. Publicly traded securities are equity shares in Real Estate Investment Trusts (REITs) and are valued based on market quotations. Collective investment funds with underlying investments in exchange-traded positions are classified as Level 2 investments. Collective investment funds and limited partnerships with underlying investments in real estate are classified as Level 3 investments. The estimated fair value of the underlying real estate is based on the selling price of the property, income the property is expected to generate and the market values of any commodities currently on the land.

Other investments consist primarily of investment contracts and are valued at the quoted price as determined by the issuer. Contracts are classified as Level 2 investments.

(Dollars in Thousands, Unless Otherwise Noted)

7. Benefit Plans (continued)

The fair value hierarchy discussed in Note 3 is not only applicable to assets and liabilities that are included in the Company's consolidated balance sheets but is also applied to certain other assets that indirectly impact the consolidated financial statements. The Company uses the fair value hierarchy to measure the fair value of assets held by pension and postretirement benefit plans. The following table sets forth by level, within the fair value hierarchy, the Company's benefit plan assets and liabilities that are measured at fair value as of January 31, 2015:

	Benefit Plans			
	Total	**Level 1 Quoted Prices in Active Markets**	**Level 2 Significant Observable Inputs**	**Level 3 Significant Unobservable Inputs**
Assets				
Temporary investments[(a)]	**$ 13,300**	**$ 13,300**	**$ –**	**$ –**
Equity securities:				
Common and preferred stock[(b)]	**745,011**	**745,011**	**–**	**–**
Collective investment funds[(c)]	**1,376,360**	**–**	**1,376,360**	**–**
Limited partnerships[(d)]	**480,563**	**–**	**–**	**480,563**
Foreign obligations[(e)]	**23,547**	**23,547**	**–**	**–**
Debt securities:				
Common and preferred stock[(b)]	**147**	**147**	**–**	**–**
Corporate bonds[(g)]	**554,185**	**–**	**554,185**	**–**
U.S. government obligations[(f)]	**272,331**	**272,331**	**–**	**–**
Asset-backed securities[(j)]	**4,103**	**–**	**4,103**	**–**
Collective investment funds[(h)]	**841,380**	**–**	**841,380**	**–**
Short Term Investment Funds	**79,497**	**–**	**79,497**	**–**
Limited partnerships[(d)]	**165,301**	**–**	**–**	**165,301**
Real estate and commodities:				
Common and preferred stock[(b)]	**170,358**	**170,358**	**–**	**–**
Collective investment funds[(i)]	**718,847**	**–**	**146,456**	**572,391**
Limited partnerships[(d)]	**74,801**	**–**	**–**	**74,801**
Due to/from broker for sale of securities – net	**6,952**	**6,952**	**–**	**–**
Other investments	**9,909**	**–**	**9,909**	**–**
Total investments	**$ 5,536,592**	**$ 1,231,646**	**$ 3,011,890**	**$ 1,293,056**

(Dollars in Thousands, Unless Otherwise Noted)

7. Benefit Plans (continued)

The following table sets forth by level, within the fair value hierarchy, the Company's benefit plan assets and liabilities that are measured at fair value as of February 1, 2014:

	Benefit Plans			
	Total	Level 1 Quoted Prices in Active Markets	Level 2 Significant Observable Inputs	Level 3 Significant Unobservable Inputs
Assets				
Temporary investments[a]	$ 14,005	$ 14,005	$ –	$ –
Equity securities:				
Common and preferred stock[b]	881,738	881,738	–	–
Collective investment funds[c]	1,279,626	–	1,279,626	–
Limited partnerships[d]	466,487	–	–	466,487
Foreign obligations[e]	29,926	29,926	–	–
Debt securities:				
Common and preferred stock[b]	486	486	–	–
Corporate bonds[g]	537,770	–	537,770	–
U.S. government obligations[f]	255,634	255,634	–	
Asset-backed securities[j]	5,354	–	5,354	–
Collective investment funds[h]	763,432	–	763,432	–
Limited partnerships[d]	173,324	–	–	173,324
Registered investment companies	38,500	–	38,500	–
Real estate and commodities:				
Common and preferred stock[b]	127,943	127,943	–	–
Collective investment funds[i]	733,388	–	197,435	535,953
Limited partnerships[d]	82,404	–	–	82,404
Due to/from broker for sale of securities – net	5,853	5,853	–	–
Other investments	11,000	–	11,000	–
Total investments	$ 5,406,870	$ 1,315,585	$ 2,833,117	$ 1,258,168

7. Benefit Plans (continued)

[a] Primarily consist of cash held in foreign currencies.

