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Description of document: Army and Air Force Exchange Service (AAFES) Board of

Director meeting minutes, 2006-2012

Request date: 28-September-2012

Request date: 26-June-2015

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Posted date: 17-August-2015

Note: Meeting minutes are presented as released. See following page

for further information.

Source of document: The Exchange

General Counsel Office – FOIA

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AAFES FOIA REQUEST FA-13-0014

Dates of AAFES Board Meeting Minutes Released 13-November-2012:

- 4 November 2009
- 18 May 2010
- 17 August 2010
- 9 December 2010
- 16 February 2011
- 19 May 2011
- 17 August 2011
- 16 November 2011
- 15 February 2012
- 16 May 2012

AAFES FOIA REQUEST FA-15-0330

Dates of AAFES Board Meeting Minutes Released August 4, 2015:

- 17 February 2006
- 17 May 2006
- 16 August 2006
- 15 November 2006
- 28 February 2007
- 16 May 2007
- 15 August 2007
- 15 November 2007
- 13 February 2008
- 14 May 2008
- 14 August 2008
- 6 November 2008
- 4 February 2009
- 13 May 2009
- 18 August 2009
- 25 September 2012
- 3 December 2012
- 4 March 2013
- 22 May 2013
- 20 November 2013
- 29 May 2014
- 26 January 2015



ARMY & AIR FORCE EXCHANGE SERVICE P.O. Box 650060 Dallas, TX 75265-0060 Phone 214-312-6103: FAX 214-465-2912

GC-E

November 13, 2012

FA-13-0014 FOIA Request

This is in response to your September 28, 2012 Freedom of Information Act (FOIA) request to the Army and Air Force Exchange Service (Exchange). The Exchange FOIA office received your original request on October 10, 2012. On October 22, 2012 you revised your request to the following:

- 1. Copies of Exchange Board meeting minutes for the past three years.
- 2. Exchange Board policy on tobacco sales.

The FOIA office responded to item number 2 of your request by e-mail on October 27, 2012 with a copy of the Exchange policy on tobacco. This letter is in reference to item number 1 of your request.

Attached are 88 responsive pages. Names of individuals have been redacted from the enclosure pursuant to FOIA Exemption (b)(6), the disclosure of which could reasonably be expected to constitute an unwarranted invasion of the personal privacy of others. In addition, these names have also been removed to be compliant with the Department of Defense (DoD) Names Policy. The meeting notes contain information which is pre-decisional and therefore withheld to protect deliberative privilege in accordance with FOIA Exemption (b)(5).

Should you have any questions relative to the processing of your request or the fees due, please contact the FOIA office at 214-312-6103.

As the Exchange initial denial authority for the FOIA, I am responsible for the decision to withhold the noted information. You may appeal this decision by sending a letter to the Secretary of the Army postmarked no later than 60 calendar days after the date of this letter. Any appeal must include such reasons for reconsideration and a copy of this letter. Address your

letter to Secretary of the Army, Office of the General Counsel, THRU: The Exchange, Attn: GC-E, P.O. Box 650060, Dallas, TX 75265-0060.

Sincerely,

Encls.

1. Copy of FOIA Request

2. Director of Board Meeting Notes

MARK H. PATTERSON

Colonel, USAF General Counsel

MINUTES OF THE REGULAR MEETING OF THE

BOARD OF DIRECTORS ARMY AND AIR FORCE EXCHANGE SERVICE

4 November 2009

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MINUTES OF THE REGULAR MEETING BOARD OF DIRECTORS ARMY & AIR FORCE EXCHANGE SERVICE (AAFES)

The 258th meeting of the AAFES Board of Directors was called to order by the Acting Chairman on 4 Nov 2009 in the Kaiserslautern Military Community Center, Ramstein AFB, Germany.

ATTENDANCE

MEMBERS PRESENT:	
(b)(6) Privacy and DoD Names List	
ALTERNATES PRESENT:	
(b)(6) Privacy and DoD Names List	
MEMBERS ABSENT:	
(b)(6) Privacy and DoD Names List	
SECRETARIAT: b)(6) Privacy and DoD Names List	
b)(0) Filvacy and DoD Names List	
BOARD PRESENTERS: (b)(6) Privacy and DoD Names List	
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GUESTS:	_
b)(6) Privacy and DoD Names List	

OPENING COMMENTS BY THE CHAIRMAN:

A quorum being present, the Acting Chairman (b)(6) Privacy opened the 258th meeting of the Board of Directors at 0800. He thanked all members for attending and welcomed (b)(6) and to their first AAFES Board meeting (b)(6) Privacy commented on the Winderful new facilities the Board was visiting at Ramstein AB (b)(6) and that early results showed a 20 percent net sales lift for the area.

APPROVAL OF AUGUST 2009 BOD MINUTES

(b)(6) Privacy asked for any corrections or additions to the minutes of the 18 August 2009 meeting and, there being none, asked for a motion to approve the minutes.

Motion (b)(6) moved that the minutes of the 18 August 2009 Board meeting be approved as written. (b)(6) Privacy seconded the motion, and the minutes were unanimously approved.

AAFES COMMANDER'S REPORT

The Acting Chairman asked the AAFES Commander to update the Board (b)(6) Privacy thanked the members for coming to see the facilities at KMCC. AAFES facilities occupy 400,000 square feet. The life-style center project at Fort Bliss will have 500,000 square feet and (b)(6) Privacy believes the Board is now looking at the AAFES of the future. (b)(6) Privacy continued his report by reviewing industry trends and the current vs. last year views or corporate CFO's. Against ten percent a year ago, 40 percent of CFO's now poll as "more optimistic". Most experts estimate that a more substantial economic recovery will not occur until the second or third quarters of 2010 (b)(6) (b)(6) reported that the last quarter of this year is in line with '08 results (b)(6) Privacy also reported that there are two global retailers (Wal-Mart and AAFES) with plus sales and A+ ratings by Standard & Poor's.

(b)(6) Privacy continued with a discussion of AAFES involvement with social media. He reviewed the corporate scorecard over his tenure for 12 objectives previously presented to the Board. These included improving supply chain productivity, return on invested capital and consumer satisfaction and associate satisfaction indices in which he gave AAFES an A. He also discussed grading AAFES an F in obtaining appropriations to offset BRAC relocation costs. Finally, he discussed the ongoing branding initiative as a way of delivering on a promise to Soldiers, Airmen, Sailors and Marines.

)(5) Deliberative Process Privilege	
o)(5) Deliberative Process Privilege	
o)(5) Deliberative Process Privilege	

OPERATIONS UPDATE

operations. (b)(6) briefed the Board on AAFES efforts to obtain multifunction wireless handheld devices which would provide store management with critical real time-item information. He also addressed new Firestone Complete Auto Care and Game Stop concessions opened in 2009 and planned for 2010. Collaborative merchandising partnerships were also initiated with Macy's Martha Stewart, Macy's Inc., Victoria's Secret - Pink, and Proctor and Gamble (b)(6) Privacy discussed the merchandising and inventory control improvements resulting from mese energy.

(b)(6) Privacy continued with a presentation on AAFES' Branding initiative. He reviewed how the AAFES logo had changed over the years and then discussed current retailer examples of integrated branding. He also reviewed AAFES efforts at branding to include décor, shopping bag and logistics fleet (semi-trailer) applications.

FINANCE COMMITTEE REPORT

(b)(6) Privacy
said his report included
presentations on the financial status of AAFES, the annual financial plan for 2010, an update on post
allowance dividend impact and post fiscal analysis of capital projects. He introduced (b)(6)
(b)(6) Privacy

Financial Status Report

(b)(6) Privacy addressed AAFES financial results to date through retail fiscal year (FY) September 2009:

Revenues decreased 6% against the same period last year due to the decline in gas sales which was driven by a \$1.30 average lower price per gallon. However, net sales without gas did increase marginally over the prior year.

Earnings without appropriated funds (APF) were down 2% on the year to date, partially driven by higher depreciation, increased bad debt expense and other expenses. Bad debt expense in 2008 was abnormally low due to automatic collections from IRS stimulus checks. Furthermore, an increase in the number of new Milstar accounts and greater credit use helped drive the rise in bad debt. AAFES has continued to mitigate these expense increases through reduced cost of sales in gasoline and hardlines.

<u>Dividends</u> (without APF reimbursements) decreased \$2.6M versus last year. Class Six dividends were down \$1.8M due to closed stores in Puerto Rico and telephone dividends dropped \$1.3M as that business continues to decline, AAFES core dividends were up \$0.6M or one percent.

(b)(6) Privacy also reviewed key impacts and anomalies such as prime rate and foreign currency variances from budget and the positive impact of pension aggregation. He then reviewed sales and earnings projections for the balance of 2009.

Annual Financial Plan FY 2010

(b)(6) Privacy introduce (b)(6) Privacy presentation of the annual financial plan for 2010 (b)(6) r briefed on revenue and earnings (without APF) projections and the underlying eccitoric forecasts and planning assumptions used to make them (b)(6) Privacy inquired about ongoing access to working capital (b)(6) Privacy reviewed AAFES private debt placement initiative which provides \$650M and the renegotiated syndicated debt and loan from Army FMWRC which provided \$755M and \$250M in additional working funds. Overall, the multiple funding avenues tend to dispel outyear concerns about returning tight credit markets.

(b)(6) Privacy briefing continued with a review of major budget components such as gross margin, inventory levels and markdowns, employee productivity, other expenses and depreciation. (b)(6) spoke to the Finance Committee's concerns about outyear capital expenditure levels and the tasking to provide a comprehensive strategic outlook on proposed capital requirements. (b)(6) Privacy briefing concluded with a recommended motion made by (b)(6) Privacy which was seconded by (b)(6) Privacy

Motion: That the Board of Directors approve the FY2010 annual financial plan as presented.

The Motion was passed unanimously.

Post Allowance Update

(b)(6) Privacy reviewed the history behind claims for post allowance overseas that had been accrued and paid by AAFES since being directed by the Office of the Secretary of Defense. The impact of the \$33.6M provision made for these claims has been deferred from the dividend and absorbed by AAFES retained earnings, pending exploration of appropriations to pay the OSD-directed bill. However, counsel maintains that these claims may not be paid from prior year appropriated funds. With current year funds not available, no avenues are open for appropriated support. Hence, AAFES asked the Finance Committee to recommend to the Board options to clear the \$16.8M deferral of dividend impact. AAFES auditors will not allow the deferral beyond this year end. The Finance Committee recommended the Board direct AAFES to absorb the dividend impact, without considering the distribution to be a precedent for similar future events.

Motion:(b)(6) Privacy moved that AAFES absorb the post allowance claim dividend impact for 2001-2007 without considering the distribution to be a precedent.

Motion was seconded by (b)(6) and the Board approved the motion unanimously.

Post Fiscal Analysis

(b)(6) Privacy

Real Estate, briefed on the post fiscal analysis of capital program projects. This analysis is required by DoD policy and Board resolution, but more importantly provides feedback to refine future project investments. Since the portfolio of 2001, the post-fiscal presentations have been a year behind schedule. Last year the Finance Committee asked AAFES to catch up so that the 2004 and 2005 portfolios were presented together - 33 projects with a combined cost of \$189.7M.

the time periods and methods used to compute the lift in sales and earnings which are calculated against actual construction cost to yield the IRR (b)(6) Privacy presented the results of the 2004/2005 projects analysis in terms of business class (e.g. main stores, shopettes) and by individual project. Taken as a whole, the analysis demonstrated the project investment decisions contributed positively to AAFES mission achievement. Overall, the year three actual IRR of ten percent exceeded the Board's approval expectations of 8.9 percent on average for the portfolio.

Additionally, project sales and earnings goals have been added to the Balanced Score Card for visibility. A performance improvement plan has been put into place that targets sales and earnings for Shopping Centers. Performance is tracked and any large variance from the goals is reviewed by senior management.

LOGISTICS NETWORK REVIEW

(b)(6) Privacy

Logistics briefed the Board on the AAFES in-place logistics network and changes required by BRAC, restationing, AAFES strategic plan and

growth within product groups. He discussed individual distribution centers and improvements or moves required to meet post-BRAC/restationing network demands. Several nodes of the network now use aged equipment which will require near term replacement. (b)(5) Deliberative (b)(6) detailed provisions of the 2005 BRAC legislation requiring closure of the Atlanta Distribution Center at Ft. Gillem, Georgia. Although AAFES logisticians had expected restationing to alleviate the need for the BRAC'd distribution center (b)(5) Deliberative Process Privilege The Atlanta Distribution Center has been a specialty distribution operation for product lines such as jewelry and prerecorded media that require special handling. reviewed for the Board AAFES counsel's view that obtaining use of some buildings พ์เก๊เก the closing Atlanta Distribution Center complex, for a new mission would not conflict with BRAC law. (b)(5) Deliberative Process Privilege completed his presentation with a review (b)(5) Deliberative Process (b)(6)Privilege Individual projects will be brought before the Board in February 2010 and discussions will continue with the Ft Gillem (Forest Park) local reuse authority. **AUDIT COMMITTEE REPORT** noted the Audit Committee met on 14 October 2009. He provided an outline of the briefing and introduced(b)(6) Privacy AAFES Audit Division, to report on internal audits. Internal Audit Reports (b)(6) Privacy briefed on the results of internal audits of Pacific Region and the Aged Trail Balance for PCS Advances. For each audit (b)(6) provided a background of the audit subject, overall PCS Advances. For each audit (b)(6) provided a background of the audit subject, overall audit conclusions, specific finding subject areas, and recommendations and management actions.

ADJOURNMENT:

The meeting adjourned at 1400 hours.

SUMMARY OF MOTIONS:

1. Board minutes of 18 August 2009 were approved.

(b)(6) Privacy also provided viewpoints from the Audit Committee's meeting

- 2. The Board of Directors approved the FY2010 annual financial plan as presented.
- 3. The Board of Directors directed that AAFES absorb the post allowance claim dividend impact for 2001-2007 without considering the distribution to be a precedent.

SUMMARY OF FOLLOW-ON ACTIONS:

- 1. Update the BOD on pay for performance at the February meeting (including an examination of the problems with NSPS for lessons learned).
- 2. Present AAFES' proposed post allowance policy for BOD approval.



Executive Secretary

APPROVED: .14 DEC 2009 (b)(6) Privacy

Acting Chairman

MINUTES OF THE REGULAR MEETING OF THE BOARD OF DIRECTORS ARMY AND AIR FORCE EXCHANGE SERVICE

18 May 2010

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MINUTES OF THE REGULAR MEETING BOARD OF DIRECTORS ARMY & AIR FORCE EXCHANGE SERVICE (AAFES)

The 260th meeting of the AAFES Board of Directors was called to order by the Chairman on 18 May 2010 in the conference room, AAFES Dan Daniel Distribution Center, Newport News, Virginia.

ATTENDANCE

MEMBERS PRESENT:	
(b)(6) Privacy and DoD Names List	
ALTERNATES PRESENT: (b)(6) Privacy and DoD Names List	
MEMBERS ABSENT: (b)(6) Privacy and DoD Names List	
SECRETARIAT: (b)(6) Privacy and DoD Names List AAFES STAFF: (b)(6) Privacy and DoD Names List	
OTHERS: (b)(6) Privacy and DoD Names List BOARD PRESENTERS (b)(6) Privacy and DoD Names List	

OPENING COMMENTS BY THE CHAIRMAN

The Chairman (b)(6) Privacy opened the meeting at 0800 and welcomed new Board members. The Executive Secretary noted a quorum was present and proxies were confirmed.

OLD BUSINESS

Out-of-Session Actions/Approval of Minutes

The Chairman called the Board's attention to the first agenda item reporting Executive Committee out-of-session actions and asked the Board for comments. There being none he directed the Board's attention to the minutes of the 4 November 2009 meeting. He asked for comments and a motion to approve the minutes. (b)(6) moved to approve the minutes and (b)(6) Privacy rose to second the motion. The motion was approved.

NEW BUSINESS

AAFES Commander's Report

(b)(6) Privacy
Included were operational reviews, site visits and office calls with Board members and the House Armed Services Committee. He reviewed for the Board same store comparative sales reports for 2009 from AAFES and other major retailers; and, the 2009 AAFES results for the consumer satisfaction and associate satisfaction indices. (b)(6) Privacy inquired about AAFES sales of weapons. All weapons sales are registered with the installation provost on Army and Air Force installations. Only 14 large exchanges carry weapons based on installation command approval and stock assortments mirror off base stores. (b)(6)

said AAFES assortment was limited compared to a Bass Pro Shop.

The Commander's report included a review of Military Star penetration. (b)(6) noted lower penetration overseas. (b)(6) Privacy explained survey data indicated customers were trying to pay off debt during oversea tours. The Chairman asked about delinquencies which (b)(6) Privacy explained were stable. (b)(6) Privacy closed by noting he would soon visit the AOR and would report his observations at the next meeting.

AAFES Consultant's Report

(b)(5) Deliberative Process Privilege

Operations Update

(b)(6) Privacy briefed the Board on Shopping Center Openings at Little Rock AFB, Keesler AFB, Ft Polk, and Randolph AFB. He then reviewed for the Board an update on corporate branding efforts, hardlines and softlines strategies, collaborative partnerships with name

brand concept shops, store operations strategies and AAFES centralized tobacco pricing project. (b)(6) Privacy inquired about promotional messaging on cell phones which (b)(6) said was being tested in a few stores. A presentation on social media will be provided at the next Board meeting.

Finance Committee Report

(b)(6) Privacy asked (b)(6) Privacy to provide the Financial Status Report.

Financial Status Report

(b)(6) Privacy addressed AAFES financial results for retail fiscal year (FY) 2009:

As expected, total revenue declined from 2008 and was lower than the Annual Financial Plan (AFP) due to decreased net sales from the drop in gas prices. Sales without gas were above prior year due increased food sales.

Despite 2009's difficult retail environment, AAFES increased earnings, exclusive of appropriated fund support for contingency operations, over last year and plan. Contributing were more effective control of costs of goods sold and personnel costs as well as increases in finance revenue and concession income. Cost of Goods Sold (COGS) declined when compared to plan and year over year, primarily due to the decline in gas COGS and lower hardlines COGS. AAFES also experienced a reduction in post retirement medical expenses due to the recent approval of pension fund aggregation.

Finance revenue also had a positive impact on overall revenue due to the addition of new Military Star accounts and overall greater Military Star usage. However, when compared to plan, Finance Revenue came in lower which was the direct effect of lower Military Star interest rates. Concession Income also contributed positive results due to the addition of new Game Stops, barber shop facilities, and vehicle rental facilities. Earnings with APF expense reimbursement are below last year due to billing/receiving less in appropriated fund reimbursement. Dividends earned without APF reimbursement are above plan and above last year.

also reviewed key impacts and anomalies such as accelerated depreciation of buildings and improvements on old buildings at the Kaiserslautern Military Community Center and Randolph AFB; and adjustments required for workers compensation due to lower discount rates.

Credit Card Act 2009

reviewed for the Board the Credit Card Act enacted in May of 2009, subject to the Federal Reserve Board's review and interpretation. On 13 January 2010, the Federal Reserve Board finalized their interpretation of the Card Act and its mandated elimination of floor rates for variable APR's effective 22 Feb 2010. (b)(6) Privacy priefed on past Board direction which had resulted in a Military Star interest rate of prime + 4.99% with a floor of 9.99%. Other criteria were that interest rates must remain 4.00% below industry average (retail private label industry average is 17% - 25%) and generate a Return on Assets (ROA) in a range of 2.75% - 4.00% (current ROA is 3.07%), and late fees cannot be charged. Effective 22 February, to comply with the Card Act, a non-variable APR of 9.99% was implemented.

(b)(6) Privacy presented AAFES' proposal to implement a variable rate of Prime + 6.99% in July of 2010. This will result in increased earnings of \$3.13M, and an expected Return on Assets of 3.14%. All outstanding balances will be locked in at 9.99%. The new Variable rate (Prime + 6.99%) will only be applied to new purchases and future accounts. He presented a comparison of the proposed rate to other retail private label rates and the minimal impact on an average account.

After discussion, (b)(6) Privacy moved adoption of the Military Star interest rates as presented. (b)(6) Privacy gave second to the motion which passed 14-2.

Motion: The Board of directors approves increasing the Military Star rate to Prime + 6.99%.

Financial Position

(b)(6) Privacy briefed the Board on how the credit crises of late 2008 and early 2009 impacted AAFES. AAFES borrows to finance the Military Star program and has acted to mitigate future risks of tight credit. Actions include negotiating private placement loans in three staggered traunches, expanded committed lines of credit and borrowing from the US Army FMWRC.

Long Range Capital Program

(b)(6) Privacy briefed the Board on:

- the transformation plan for U.S. Army Garrison Humphries in South Korea
- the Wiesbaden Shopping Center project
- projects resubmitted due to changed parameters
- · the southeast logistics hub
- logistics network projects

USAG Humphries transformation accompanies US force re-positioning on the Korean peninsula. The plan has major impact on AAFES facilities. AAFES must vacate facilities north of, and within, Seoul and establish new facilities at the expanded garrison at Humphries. Fourteen projects estimated to cost \$210M are programmed for host nation or appropriated funding.

The Wiesbaden shopping center was deferred from earlier Executive Committee out-of-session consideration of projects scheduled for the cancelled February Board meeting. In a reversal of an earlier determination the ACSIM deemed the projects funding source to be nonappropriated funds on 5 April 2010. The Finance Committee recommended Board approval. (b)(6) Privacy moved to approve the project as presented. (b)(6) Privacy provided a second and the motion passed 12-4.

<u>Motion:</u> The Board of Directors approves the Wiesbaden Shopping Center project as presented.

Fort Carson mini-mall resubmission due to significant change in mission: Originally, Ft Carson was an Army transformation location gaining approximately 9,400 active duty personnel, a 52% increase by 2011. Some 3,600 of these troops were to be assigned to the Wilderness Road BCT. Barracks were to be constructed in the BCT area for half of these

troops with a resulting high troop presence on evenings and weekends. The Restationing decision cancelled this BCT, but a revised plan is for 4,000 troops to work at Butts Army Airfield adjacent to the Wildemess Road area. Most of these 4,000 troops are already stationed at Fort Carson and live elsewhere on the installation or local economy. Barracks for only 900 troops will be constructed. (b)(6) Privacy questioned the project's viability under the changed conditions due to its remote location on Ft. Carson. The Finance Committee Chair, (b)(6) Privacy asked (b)(6) Privacy to review project alternatives and report back to the Finance Committee.

(b)(6) Privacy reviewed BRAC 2005 law closing AAFES' Atlanta Distribution Center, and a supply chain consultants review of AAFES CONUS logistics network based on military transformation, sales growth and strategic plan. That review found four CONUS distribution centers will be needed to optimize AAFES distribution. In addition to existing hubs at Newport News, VA; Waco, Texas; and Stockton CA – a forth node should be near Macon GA. (b)(6) Privacy briefed on unsuccessful efforts to retain the use of the closing Atlanta Distribution Center to meet this need. As an alternative, AAFES proposes to lease space near the old center for an interim bulk merchandise solution. The action retains some employees and saves \$9.3M versus the alternative of using 3rd party logistics. After discussion on costs and process (b)(6) moved as presented below. (b)(6) Privacy rose to second. The motion below passed unanimously.

<u>Motion:</u> The Board of Directors approves a lease for a Southeast logistics hub with an annual lease below \$750K per year.

(b)(6) Privacy continued with a presentation on capital requirements for AAFES CONUS distribution network. Included was an eventual replacement for the Atlanta Distribution Center and other efforts to upgrade and repair the centers at Newport News, Waco and Stockton. The Board previously approved conveyor projects for the three existing distribution centers. (b)(6) Privacy presented six projects to roof, repave and upgrade these centers for the Board's consideration. Following discussion on costs and the favorable impact of current economic conditions of roofing work, (b)(6) Privacy moved as below. After second by (b)(6)

Motion: The Board of Directors approves the logistics network projects (as presented) and waives the viability reconfirmation requirement.

Audit Committee Report

Audit Committee chair, introduced (b)(6) Privacy

AAFES' Audit Division.(b)(6)

reviewed for the Board the process taken to date to solicit a new contract for AAFES external auditors (CPA's).(b)(6) Privacy

by(b)(6) Privacy

the Board unanimously voted in favor of the motion.

<u>Motion:</u> The Board of Directors approves Ernst & Young to provide the annual audit of AAFES Financial Statements for two basic years with three one year options to extend the period of performance for a total not to exceed five years beginning 1 July 2010.

(b)(6) Privacy continued to brief the Board on internal audits of Class-Six operations, furniture and major appliance operations, procurement card transactions and military clothing sales store operations.

FINAL COMMENTS AND ADJOURNMENT

The Chairman noted this was the last Board meeting for (b)(6) Privacy who was retiring after a distinguished career. He thanked (b)(6) Privacy for his BoD service and his commitment to Soldiers and Airmen.

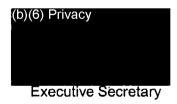
The Chairman asked for any further comments, thanked members for their participation and adjourned the meeting at 1430 hrs.

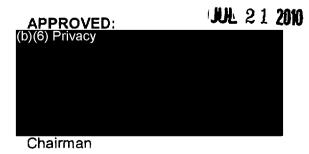
SUMMARY OF MOTIONS

- Motion: The Board of directors approves increasing the Military Star rate to Prime + 6.99%.
- <u>Motion:</u> The Board of Directors approves the Wiesbaden Shopping Center project as presented.
- Motion: The Board of Directors approves a lease for a Southeast logistics hub with an annual lease below \$750 K per year.
- <u>Motion:</u> The Board of Directors approves the logistics network projects (as presented) and waives the viability reconfirmation requirement.
- Motion: The Board of Directors approves Ernst & Young to provide the annual audit of AAFES Financial Statements for two basic years with three one year options to extend the period of performance for a total not to exceed five years beginning 1 July 2010.

SUMMARY OF FOLLOW-ON ACTIONS

- Commander AAFES to update Board on operations within the AOR.
- Chief Operating Officer to update Board on social media.
- AAFES to report back to the BOD on alternatives for relocation of Ft. Carson Mini Mall.
- Follow up to Board on savings identified in Audits.
- Look at compatibility of Ft Myer Exchange with Henderson Hall Exchange on Joint Base Myer/Henderson Hall.





MINUTES OF THE REGULAR MEETING

OF THE

BOARD OF DIRECTORS

ARMY AND AIR FORCE EXCHANGE SERVICE

17 August 2010

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MINUTES OF THE REGULAR MEETING BOARD OF DIRECTORS ARMY & AIR FORCE EXCHANGE SERVICE (AAFES)

The 261st meeting of the AAFES Board of Directors was called to order by the Chairman on 17 August 2010 in the Board room, HQ AAFES, Dallas, Texas.

ATTENDANCE

MEMBERS PRESENT:	
b)(6) Privacy and DoD Names List	
ALTERNATES PRESENT: (b)(6) Privacy and DoD Names List	
(D)(O) Filvacy and DOD Names List	
MEMBERS ABSENT:	
(b)(6) Privacy and DoD Names List	
SECRETARIAT:	
(b)(6) Privacy and DoD Names List	
AAFES STAFF: (b)(6) Privacy and DoD Names List	
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OTHERS: (b)(6) Privacy and DoD Names List AAFES	
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OPENING COMMENTS BY THE CHAIRMAN

The Chairman (b)(6) Privacy ... opened the meeting at 0800 and welcomed new Board members. The Executive Secretary noted a quorum was present and proxies were confirmed.

OLD BUSINESS

Out-of-Session Actions/Approval of Minutes

The Chairman called the Board's attention to the minutes of the 18 May 2010 meeting. He asked for comments and a motion to approve the minutes. (b)(6) Privacy rose to second the motion. The motion was approved.

Approval of Annual Report

(b)(6) Privacy said the Board was provided copies of AAFES Commander's draft Annual Report to the Secretaries of the Army and Air Force. He asked for their approval to forward to the military departments (b)(6) explained the report was required by regulation and consisted of a summary of AAFES operations in 2009 and AAFES independent auditors report on AAFES Financial Statements. These items had previously been reviewed by the Finance and Audit Committees. On motion by (b)(6) and second by (b)(6) Privacy the report was approved unanimously for forwarding to the Secretaries.

(b)(6) Privacy noted the Board was also provided copies of AAFES current Strategic Plan.
(b)(6) commended the plan but noted a need to spread the word on the good things being done. (b)(6) provided an overview of AAFES efforts to spread the word to the reserves as well as each individual military community and the retiree community. (b)(6) complimented AAFES on an excellent job in incorporating a balanced score card to manage progress on its plan.

NEW BUSINESS

AAFES Commander's Report

(b)(6) Privacy began by reviewing for the Board AAFES actions to assure required training is accomplished for Class Six associates – an item of concern from the last meeting.

(b)(6) Privacy said his basic message was that AAFES was sound and expected to see gradual improvement through the sluggish economy. AAFES is well postured to grow. He then briefed the Board on the AAFES Command Group's efforts to visit installations and collect input from leadership, military spouses, exchange customers and associates as well as the military resale community. The feedback garnered from these meetings is being worked at HQ AAFES to look for innovative ways to grow sales and the business. This is important as some 190,000 war fighters are deployed from CONUS and re-basing, BRAC and redeployments are requiring significant investments to ensure key facilities are in place. AAFES has executed, or is in the process of completing, 78 major construction projects valued at more than \$1.1 billion at installations experiencing significant growth.

(b)(6) Privacy reviewed AAFES same-store sales, compared to last year, against like statistics for the retail industry (b)(6) Privacy cautioned that industry performance on this metric was skewed by the severe drop in sales suffered last year. Virtually all current year performance in the industry represents recovery – not real growth. AAFES held its own last year and thus is fairly flat this year in comparison.

(b)(6) Privacy discussed his meeting in Korea with Commander, US Forces Korea and adjustments made to Camp Humphries build-up planning to accommodate a single story AAFES exchange. He also discussed store resets and restructuring made to adjust to changes on the Korean peninsula. Next he addressed AAFES review of facilities in the National Capitol Region. He focused on Forts Myer and McNair. AAFES is not and will not be in competition with the USMC Exchange on Joint Base Myer/Henderson Hall. AAFES direction is to complement the USMC "high end" retail approach with offerings targeted at soldiers and airmen. AAFES will also bring recommendations to the Board for food facilities on Fort McNair to help address dining facility problems.

(b)(6) Privacy also discussed customer relationship management and its application via AAFES.com, the MILITARY STAR® Card, brick and mortar stores, in social media and through data mining. He continued with a discussion of retail and economic trends and AAFES ranking in the American Consumer Satisfaction Index. He covered for the Board AAFES integration with US Forces Iraq staff to support the drawdown in Operation Iraqi Freedom. AAFES is meeting the Commander's intent and is well positioned to support the reduction to 50 thousand troops by 1 September. (b)(6) Privacy provided an overview of the detailed tasks undertaken to synchronize drawdown efforts in Iraq as well as those taken to support the surge in Operation Enduring Freedom.

AAFES Consultant's Report



Operations Update

(b)(6) Privacy briefed the Board on recent developments in hardlines, softlines, consumables, food, theaters and other services. He covered the importance of associate training, and innovations in fuel procurement and central checkouts. An important marketing strategy will focus on mobile marketing and text messaging to send exclusive offers direct to cell phones. (b)(6) Privacy also discussed AAFES efforts in social media and engagement with the Reserves and National Guard. AAFES' aim is to develop a lifelong emotional connection with its customers. Also(b)(6) Privacy discussed AAFES efforts to improve the management of fuel purchasing. Buying over 500 million gallons per year, AAFES expects to save \$30-\$40M over the next five years through strategic visibility of fuel pricing. Other topics included the Tinker AFB prototype re-imaging effort, and positioning AAFES Telecom business for the future.

Finance Committee Report

(b)(6) Privacy asked (b)(6) Privacy to provide the Financial Status Report (b)(6) Privacy addressed AAFES financial results year-to-date through June 2010.

Total revenue increased over the prior year and was higher than the Annual Financial Plan (AFP) due to increased net sales from higher gas prices. Gasoline sales were above prior year as the average price per gallon had increased.

AAFES earnings without appropriated fund support (APF) were lower than last year due to a decrease in other income, an increase in cost of goods sold (COGS), an increase in SG&A expenses, and an increase in interest expense. Contributing factors included the write off of buildings and improvements from KMCC and Randolph AFB. COGS dollars have also increased when compared to plan and from last year, primarily because of the rise in gas COGS tied to gasoline price volatility.

Selling, General and Administrative expenses increased in the areas of personnel costs and depreciation. Personnel costs increased due to a rise in average wage rate, severance pay linked to Atlanta Distribution Center and Sunday premium pay. Depreciation has increased largely because of several new projects that have been capitalized. The projects with the biggest impacts are the KMCC Mall, the new Kadena Main Store, and an IT disaster recovery facility. Interest Expense has increased over last year due to an increase in the average borrowing rate.

Earnings with APF expense reimbursement are below last year, in part due to billing and receiving less in appropriated funds through June 2010 as compared to last year. AAFES has billed less due to facility closures in OEF/OIF. Dividends earned without APF reimbursement are below plan and below last year due to lower core and telecom dividends. (b)(6) Privacy reviewed the details of dividend performance and key anomalies. He also presented sales and earnings projections for the balance of 2010. AAFES expects to still hit its target for AFP earnings.

(b)(6) Privacy reminded AAFES to work with his office on year end (G)FY 2005 funds potentially available for AAFES unfunded requirements from that year and to address enduring contingency operation requirements outbound. AAFES will work those issues with (b)(6) and (b)(6)

Lifestyle Centers

presented a summary of the lifestyle center pilot program, an update on the pilot project at Ft. Bliss and motions to approve continued development of a pilot project at Joint Base Lewis-McChord. He reviewed Community Development Initiative pilot programs objectives and transforming installations which offered opportunities to explore alternative retail models used in the private sector. Included in his review were discussions of the pilot location selection process, return on investment modeling and challenges in the retail environment which have reduced the pool of potential tenants.

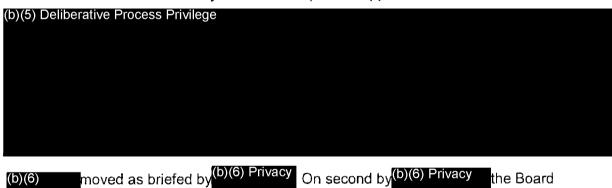
(b)(6) Privacy provided an update on the Ft Bliss pilot project which is 94% complete and on schedule. He reviewed for the Board the goals set in deciding the best financial structure for the effort, available alternatives and the selection of private placement borrowing as the alternative in AAFES best interest. With the selection of private placement financing, return

on investment modeling was adjusted to reflect the on-balance sheet nature of the financing and to incorporate risk banding. This sensitivity analysis provides a conservative range of ROI based on variations of key assumptions.

(b)(5) Deliberative Process Privilege	•			
b)(5) Deliberative Process Privilege		<u>.</u> .		

(b)(6) Privacy next said that in conclusion, the Finance Committee recommended the below motion to the Board:

Motion: The Board conditionally approves the continued development of the Joint Base Lewis-McChord Lifestyle Center in a phased approach as follows:



(b)(6) Privacy proceeded to present the PPV motion recommended by the Finance Committee:

unanimously approved the motion.

Motion: That the Board of Directors approve to use the Public Private Venture (PPV) concept for the construction and development of a Joint base Lewis-McChord Lifestyle Center as a designated AAFES Pilot Capital Project.

(b)(6) moved as briefed by (b)(6) Privacy On second by (b)(6) Privacy the Board unanimously approved the motion.

(b)(6) Privacy then proceeded to present the management motion recommended by the Finance Committee:

Motion: That AAFES Management will advise the Finance Committee and the Board of Directors on any of the following:

7

- A. Substantial matters relating to the negotiation of terms for contracts associated with this PPV that increases AAFES risk level in this pilot project.
- B. Legal or regulatory obstacles that arise that are unfavorable to the successful execution of the pilot project or that increase AAFES risk level in this pilot project.

(b)(6) Privacy moved the motion as above which passed unanimously following second by

Project Update

(b)(6) Privacy provided the Board an update on AAFES facilities in and near the District of Columbia, on the Wilderness Road Shoppette at Ft. Carson, on efforts at USAG Humphreys, and on the Germersheim relocation plan.

As the results of joint basing, Fort Myer and USMC Henderson Hall (JBMHH) are now one installation. The question of two separate exchange activities on one installation has initiated a need to review both exchange activities and determine the best course of action for all customers while maintaining sales and dividends. AAFES is evaluating different options for renovating the Fort Myer Shopping Center that will complement areas not fully supported by the Henderson Hall exchange to best serve the Soldiers and Marines at JBMHH.

AAFES will lead a charette at JBMHH from 23-25 August 2010 inviting multiple stakeholders such as banks, FMWRC, and privatized lodging to review how to best utilize the space that is surrounding the existing AAFES Shopping Center. (b)(6) Privacy also reviewed for the Board other projects approved in the area to include Joint Base Andrews, Joint Base Anacostia/Bolling, Fort Meade, and Fort Belvoir.

Next, (b)(6) Privacy provided an update on key issues occurring at USAG Humphreys that affect AAFES. He reviewed US force re-positioning in Korea and tour normalization and their impacts on AAFES. Fourteen AAFES projects with an estimated construction cost of \$210M are currently programmed for Host Nation and Appropriated funding. (b)(6) Privacy has approved developing a second course of action for the USAG Humphreys master plan with a decision brief to be prepared within the next 120 days for the Korean Government. It calls for the relocation of the downtown area and a single-story 301,000 SF AAFES Shopping Center in place of the current planned 240,000 SF two-story Shopping Center. AAFES will continue to work facility requirements in support of the single-story shopping center. While AAFES requirements are not in the current USAG Humphreys Master Plan, IMCOM-K supports AAFES requirements. These requirements still need to be agreed to by the Republic of Korea (ROK).

Next (b)(6) Privacy reviewed planning and plan changes at Fort Carson. The Board had asked AAFES to review its plans in view of changed demographics. Representatives from AAFES Real Estate Directorate visited Ft Carson, met with Garrison leadership and are reviewing options to re-scope a project with an acceptable IRR.

Lastly, (b)(6) provided an update on AAFES planned move of its European Distribution Center from Giessen to Germersheim, Germany. This relocation was approved by the Board in Nov 2007 as an APF requirement. However, recent correspondence from USAREUR indicated they do not have legal authority to use APF for LN severance, PCS and fixed asset write-off. AAFES has requested OSD clarification through the Army. If it turns out AAFES must fund these requirements, it will re-report this initiative to the Board for approval. (b)(6) Privacy said his office was working to forward the request to OSD.

Audit Committee Report

(b)(6) Privacy
Audit Committee chair, introduced (b)(6) Privacy
AAFES' Audit
Division. (b)(6)
reviewed for the Board AAFES external audit results and findings from two interrial audit projects on AAFES gift cards and meeting planner fiscal controls.

AAFES Certified Public Accountants, Ernst & Young, LLP briefed the Audit Committee on observations and the results of their audit of AAFES 2009 Financial Statements and Military Star Program. Overall, AAFES conforms with General Accepted Accounting Principles and no material weaknesses were identified. A deficiency was noted in accordance with government audit standards on AAFES liability for its post-employment benefit plan. Basically due to differing opinions between AAFES and Ernst actuaries, AAFES reduced the liability by \$8.4M. Ernst & Young issued an unqualified opinion on AAFES financial statements. (b)(6) Privacy also provided a summary of work done and findings and recommendations on internal audits of AAFES gift card procedures at store level and meeting planner controls. Included were management actions and the status and estimated completion dates of those actions.

FINAL COMMENTS AND ADJOURNMENT

The Chairman noted this was the last Board meeting for (b)(6) Privacy who was retiring. He thanked (b)(6) Privacy for his BoD service and (b)(6) Privacy presented a token of AAFES appreciation.

The Chairman asked for any further comments, thanked members for their participation and adjourned the meeting at 1330 hours.

SUMMARY OF MOTIONS

<u>Motion:</u> The Board conditionally approved the continued development of the Joint Base Lewis-McChord Lifestyle Center in a phased approach as follows:

- A. Development to include completion of a 100% design, that would allow options to move forward with all or part of the proposed project, obtaining letters of intent from potential tenants, and seeking HASC and SASC approval.
- B. Subsequent AAFES Board of Directors approval will be obtained prior to moving beyond the design stage. Based on the Ft. Bliss results, the alternatives may include a delay in the entire project, moving forward with only part of the proposed project and considering the rest at a later date, or a change in scope/concept.

Motion: That the Board of Directors approve to use the Public Private Venture (PPV) concept for the construction and development of a Joint base Lewis-McChord Lifestyle Center as a designated AAFES Pilot Capital Project.

<u>Motion:</u> That AAFES Management will advise the Finance Committee and the Board of Directors on any of the following:

- A. Substantial matters relating to the negotiation of terms for contracts associated with this PPV that increases AAFES risk level in this pilot project.
- B. Legal or regulatory obstacles that arise that are unfavorable to the successful execution of the pilot project or that increase AAFES risk level in this pilot project.

SUMMARY OF FOLLOW-ON ACTIONS

None.



Executive Secretary

APPROVED: (5) SEP 2010 (b) (6) Privacy

MINUTES OF THE REGULAR MEETING OF THE BOARD OF DIRECTORS ARMY AND AIR FORCE EXCHANGE SERVICE

9 December 2010

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MINUTES OF THE REGULAR MEETING BOARD OF DIRECTORS ARMY & AIR FORCE EXCHANGE SERVICE (AAFES)

The 262nd meeting of the AAFES Board of Directors was called to order by the Chairman on 9 December 2010 in the Board room, HQ AAFES, Dallas, Texas.

ATTENDANCE

MEMBERS PRESENT: (b)(6) Privacy and DoD Names List	_
(b)(6) Privacy and DoD Names List	
ALTERNATES PRESENT:	
(b)(6) Privacy and DoD Names List	
	<u> </u>
MEMBERS ABSENT: (b)(6) Privacy and DoD Names List	
(b)(c) I mady and Bob Names Elst	
PEOPETABLAT.	
SECRETARIAT: (b)(6) Privacy and DoD Names List	
BOARD PRESENTERS:	
(b)(6) Privacy and DoD Names List	

OPENING COMMENTS BY THE CHAIRMAN

A quorum being present, the Chairman (b)(6) Privacy opened the 262nd meeting of the Board of Directors at 0800. He thanked all members for attending and welcomed (b)(6) Privacy to their first AAFES Board meeting.