[b] Holdings are diversified as a percentage of total equity as follows: Domestic Markets (51%) and Developed International Markets (49%). Domestic Markets are diversified by Large Cap (38%), Small Cap (11%), and Public Real Estate – REITS (39%). There are no significant concentrations of holdings by the Exchange.

[c] 72% of holdings consist of Blackrock index funds, which are passive in nature and employ a strategy of investing in securities that provide beta (market) exposure to a specific index including the S&P 500 and MSCI EAFE. The remaining 28% consists of international, small cap, and low volatility investments in the form of mutual funds. The collective investment funds consist of Domestic (35%) and International (65%). Investments have a required notice of three days for any sales or liquidation. The fund's management may impose restrictions on cash redemptions in the fund outside the normal course of business. Distributions may be made in cash or in kind or partly in cash or partly in kind at the sole discretion of the fund's trustee. There are no restrictions on withdrawals.

[d] Includes limited partnerships that invest primarily in U.S. buyout opportunities as well as opportunistic debt of a range of privately held companies. The fund does not have to redeem its limited partnership investment at its net asset value. Instead, the fund receives distributions as the underlying assets of the fund are liquidated. It is estimated that the underlying assets of these funds will be gradually liquidated over the next 1 to 10 years.

[e] Holdings include International 87% and Domestic 13% securities in the form of American Depository Receipts which represent underlying securities, traded on non-U.S. exchanges.

[f] Fixed-income treasury securities backed by the full faith and credit of the U.S. government. There are no significant foreign currency risks within this segment.

[g] Includes 57% and 61% of investments in corporate high-yield debt with S&P rating of B- and below as of January 31, 2015 and February 1, 2014, respectively. The remaining investments are in investment-grade corporate bonds.

[h] The State Street Bank and Trust Company Short Term Investment Fund employs a strategy to provide safety of principal, daily liquidity, and a competitive yield by investing in high-quality money market instruments. Issuances and redemptions are made on each business day. The fund's management may impose restrictions on cash redemptions in the fund outside the normal course of business. Distributions may be made in cash or in kind or partly in cash or partly in kind at the discretion of the funds' trustee.

[i] Investments include both commodities and real estate, which provide diversified returns relative to stocks and bonds. The underlying commodity investments are actively traded futures, which have full pricing transparency and daily liquidity and are reported as Level 2 investments. Real estate holdings include direct real estate investments in properties that are valued by appraisal and reported as Level 3. The investments are diversified by core 66% and value-added or opportunistic 9% investments. Commodity investments include farmland and timber, which represent 26% of the allocation. There is quarterly redemption available for the real estate investments with a 60-day notice.

[j] Holdings consist primarily of publicly traded fixed-income securities whose payments are based on the performance of an underlying asset. The underlying assets are allocated as follows: collateralized mortgage obligations 34% and other assets 66%, including student loans.

(Dollars in Thousands, Unless Otherwise Noted)

7. Benefit Plans (continued)

Level 3 Gains and Losses

The tables below set forth a summary of changes in the fair value of the Plan Level 3 assets for the years ended January 31, 2015 and February 1, 2014:

	Year Ended January 31, 2015		
	Equity Securities	**Debt Securities**	**Real Estate/ Commodities**
Balance, beginning of year	**$ 466,487**	**$ 173,324**	**$ 618,357**
Realized gains and losses	**42,857**	**20,547**	**26,489**
Unrealized gains (losses) relating to instruments still held at the reporting date	**14,779**	**(7,478)**	**28,763**
Purchases	**65,065**	**23,343**	**–**
Sales	**(108,625)**	**(44,435)**	**(26,417)**
Balance, end of year	**$ 480,563**	**$ 165,301**	**$ 647,192**

	Year Ended February 1, 2014		
	Equity Securities	**Debt Securities**	**Real Estate/ Commodities**
Balance, beginning of year	$ 443,434	$ 185,038	$ 592,716
Realized gains	23,539	20,106	25,313
Unrealized gains relating to instruments still held at the reporting date	36,207	9,536	40,916
Purchases	36,814	14,816	–
Sales	(73,507)	(56,172)	(40,588)
Balance, end of year	$ 466,487	$ 173,324	$ 618,357

Employer Contributions

The Exchange expects to contribute approximately $70,179 to the other Postretirement benefit plans in fiscal 2015.