APPROVAL OF AUGUST 2009 BOD MINUTES

(b)(6) Privacy asked for any corrections or additions to the minutes of the 17 August 2010 meeting and, there being none, noted the minutes were approved.

AAFES COMMANDER'S REPORT

The Chairman asked the AAFES Commander to update the Board began by saying his briefing would update the Board on where the Exchange has been, where it is going and how it will meet the challenges of the future. He discussed strategic focus, including keys to success and engagement plans to reach Guard, Reserve and Retirees. Also included were Command Group travels over the last few months, recent financial results, retail program news, loss prevention plans, and overseas operations. Finally he addressed Korea and Japan real estate and agreement issues.

(b)(6) noted the Exchange's vision is to be its customers' first choice. Likewise its enduring mission has been providing value in services and merchandise while still delivering a significant return in earnings to support Family and Morale, Welfare and Recreation programs. As it continues to support our military through a variety of innovative programs designed to strengthen the Exchange benefit. The Exchange must have six "Enduring Keys to Success" if it is to serve its customers and stay competitive well into the future:

- 1. Provide friendly, engaging, knowledgeable customer service
- 2. Serve the men and women of the military "We go where you go"
- 3. Be the first to market with new items
- 4. Offer appealing stores, delicious food, great services and enjoyable e-commerce shopping
- 5. Keep shelves stocked with desired merchandise
- 6. Ensure prices and operating costs remain low

The Commander noted that 2010 had been a challenging year. With appropriated fund support, earnings are 32% above plan as a result of an \$82M reimbursement for FY 2005 overseas contingency costs. Without appropriated fund support, earnings are down 25% compared to plan due to unexpected expenses such as depreciation and certain personnel costs imposed by OSD but not planned for. Despite these difficulties (b)(6) said projections still anticipate meeting planned earnings of \$331M.

OPERATIONS UPDATE

(b)(6) Privacy provided the Board an update on AAFES operations.(b)(6) briefed the Board on Mobile eCommerce which allows for retailers to extend their dot complation to a mobile channel. The Exchange anticipates a soft launch in March 2011. He discussed advances in customer relationship marketing through the use of Facebook and associate relationship improvements through internal blogs.

(b)(6) also covered text message holiday promotions, smart phone price scanning, next steps in the Exchange branding initiative, global sourcing and telecommunications cellular and triple play offerings. AAFES is also moving forward with its business intelligence analytics, including a database driven tool for assortment planning.

FINANCE COMMITTEE REPORT

(Chair, Finance Committee) said his report included presentations on the financial status of AAFES, the Annual Financial Plan for 2011 and post fiscal analysis of AAFES' capital projects. He introduced (b)(6) Privacy (b)(6) Privacy to provide the Financial Status Report.

Financial Status Report

(b)(6) Privacy addressed AAFES financial results to date through retail fiscal year (FY) October 2010:

Revenues increased versus the same period last year due to increases in gasoline sales, however, earnings without appropriated funds (APF) were down. (b)(6) Privacy further discussed net sales, finance revenue, concession and other income. His summary of expenses included costs of sales and selling general & administrative expenses, including personnel costs and depreciation. Personnel cost has increased over last year due to an increased average wage rate, Sunday Premium Pay and severance packages tied to the closing of the Atlanta Distribution Center. Depreciation has increased over last year largely in part to several new projects that have been capitalized, and accelerated depreciation on buildings that are reaching the end of their useful life due to planned re-building. Interest Expense has increased over last year due to an increase in the average borrowing rate over last year due to higher interest rates on long-term borrowing, as well as an increase in our debt levels. The private placement loans taken out in June 2009 were the sole drivers for the increase in the average borrowing rate.

(b)(6) Privacy reviewed dividend highlights versus the prior year and key anomalies that impacted earnings and dividends. While earnings-to-date lag expectations, (b)(6) Privacy expressed confidence in the Exchanges' ability to meet the challenge to make planned earnings and dividends. Because the anomalies included write-offs of replaced facilities and accelerated depreciation charges for facilities scheduled for replacement (b)(6) Privacy reviewed Generally Accepted Accounting Principles (GAAP) regarding recoverability tests and related efforts to properly account for depreciation. (b)(6) Deliberative Process Privilege

(b)(5) Deliberative Process Privilege		

Annual Financial Plan

(b)(6) Privacy continued with presentation of the Annual Financial Plan for 2011. (b)(6) Privacy briefed on revenue and earnings (without APF) projections and the underlying economic forecasts and planning assumptions used to make them. (b)(6) Privacy briefing continued with a review of major budget components such as gross margin, inventory levels and markdowns, employee productivity, other expenses and depreciation. Key impacts and differences versus 2010 were portrayed detailing the projected increase in earnings from \$331M to \$343M. (b)(6) Privacy briefing concluded with a recommended motion which was made by (b)(6) Privacy

Motion: That the Board of Directors approve the FY2010 Annual Financial Plan as presented.

On second by the Chairman, the Motion was passed unanimously.

Post Fiscal Analysis

(b)(6) Privacy

Real Estate, briefed on the Post Fiscal Analysis of

Capital Program projects required by DoD policy and Board resolution. He said that more importantly the post fiscal evaluations provide feedback to refine future project investments.

(b)(6) Privacy noted the key metric used was the project's internal rate of return. He discussed the time periods and methods used to compute the lift in sales and earnings which are calculated against actual construction cost to yield the internal rate of return (IRR). (b)(6) presented the results of the 2006 projects analysis in terms of business class (e.g. Main stores, Shopettes) and by individual project. Overall, the analysis demonstrated the project investment decisions contributed positively to AAFES mission achievement. Overall, the year three actual IRR of 10.4 percent exceeded the Board's approval expectations of 8.4 percent for the portfolio.

provided the Board further details by facility category for the 2006 analysis and a review of programming errors made on the Ft. Bragg Firestone Car Care Center. When presented to the Board, that project had been burdened with gasoline impacts on other facilities despite there being no gasoline sales involved. Thus, the programmed IRR was understated. Actual IRR on the project was in line with revised projections and very favorable.

(b)(6) said that the Post Fiscal Analysis were of high value providing the Board confidence in making future decisions. He noted that the 2006 results were the best he had seen over his Board tenure, and compliments were in order for (b)(6) Privacy and the management teams carefully selected to bring success to new facility operations.

AUDIT COMMITTEE REPORT

(b)(6) Privacy noted the Audit Committee met on 16 November 2010 and introduced (b)(6)

AAFES Audit Division, to report on internal audits.

Internal Audit Reports

presented the results of audits of the Exchanges Sales Promotion Program, CONUS Concession Vending Follow Up, Special Review of Wireless Phone offerings, the Western Region and a follow up on a Europe Region audit

FINAL COMMENTS AND ADJOURNMENT

asked the Commander to provide bullet points on information that would be important and relevant for FORSCOM senior commanders.

ADJOURNMENT:

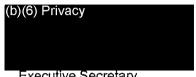
The meeting adjourned at 1300 hours.

SUMMARY OF MOTIONS:

- Board minutes of 17 August 2010 were approved.
 The Board of Directors approved the FY2011 Annual Financial Plan as presented.

SUMMARY OF FOLLOW-ON ACTIONS:

Provide bullet points that would be important and relevant for FORSCOM senior commanders.



Executive Secretary



Chairman

MINUTES OF THE REGULAR MEETING OF THE BOARD OF DIRECTORS ARMY AND AIR FORCE EXCHANGE SERVICE

16 February 2011

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MINUTES OF THE REGULAR MEETING BOARD OF DIRECTORS ARMY & AIR FORCE EXCHANGE SERVICE (AAFES)

The 263rd meeting of the AAFES Board of Directors was called to order by the Chairman on 16 February 2011 in the Board room, HQ AAFES, Dallas, Texas.

ATTENDANCE

MEMBERS PRESENT: (b)(6) Privacy and DoD Names List	
(b)(6) Privacy and DoD Names List	
ALTERNATES PRESENT:	
ALTERNATES PRESENT: b)(6) Privacy and DoD Names List	
MEMBERS ABSENT: (b)(6) Privacy and DoD Names List	
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SECRETARIAT: (b)(6) Privacy and DoD Names List	
(-)(-)	
BOARD PRESENTERS:	
(b)(6) Privacy and DoD Names List	

OPENING REMARKS BY THE CHAIRMAN

A quorum being present, the Chairman, (b)(6) Privacy opened the 263rd meeting of the Board of Directors at 0800. He thanked all members for attending and welcomed (b)(6) Privacy (b)(6) Privacy to their first meetings of AAFES' Board.

APPROVAL OF DECEMBER 2010 BOD MINUTES

(b)(6) Privacy in asked for any corrections or additions to the minutes of the 9 December 2010 meeting. There being none, (b)(6) moved the minutes be approved. On second by (b)(6) the Board unanimously approved the minutes.

FINANCE COMMITTEE REPORT

Financial Status Report

Due to scheduling concerns affecting several Board members, (b)(6) Privacy indicated the Agenda was revised to take "motion" business first. The Finance Committee report would be taken up next. (b)(6) Privacy provided the Financial Status Report and addressed AAFES financial results to date through retail fiscal year (FY) December 2010:

Revenues increased versus the same period last year due to increases in gasoline sales; however, other sales and overall earnings without appropriated funds (APF) were down. (b)(6) Privacy further attributed the sales reduction to several merchandise categories and decreases in contingency operations. (b)(6) Privacy summarized expense performance, included costs of sales and selling general & administrative expenses, including personnel costs and depreciation. Personnel cost has increased over last year due to an increased average wage rate, Sunday premium pay and severance packages tied to the closing of the Atlanta Distribution Center. Depreciation has increased over last year largely in part to several new projects that have been capitalized and accelerated depreciation on buildings that are reaching the end of their useful life due to planned rebuilding. Interest expense has increased over last year due to an increase in the average borrowing rate over last year due to higher interest rates on long-term borrowing, as well as an increase in our debt levels.

(b)(6) Privacy reviewed earnings and dividend highlights versus the prior year and key anomalies. In response to an inquiry by (b)(6) Privacy affirmed that the severance pay for Atlanta Distribution Center employees has been claimed as an APF reimbursable BRAC cost; however, APF has not been received yet. (b)(6) Privacy detailed for the Board AAFES YTD December 2010 dividend results for telephone dividends, alcoholic beverage dividends and core dividends. He explained projected core dividends for 2010 are expected to trigger safety net payment of an estimated \$15.3M in dividends over and above the earned dividends; these safety net payments would reduce AAFES retained earnings for capital programs. Even with the safety net, a core dividend shortfall of \$6M is expected compared to the annual financial plan. However, when dividends resulting from appropriated fund reimbursements are considered, total dividends will exceed plan by \$60 million. (b)(6) pointed out that as over \$40M resulted from FY 2005 prior year appropriations shortfalls, those funds recouped past losses and were not windfall gains.

(b)(5) Deliberative Process Privileg	je		

(b)(5) Deliberative Process Privilege	
(b)(6) Privacy asked (b)(6) Privacy to revisit the dividend slides and whether the or bad news. (b)(6) Privacy noted that while there was bad news that core divider plan and had to be supported by AAFES retained earnings through safety net sho overall dividends were above expectations due to appropriated fund support. In reinquiry by (b)(6) Privacy confirmed that 2010 dividends will exceed 2	nds were below ortfall guarantees, esponse to an
(b)(6) Privacy presented revised sales and earnings projections for 2010. (b)(6)	(b)(5) Deliberative Process Privilege
[(b)(6) Privacy	
(b)(6) Privacy continued to review 2011 projections in light of the current outlook a requested by the Finance Committee. While the 2011 earnings plan of \$344M no challenging against current projections of \$305M, the Finance Committee had det should not be amended at this time. (b)(6) Privacy reviewed concerns about 2011 risen since the Annual Financial Plan was approved last December. (b)(6) presentation's message was that AAFES now assesses higher risk in achieving places asked if this meant the Board was maintaining expectation achievable. (b)(6) expressed concern that since AAFES based its merit pay corporate goals, it was important to have realistic goals that associates can achievable out the matter had been reviewed by the Finance Committee which had dadjust the plan.	ow looks ermined the plan I plans that have arified that the lanned earnings of ns that were not y system on ve. However, he
(b)(5) Deliberative Process Privilege	
Long Range Capital Program	
(b)(6) Privacy Real Estate introduced his protein that it was timed to allow for AAFES' construction program to be included year's submission through the Military Departments and OSD for review by (b)(6) Previewed the internal rate of return and net present value concepts	luded in this Congress

organize the program, capitalization strategies, and the capital program projects for approval by the Board. Those projects were organized by growth projects, service projects, image updates, host nation projects and resubmitted projects. (b)(6) explained each category and also reviewed AAFES Master Planning process noting that all projects in the portfolio, except the Gruenstadt Bottling Plant, resulted from Master Planning with installations.

(b)(5) Deliberative Process Privilege		
(b)(5) Deliberative Process Privilege		

(b)(6) presented a summary of the overall capital program which will generate a midrange IRR of 12.2% with a midrange Net Present Value of \$48.6M. He then presented 12 growth projects (with internal rates of return above 7%) whose costs totaled \$46.6M. He asked the Board to waive reconfirmation for two projects (Gruenstadt and Fort Gordon) that are below the \$750,000 Congressional approval threshold and can be started without delay. On motion by (b)(6) and second by (b)(6) Privacy, the Board unanimously approved the following rection:

<u>Motion</u>: The Board of Directors approve 12 growth projects as presented and waive the viability reconfirmation requirement for the Gruenstadt and Fort Gordon projects.

(b)(6) then presented three shopping center construction/expansion projects (at Joint Base Andrews MD, Fort Gordon GA and Ft Meade MD) that failed to meet the 7% IRR threshold but are being recommended by AAFES as a service project portfolio. After individual presentation of these projects by (b)(6) and due consideration by the Board the following motion was made by (b)(6) and passed unanimously:

Motion: The Board of Directors approve three service projects as presented.

(b)(6) also provided a review of USAG Humphreys transformation plans and how they impact AAFES operations in Korea. (b)(6) then presented two Korea transformation projects at Camp Humphreys for a shopping center and a mini-mall. These projects are substantially funded with host nation funds, but some AAFES investment will be required. If host nation funding is not received for the two USAG Humphreys projects, these projects will have to be resubmitted to the Board of Directors. On motion by (b)(6) Privacy the following motion was passed unanimously:

<u>Motion</u>: The Board of Directors approve two host nation projects as presented and waive the viability reconfirmation requirement.

(b)(6) proceeded with a presentation of the AAFES image update program (at nine iccations) and the related capital expenditure portfolio. The image update program modernizes all businesses so they more closely reflect AAFES' latest shopping center designs. Image upgrades generally include replacement of flooring, lighting, wall finishes and installation of new retail fixtures. New fixtures are being incorporated into the store departmental layouts to allow for more efficient displays and easier shopping for the customers. To execute these image updates immediately upon Board approval, AAFES proposes that the Board waive its standing requirement for senior members to validate ongoing installation viability for these image updates. The following motion was made by (b)(6) received second from (b)(6) and passed unanimously:

<u>Motion</u>: The Board of Directors approve nine image update projects as presented and waive the viability reconfirmation requirement.

(b)(6) reviewed for the Board its standing resolution for resubmission of projects when actual costs exceed approvals by more than 25% (independent of currency fluctuations), when actual net present values drop below zero or when significant changes in mission or projected troop strength not considered during initial project development are verified. He presented a project for Fort Carson, Colorado, for which supporting troop movements are no longer planned. It remains recommended as the projects IRR remains above AAFES 7% threshold. The following motion was made by (b)(6) Privacy, received second from Mr. (b) and passed unanimously.

Notion: The Board of Directors approve the resubmitted (Fort Carson) project as submitted.

AAFES COMMANDER'S REPORT

The Chairman asked the AAFES Commander for his report to the Board. (b)(6) began by updating the Board on AAFES' leadership's visits to exchange activities. He then touched on financial factors facing the exchange, industry trends and AAFES' innovations in mobile marketing. He proceeded to update the Board on AAFES lifestyle center efforts, challenges with changes to the new service uniform, and the Operation New Dawn closure glide path. He also covered AAFES efforts to ramp up in Afghanistan to meet the USFOR-A Commander's requests for increased stores. Next (b)(6) reviewed AAFES' sustainability initiatives and several awards received from the Retail Design Institute and Chain Store Age for innovation and from the Assistant Secretary of the Army, Installations and Environment for sustainability (b)(6) also shared with the Board a video advertisement from the Exchange Recruiting Initiative.

CONSULTANT'S REPORT



OPERATIONS UPDATE

(b)(6) Privacy
AAFES Chief Operating Officer, reported to the Board on AAFES operations. He provided an update on the Life Style Center at Ft Bliss, and on AAFES bundled TV, internet and phone services sales expansion. These services fill a very real need for our mobile customers who frequently face confusing choices about those services when making permanent changes of station. He also talked about how AAFES was reaching more customers in softlines, and initiatives 2011 to market consumables better. In food marketing (b)(6) reviewed AAFES brand name replacement for its American Eatery offerings. Denny's will support the retiree segment with cookto-order breakfast; the cost of their franchisee fees is manageable. He also addressed FROOTS franchises AAFES will operate; these offer smoothies, salads and wraps which support the current emphasis on nutritional menu offerings. He updated on the FDA's expected issuance of proposed regulations governing menu boards and labeling.

(b)(6) also briefed the Board on AAFES efforts to re-brand online shopping with improved web page design with robust online product images and video, on a diagnostic assessment of its customer research management efforts, and the Customer Satisfaction Index improvement for 2010. AAFES CSI was up a point from 2009 to 76, the highest Exchange score to date.

AUDIT COMMITTEE REPORT

(b)(6) Privacy noted the Audit Committee met on 16 November 2010 and asked Mr. (b)(6) Privacy AAFES Audit Division, to report to the Board. (b)(6) first discussed the audit plan of Ernst & Young, AAFES external auditors, who will report on AAFES 2010 annual financial statements, AAFES internal control structure, and compliance with laws and regulations. He also briefed on the development of AAFES 2011 internal audit plan and on four completed internal audits: Associate Transportation Program, Green Initiatives and Energy Conservation, Major Construction Projects and Technology Productivity.

ADJOURNMENT:

The meeting adjourned at 1300 hours.

SUMMARY OF MOTIONS:

- 1. Board minutes of 9 December 2010 were approved.
- 2. The Board of Directors approved AAFES Long Range Capital Program as follows:
 - a. Twelve growth projects as presented with waiver of the viability reconfirmation requirement for the Gruenstadt and Fort Gordon projects.
 - b. Three service projects.

- c. Two host nation projects with waiver of viability reconfirmation requirements.
 d. Nine image update projects with waiver of viability reconfirmation requirements.
 e. The Fort Carson project as resubmitted.

SUMMARY OF FOLLOW-ON ACTIONS:

Report to the Board in May on efforts to meet, and projections for meeting, the President's energy goals, AAFES risk of incurring penalties and alternative courses of action in that event.



1 7 MAR 2011 APPROVED: (b)(6) Privacy Lieutenant General, USA

Chairman

MINUTES OF THE REGULAR MEETING OF THE BOARD OF DIRECTORS ARMY AND AIR FORCE EXCHANGE SERVICE

19 May 2011

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MINUTES OF THE REGULAR MEETING BOARD OF DIRECTORS ARMY & AIR FORCE EXCHANGE SERVICE (AAFES)

The 264th meeting of the AAFES Board of Directors was called to order by the Chairman on 19 May 2011 in the commanding general's conference room, Ft Bliss, Texas.

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MEMBERS PRESENT:

(b)(6) Privacy and DoD Names List	
ALTERNATES PRESENT:	
(b)(6) Privacy and DoD Names List	
MCMPCPO ADCENT	
MEMBERS ABSENT: b)(6) Privacy and DoD Names List	
b)(6) Privacy and DoD Names List	
SECRETARIAT:	
(b)(6) Privacy and DoD Names List	
BOARD PRESENTERS:	
(b)(6) Privacy and DoD Names List	

(b)(6) Privacy and DoD Names List		

OPENING REMARKS BY THE CHAIRMAN

A quorum being present, the Chairman, (b)(6) Privacy opened the 264th meeting of the Board of Directors at 0800. He thanked all members for attending and welcomed SMA Chandler to his first meeting of AAFES' Board.

OUT-OF-SESSION ACTIONS

(b)(6) Privacy noted the selection of a Senior Vice President for Real Estate was approved by the Executive Committee on 5 May 2011. ERRATA: Also noted to the Board members subsequent to the meeting was the selection of (b)(6) Privacy as Senior Vice President (SVP), Human Resources Directorate and (b)(6) Privacy as Senior Vice President (SVP) Sales Directorate, approved by the Executive Committee on 2 March 2011.

APPROVAL OF FEBRUARY 2011 BOD MINUTES

(b)(6) Privacy asked for any corrections or additions to the minutes of the 16 February 2011 meeting. There being none, (b)(6) moved the minutes be approved. On second by (b)(6) the Board unanimously approved the minutes.