(Dollars in Thousands, Unless Otherwise Noted)

7. Benefit Plans (continued)

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Fiscal Years	Basic Plan	Supplemental Plan	Postretirement	Foreign Plans
2015	$ 247,148	$ 455	$ 109,626	$ 6,292
2016	252,338	463	114,781	4,092
2017	257,107	470	120,124	4,015
2018	261,889	478	125,164	3,933
2019	266,543	487	130,256	3,995
2020–2024	1,401,773	2,646	699,135	20,236

Assumed Health Care Cost Trend Rates at the End of January

	2014	2013
Health care cost trend rate assumed for next year	**6.50%**	7.00%
Rate to which the cost trend rate is assumed to decline (ultimate trend rate)	**4.50%**	4.50%
Year that the rate reaches the ultimate trend rate	**2022**	2019

8. Dividends

The Exchange is required, under various agreements, to distribute a portion of each year's net earnings before performance bonuses in the form of dividend payments to the Central Welfare Funds, Departments of the Army, the Air Force, the Navy, and the Marine Corps. If earnings exceed the financial plan (AFP), the Exchange will retain the first 15% of the excess earnings and the remainder will be distributed in the form of dividend payments.

If dividends were paid on the pension income and realized and unrealized gains and losses recorded in accordance with ASC 715 and ASC 320, the Exchange would be paying dividends to the Central Welfare Funds, Departments of the Army, the Air Force, the Navy, and the Marine

8. Dividends (continued)

Corps on noncash amounts, which would impact cash reserves used in the normal operation of the business. Accordingly, under the current dividend policy, these items are excluded from net earnings subject to dividends. Any other exclusion used in the calculation of net earnings subject to dividends must be approved by the Board of Directors.

The Exchange's policy is to annually fund actuarially determined postretirement expense unless the plan is fully funded or unless an asset-liability model has shown the plan will likely become fully funded, even in the absence of future contributions. Therefore, each year, pension expense generally reduces the net earnings subject to dividends to the extent cash contributions have actually been made.

9. Commitments and Contingencies

The Company is a defendant in various lawsuits and claims. In the opinion of management, the amounts, if any, which might ultimately be paid in connection with settlement of the litigation would not have a material effect on the financial condition, results of operations, or cash flows of the Company.

10. Middle East, Including Operation Enduring Freedom and U.S. Mission Iraq

The Company's presence in Iraq, Qatar, Afghanistan, and Kuwait was supported by 39 and 52 stores as of January 31, 2015 and February 1, 2014, respectively. Approximately $179,294 (2.4%) and $293,036 (3.8%) of the Company's net revenues in the fiscal years 2014 and 2013, respectively, were derived from sales to U.S. troops stationed in the Middle East, including OEF and U.S. Mission Iraq. The decrease in revenue for fiscal years 2014 and 2013, was primarily due to U.S. troop withdrawal from Afghanistan. The drawdown in troop levels initiated a closure of military bases and leaves limited Exchange operations. Any continued or significant disruption or retreat from the locale directed by the United States military could have an adverse impact on the results of operations. The Company's OEF physical inventory balance, at cost, was $26,563 at January 31, 2015. At January 31, 2015, the Exchange held no inventory in Iraq. The Company's OEF and U.S. Mission Iraq physical inventory balance, at cost, was $23,253 at February 1, 2014. It is difficult to estimate the potential inventory that may be forfeited if the United States must quickly exit a country. Any related loss on inventory could adversely affect the Company's results of operations unless such losses are eligible for appropriations that are reasonably assured of collection.

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2014 BY THE NUMBERS

$9.2 B

IN REVENUE
(INCLUDES CONCESSIONS)

$373 M

IN EARNINGS

$224 M

IN DIVIDENDS

37%

ASSOCIATES CONNECTED TO THE MILITARY

4,468

ASSOCIATES DEPLOYED TO COMBAT ZONES SINCE 9/11

10,470

FOOD SERVICE WORKERS

4 M

SCHOOL LUNCHES SERVED EVERY YEAR

7

PLANTS PROVIDING BAKED GOODS/ BOTTLED WATER TO MILITARY OVERSEAS

1.3 M

COMBAT UNIFORMS OUTFITTED

450 M

GALLONS OF GAS SOLD ANNUALLY

79 M

CUSTOMERS SERVED AT EXCHANGE RESTAURANTS

10 M

HAIRCUTS AT EXCHANGE BARBERSHOPS & SALONS

699

WOUNDED WARRIORS HIRED SINCE 2010

2,440

FACILITIES WORLDWIDE

50

STATES

33

COUNTRIES