FINANCE COMMITTEE REPORT

Annual Financial Plan Revision

(b)(6) Privacy
Deputy Chief Financial Officer, presented a proposed change to the AAFES FY 2011 Annual
Financial Plan. She noted that the Finance Committee had approved revising planned earnings
from \$404M to \$366M, to reflect changes in the economic outlook and inclusion of APF
reimbursements for overseas contingency operations. (b)(6)
The ultimate funding of all AAFES contingency requirements from 2005 were finally paid in 2010.
The ultimate funding of all AAFES contingency requirements demonstrated sufficient reliability to
warrant accrual and recognition of such reimbursements in the same period in which the related
expenses are incurred. On the advice of its auditors, AAFES implemented that accounting change
beginning with its FY 2010 Financial Statements. To complement this ongoing change to accounting
policy, the Finance Committee recommended that the accrual of APF reimbursements for
contingency operations should also be reflected in the Annual Financial Plan.

also stated that the revised plan also reflected major reductions to FY 2011 planned revenues, cost of sales and resultant planned earnings and dividends. Net earnings are now expected to be \$38M lower than previously projected with a related reduction in dividends to \$230.7 M. (b)(6) Privacy clarified the presentation which incorrectly attributed contingency sales declines to both Operations Enduring Freedom and New Dawn. Troop strength changes in theater are proceeding in accordance with well-known plans that were available prior to AAFES planning efforts.

(b)(6) said that while it was fair to say that the Finance Committee had recommended the Board revise the plan, the Committee clearly expected this revision would be a one-time occurrence.

Further, he was not comfortable with predicating plan changes on a revised economic outlook. The original plan was seriously flawed. The plan's excessive projection had been questioned in both the Finance Committee and by the Board and was reluctantly approved by the Board based on AAFES' repeated recommendations to hold to the earlier projections. (b)(6) also pointed out that shortfalls from plan in FY-2010 had been so severe as to cause an unprecedented level of dividend overpayments (paid according to plan) despite safety net provisions. Thus, FY 2011 plan changes were also necessary to prevent another round of excessive overpayments that would have to be recouped from later dividends.

(b)(6) Privacy Chairman of the Finance Committee said that this year's plan should be readjusted to be realistic. It is important the Board be presented with financial plans that will provide stability and avoid disruptive changes during the year of execution. However, in this case the Finance Committee does recommend plan revision. The Chair having noted the end of discussion on the topic(b)(6) moved as below with second by (b)(6) Privacy. The motion passed unanimously.

Motion: The Board of Directors approves revising the FY 2011 Annual Financial Plan to reflect net earnings of \$366M, based on the revised economic outlook and inclusion of Appropriated Fund reimbursements.

Financial Status Report

(b)(6) next provided the Financial Status Report and addressed AAFES' results for retail fiscal year 2010. She then presented AAFES FY 2011 results through March in which revenue is tracking favorable vs. plan by 9 percent due to increases in gas sales, improved finance revenue from new Military Star accounts and greater Military Star usage. Concession income has decreased from plan due to closing operations in Iraq coupled with a slower ramp-up in Afghanistan. Gross Margin has decreased from last year due to an increase in Gasoline cost of sales; however, COGS without gas decreased from last year. Interest Expense was down due to a decrease in the average borrowing rate from last year and Bad Debt Expense is up due to an increase in the accounts receivable balance. Bad Debt is also over plan due to a more aggressive budget; however, it is expected to stabilize throughout the year (b)(5) Deliberative Process Privilege

Identity Theft Prevention Program

(b)(6) proceeded to brief the Board on the Fair and Accurate Credit Transaction Act (FACT Act), a public law to protect consumers from identity theft. The act includes detection, prevention, and mitigation requirements and became mandatory 31 Dec 2010. The act consists of 26 recommended red flag rules that fall into 4 main categories: 1) alerts, notifications or warnings from a consumer reporting agency, 2) suspicious documents, 3) suspicious personal identifying information, and 4) unusual use of, or suspicious activity related to, covered accounts.

AAFES is compliant with 22 of the 26 rules. Current policies and procedures have been reviewed and clarified to address each rule. The remaining four are low-risk rules and are being addressed in a system upgrade. (b)(6) Privacy asked how the four delinquencies would impact next year's audit and what the impact was of not complying with statute. (b)(6) said that the auditors would not look at statutory compliance in this regard and reported that AAFES General Counsel had assessed the matter as low risk. (b)(6) Privacy asked if AAFES had notified the Federal Trade

Commission which administers these rules, and expressed concern when advised in the negative.

(b)(6) Privacy inquired if there were penalties for non-compliance and (b)(6) said that would have to be researched. (b)(6) Privacy directed AAFES' Counsel to provide a legal opinion as to the impacts of non-compliance with all rules of the FACT Act for the next Board.

detailed the assignment of responsibilities for FACT Act compliance in AAFES and adjustments to the credit program made to implement the act. To complete implementation, she asked the Board to consider motions on program implementation and assignment of the Chief Financial Officer as senior executive responsible within AAFES. (b)(6) pointed out that despite the need to review Counsel's opinion on AAFES implementation shortfall against the implementation due date, that review would not alter the recommended motions. Agreeing, (b)(6) moved the motions as presented subject to the opinion of Counsel and with the exception that the Board does not approve AAFES noncompliance with statute. On second by (b)(6) the motion as below passed unanimously.

Motion: Subject to the opinion of the AAFES Counsel regarding the impact of delay (statutory noncompliance) in implementing four provisions of the FACT Act, the Board of Directors approves the program for the Red Flag Rule compliance utilized by Exchange Credit with the caveat that Internal Audit will review to ensure legal requirements are met. The Board of Directors approves the appointment of the Chief Financial Officer as the senior executive responsible for the oversight and compliance of the Red Flag Rules.

HQ AAFES Master Plan Update

Real Estate presented an update on AAFES' efforts to plan for its headquarters complex, including the Stoneridge building which houses vital call-center and accounting functions. He provided a history of the plans, prior decisions of the Board and approvals by OSD. Based on a lease/purchase economic analysis, the Finance Committee recommended purchase of the Stoneridge building as the best course of action. On motion by (b)(6) second by (b)(6) the Board unanimously approved the following motion.

Motion: The Board of Directors approves the Stoneridge purchase.

AAFES COMMANDER'S REPORT

The Chairman asked AAFES' Commander for his report to the Board. (b)(6) first addressed Secretary Gates' initiative to convert AAFES' commander to the Senior Executive Service (SES). He reviewed for the Board his discussions with the Deputy Assistant Secretary of Defense for Military Community and Family Policy. (b)(6) noted that the Board establishes and fills AAFES' NF-6 positions; that regulations permit an NF-6 to supervise an O-7; that the Navy has requested the Navy Exchange O-7 billet be converted to NF-6; and, that the Marine Exchange is currently led by an NF-6.

(b)(6) said he had shared with (b)(6) Privacy his planning assumptions that either an SES or NF-6 will meet SECDEF's intent, and that the Deputy Commander (O-7) would remain as Deputy Director. He had suggested the Board's Chairman and senior member serve as a selection committee to nominate an NF-6 Director for the full Board's final approval. The tenure of Director should be limited to a specified term such as three to five years with annual reviews. (b)(6) recommended the Board support implementing the Secretary's directive by converting the AAFES' CG to an NF-6 Director position.

The Board discussed (b)(6) Privacy recommendation and ways to build a bench within AAFES to develop executives qualified to aspire to the COO and Director positions. (b)(6) noted an NF-6 position would also allow for industry hires without the laborious SES process but cautioned that it was critical to preserve knowledge about the services and service life in the position of AAFES Director. (b)(6) Privacy stated his belief that a general officer should command AAFES and inquired if the decision could be revisited. The chairman and (b)(6) noted that change to the decision was unlikely. The Board consensus was that the Chairman and Senior Member would carry (b)(6) Privacy recommendation to the military departments.

(b)(6) reviewed AAFES leadership's visits to exchange activities and National Guard and Reserve outreach programs. He then updated the Board on the three percent withholding legislation and its impact; although implementation has been delayed by law until January 2013, this legislative requirement remains a serious threat to patron savings and exchange earnings and dividends. (b) (c) concluded his report with an update on exchange support in Operations Enduring Freedom and New Dawn.

CONSULTANT'S REPORT



OPERATIONS UPDATE

(b)(6) Privacy , AAFES Chief Operating Officer, reported to the Board on AAFES operations. He provided an update on customer relationship marketing and how AAFES is becoming customer-centric by integrating a total view of customer information. He then covered the exchange's website rebranding and the rollout of AAFES branding effort, with master branding becoming the standard for execution in the Short Term (1st Quarter 2012 - Travis Air Force Base and Fort Bragg). Basic branding rollout is targeted for September 2011 at West Point USMA, Fort Stewart, Sheppard Air Force Base, Fort Eustis, Robins Air Force Base, Osan Air Base and all future construction.

(b)(6) also briefed the Board on AAFES efforts to build customer traffic, improve in-store technology, implement new logistics technology and promote products and services.

AUDIT COMMITTEE REPORT

(b)(6) Privacy noted the Audit Committee met on 20 April 2011 and asked Mr. (b)(6) Privacy AAFES Audit Division, to report to the Board. (b)(6) discussed audits of Anti-Money Laundering Compliance, Workers' Compensation, Strategic Partnership Initiatives and the Germany Fuel Ration Card Program.

ADJOURNMENT:

On request by the Chairman for final thoughts, (b)(6) reminded all that the next meeting would be in Dallas on 17 August with an orientation for new members on the 16th. (b)(6) Privacy asked for information about healthy meal choices in AAFES shoppettes; (b)(6) said that would be provided at the next Board. The meeting adjourned at 1300 hours.

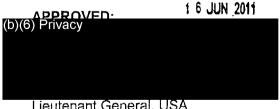
SUMMARY OF MOTIONS:

- 1. Board minutes of 16 February 2011 were approved.
- 2. The Board of Directors approved revising the FY 2011 Annual Financial Plan to reflect net earnings of \$366M, based on the revised economic outlook and inclusion of Appropriated Fund reimbursements.
- 3. Subject to opinion of AAFES Counsel regarding the impact of delay (statutory noncompliance) in implementing four provisions of the FACT act, the Board of Directors approved the program for the Red Flag Rule compliance utilized by Exchange Credit with the caveat that Internal Audit will review to ensure legal requirements are met. The Board of Directors approved the appointment of the Chief Financial Officer as the senior executive responsible for the oversight and compliance of the Red Flag Rules.
- 4. The Board of Directors approved the Stoneridge purchase.

SUMMARY OF FOLLOW-ON ACTIONS:

- 1. Provide a legal opinion for the next Board as to the impacts of non-compliance with all rules of the FACT Act.
- 2. Report to the Board on improvements in inventory controls and purchasing leading to improved retail margins.
- 3. Provide a break out of gas versus non-gas performance for financial status reporting.

4. Report to the Board on healthy meal choice provisions in AAFES stores (b)(6) Privacy



Lieutenant General, USA Chairman

MINUTES OF THE REGULAR MEETING OF THE BOARD OF DIRECTORS ARMY AND AIR FORCE EXCHANGE SERVICE

17 August 2011

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MINUTES OF THE REGULAR MEETING BOARD OF DIRECTORS ARMY & AIR FORCE EXCHANGE SERVICE (AAFES)

The 265th meeting of the AAFES Board of Directors was called to order by the Chairman on 17 August 2011 in the Board room, HQ AAFES, Dallas, Texas.

ATTENDANCE

MEMBERS PRESENT:	
(b)(6) Privacy and DoD Names List	
ALTERNATES PRESENT:	
(b)(6) Privacy and DoD Names List	
MEMBERS ABSENT:	
(b)(6) Privacy and DoD Names List	
SECRETARIAT: (b)(6) Privacy and DoD Names List	
(b)(b) 1 That's and bob Names List	



OPENING COMMENTS BY THE CHAIRMAN

The Chairman, (b)(6) Privacy, opened the meeting at 0800 and welcomed new Board members. The Executive Secretary noted a quorum was present and proxies were confirmed.

OUT-OF-SESSION ACTIONS

The Chairman noted there were no out-of-session items.

APPROVAL OF MINUTES

The Chairman called the Board's attention to the minutes of the 19 May 2011 meeting. He asked for comments and a motion to approve the minutes.

Motion: That the Board of Directors approve the minutes of 19 May 2011 as written. (b)(6) moved to approve the minutes and (b)(6) rose to second the motion. The motion was approved.

AAFES COMMANDER'S REPORT

The Chairman then called for the AAFES Commander to give the Board an update on the organization.

briefed the Board on the current retail environment and the economy, Command Group travel, customer service training, disaster relief support and contingency operations. He noted that sales were being heavily influenced by gasoline sales and the high gas prices have hit the cost prices of AAFES retail merchandise. The retail industry has not reacted to pass on cost prices in the weak economy, so cost of goods sold and retail margins are suffering. He advised that (b)(6) would address initiatives to offset these challenges.

(b)(6) provided the Board with the important conclusions from senior leader visits to 29 CONUS facilities and exchanges in eight foreign countries. He said that the stores were looking great and working hard on product displays and solution sales. New stores and image upgrades were well received by the military communities and the visits had provided great opportunities to engage with senior leaders and tell the exchange value story. He concluded this phase of his briefing with a video of Fort Irwin Town Center openings.

(b)(6) also briefed the Board on customer service initiatives and AAFES contingency operations. He covered exchange support to Operations Enduring Freedom and New Dawn, related logistics support and closure timelines as forces draw down. His briefing concluded with an overview of exercise and disaster support efforts.

OPERATIONS UPDATE

(b)(6) briefed the Board on AAFES efforts to grow the business, to improve productivity and reduce costs. He also covered the impact of gasoline prices on both AAFES gasoline sales and its impact on merchandise costs and margins.

To grow the business AAFES has added new concept shops to include Coach, Pink by Victoria's Secret, Michael Kors Ladies, and Dickies Men's fashions. Appliance sales will be promoted with home delivery and installation by contracts with Sears Home Delivery; and, technology sales with a technology buy-back program. Also, increased use of technology in category management will help AAFES capture a greater share of shrinking consumer spending by leveraging business intelligence software with the Santa Clara Category Management courses in order to update AAFES' core processes. Productivity and cost reductions are being pursued through time supply replenishment to achieve a 49% improvement in stock turns and a 33% reduction in inventory investment. Scan based trading will go live at the end of August and will reduce inventory carrying costs and improve sales. In logistics, transportation initiatives include trailer tracking to improve trailer asset management and improve supply chain in-transit visibility, upgrades to aluminum tractor wheels and trailer skirts have increased fuel mileage 5% with savings of nearly \$400K year to date. Other improvements are being made in shipping for the e-commerce and catalog sales programs to reduce costs and increase margins.

(b)(6) presented a recap of post-fiscal analysis for projects in the 2006 construction program as compared to the 2004 and 2005 programs. Results were well within return on investment parameters. However, in view of earnings pressures and the difficult economy, capital expenditures should be optimized for investment success. Future long range capital programs will be reduced in terms of numbers of shopping centers, specialty stores and image updates with emphasis shifting to sustainment rather than new construction. AAFES will also defer larger initiatives such as the headquarters relocation and some logistics network improvements.

AAFES has submitted a request through the military departments to OSD to issue commercial paper – short-term debt instruments widely used to optimize debt financing. This additional credit source will help diversify AAFES' debt portfolio which supports the Military Star Credit program for customers and reduce borrowing costs.

(b)(6) Privacy asked about potential savings, efficiencies, and costs associated with other options. (b)(6) briefed the Board on initiatives of that nature being explored by the Executive Resale Board (ERB) (b)(6) Privacy said he would undertake exploring the Chairman's suggestion in that venue. The Chairman also asked AAFES to re-look its position on remaining in distribution centers at Giessen since military construction appropriations are not available to build new facilities at the Army's Germersheim compound. A briefing will be prepared for the Board, previewed by the Finance Committee, and will address all costs and approvals necessary to stay at Giessen.

FINANCE COMMITTEE REPORT

(b)(6) Privacy, representing (b)(6) Privacy who is convalescing, asked AAFES' Chief Financial Officer, (b)(6) Privacy, to provide the Financial Status Report.

Financial Status Report

As background, (b)(6) Privacy provided a comparison of AAFES 2010 and 2011 financial plans as adjusted by the Board. He then addressed AAFES financial results year-to-date through June 2011. Sales increased due to rising gasoline prices and gasoline sales volumes. Without gas, sales are down compared to plan, due to customers changing their spending patterns in reaction to increases in gasoline prices and food costs. Both increases are limiting purchasing power and forcing customers to be more selective when making shopping decisions.

Finance revenue increased due to a higher than projected MilStar receivable balance, which was a result of an increased number of active MilStar accounts as well as increased usage. Concession income decreased due to multiple troop deployments and relocations. While overall expenses were below plan, net earnings have decreased primarily as a result of narrower margins as explained. (b)(6) Privacy also reviewed dividends paid to date. While Class Six earnings and dividends were below plan due to higher cost of goods sold and lower margins (increased prices from fuel costs) core dividends were over paid due to the overall earnings depression and the normalized core dividend payment method. Overpayment amounts were highlighted and will be trued up after year end.

(b)(6) requested that future briefings provide greater insight into the impact of gasoline cost fluctuations on earnings and dividends. He suggested that the Board be provided with a presentation separating results of operations with and without gasoline sales. (b)(6) suggested that detail be previewed by the Finance Committee and elevated to the Board at the Committee's discretion.

Lifestyle Center - Joint Base San Antonio/Fort Sam Houston

(b)(6) Privacy

Strategic Planning and Partnerships presented an update of the Community Development Initiative, its pilot project at Ft. Bliss, progress on the project at Joint Base Lewis-McChord, and a decision briefing on developing a Life Style Center for Joint Base San Antonio/Fort Sam Houston. He reviewed Community Development Initiative pilot program objectives and transforming installations which offered opportunities to explore alternative retail models used in the private sector. Included in his review were discussions of improved returns on investment and challenges in the current retail environment.

(b)(6) updated the Board on the Fort Bliss pilot project which has enhanced the quality of life for Fort Bliss soldiers and their families. He also discussed improving financial returns that have resulted as tenant occupancy has increased, despite a difficult economy. At Joint Base Lewis McChord AAFES is currently completing "65% design." As part of the approval process, AAFES is obtaining Letters of Intent (LOI) from the third-party tenants and anticipates submitting a Public Private Venture request in the fall of 2011 to the Department of the Army for approval. With an anticipated 10 to 14 month period to obtain subsequent DoD and Congressional approvals, AAFES believes it will come back to the Board in either November 2012 or February 2013 for approval to construct.

(b)(6) proceeded to detail for the Board the Life Style Center project for Joint Base San Antonio/Fort Sam Houston which integrates the Exchange, Exchange operations, third-party tenants (including a multiplex movie theatre and casual dining restaurants), and traffic-driving amenities and events. He discussed the multi-phase construction approach which will allow AAFES to continuously provide goods and services to the Fort Sam Houston community

throughout the construction cycle and sustain existing revenue streams with little to no interruption. Phasing of the project also allows for timing to match third party leasing. Mr. Immler completed his briefing with a detailed review of project finances in comparison to sustainment alternatives otherwise required to meet service minimums. In closing, he noted that the Finance Committee had recommended a motion to the Board to continue with design of the project.

After discussion and consideration by the Board, (b)(6) moved as below and (b)(6) rose to second the motion.

Motion: The Board of Directors gives conditional approval to continue development of a Lifestyle Center pilot project at JBSA-FSH in a phased approach as follows:

- a. Development to include completion of a 100% design, that would allow options to move forward with all or part of the proposed project, obtaining letters of intent from potential tenants and seeking HASC and SASC approval.
- b. Subsequent AAFES Board of Directors approval will be obtained prior to moving beyond the design stage. Based on the Fort Bliss results, the alternatives may include a delay in the entire project, moving forward with only part of the proposed project and considering the rest at a later date, or a change in scope/concept.

The Board unanimously approved the motion.

STRATEGIC TALENT MANAGEMENT

(b)(6) Privacy, Senior Vice President for Human Resources briefed the Board on AAFES management of strategic talent. Her presentation included talent management plans and strategies, critical leadership positions, how selected critical positions responsibilities are matched with leadership credentials. She spoke to how AAFES is "building the bench" by development to advancing existing employees and to recruit to fill gaps with targeted hires.

(b)(6) provided the Board an assessment of the AAFES workforce, noting that almost half of the 43,514 exchange associates have a military connection and that AAFES has diverse associates serving its diverse customers.

AUDIT COMMITTEE REPORT

(b)(6) Privacy, Audit Committee chair, introduced (b)(6) _____, Director of AAFES' Audit Division. (b)(6) _____ reviewed for the Board AAFES' external audit results and findings from two internal audit projects on AAFES gift cards and payment card industry (PCI) and personally identifiable information (PII) controls.

The AAFES Certified Public Accountants, Ernst & Young, LLP briefed the Audit Committee on observations and the results of their audit of AAFES 2010 Financial Statements and Military Star Program. Overall, AAFES conforms to Generally Accepted Accounting Principles (GAAP) and no material weaknesses were identified. Two deficiencies were noted in accordance with government audit standards on timely capitalization of AAFES IT projects and certain adjustments to cash balances.

(b)(6) also provided a summary of work done and findings and recommendations on internal audits of AAFES gift cards and payment card industry (PCI) and personally identifiable information (PII) controls. Included were management's actions and the status and estimated completion dates of those actions.

ADJOURNMENT

The Chairman asked for any further comments, thanked members for their participation and adjourned the meeting at 1330.

SUMMARY OF MOTIONS

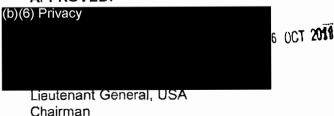
- 1. Board minutes of 19 May 2011 were approved.
- 2. The Board of Directors gave conditional approval to continue development of a Lifestyle Center pilot project at Joint Base San Antonio-Fort Sam Houston in a phased approach as follows:
- a. Development to include completion of a 100% design, that would allow options to move forward with all or part of the proposed project, obtaining letters of intent from potential tenants and seeking HASC and SASC approval.
- b. Subsequent AAFES Board of Directors approval will be obtained prior to moving beyond the design stage. Based on the Fort Bliss results, the alternatives may include a delay in the entire project, moving forward with only part of the proposed project and considering the rest at a later date, or a change in scope/concept.

SUMMARY OF FOLLOW-ON ACTIONS

- 1. Provide the Finance Committee with a presentation separating results of operations with and without gasoline sales.
- 2. Prepare a briefing for the Board, previewed by the Finance Committee, which will address all costs and approvals necessary to stay at Giessen.



APPROVED:



MINUTES OF THE REGULAR MEETING OF THE BOARD OF DIRECTORS ARMY AND AIR FORCE EXCHANGE SERVICE

16 November 2011

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MINUTES OF THE REGULAR MEETING BOARD OF DIRECTORS ARMY & AIR FORCE EXCHANGE SERVICE (AAFES)

The Acting Chairman, (b)(6) Privacy on 16 November 2011 at 0754 in the Boardroom, HO AAFES, Dallas, Texas, called the 266th meeting of the AAFES Board of Directors to order.
ATTENDANCE
MEMBERS PRESENT: (b)(6) Privacy and DoD Names List
ALTERNATES DESENT.
ALTERNATES PRESENT: (b)(6) Privacy and DoD Names List
MEMBERS ABSENT: (b)(6) Privacy and DoD Names List
SECRETARIAT: (b)(6) Privacy and DoD Names Liet
(b)(6) Privacy and DoD Names List
BOARD PRESENTERS: (b)(6) Privacy and DoD Names List

OPENING COMMENTS BY THE CHAIRMAN

After (b)(6) , Board Executive Secretary noted a quorum and confirmed proxies, the Acting Chairman, (b)(6) Privacy , opened the 266th meeting of the Board of Directors. He welcomed and thanked all members for attending. He noted there were a large number of alternates present and recognized that many members were absent due to ongoing issues in DC.

APPROVAL OF AUGUST 17, 2011 BOD MINUTES

(b)(6) asked for comments and a motion to approve the minutes of the 17 August 2011 meeting. Minute comments and questions included an inquiry from (b)(6) referencing the status of the Joint Base Lewis McChord lifestyle center request. A draft request is still being socialized through the Services. Once the draft is approved, the formal submission will be released for coordination. Estimate this will happen late February, early March. (b)(6) asked about the status of commercial paper submission. AAFES is still awaiting OSD approval. The transition process will take multiple years to implement. However, it will provide shorter and better financial returns and borrowing options. Further updates on commercial paper and borrowing initiatives will be discussed during the Finance Committee presentation.

Motion: The Board of Directors approved the minutes of the 17 August 2011 meeting.

(b)(6) moved to approve the minutes and (b)(6) rose to second the motion. The motion was unanimously approved.

AAFES COMMANDER'S REPORT

AAFES Commander, (b)(6) briefed the Board on the current Exchange environment and the organization's strategy to meet the challenges of the future. He discussed organizational focus, including category sales trends and preparation for the upcoming holiday season. An update on contingency operations and the way forward included the proposed post Iraq Exchange support plan. He presented the deployment to employment DVD and detailed how mobilization centers were beneficial in reaching Guard, Reserve, Retirees and Family members. Also included were Command Group travels over the last few months, an operations update on Japan, Forces reduction and Korea, Business to Business initiatives and opportunities and Exchange Co-Op efforts board.

(b)(6) noted that AAFES and many other major retailers anticipate a sales curve for the last four months of the year in preparation for the holiday season and that it is imperative that the stores are set right in preparation for the upcoming holiday season. Command group and senior level exchange visits review and reinforce preparedness of facilities to include inventory and associate support for the upcoming selling season. The visits also enable outreach and community relations. The outreach program reached more than 50K Guard and Reserve members last month. The average outreach return among the three CONUS regions is over 14%. The average return rate in the commercial world is 5%. (b)(6) asked if the outreach returns were in stores or the dot-com world. (b)(6) responded the return lifts were both in the stores and in the dot-com world. However, the largest lifts were in the stores, which added to lifts in other areas of the business like food and concession operations. The outreach target is to contact 600K members per month.

Next, (b)(6) provided an update of the contingency operation and the proposed post Iraq AAFES support plan. AAFES will continue to have an enduring presence and provide support to the remaining OSCI and DoS embassy personnel. Levels of support, associate protections, payments' responsibility and specific locations are contingent on approval and agreements that are still being worked at the OSD, and DoS senior levels. (b)(6) asked who pays the bill for the sites remaining in Iraq. (b)(6) responded we are still working on authorizations and payment letters for authorization. (b)(6) questioned how this will impact the organization's finances. (b) (b)(6) responded that it is too early to tell. The projection is that they will be break-even operations.

However, without specific population numbers and shopping patterns it is difficult to predict who will shop. For this reason a very conservative approach is being taken. The operations may add sales; it is just too early to tell.

then detailed the organization's strategic global posture. This included a partnership with 1st Army to utilize demobilization sites to perform outreach and expansion of the authorized shoppers' customer base. The desire is to deliver a clear message about the benefit and heighten awareness of availability and offerings. (b)(6) asked if there was standard outreach marketing available(b)(6) responded that there are several different options for the various audiences. The career apportunities overview included statistics on spouse hiring (over 5000), promotions (over 1000) and deployments (over 60) as well as the continued emphasis on veteran and reservist hiring. AAFES is number five on the Top Military Spouse Friendly Employer list. AAFES has hired over 13,400 spouses, dependents, retiree, guard, and reserve associates. (b)(6) wanted to know if there is an outreach strategy to get to the retiree population. (b)(6) Privacy response was yes, there are 11 organizations targeted in the retiree community. Next, the Commander showed a short video of the benefits of working for AAFES, which is used in multiple media outlets. (b)(6) Privacy questioned whether the reserve community would be given the video and if it would, could it be possible to get a copy. (b)(6) said yes, there would be distribution to the reserve community and copies were provided to all BoD members present. The Commander then briefly spoke about AAFES recently signing an updated MOA with the Government of Japan. The new agreement renegotiated the funds giveback rate and corrected a 9% overpayment, which offers the organization an annual benefit of over \$3M. He noted that Force reduction will minimally influence AAFES financials in 2012 and 2013; however it may have larger impacts in the out years.

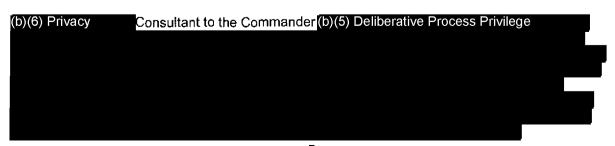
briefly discussed the ongoing issues with the proposed Korean wages increase. While ric decision has been made, AAFES is ready either to pay the increase or to provide support if there is a strike. Continuously working with the Command elements to ensure AAFES is ready to support.

(b)(6) asked what the effective date is. The Commander's response was that no date has been provided as negotiations continue. (b)(6) added the percentage is relatively small when compared to the total wage cost due to the wage scale for the area.

Following the discussion on the strategic global posture the Commander then spoke about Business to Business (B2B) initiatives and expanding business to all government agencies. (b)(6) noted using AAFES as a source saved IMCOM G-9 7% on freight expenses. (b)(6) wanted to know how the B2B initiatives are being marketed to other agencies. (b)(6) wanted that AAFES uses multiple approaches to include direct contact with specific procurement officials. (b)(6) noted E commerce collaboration and upgrades to the dot-com system would provide better support and enable better connections. AAFES Deputy Commander, (b)(6) Privacy commented that as the budget continues to tighten and APF dollars shrink this is a great solution for units to save money.

The Commander concluded his presentation with updates on the Exchange Cooperative Efforts Board and other partnerships. These cooperative efforts and partnership enable the teams to work together to increase efficiencies and grow the business. Four key focus areas the cooperative board will review are logistics, non-resale procurement, private label merchandise, and legislative and policy issues.

COMMANDER'S CONSULANT UPDATE



OPERATIONS UPDATE

(b)(6) Privacy , AAFES Chief Operating Officer, provided the Board an update on AAFES operations. (b)(6) briefed the Board on AAFES sales and cost savings efforts and initiatives designed to grow the business, to improve productivity and reduce costs. Sales growth focused initiatives are across numerous business operations and include concept shops in the soft lines and hard lines departments, consumables and food. Business operation improvements focused on a partnership with DeCA for bread delivery, expansion of the dream machine sustainability program and completed branding projects at select installations. Continued focus on customer relationship management (CRM) will support growth of the customer base and provide a more analytically driven approach to sales, marketing and customer preferences. CRM will help to market to and address specific needs and interest that sends consistent marketing messages. This goal is to use the data to capture the emerging customer and become more customer centric. The organization will also continue to update and upgrade ecommerce attributes that will enhance the website and provide greater online fulfillment options. (b)(6) asked what prevents the Exchange from connecting and capitalizing on the known customer base. (b)(6) responded that we cannot send marketing material to customers unless they opt in ASER authorizes limited marketing mailings per year. New CRM and additional data mining from MilStar account holders allow more access to current customers. He added we are constantly looking for ways to grow internet and e-commerce presence.

Improving productivity and reducing cost encompasses gross profit gain strategies that will improve business operations and contribute to bottom line results. These include scan base trading, sustainability food manufacturing, sign kit recycling, compute to plate, long range capital program reduction, real estate cost savings, energy savings ad project process improvements.

FINANCE COMMITTEE REPORT

The Finance Committee presentation included presentations on the current financial status of AAFES, the Annual Financial Plan for 2012 and post fiscal analysis of AAFES' capital projects. Mr. (b)(6) Privacy, AAFES Chief Financial Officer, provided briefings on the financial status and the annual financial plan for 2012. (b)(6) Privacy, Real Estate Division provided the post fiscal analysis briefing.

Financial Status Report

(b)(6) Privacy presented AAFES' key financial results for the current retail year through retail fiscal year (FY) September 2011 and that same period in 2010. He detailed the difficulties facing AAFES in these tough economic times, key anomalies and steps being taken to make adjustments. The impact of gasoline prices on AAFES gasoline sales and margins and other retail margins were covered. (b)(6) Privacy explained while revenues exceeded plan and prior year due to increased gasoline sales high oil prices have eroded margins and planned earnings. Margins were tight in gasoline and electronics, which contributed only 11% of margins but comprised 36% of the total sales volume. While tight margins reduced earnings; tight controls on selling, general, and administrative expenses have also offset reduced margins. (b)(6) commented on further actions being taken to further offset margins. These include right sizing inventories to reduce markdowns, ongoing staffing reviews, travel expense reductions and a strategic review of capital projects to postpone them whenever possible. (b)(6) asked whether or not the savings on travel take into account travel to conferences and meetings. (b)(6) responded that yes, often vendors pay for booths to attend conferences these payments cover most of the cost. We are constantly looking at ways to cut cost. BoD members commented on how we must find ways to better leverage sales and earnings. The focus must be more on other categories that have higher

margins and less reliant on gas sales. (b) (6) commented how the new fuel guest tool allows purchases that are more efficient. Annual Financial Plan (b)(6) Privacy continued with the presentation of the Annual Financial Plan (AFP) for 2012 by reviewing economic trend data and customer confidence metrics provided by University of Michigan studies. He provided on assumptions used to develop the FY 2012 financial plan. Key impacts include employee benefits, increased benefit cost, and revised actuarial estimates driving those changes, (b)(6) Privacy completed his briefing by discussing planned earnings and dividend projections. He noted these estimates were based on a conservative scale, were in line with history, and were realistically based on key impacts forecast for 2012. Several BoD members had questions on how the AFP would impact dividend payments. (b)(6) asked how the proposed 3.5% increase would impact the 1% limit set by policy (b)(6) , Senior Vice President, Human (b)(5) Deliberative Process Privilege Agreement to conditionally approve the plan was suggested due to outstanding questions on the 3.5% merit increase built into the plan. Motion: The Board of Directors approve the FY 2012 Annual Financial Plan proposed approval of the AFP with the exception of the 3.5% merit pay increase portion. which will not be approved until analysis is provided and approved by the BoD. On second by Mr. (b)(6) the Motion was passed unanimously. Post Fiscal Analysis Real Estate, briefed on the Post Fiscal Analysis of Capital Program projects required by DoD policy and Board resolution. He said that more importantly the post fiscal evaluations provide feedback to refine future project investments. noted the key metric used was the project's internal rate of return. He discussed the time periods and methods used to compute the lift in sales and earnings which are calculated against

individual project. Overall, the analysis demonstrated the project investment decisions contributed positively to AAFES mission achievement. Overall, the year three actual IRR of 8.5 percent

the 2007 projects analysis in terms of business class (e.g. Main stores, Shoppettes) and by

exceeded the Board's approval expectations of 7.1 percent for the portfolio. (b)(6)

actual construction cost to yield the internal rate of return (IRR). (b)(6)

presented the results of

Board further details by facility category for the 2007 analysis and a review of programming errors or other factors that contributed to projects not meeting or exceeding the projected IRR.

(b)(6) pointed out the good news stories further validates why capitalization is vital and not a sneatine positive. We must maintain the footprint and keep it fresh and inviting to the customers.

AUDIT COMMITTEE REPORT

(b)(6) introduced (b)(6) Director, AAFES Audit Division, to report on internal and cyclemal audits conducted since the last meeting.

(b)(6) briefed the highlights of the external peer review results. He discussed the background and requirements for an external peer review every three years. He stated the Navy Exchange led the peer review and that the AAFES division received the highest possible rating of "PASS". Mr. (b)(6) then discussed the contents of the letter of comment, which identified two recommendations for improvement. The two recommendations were to establish formal written procedures for non-audit services and the need to revise quality assurance checklist to ensure methods and audit procedures that are more clearly explained in audit reports. The audit division concurred with the recommendations and plans to have new guidance completed by late January 2012

(b)(6) also provided a summary of work done, findings and recommendations on internal audits of AAFES purchase in transit and in-transit merchandise loss controls and Central region. He noted both internal audits revealed opportunities for improvement and that several corrective actions were taken during the actual audit. He also reported that additional management actions were planned.

(b)(6) added that required corrective actions against managers would also be addressed.

BoD DATES for FY 2012

(b)(6) Executive Secretary, proposed Board of Directors meeting dates for FY 2012. The proposed dates were cleared with both the Board Chairman and Ranking Member. Scheduling of Finance and Audit committee meetings will be in advance of the Board meetings. (b)(6) motioned to approve the proposed BoD meeting dates for FY 2012. (b)(6) seconded the motion.

FINAL COMMENTS AND ADJOURNMENT

The BoD members were provided copies of the 2010 Annual report and marketing tabloids for the Thanksgiving shopping weekend

UPDATE ON SELECTION OF NEW AAFES DIRECTOR/CEO

(b)(6) led a Board member only discussion on the selection of the new AAFES Director/CEO. (b)(6) introduced the idea of using a Special Government Employee (SGE) and a Search Firm to assist in the search and selection process of the new Director/CEO. (b)(6) motioned to approve the use of an SGE to support the CEO selection. (b)(6) seconded the motion and the Board approved the motion.

ADJOURNMENT:

The meeting adjourned at approximately 1315 hours.

SUMMARY OF MOTIONS:

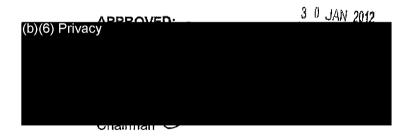
- 1. Board minutes of the 17 August 2011 meeting were approved.
- 2. The Board of Directors conditionally approved the FY2011 Annual Financial Plan.
- 3. FY 2012 BoD meeting dates were approved.

SUMMARY OF FOLLOW-ON ACTIONS:

- 1. Why to work for AAFES video provided to all BoD members.
- 2. Corporate review of capital programs, profitability and capital expenditures balance.
- 3. What the organization is doing to grow the business, do projections align with current
- 4. Further analysis of the proposed 3.5% merit increase.
- 5. Update on Europe distribution center.



Executive Secretary



MINUTES OF THE REGULAR MEETING OF THE BOARD OF DIRECTORS ARMY AND AIR FORCE EXCHANGE SERVICE

15 February 2012

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MINUTES OF THE REGULAR MEETING BOARD OF DIRECTORS ARMY & AIR FORCE EXCHANGE SERVICE (AAFES)

The Chairman called the 267th meeting of the AAFES Board of Directors to order on 15 February 2012 in the Boardroom, HQ AAFES, Dallas, Texas.

ATTENDANCE

MEMBERS PRESENT: (b)(6) Privacy and DoD Names List	
ALTERNATES PRESENT: (b)(6) Privacy and DoD Names List	
MEMBERS ABSENT: (b)(6) Privacy and DoD Names List	
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(b)(6) Privacy and DoD Names List	
BOARD PRESENTERS:	
(b)(6) Privacy and DoD Names List	
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OPENING COMMENTS BY THE CHAIR

A quorum being present, the Chair, (b)	opened the 267 th meeting of the Board of
Directors at 0802. He welcomed and	thanked the Board members, the AAFES Commanding
General and the AAFES team for all o	of their hard work and dedication. Since this was his first
meeting, he asked (b)(6) Execut	tive Secretary of the BoD, to provide an overview of the
BoD procedures. (b)(6) provided	d a presentation on the state of the Army, post budget
	ing factors used to sustain the total force structure,
	ote innovation and modernization(b)(6) Privacy stated
several decisions would depend on po	opulation and troop movements. He then directed the
	areas on his slides and couched this discussion within
the Army's mission and roles - Prever	nt, Shape, Win - from Army Chief of Staff.

(b)(6) reminded all that the goal of the Exchange should be to connect the AAFES business model with the mission and coordinate with senior leaders on installations. (b)(6) commented that the populations should align with business opportunities and adjustments based on future requirements.

(b)(6) Privacy followed (b)(6) with a presentation on the strategic environment of the Air Force. He began his presentation by stating there is an aggressive prioritization pursuit with the goal of balancing what is needed versus what is provided. The AAFES dividends continue to be crucial in providing support to services programs funded with nonappropriated funds as Air Force seeks to fund core program requirements with appropriated funds. stressed the importance and necessity for AAFES and DeCA to create synergy and work together to the greatest extent possible. He commented that AAFES has great business models; in particular, the Lifestyle Center at Fort Bliss is great and works well for large populations. He also expressed the need to not ignore smaller installations and to modernize those as well(b)(6) Privacy said the goal is to provide additional support to smaller and medium locations with online .com alternatives. He also emphasized that we must continue to defend the benefit and that AAFES is preparing key analysis on why other retailers cannot do what we do. (b)(6)commented that without the AAFES dividend, Army MWR would have a very limited capital program.

(b)(6) continued the meeting with the introduction of four out of session items.

OUT- OF-SESSION ACTIONS

There were four out of session actions since the 16 November 2011 Board of Directors meeting:

- 1. Approval of 2012 Budget for Individual Pay Increase and Revised FY 2012 AFP
- 2. Approval of AAFES CEO Selection Process
- 3. Promotion to AAFES Senior Rates (b)(6) Privacy
- 4. Appointment of Acting CEO (b)(6) Privacy

There being no comments on the out of session items the meetings proceeded.

APPROVAL OF NOVEMBER 2011 BOD MINUTES

(b)(6) asked for any corrections or additions to the minutes of the 16 November 2011 meeting. There being none, (b)(6) moved the minutes be approved. The motion was seconded by (b) asked for any corrections or additions to the minutes of the 16 November 2011 meeting. The Board unanimously approved the minutes.

AAFES COMMANDER'S REPORT

The Chairman asked the AAFES Commanding General, (b)(6) , for his report to the Board. (b)(6) began by noting the addition of Operation Be Fit to the agenda. A copy of the publication detailing the numerous, proactive initiatives AAFES has implemented was provided to all BoD members. He then updated the Board on AAFES leadership visits to exchange locations. He noted how some of the visits coincided with significant events, such as the grand openings at Shaw AFB and Fort Carson (b)(6) Privacy expressed that there has been good feedback from customers, installation commanders, spouses and surveys. The goal is to continue to highlight the great things AAFES is doing to support the military communities, continued focus to grow the business, add new patrons, offer deals to our customers and increase the dividend. One example is fixed gas prices in Alaska reduced the price by 14 cents per gallon. He also stressed that AAFES will continue to work with health services on the DMAA issue. (b)(6) Privacy commented that AAFES did a great job by moving quickly to remove products containing DMAA from AAFES shelves. (b)(6) added there is an ongoing clinical investigation and AAFES should continue to do what is necessary to protect our Soldiers.

then touched on business partner interface engagements held since the last meeting. Harley Davidson contributed significant sales and added two new bikes to their inventory (b)(6) asked about the bike safety programs. (b)(6) responded that items are available both in stores and online. In addition, customers receive a 20% discount on bike safety merchandise. There are also more products available for women. AAFES grew Green Bean Coffee locations in deployed areas. (b)(6) expressed concern that S&P (Standards and Poor's) proposed downgrading of AAFES' credit rating would result in increased borrowing costs. (b)(6) asked if the S&P downgrade was a function of being a product of the government, connected to the government. Chief Operating Officer (COO) (b)(6) responded that it was connected to the larger government but was confident that AAFES would prevail in the appeal process.

(b)(6) proceeded to update the Board on Black Friday weekend results and financial factors of the holiday sales season and noted promotional sales were up 9% over last year.

(b)(6) Privacy asked if less than 10% is lagging industry. The CG and COO said no, AAFES is aligned with industry. (b)(6) Privacy commented that there needs to be further growth in the ".com" business (b)(6) commented that it is not easy to navigate on the AAFES website. (b)(6) commented that it is an old system and there are constant updates and initiatives planned for improvements.

(b)(6) continued his presentation by describing efforts to ramp up AAFES stores in Afghanistan to meet the USFOR-A Commander's requests for increased Exchange facilities. (b)(6) noted that approximately 255 containers are stranded in Karachi; however, 90% of the containers that go through the Northern routes are making it through.

then reviewed legislative and policy issues that are necessary to protect the Exchange systems resources and promote growth. These include 3% withholding, defense business system over \$1M, Federal Finance Bank and commercial paper (b)(6) Privacy also shared with the Board the results of the AAFES retiree survey noting the commitment to emphasizing the life long benefit and connection to our retirees. (b)(6) provided the results of the retiree survey and noted there was a 13% increase in the number of retiree shoppers. (b)(6) suggested AAFES should be careful about the strategic communication message and should focus on the active duty benefit.

(b)(6) ended his presentation by noting that all Board members were provided a copy of the 2016 Strategic Plan and that Chief Operating Office, (b)(6) Privacy, would provide more details on initiatives and strategies during his upcoming presentation. CONSULTANTS REPORT (b)(6) Privacy Consultant to the Commander (b)(5) Deliberative Process Privilege (b)(5) Deliberative Process Privilege **OPERATIONS UPDATE** (b)(6) Privacy, Chief Operating Officer, reported to the Board on AAFES operations. Different store sizes use analytics to right size merchandise for that specific installation. commented that strategic communication should be more focused on senior ieader's spouses. Specific segments focus on how we can further touch and influence. Mr. (b) (5) Deliberative Process Privilege (b)(5) Deliberative Process Privilege An overview of marketing initiatives included promotional tabloid analysis, digital media networks and digital signage (b)(5) Deliberative Process Privilege (b)(5) Deliberative Process Privilege

The presentation continued with examples on how AAFES is a value to its customers. Examples provided included average market basket savings, which average between

20-50% lower than competitors. (b)(6) asked why Wal-Mart is used as a comparison and (b)(6) responded that AAFES customers compare us to Wal-Mart. (b)(6) asked, what percentage of AAFES employees are currently serving or are retired. (b)(6) responded roughly 7% or 8% are retired and over 30% are service member's spouses. He said this was a huge data point.

also briefed the Board on AAFES' efforts to re-brand online shopping with improved web page design with robust online product images and video, on a diagnostic assessment of its customer research management efforts and the Customer Satisfaction Index improvement for 2010. AAFES CSI was up a point from 2009 to 76, the highest Exchange score to date.

(b)(6) concluded his presentation by noting this was a quick overview of the many initiatives in the works. He then assured the BoD members that AAFES is taking a very proactive approach to optimize technology to grow the business.

FINANCE COMMITTEE REPORT

FINANCIAL STATUS REPORT

(b)(6) Privacy, Chief Financial Officer, reported the events of the 20 January 2012 finance committee meeting. (b)(6) provided the Financial Status Report and addressed AAFES financial results to date through retail fiscal year (FY) December 2011.

(b)(6) stated sales were up 3% over plan and 6% over last year, and that while sales continue to show a positive trend over plan and last year, the Exchange has fallen short of planned earnings. The shortfall was a result of higher gasoline and commodity prices.

Operating expenses continue to be controlled and are below plan. Based on the results, (b).

(b)(6) projected that 2011 results would be between \$292M-\$307M and noted that the safety net will cover some of the projected earnings shortfall. (b)(6) detailed factors that impact results include: lower finance revenue and concession income, gasoline prices, and consumer spending habits. Concession income is down due to Iraq and Afghanistan, sales lost due to the closures in Iraq have not materialized in Afghanistan.

AAFES revenue mix has shifted since last year as gasoline prices continue to increase. Due to more competitive pricing, gas sales have increased from 16% to 21% of total revenue. However, as more of the wallet share is going towards gas purchases, consumers are altering their spending patterns, opting to reduce their discretionary spending. Non-gas sales have dropped from 78% to 74% of total revenue. Exchange gas margin for YTD Dec 2011 was 5.5%, while non-gas Margin for YTD Dec 2011 was 26.6%. The Exchange Credit Program, another key source of revenue, is shrinking as consumers are opting to pay off their balances at a faster pace.

reviewed earnings and dividend highlights versus the prior year and key anomalies. Total dividends paid through Dec 11 are \$191.5M, which is \$3.4M below the Plan. The \$3.4M breaks down as Army \$2.1M below Plan and Air Force \$1.3 below Plan. Projected year-end results may result in overpayments of \$6.9M for Army and \$4.0M for Air Force.

The presentation continued with an overview of key target points AAFES uses to reduce cost and control expenses. These include retail pricing and inventory right sizing, staff reviews,

travel expense cuts and project postponement. The real estate capital expense budget has been reduced, and as a result, depreciation is estimated to be reduced yearly over the next seven years (b)(6) Privacy added AAFES is also working to grow the business in high margin areas as well as provide customers what they want and noted interest expenses will go down with the implementation of federal finance banking and commercial paper.

(b)(6) presentation concluded with an update on the commercial paper program and a request for Board approval to implement the commercial paper program. The approval is required prior to implementation due to the Moody's credit rating requirements. (b)(6) asked about the advantages and risks of commercial paper (b)(6) responded the advantages are better interest rates, less risk and that they are open and very fluid. The risks include market trade restriction, since market dealers cannot go out to the public they must work with limited buvers. (b)(6) continued to field questions and provided (b)(5) Deliberative Process Privilege After a motion by (b and a second by (b)(6) , the Board unanimously approved the following motion:

<u>Motion</u>: The Board of Directors authorizes a commercial paper program not to exceed the Exchange's committed lines of credit.

Long Range Capital Program

(b)(6) SVP Real Estate, began his presentation noting that it would cover capitalization strategies and the metrics used to develop the FY12 LRCP. The presentation also gave details on the internal rate of return (IRR) and net present value (NPV) concepts used to organize the program. These projects exceed \$750K in construction costs or \$1.5 million in total project cost and require Congressional reporting once submitted to the Services for inclusion in the government FY13 NAF Construction Report to Congress. The FY12 LRCP includes seven growth and five image update projects totaling \$86M. (b) noted the original program dollar amount was \$240M; however, due to impact of budget cuts, such as troop movement, the program was adjusted to \$86M. The overall capital program will generate a midrange IRR of 10.6% with a midrange NPV of \$14.8M. The overarching goals are to execute a balanced portfolio of projects that support the mission and improve quality of life.

(b)(6) continued by saying NPV and IRR are used to balance the portfolio. Larger projects are often used to support the smaller projects. The Exchange, in conjunction with Military Non-Appropriated Funded Services, established an IRR of 7% as the minimum acceptable hurdle rate. The NPV becomes positive when the IRR is above 7%. He added there are several analytical tools used to establish and verify the impact projects have over time. Factors include how all projects will affect all aspects of the organization; depreciation and the impact on the dividends are also taken into account when determining what projects to include in the annual LRCP.

(b)(6) then detailed how the image update program modernizes all businesses so that they more closely reflect AAFES' latest shopping center designs. Image upgrades generally include replacement of flooring, lighting, wall finishes and installation of new retail fixtures. New fixtures are being incorporated into the store departmental layouts to allow for more efficient displays and easier shopping for the customers.
(b)(6) concluded the presentation by stating the Exchange will continue to be prudent with capital expenditures while planning for future years. He then introduced a request for two motions to approve the presented growth and image update programs. (b)(6) delayed the motions and requested additional information on projects from the last five years. He said he would like to review the 1-to-N list on all requests and completions over the last five years. The lists were provided and the request for motion proceeded.
On Motion by (b)(6), and seconded by (b)(6) Privacy, the BoD unanimously approved the following motion: The Board approves the list of growth projects, as presented.
After consideration by the Board a motion to approve the image update projects (as presented) and waiver of the viability reconfirmation requirement was made by (b)(6), received a second from (b)(6) and the motion passed unanimously.
AUDIT COMMITTEE REPORT
(b)(6) Privacy, Audit Director, provided an overview of the agenda items which included the Ernst and Young audit plan of the FY 2011 statements, the FY 2012 internal audit plan, and completed internal audits since the last meeting.
(b)(6) discussed the audit plan for the FY 2011 statements by outlining the scope of services provided by Ernst and Young and presented key considerations affecting the audit such as deliverable expectations, areas of emphasis, planned audit procedures, fraud considerations, risk of management override, and the timetable and audit approach. The target date for the issuance of audit opinions is 1 May 2012.
(b)(6) then presented the FY 2012 Audit Plan for internal audit. He reminded members of the annual plan development process, factors considered in selecting audit topics, types of audits performed, and sources for audit topics (b)(6) stated the Audit Division had received 121 audit suggestions from AAFES associates, management, and the Board of Directors. A detailed listing of the final subjects selected along with applicable audit objectives was summarized in the FY 2012 Audit Plan.
Next (b)(6) briefed the highlights and management actions taken on the four internal audits completed since the last Audit Committee meeting: New Car Sales, Firearms and Ammunition Controls, Loss Prevention Tools, and Anti-Money Laundering Compliance.
(b)(6) concluded his presentation with two short video clips that noted loss prevention tools and identified opportunities for improvement in the following areas: electronic article surveillance, closed circuit television and fraud watch cashier dashboard systems. (b)(6) suggested more details on lessons learned from the DMAA recall. b)(5) Deliberative Process Privilege

ADJOURNMENT:

(b)(6) thanked all for their attendance and participation and adjourned the meeting at 1305 hours.

SUMMARY OF MOTIONS:

- 1. Approval of the Minutes of meeting from the 16 November meeting.
- Approval to implement a commercial paper program not to exceed the Exchange's committed lines of credit.
- 3. Approval of the Long Range Capital Program as follows:
 - a. Seven growth projects as presented
 - b. Five image update projects with waiver of viability reconfirmation requirements

SUMMARY OF FOLLOW-ON ACTIONS:

- Details on where we are and where we are going on the website upgrades and improvements, provide a better understanding of the investments and requirements over time.
- 2. More focus on engagement to educate customers, specifically senior level spouses and Installation Commanders.
- 3. Further exploration of the Business-to-Business initiative, with specific focus on marketing and selling to our lodging and privatization partners.
- 4. Lifestyle center model, what is the equivalent for smaller installations?
- 5. More communication on pricing strategy and return policy.
- 6. Strategic plan on future growth initiatives, specific details on objectives, investments, anticipated outcomes, challenges and required services support.
- 7. Lessons learned from the DMAA recall. Suggest a process or an internal review on ways to check and vet other products prior to adding to stock assortment.
- 8. Holistic look at all cash requirements and dividends.



Executive Secretary



OF THE BOARD OF DIRECTORS

ARMY AND AIR FORCE EXCHANGE SERVICE

16 May 2012

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MINUTES OF THE REGULAR MEETING BOARD OF DIRECTORS ARMY & AIR FORCE EXCHANGE SERVICE (AAFES)

The Chairman called the 268th meeting of the AAFES Board of Directors to order at 0946 on 16 May 2012 in the Exchange HQ Boardroom, Dallas, Texas. A closed executive session for BoD members only preceded the official meeting. The purpose of the closed session was selection of the new AAFES CEO.

ATTENDANCE

MEMBERS PRESENT:

(b)(6) Privacy and DoD Names List	
ALTERNATES PRESENT: (b)(6) Privacy and DoD Names List	ı
(b)(b) I Tivady and Bob Ivames List	
MEMBERS ABSENT:	
(b)(6) Privacy and DoD Names List	
OTHERS ATTENDING (b)(6) Privacy and DoD Names List	
SECRETARIAT:	
(b)(6) Privacy and DoD Names List	

BOARD PRESENTERS: (b)(6) Privacy and DoD Names List

CHIEF EXECUTIVE OFFICER (CEO) SELECTION

For the purpose of selecting the new Army and Air Force Exchange Service, Chief Executive Officer an Executive Session of the BoD preceded the BoD meeting. During the executive session the Chairman. (b)(6) , introduced the topic of CEO selection process and turned the discussion over to (b)(6) Privacy Deputy Assistant Secretary of the Army (Civilian Personnel and Quality of Life). (b)(6) recapped the previously approved process map, and then turned the process over to (b)(6) Privacy, Managing Director of Reffett and Associates. (b)(6) summarized the details of the process: development of announcement, posting, recruitment, numbers of applications, crediting plan and "down select" processes. The Ad Hoc Committee is made up of BoD members (b)(6) Privacy, Assistant Deputy Chief of Staff, G-1, (b)(6) Privacy Secretary of the Air Force (Force Management and Integration) and (b)(6) Privacy summarized their work on personally reviewing applications to include those that were not recommended by Reffett and the Special Government Employee (b)(6) Privacy hoc committee then explained their rationale for their selection and recommendation for the candidates that should go forward to the Chairman and Senior Member for interviewing.

Next, (b)(6) and (b)(6) Privacy explained the interview process and the rationale for their selection. Board Members asked questions along the way and there was substantial discussion. A motion to confirm the selection was made by (b)(6) Privacy and seconded by (b)(6). A roll call vote was held with (b)(6) Privacy serving as the recorder. All members or their alternates voted to confirm the selection.

OPENING REMARKS BY THE CHAIRMAN

A quorum being present, the Chairman (b)(6) opened the meeting of the Board of Directors at 0946. He thanked all members for attending and the AAFES team for all of their hard work and support. Following the agenda, the Chairman advanced the meeting.

OUT-OF-SESSION ACTIONS

There were two out of session items:

- (1) Delegation of approval authority to the Civilian Director of AAFES for project approval authority up to \$1.5M (excluding new construction over \$750K, which must be approved by Congress, via review and approval through the Services and OSD).
- (2) Finance Committee approval of Express/Shoppette/Class Six Television project (discretionary) to be presented to the Board of Directors.

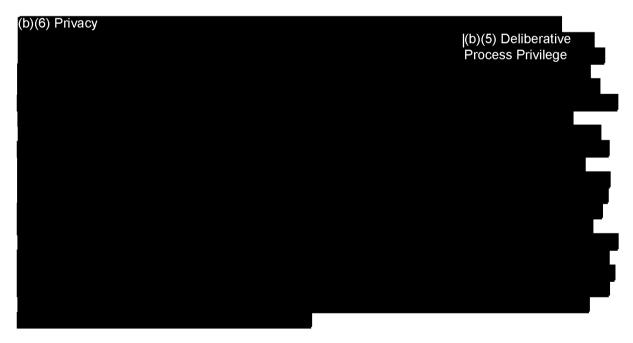
APPROVAL OF FEBRUARY 15, 2012 BOD MINUTES

(b)(6) asked for any corrections or additions to the minutes of the 15 February 2012 meeting. There being none, (b)(6) Privacy moved for approval of the minutes. On second by(b)(6) the Board unanimously approved the minutes.

AAFES COMMANDER'S REPORT

The Chairman asked AAFES' Commander for his report to the Board. (b)(6) Privacy his report with an overview of the past, present and future of AAFES. He continued by noting how the Military Services' footprint had changed over the years. He stated the organization has to embrace change to remain relevant or it will become extinct. The mission of the organization is and will always be to make the lives of our Soldiers and Airmen better. The way we do this is by continuously building loyalty and providing great products, service and employees. Another key factor to remaining relevant is a refocus on the mission of service; service is in our name, it is who reminded the members that the original intent of the AAFES was to we are. (b)(6) Privacy provide goods and services. Our mission is a simple one driven by supporting troops. The perception and success of the Exchange after 116 years still revolves around our ability to provide service. The success and perception going forward will be judged by our ability to serve. He added the decisions we make now will have a huge impact on the future of the Exchange. If we do not remain relevant and are replaced, it will cost approx. \$1.5B to do what we do now. That is a lot more than the \$23M it costs now. If we are successful in the eyes of our customers, we will help drive recruitment, retention and provide a relevant benefit within the military community. (b)(6) concluded his report with six recommendations that he thinks are imperative to drive future relevance and sustainment. (b)(6) stated the Board needs to be participatory, directive and provide strategic leadership, which is the relevance and value added by the Board. He affirmed statement that we should be constantly reviewing scenarios and impacts of changes to the business and suggested that at the least we adopt all of the recommendations introduced by (b)(6) Privacy . Further to this point, (b)(6) required an updated status on all open actions at each BoD meeting. He added that the dividend forecast model must be reviewed; no other business pays the dividend in advance, as AAFES does. He then asked the finance committee to review the dividend forecast model and bring the findings to the BoD so options of other and better ways may be explored.

CONSULTANT'S REPORT



OPERATIONS UPDATE

, AAFES Chief Operating Officer, reported to the Board on AAFES operations. began his update with an overview of the business initiatives that structure the 2016 (b)(6)Strategic Plan. The Plan is particularly focused on opportunities that allow us to reduce or remove the cost out of the operation and do even more strategic sourcing. (b)(6) providing an update on the Customer Relationship Management (CRM) program and how the program is supporting AAFES to become more customer centric by integrating a total view of customer information. CRM provides the ability to do more communication and electronic messaging to target customers' specific needs and requirements. (b)(6) commented it is all about the experience with the associate and that there needs to be rivere associate training and empowerment to improve the customer experience with the associate. (b)(6) commented we are offering more soft skills training, such as "the Exchange is You". These training programs are designed to match the service levels with the product offennes. (b)(6) stated we need more connection, maybe something on the nametags that allows customers to connect to the associates i.e. the state they are from or other ways to identify them with the community and highlight their commented that associates need more expert training, black belts in the stores. continued by stating CRM is still about two years away; however, we are experiencing scme quick wins with associate training and learning the systems.

then provided the objective and advantages of the Business-to-Business (B2B) initiative. The B2B model is a profit-generating model with potential to provide Government Purchase Cards (GPC) access both in stores and online. Leveraging AAFES access, convenience, and mission strengths on military installations provides the potential to grow the B2B business by \$350M in the next five years. (b)(6) stated we must do a better job getting the GPC option to purchase at AAFES to IMCOM and other GPC holders. (b)(6) commented that AAFES is working an extensive marketing campaign to spread the word. (b)(6) Privacy noted that Air Force Services should also be more engaged in the B2B initiative. (b)(6) responded he would connect the AAFES team with Air Force Services' contracting staff to build a better B2B relationship.

also briefed the Board on the Exchange Credit Program (ECP). AAFES offers three cards to meet the diverse needs of customers. A new system will upgrade and enhance level of service, eliminate downtime, and grow the program by allowing customers to get immediate approval. The upgrade will also allow savings of credit card processing fees that will result in direct bottom line profits. Last year AAFES paid over \$90M to process other credit cards. He added AAFES is always diligent and proactively seeking ways to ensure they are good stewards of funds, continuously seeking ways to reduce cost and create operations that are more efficient. One example is the energy pilot at Fort Hood. The pilot is going very well and providing high returns. In addition, the energy project supports the Department of Defense directive to reduce energy.

In closing, (b)(6) noted the commitment and continued focus on supporting and following the lead of DoD by cutting back and downsizing where applicable. AAFES reduced the 2012 long-range capital program to \$86M. The 2012 program was the smallest in a decade. Lastly, cost savings and efficiencies in the Selling and General Administrative (SG&A) category are being achieved by more detail reviews of personnel cost, the creation of process improvements, the prevention of duplication of efforts, and decreasing TDY cost.

FINANCE COMMITTEE REPORT

Financial Status Report

(b)(6) Privacy Chief Financial Officer presented AAFES' financial results for the 2011 retail year. She stated sales initially show a positive trend over the Annual Financial Plan and over last year.

Despite this positive trend, AAFES fell short of year-end planned earnings because of higher gasoline and commodity prices. She noted sales increases are not always profit increases. She continued by adding January 2012 sales were \$26M lower due to electronics and gas sales and that rising gas prices continue to impact and influence customers' discretionary spending. (b)(6) stated operating expenses continued to be controlled and were below Plan. Net earnings were below Plan primarily due to increased gasoline prices. As fuel prices rise, our customers spend less on discretionary items, our internal transportation expenses increase, and vendors are likely to pass their increased costs on to AAFES. (b)(6) stated the three main drivers for AAFES FY 2011 performance were: (1) the loss of non-gas sales as spending patterns have shifted (2) COGS being above Plan due to multiple macro-economic factors and (3) shrinking margins on gasoline sales. Net sales were up against Plan because of higher gasoline sales. Gas sales were up due to higher gasoline prices and increased sales volume. While increased sales are welcomed, increases in gas sales rising from an increased price per gallon resulted in lower gross margins for AAFES. This is because gas margins decrease as the price per gallon increases. Since gas prices are restricted by consumer behavior, if the price exceeds a certain level customers will not buy, or will reduce their consumption. AAFES gas margin for FY 2011 was 5.3% while the Plan margin was 7.1%. The resulting decrease in Gross Profit was partially offset by the increased volume sold over Plan. Sales coming from other departments with low margins also had an impact. (b)(6) asked that in the future the slides be shown with and without gasoline sales so they show meaningful comparisons.

continued her presentation by providing an overview of the Exchange Credit Program (ECP). Utilization of the ECP was up by 17%; however, finance revenue is 4% below Plan since customers are paying down their balances faster. Other income is 24% above Plan due to collections. Higher debt and changes in accounting procedures are responsible for above plan interest and bad debt expenses. (b)(6) highlighted key impacts and anomalies that AAFES experienced in FY 11. Most significant contributors included Japan's local national severance pay, freight and transportation costs and credit card fees. She noted the sum of the anomalies would not equal the shortfall in earnings. They are merely to show the effect these events had on earnings. (b). (b)(6) then explained dividends earned for FY 11 were \$188.5M or \$24M below Plan (\$15.4M Arroy and \$8.6M Air Force). She added since core dividends were below Plan, the maximum safety net of 15% was paid. In addition, there was an \$18.5M shortfall in the core dividend overpayment for the year (Army \$11.6M and Air Force \$6.9M). Both Army and Air Force had already agreed to repay the questioned how this year's dividends track with respective overpayment amounts previous dividends over the last five years(b)(6) responded they would gather the information and get it back to the BoD.

(b)(6) then presented an overview of YTD April 2012 financial results and highlights. She notes earnings continue to show a positive trend over Plan and last year. Sales are consistent with no large variances. Strategies to improve margins are resulting in a positive effect on earnings and cost of goods margins. The main driver for this upward trend is continued success in controlling cost of goods sold and reducing expenses. (b)(6) then shared additional initiatives AAFES is exploring to reduce SG&A expenses.

She concluded her presentation by providing an update on the progress of implementing the Commercial Paper Program and the progress in obtaining Federal Finance Bank access. Both programs still working through the requirements process, the goal is to have at least one of the programs operational within the next month. Both programs will provide the same rate and have potential to positively add \$1M -\$1.5M monthly.

Class Six/Shoppette/Express Television

Chief Marketing Officer, (b)(6) Privacy presented an initiative to implement a new robust media solution that will leverage the Exchange's existing digital media network channel to deliver

This new initiative design will reduce and in some cases eliminate prior issues such as, delayed advertising, monthly duplication, and shipping expenses. The introduction of EXTV in 2005 provided some improvements that included timely communications, but there were some limitations such as limited advertising, and a 12-16 hour upload time. However, the introduction of Express TV will provide the additional benefits of increased advertising capabilities, the ability to provide store specific advertising, time-based (day of week), and the capacity to refresh content anytime and synchronize it with weekly sales promotions. Several major retailers with great feedback and success are currently using this form of digital media. Particularity, 7-Eleven reports one out of every seven customers stop to look at what is on the screen and that of the customers observing the screen, one out of every five report making unplanned purchases due to the digital media. They also report a 17-35% sales increase at their stores with digital media.

(b)(6) Privacy presentation continued with an overview of the project timeline and pilot locations identified for the initial rollout. (b)(6) then provided the economic benefits of implementation include estimated return of \$55\ldots - \$83M (over a 5-year period), increase cooperative advertising revenues and increase incremental sales (gross profit). Non-economic benefits include the ability to provide regional advertising and target marketing capabilities to include specific Command (b)(5) Deliberative Process Privilege

At the conclusion of his presentation, (b)(6) presented the following motion: That the Board of Directors approve the Class Six/Shoppette/Express Television Project (Discretionary). The motion was approved by (b)(6) Privacy, seconded by (b)(6) and unanimously approved by the BoD.

eCommerce Upgrade Program

(b)(6) continued with an update on the upgrade of the antiquated e-Commerce system. The upgrade will replace the 39-year-old legacy online store system, which is the core of the catalog and online systems. The upgrade will allow for an Omni-Channel shopping experience, leveraging state of the art technology to increase customer order accuracy. In addition, it will decrease customer order lead-time and introduce the ability to offer new promotional opportunities. The upgrade will provide both economic and non-economic benefits. These benefits include estimated financial growth of between \$178 and \$418M over a 7-year period, expansion and refinement of the patron base and enhanced reporting and notification capabilities. The upgrade will also allow options for new business initiatives such as B2B and allow greater outreach capabilities to the Guard/Reserve populations and communities. The project is scheduled in three phases, which includes an aggressive progress plan designed to generate immediate benefits. In addition, the updates will allow other functionality such as greater access to stock assortment and the over 18M Items available on line. The expected completion is by second quarter 2014.

(b)(5) Deliberative Process Privilege

Warehouse Management System (WMS) Update

Senior Vice President, Logistics, (b)(6) Privacy presented an update on the WMS project. This project originally briefed and approved in 2007 was scoped to replace all distribution centers legacy systems with commercial off the shelf software. In May 2008, Red Prairie was awarded the contract and the program went live at the first site, West Coast Distribution Center (WCDC) in May 2011. The initial roll out faced some challenges, which included significant software modifications required to support Exchange operations and cost overruns - modifications lacked schedule/cost milestones (worked as time and materials). In 2007, the initial approved project was \$31.4M. To date \$29M has been spent and the new projected project cost is estimated between \$62M and \$88M. (b)(6)

been spent and the new projected project cost is estimated between \$62M and \$88M	/l. (b)(6)
(b)(5) Deliberative Process Privilege	
Estimated available equalities in 2016/2017 has nativated to yield significant assuing h	onofite and
Estimated project completion in 2016/2017 has potential to yield significant earning to	peneills and
increased personnel efficiency. (b)(5) Deliberative Process Privilege	
(b)(3) Deliberative F100e33 F11villege	

AUDIT COMMITTEE REPORT

(b)(6) Privacy Director, Audit Division, to provide the audit committee report. (b)(6) began his presentation with an overview of the audit division goals for FY 2012, including the production of 15 audit reports, operating at reduced personnel levels and monetary savings. (b)(6) then briefed the highlights and management actions taken on the five projects completed since the last meeting; jewelry program, CONUS concession accounting procedures, retail inventory management, trade promotion allowances, and retirement plan management. Overall results of all audits performed were positive, and management concurred with the recommended corrective actions and initiated corrective action plans.

INFORMATION ITEMS

noted the information items provided in the read-ahead material and (b)(6) Privacy added each member was provided a DVD copy of Sustainability 2012 dated 18 April 2012.

ADJOURNMENT:

(b)(6) thanked all for their attendance and support. The meeting adjourned at 1337.

SUMMARY OF MOTIONS:

- 1. Selection of the Civilian CEO was approved during an Executive session
- 2. Minutes of Meeting from 15 February 2012 were approved
- 3. Class Six/Shoppette/Express Television Project (Discretionary) was approved



ARMY & AIR FORCE EXCHANGE SERVICE P.O. Box 650060, Dallas, TX 75265-0060 3911 South Walton Walker Blvd, Dallas, TX 75236-1598 Phone 214-312-6103 / Fax 214-465-2912

GC-C

August 4, 2015

FA-15-0330 FOIA Request

This is in response to your June 26, 2015 Freedom of Information Act (FOIA) request to the Army and Air Force Exchange Service (Exchange). The Exchange FOIA office received your original request on June 29, 2015 and clarified as perfected on July 6, 2015 as follows.

- 1. Copies of the Exchange Board of Director meeting minutes for the time period of January 1, 2006 to October 31, 2009.
- Copies of the Exchange Board of Director meeting minutes for the time period of May 14, 2012 to present.
- 3. Copies of the Exchange FOIA Case Log for the time period of 2010 to the present.

Attached are 271 responsive pages to items number one (1) and two (2) of your request. Names of individuals have been withheld from 124 of these pages pursuant to FOIA Exemption (b)(6), the disclosure of which could reasonably be expected to constitute an unwarranted invasion of the personal privacy of others. Removal of these names is compliant with the Department of Defense (DoD) Names List Policy of 2001. In addition, the meeting notes contain information which is pre-decisional. I have withheld statements on 141 for these pages to protect the Exchange's deliberative privilege in accordance with FOIA Exemption (b)(5). This privilege is also necessary, among other reasons, to encourage open, frank discussions regarding Exchange polices and procedures. NLRB V. Sears, Roebuck & Co., 421 U.S. 132, 151 (1975); Missouri ex rel. Shorr V. U.S. Army Corps of Eng'rs, 147 F.3d 708, 710 (8th Cir. 1998).

On July 1, 2015 you were notified that copies of the Exchange FOIA Case Log for the time period of 2009-2013 are located on the FOIA reading page. You were provided directions on obtaining these public documents. I have enclosed five responsive pages relative to the FOIA Log for the years of 2014 and 2015. The Exchange FOIA Logs contain information relative to FOIA requests and Privacy Act Requests. Personal Information has been withheld on these two logs associated with the identity of individuals placing a Privacy Act request with the Exchange. Authority for this denial is Title 5 U.S.C 552(b)(6).

Should you have any questions relative to the processing of your request, please contact the FOIA office at 214-312-6103.

As the Exchange's Initial Denial Authority for the FOIA, I am responsible for the decision to withhold the noted information to certain parts of your request. You may appeal this decision by sending a letter to the Secretary of the Army postmarked no later than 60-calendar days after the date of this letter. Any appeal must include such reasons for reconsideration and a copy of this letter. Address your letter to the Secretary of the Army, Office of the General Counsel, Thru: HQ Exchange, Attn: GC-C, P.O. Box 650060, Dallas, TX 75265-0060. Please note that your appeal should address information denied in this response and cannot be used to make a new request for additional or new information.

Sincerely,

Encls.

DALE HARBOUR General Counsel

Office of the General Counsel

MINUTES OF THE REGULAR MEETING OF THE BOARD OF DIRECTORS ARMY AND AIR FORCE EXCHANGE SERVICE

17 February 2006

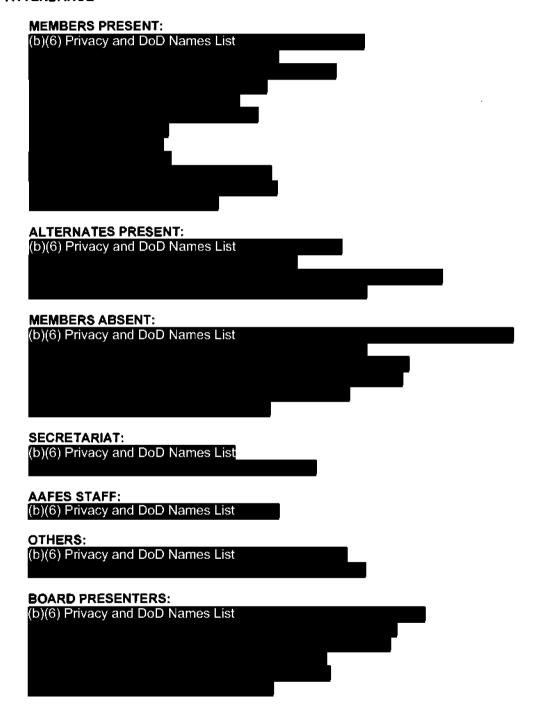
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MINUTES OF THE REGULAR MEETING BOARD OF DIRECTORS ARMY & AIR FORCE EXCHANGE SERVICE (AAFES)

The 243rd meeting of the AAFES Board of Directors was called to order by the Chairman on 7 February 2006 at HQ AAFES, Dallas, Texas.

ATTENDANCE



OPENING COMMENTS BY THE CHAIRMAN

The Chairman, Lt Gen (b) (6) - Privacy opened the 243rd meeting at 0803 hours and welcomed new board members: LTG (b) (6) - Privacy (DCS G-4), LTG (b) (6) - Privacy (DCG USAREUR), Maj Gen (b) (6) - Privacy (PACAF/CD), Mr. (b) (6) - Privacy SES (Alternate for MG (c) (6) - Privacy DAB), and Col (b) (6) - Privacy (Alternate for Brig Gen (b) (6) - Privacy SAF/FMBOO).

The Chairman took several moments to comment on the issue of Shared Services. He indicated that Dr. had been chairing an Executive Committee regarding shared services between the different Exchanges. At the last meeting of the Executive Committee the consensus was essentially the same: no one was in favor of the proposal by the Unified Exchange Task Force, headed by Maj Gen USAF (Retired).

Lt Gen (b) (6) - Privacy indicated again that at this time Dr. had neither come back to the committee with any recommendations nor indicated what he was going to forward to the Secretary of Defense, but wanted to share with the Board that the consensus of the group was that either the UETF proposal be concluded or that more study was needed.

OUT-OF-SESSION ITEMS

The Chairman noted the minutes of the 17 November meeting and 8 December 05 special Board meeting on Lodging were approved out-of-session. Absent further comment, the Chairman said the minutes would stand as approved.

The Chairman then called for the AAFES Commander's report.

AAFES COMMANDER'S REPORT

The AAFES Commander, Maj Gen read an e-mail from a solider thanking an AAFES associate in Europe who ordered an AFN decoder and forwarded it, at her own expense, to the soldier. It arrived in time for the soldier and his unit to watch the Super Bowl. Maj Gen said that this is indicative of the kind of people AAFES has working for it.

Maj Gen thanked Mr. (b) (6)-Privacy and Air Force Services for exceptional help when AAFES lost its first civilian associate, a Logistics manager in Iraq (Darren Braswell) who died in the Blackhawk accident in early January. He indicated he would be visiting the AOR again soon, and would be reviewing various issues to include training, inventory management, loss prevention, and logistics issues.

BRAC continues to be a major issue at gaining bases and posts. AAFES intends to move several projects (Ft Drum and Ft Riley) into an accelerated approval cycle through OSD and Congress.

Maj Gen (a research professor with J.C. Penney; Director, Internet retailing, Retail Management Institute; and Director, E-Business Initiatives at Santa Clara University). Maj Gen then asked Mr.

Mr. (b)(5) Pre-Decisional

Lt Gen (b) (6) - Privacy then introduced Mr. (b) (6) - Privacy (alternate for MG (c) (6) - Privacy to present the Finance Committee report.

FINANCE COMMITTEE

Mr. (b) (6) - Privacy indicated three topics would be discussed today: A brief accounting of the 18 January 2006 Finance Committee Meeting, a Financial Status Report, and a decision briefing on the Long Range Capital Program.

A 2003 Joint AF and AAA report (b)(5) Pre-Decisional

A task force chaired by Mr. (b) (6) - Privacy of AF Services (comprised of Mr. (b) (6) - Privacy AAFES CFO and Mr. (b) (6) - Privacy Army MWR CFO) continues to review options. Seven courses of action were evaluated. The other item that entered into the discussion was the (b)(5) Pre-Decisional

The Task Force has not completed its review and

will continue to work the issue.

Mr. (b) (6) - Privacy then introduced Mr. (b) (6) - Privacy AAFES CFO, to give the Financial Status Report.

Financial Status Report

Mr. Provided a summary of AAFES finances through December 05. Very strong December earnings significantly exceeded the previous December, and as a result made up some ground. An item of significance is the Post Retirement Medical Expense (PRM). When Congress passed a law impacting Medicare part D, it provided coverage for Medicare eligible retirees in the general economy which impacted AAFES. The Medicare prescription plan (Part D) allows subsidies to be passed on to employers. The goal of this plan is to encourage employers who have already provided pharmaceutical/drug related coverage to their employees to continue the coverage and not transfer that responsibility to the Federal Government. There are two forms of subsidy: a very significant cash subsidy provided to employers that amounts to approximately 28% of expenses, and a subsidy passed on to insurers if the employer is providing the coverage through an insurance type situation. For instance, AAFES self-insures just like the other NAFIs but there is an option to go to an insurance-type benefit. If AAFES were to do that, subsidies would be passed on to the insurance companies which, in turn, would lower costs. The decision for AAFES and the other NAFIs made in early 2005 was to apply for a cash subsidy. AAFES was told it was likely to receive the cash subsidy. The application for subsidy was sent by the Medicare Board to OMB. Unfortunately OMB reviewed it and decided the subsidy should not be passed on to other Government entities. With no official response, since OMB has not turned down the NAF request, AAFES was advised (b)(5) Pre-Decisional

Mr. 1997-1999 then went on with the Financial Status Report. December was a strong month for AAFES. Year-to-date (YTD) sales are running 4% ahead of last year and 1% ahead of plan. Financial revenue has increased by \$29.2M due to the increase of the Prime Rate by an average of 187 basis points. Concession income has increased by \$13.5M, or 9%.

Higher gas sales had a positive impact on overall sales for AAFES, but AAFES lost margin on gas around the world. In the Eastern Region gross profit declined from 8% to 6.6%, in the Central Region it declined from 7% to 6%, and in the Western Region from 8% to 6%. In overseas areas, margins declined from 38% to 34% in Europe and 18% to 16% in the Pacific. Even though the sales price was increasing, margins on gas decreased.

Selling General and Administrative (S&GA) expenses are up vs. both last year and plan. A 4% increase was planned and AAFES is running slightly ahead at 5%. Several factors caused this situation: No APF support was received this year for OEF/OIF activities and credit card fees went up \$9M.

Interest and Bad Debt Expense projections are based on market projections collected from banking partners and financial markets. Prime interest rates are expected to increase to 7.25% at year end (a change of 200 basis points from year end '04 to year end '05). Interest Expense is up significantly versus both last year and plan. AAFES planned on an increase (because of its outstanding credit worthiness, it receives very favorable rates) but it has doubled since 2004, which has driven up interest expense. Bad Debt is up slightly but nothing significant.

Bad debt is collected in various ways. One of the most effective is that AAFES is able to collect through the Treasury Offset Program, IRS, etc.; it realizes that much of the bad debt is the result of bankruptcies and makes an allowance for it. Mr. asked (b)(5) Pre-Decisional

Mr. (b)(5) Pre-Decisional

Mr. (c)(5) Pre-Decisional

Mr. (c)(6) Pre-Decisional

Lt Gen (0) (6) - Privacy asked how much of AAFES authorized expenditures from OIF/OEF were reimbursement. Mr. (0) - Privacy said at the beginning of GY 05 a request for \$53M was submitted. AAFES budgeted \$40M. AAFES did not receive any money related to OEF/OIF in GY 05.

The dividend picture through December exceeded last year. Mr. [216] Prices forecast that by the end of the year dividends would fall below last year.

Sales by all Regions were up. Contingency sales were up 4%; direct marketing, internet and catalog efforts were up 24%.

Mr. (b)(5) Pre-Decisional

Mr. (b)(5) Pre-Decisional

Mr. (b)(5-Pines) replied that AAFES is fairly consistent with other retailers in Catalog and Internet sales.

Mr. (b) (6) - Privacy commented that these numbers are very much in line with what was reported across the retail industry. Most people have seen 23-26% increases for the Internet side of the business year to vear.

Mr. (b) (5) Pre-Decisional Mr. (b) (6) - Privacy (b)(5) Pre-Decisional

AAFES is projecting earnings for the year at \$324M in comparison to \$345M last year. Dividends are expected to be \$234M this year vs. \$242M paid last year, an \$8M reduction. Mr. projected that earnings would decrease by \$21M. The imbalance is caused by the Safety Net on core dividends, which covers shortfalls up to 15% of what was projected.

Two factors that may have an impact on this are the actual inventory results for AAFES and the issue of the cash subsidy. The financial health of AAFES remains strong and there are no causes for alarm.

Long Range Capital Program

Mr. (b) (6) - Privacy thanked Mr. (c) (6) - Privacy thanked Mr. (d) (6) - Privacy thanked Mr. (d

The Finance Committee reviewed 22 construction projects and five image updates, valued at over \$304M. In addition, the Committee reviewed seven projects previously approved by the Board that now require resubmittal. Nineteen of the 22 construction projects support BRAC gaining locations, Army Modular Force (AMF) installations, and overseas remote and isolated locations. He noted there are six shopping center projects in this program, valued at more than \$218M. This represents approximately 72% of this year's \$304M submission. He went on to explain the 7% Internal Rate of Return (IRR) customary threshold used

to evaluate a project's financial merit. In this year's submission the portfolio of projects will generate an IRR of 7.13% with a net present value (NPV) of \$2.33M.

The Finance Committee reviewed the details of 13 construction projects and 5 image-update projects that have IRRs above 7%. The 13 projects have a composite IRR of 9.7% with a \$21.5M Net Present Value (NPV). The Committee also reviewed 9 construction projects below 7% with a composite IRR of 5% and a NPV of minus \$19.1M. Last year the Board approved a \$122M program with a composite IRR of 6.84% and a NPV of minus \$949K.

The Finance Committee recommended that the Board approve the 18 projects with IRRs above 7% listed below:

Activate Bookstore/FoodCt/Barber Ft Leavenworth, KS Elmendorf AFB, AK Renovate Food Ct/Mall Ft Leonard Wood, MO Backfill Existing PX Activate Popeyes Ft Drum, NY Activate Popeyes Ft Meade, MD Construct Dual Food Osan AB, KO Ft Bliss, TX Construct Shopping Center Ft Stewart, GA **Expand Gas Construct Shopping Center** Ft Riley, KS Construct Mini Mall /Subway/Gas/Car Wash Ft Stewart, GA Construct Shpt/BK/Gas/Car Wash Ft Drum, NY Ft Carson, CO Construct Shpt/BK/Gas/Car Wash Ft Lewis, WA Construct Shpt/Starbucks/Gas/Car Wash Eglin AFB, FL Image Update Shopping Center Image Update Shopping Center Luke AFB, AZ Ft Rucker, AL Image Update Shopping Center Image Update Shopping Center McClellan AFB, CA Malmstrom AFB, MT Image Update Shopping Center

Maj Gen (b) (6) - Privacy (b) (5) Pre-Decisional

. Maj Gen (b) (6) - Privacy (b) (5) Pre-Decisional

. Maj Gen (b) (6) - Privacy (b) (5) Pre-Decisional

. Maj Gen (b) (6) - Privacy (b) (5) Pre-Decisional

. Maj Gen (b) (6) - Privacy (b) (5) Pre-Decisional

Lt Gen (b) (6) - Privacy (b) (5) Pre-Decisional

. He stated that Mr. (b) (6) - Privacy had assured him it would not be an issue this cycle on either of those projects.

Mr. (b) (6) - Privacy asked if there was any other discussion. LTG (b) (6) - Privacy asked how this list matched up with the big gainer bases or if there was a correlation. Mr. (c) (6) - Privacy indicated that there was a direct correlation.

Mr. (b) (6) - Privacy proposed that the Board vote on all but Ft Riley at this time, and vote on Ft Riley later if additional fidelity is obtained. Lt Gen (b) (6) - Privacy asked for a motion.

Motion: Mr. (b) (6) - Privacy moved that the Board approve the capital projects that meet the desired 7% IRR criteria, except the Fort Riley project which will be voted on later in the meeting or out-of-session. The motion was seconded by Mr. (b) (6) - Privacy moved that the Board approve the capital projects that meet the desired 7% IRR criteria, except the Fort Riley project which will be voted on later in the meeting or out-of-session. The motion was seconded by Mr. (c) (c) - Privacy moved that the Board approve the capital projects that meet the desired 7% IRR criteria, except the Fort Riley project which will be voted on later in the meeting or out-of-session. The

Mr. (b) (6) - Privacy then introduced Mr. (b) (6) - Privacy Vice President of the Real Estate Directorate, to give a more detailed review of projects with an IRR below 7%, plus an update on steps taken to manage BRAC and a review of other Capital Program Construction strategies.

AAFES is engaged with both Army and Air Force and overseas commands; it receives routine updates and coordinates active projects. AAFES obtains Overseas Combatant Command concurrence prior to design overseas and receives Senior BOD Member confirmation prior to construction of all projects. AAFES also participates in BRAC data calls with the Army and the Air Force.

Mr. (b) (6) - Privately then proceeded to review the projects with an IRR below 7%:

LOCATION/PROJECT	COSTS (\$000)	PRIORITY	NPV (\$000)	<u>IRR</u>
Beale AFB, CA				
Construct Shpt/ LDC/Gas/Car Wash	4,814	13	(21)	6.9%
Misawa AB, JA				
Construct Shpt/Popeye's/LDC	10,475	20	(318)	6.1%
Ft Carson, CO	_			
Expand Shopping Center	23,292	9	(1,483)	6.1%
Kadena AB, JA			(10,442	
Construct Shopping Center	78,838	14)	4.9%
Ft Irwin, CA				
Activate BK/ Anthony's Pizza	1,716	12	(166)	4.4%
Ft Drum, NY				
Expand Shopping Center	23,334	1	(4,163)	4.2%
Yokota AB, JA				
Construct Shoppette/Gas	6,573	22	(511)	4.0%
Minot AFB, ND				
Construct Shpt/Gas/CCC/Car Wash	5,999	21	(1,014)	4.0%
Ft Wainwright, AK				
Expand Shopping Center	13,424	6	(1,026)	3.8%

BG (b) (6) - Privacy (b)(5) Pre-Decisional

Mr. (b) (5) Pre-Decisional

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Lt Gen (b) (b) - Privacy (b) (5) Pre-Decisional

Mr. (c) (c) - Privacy (b) (5) Pre-Decisional

Lt Gen (c) (c) - Privacy (b) (5) Pre-Decisional

Mr. (c) (c) - Privacy (b) (5) Pre-Decisional

Mr. (c) (c) - Privacy (b) (c) Pre-Decisional

Lt Gen (c) (c) - Privacy (b) (c) Pre-Decisional
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Mr. (b) (6)- Privacy proceeded to review the remaining projects and then turned the meeting over to Mr. (b) (6)- Privacy who recommended that the Board approve those projects with IRRs below 7% except the Kadena AB project to be deferred to this afternoon. The Chairman called for a motion.

Motion: Mr. (a) (b) - Privacy moved that the Board approve the capital projects with returns below 7%, with the exception of Kadena AB which will be reviewed later in the meeting after receiving updated information. The motion was seconded by LTG (a) and unanimously approved by the Board.

Mr. (b) (6) - Privacy continued by stating the Finance Committee had reviewed the details of the re-submitted projects and recommended that the Board approve those projects with IRRs above 7%.

Location/Project Ft Buchanan, PR	Costs (\$000)	NPV(\$000)	<u>IRR</u>
Constr Shopping Center	18,080	17,826	15.8%
Ft Sam Houston, TX Constr Shpt/Gas/Car Wash	5,959	2,496	12.9%
Hill AFB, UT Activate Popeve's	1.416	268	9.2%

The Chairman called for a motion.

Motion: Mr. moved that the Board approve the three resubmitted capital projects with returns above 7%. The motion was seconded by Mr. (b)(6) - Privacy and unanimously approved by the Board.

Mr. (and project if any of the following conditions occur:

- Projected project cost exceeds approved cost of more than 25% (independent of currency fluctuations)
- Projected net present value (NPV), if approved at a positive dollar amount, drops to a negative dollar amount
- Significant changes in mission or projected troop strength not considered during initial project development are verified

Mr. [0](6)-Privacy then discussed the following projects with IRRs below 7%:

Location/Project	Costs (\$000)	NPV(\$000)	<u>IRR</u>
Ft Stewart, GA Constr Shoppette/Popeye's/Gas	4,281	(1,527)	3.4%
Bellows AFS, HI Constr Shoppette/Subway/Gas	1.975	(184)	3.2%
Eielson AFB, AK		,	
Constr Shopping Center Cp Stanley, KO	28,454	(3,695)	1.0%
Constr Shopping Center	10,024	(3,257)	1.4%

The Chairman called for discussion on each of the above listed projects. There being none he brought up several questions regarding Ft Stewart and Eielson AFB. He then called for a motion:

Motion: Mr. [60] Part moved that the Board approve the four resubmitted projects with IRRs below 7%. The motion was seconded by LTG [b] (6) - Privacy and unanimously approved by the Board.

Mr. (b) (6) - Privacy next advised that Maj Gen would like to discuss several out-of-cycle projects. Maj Gen proceeded to discuss the following out-of-cycle projects:

Ft Drum, NY: Expand Shopping Center

Construct Shoppette (Wheeler Sack AAF)

Activate Popeye's Chicken

Ft Riley, KS: Construct Shopping Center

Maj Gen [646]-Private (b)(5) Pre-Decisional

Both installations gain significant population with the arrival of soldiers and family members associated with Base Closure and Realignment (BRAC) initiative and the Army Modular Force (AMF) restructure.

He indicated that the Ft. Riley project (b)(5) Pre-Decisional
He went on to discuss the four projects.

The Fort Drum active duty Soldier strength increased to 16,600 in 2005 and the total population increased to 46,959, an overall 30% increase, with the arrival of the Brigade Combat Team (BCT) as part of the Army Modular Force (AMF).

The Fort Riley active duty strength will increase to 18,100 and the total population increases to 58,004, an overall 31% increase, with the anticipated 2007 arrival of Soldiers and family members as a gaining location under BRAC and gains with AFM.

(b)(5) Pre-Decisional

Ft Riley's (b)(5) Pre-Decisional Center. (b)(5) Pre-Decisional

. This project constructs a new Shopping

This timeline comparison illustrates the difference in delivery via the Normal Cycle vs. Out-of-Cycle. Out-of-cycle will reduce the project timeline by approximately seven months. The design-build-acquisition process will allow AAFES to start solicitation and construction sooner than the normal design-build process. The design-build process completes final design during the site and utility construction segment and saves an additional five months of project execution.

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(b)(5) Pre-Decisional
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Ft Drum's increase in population has already taken place. The normal approval and construction cycle would take until February 2008 for the Popeye's, September 2008 for the Shoppette and November 2008 for the expansion of the Shopping Center to open for business. An out-of-cycle approval potentially reduces each of these timelines by 12 months bringing the Popeye's on line in February 2007, the Shoppette in September 2007 and the expansion of the Shopping Center in November 2007.

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Maj Gen (1) (6) - Private indicated (b)(5) Pre-Decisional
                                                                                                  He indicated Mr.
                                                              Lt Gen (b) (6) - Privacy asked(b)(5) Pre-Decisional
<sup>២(6)-P</sup>(b)(5) Pre-Decisional
                                                                                             Maj Gen (6) (9) Phos
                                                                                         Lt Gen (b) (6) - Privacy stated he
(b)(5) Pre-Decisional
                                                                                              Mr. (b) (6) - Privacy indicated
(b)(5) Pre-Decisional
           LTG (((),(d) - Prival (b)(5) Pre-Decisional
           SMA (b) (6) - Privacy agreed. Lt Gen (b) (6) - Privacy thanked Mr. (b) (6) - Privacy and Maj Gen (b) (6) - Privacy
briefings.
Lt Gen (b) (6) - Privacy indicated that Mr. (b) (6) - Privacy presentation was an important briefing, particularly some of
the issues with sales in the CONUS regions; (b)(5) Pre-Decisional
                                                                                     He then turned the meeting
over to Ms. (8)(6)-Privacy AAFES' Chief Operating Officer.
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ENHANCE SHOPPING EXPERIENCE

The Chief Operating Officer, Ms. [016]-Private began with three topics for discussion: Industry Trends (what was happening in December, where AAFES sales are and where some of the competition is), National Retail Forward (NRF), a strategy firm hired to review AAFES customers habits and input about everything involved in their shopping experience, and some of the strategies and initiatives that AAFES has made for 2006 and 2007 that will prepare it for the future.

Comparative sales in December were up 4% due to gasoline but little from regular retail. The trend in Main Stores prior to 9/11 was an upward; after 9/11 sales trended downward as access and deployments complicated the retail environment. Despite this, AAFES (b)(5) Pre-Decisional

Some of the biggest growth was in the competition's stores, such as Circuit City at almost 11%, Best Buy at 6%, Wal*Mart at 2.2% and Target at almost 5%. Other retailers had challenges in December such as Sears Holding Corp (Sears and K-Mart) 12% decline, Gap's almost 10% decline, Hot Topic (a music company) over 6% decline, and Sharper Image had a 15% decline. All companies need to look more at their customers' wants and needs in terms of enhancing the shopping experience, and then try to find ways to differentiate themselves to encourage customers to come into their store for very specific reasons.

Big organizations like NRF survey executives every year, and for the last 3-4 years the top priority for most retail executives (71%) is growing comparative sales.

Ms. (b) (5) Pre-Decisional went on to discuss how to enhance the shopping experience. (b) (5) Pre-Decisional

She proceeded to go through a number of these initiatives that will be looked at for change. Retail Forward did a survey of 51 stores, over 33,000 customers and over 100 categories that allowed the customer to do an interactive survey. It helped AAFES see, by customer, their comments by categories. The survey tried to target the Active Duty customer (AAFES most important customer). It discovered that electronics was the biggest draw in AAFES–61% of its customers regularly shop for electronics at AAFES to fulfill their buying needs. The top categories where customers shopped AAFES first before buying at another retailer included Computers–67% and Electronics (excluding computers)–57%. AAFES captures half of customer spending in electronics: AAFES–50%, Wal*Mart–10%; Best Buy/Circuit City–6%.

(b)(5) Pre-Decisional

Furniture, appliances and electronics' potential sales are \$215M annually, hard goods \$140M, and cosmetics and accessories \$99M. (b)(5) Pre-Decisional

Customer service is good and getting better. 39% of those surveyed said that they thought that customer service had improved in the last year; 57% felt it had stayed about the same. Ninety-Five percent of customers felt customer service matched or exceeded their expectations, 55% agreed that they expected better sales assistance while shopping in the PX/BX, and 46% agreed that AAFES was more customer service oriented.

Lt Gen (b) (6) - Privacy said (b) (5) Pre-Decisional Ms. (b) (6) - Privacy agreed and stated that (b) (5) Pre-Decisional

Lt Gen (b) (6) - Privacy agreed,

and said (b)(5) Pre-Decisional

Customers were asked what services were important to them. Number one is quick, efficient check-out-53%. Second was price matching (Ms. (b) (5) Pre-Decisional

The next was price-checking stations - over 50% of customers don't realize there are price checking stations. The next several items were quick courteous returns, same price substitutes, rain checks, and help finding items in the store — 32%.

AAFES has been improving pricing perceptions for the last two years by surveying the local competition, using market basket surveys and communicating results to the customers. Seventy-five percent of customers felt AAFES prices were lower than the competition on brand name products every day or when on sale; 41% thought that no sales tax figured into the price advantage; (b)(5) Pre-Decisional

. AAFES is

very similar in price. AAFES is pleased with the survey and is still working with Retail Forward to get more details to target its strategies finitely over the next year.

In the past AAFES has been a safe company taking very few risks; now it (b)(5) Pre-Decisional

Many customers are

very tech savvy and are considered early adapters. This particular customer buying segment is not afraid to try new technology as soon as it is available. (b)(5) Pre-Decisional

Ready to assemble (RTA) furniture is another area where AAFES has made a major change in sales strategy. These products were individually ordered by truckload, and stores were over stocked or out-of-stock. This policy has changed and AAFES is now stocking this merchandise in the warehouse. The

immediate benefit is increased sales. AAFES plans a very steady growth for 2006. This new program will complement the current basic program and have a potential for even greater growth.

8G (b) (6) - Privacy (b)(5) Pre-Decisional Ms. (b) (6) - Privacy (b)(5) Pre-Decisional Mr. [4](8) Pre-Decisional Maj Gen said (b)(5) Pre-Decisional SMA (b) (6) - Privacy added(b)(5) Pre-Decisional AAFES has spent a lot of time on Power Zone Strategies to improve customer experience. [D)(5) Pre-Decision Many AAFES customers are very tech savvy and are considered early adapters. This particular customer buying segment is not afraid to try new technology as soon as it is available. (b)(5) Pre-Decisional (b)(5) Pre-Decisional

Ms^{(b) (6) - Privacy} (b)(5) Pre-Decisional AAFES wants to make it easier to shop and also make it entertaining so customers will stay, play and, buy more products. AAFES strategies are as follows: (b)(5) Pre-Decisional . Ms. (b) (6) - Privacy reiterated that when you brand a product or store you get a lift in sales by 10-15% because of customer recognition. This is an ongoing process. Ms. 6 - Privately then went on to discuss operational enhancements that AAFES is working on.

Exchange TV is another initiative Ms. (100-Proof) discussed. All exchanges have TVs (in PowerZones, in Food Courts, clothing sections, and various other locations all around the stores.) AAFES will roll out an Exchange TV where it can produce commercials and get co-op dollars for those commercials and stream them out to the stores. This program was launched in December and AAFES already has 15 paid commercials scheduled for airing, generating \$311,062 in cooperative advertising income.

Finally, Ms. [276]-276322 discussed building an emotional connectivity with customers: Soldiers and Airmen who do something different than any other customers around the world. By becoming more connected with those customers, AAFES also becomes more relevant and builds a reason for them to come to us. If they feel there is a reason they should buy from AAFES—because "we go where they go," or because AAFES is always there for the families on the home front, or whatever the emotional connectivity is—it keeps AAFES as the store they want to shop. AAFES wants to convince them that it wants to walk hand in hand with them in order to build that emotional connectivity.

Mr. (b) (6) - Privacy questioned (b)(5) Pre-Decisional . Ms. (b) (6) Pre-Decisional

(b)(5) Pre-Decisional

Mr. (b) (6) - Privacy said that MG (b) (6) - Privacy a (b)(5) Pre-Decisional

Mr. (b) (6) - Privacy (b)(5) Pre-Decisional

Lt Gen (b) (6) - Privacy thanked Ms. (b) (6) - Privacy reiterating that it was an important presentation for AAFES' future.

RETEK UPDATE

Mr. (b) (6) - Privacy Chief Information Officer briefed the Board on the Retek project status through Wave 1B to Wave 2, the budget update, and inventory reduction.

Mr. (0)(6)-Private indicated that at the last Board meeting he went through Wave 1B and said AAFES needed to extend the timeline. He went over some factors to let the Board know what occurred and why it had to be extended. The timeline was extended from May 06 to July 06 and it is expected to go live in July 06.

Some lessons learned from Wave 1A are that there is now improved testing methodology to identify the problems and correct them before implementation., as well as ensuring that enough experts are available on-site to fix any glitches.

Wave 1B is tracking to plan and will go live in July 06. AAFES purchase orders will be migrated into the Retek purchase order system and then the AAFES system will be disconnected completely and purchase orders will be done within the Retek system. From prior lessons learned, the design-build phase for Wave 2 cannot be started until Wave 1B is complete because the same resources are going to be working on both Wave 1B and Wave 2.

Wave 2 is the largest wave, with over 3000 tasks, while Wave 1B had only 1800 tasks. At the last meeting, 13 work-streams were in yellow, now it is down to three. The only item on the slide in yellow (purchase-order-write) is actually tracking to plan. The reason this is in yellow is because it is a critical path and we need to monitor it on a daily basis.

Mr. [6] [6] - Privacy feels comfortable that the other two work streams (organizational alignment and training) will be caught up and that AAFES will go live this year.

On the final Wave 2, the first 2 modules are on track (green). Of the other six modules, one will start in March 06 and the others will start sequentially after that; the last one will start in October 06.

Lt Gen (b) (6) - Privacy asked Mr. (b) (6) - Privacy td(b)(5) Pre-Decisional

Mr. (b) (6) - Privacy (b) (5) Pre-Decisional

Mr. (b) (6) - Privacy asked if anything had happened to diminish our view of the return on investment. Mr. (b) (6) - Privacy answered no, that they felt very comfortable that the \$547M was very achievable.

Mr. (b) (6) - Privacy continued his briefing stating the budget is tracking to plan.

The projected inventory reduction for the project so far through FY05 was \$86.2M; actual inventory reduction is currently at \$98.9M (a difference of \$12.7M due to early inventory optimization of \$92.9M and, by adopting Retek methodology, a music/video inventory reduction of \$6M.) By the end of 2006 there should be a total inventory reduction of \$154M. BG (b) (6) - Privacy asked what performance indicator was being used now to make sure that merchandise is still being put on the shelves on time. Mr. (1000) - Privacy said it's a balance of fill rates and service levels. This year, the industry overall balance is 92% and AAFES is above 92%. Lt Gen (10) (6) - Privacy indicated that the Finance Committee should determine, after the April 06 review, if Retek should come to the full Board. He stated (for new Board Members) his opinion was that

(b)(5) Pre-Decisional

Mr. [0](0]-201932 added for new Board members, that AAFES has money set aside for Change Management. The key is software and how well the business uses it. Lt Gen 0-Privacy thanked Mr. 0-Privacy for a good briefing.

Lt Gen (b) (6) - Privacy introduced BG (b) (6) - Privacy to present the Audit Committee Report.

AUDIT COMMITTEE REPORT

BG (b) (6) - Privacy Commander US Army Community and Family Support Center briefed the Board on the Audit Committee's review of the External Audit Plan which is done annually by Ernst & Young (E&Y). The annual audit will include reports on annual financial statements, review of internal control structure, and review of compliance with laws and regulations. The 2005 audit should be completed by May/June 2006.

BG (b) (6) - Privacy highlighted the steps taken in developing the Internal Audit Plan for 2006, particularly the request for audit subjects. He felt this was a great system because it asked for audit topics from everyone: from associates, to managers, to Garrison commanders, to anyone who wanted to suggest topics. They received 174 different inputs for audits. They will now evaluate the submissions, make their selections, brief the command group, submit them to the Audit Committee and then distribute the audit plan.

BG (b) (6) - Privacy briefed the 13 functional audits that were included in the Internal Audit Plan for 2006. He asked if there were any questions on any of the 2006 plans. There being none he went on to brief other topics in the Audit Plan that included the organizational audit of the Central Region. Follow-up audits on the European Industrial Activity food plant operations, CONUS, Pacific, and Europe Facility Management Office (FMO) Operations and, vehicle management were discussed. Additional functional audits were being done on employment policies and procedures, Exchange Service Regulation (ESR) 2-3, review of organization and functions and, procurement card transactions.

BG (b) (6) - Privacy indicated recently completed audits that included organizational, vendor, and associate accounts receivable should be implemented by the end of 2006 and should increase profitability by \$2.4M. He also mentioned the update on the Retek implementation and lessons learned such as imbedding auditors in projects at the start instead of waiting until a problem occurred. BG (b) (6) - Privacy reiterated that the implementation date of April 07 was moved to August 07. He felt the implementation of Retek was on track. He indicated that metrics development will be the next issue.

The Audit Tiger Team and AAFES continue to work two open items and will bring them up in the May Board:

Finding B-4: Dividend calculation methodology. The Finance Committee working group is analyzing methodological options and will report back to the Board through the Finance Committee. The completion date has been extended to May 06.

Finding C-3: Formalizing and documenting the mission and functions of the exchange. Publication of Exchange Service Regulation (ESR) 2-3 has been delayed and is waiting for possible management directed reorganizations. The Audit Committee requested an internal audit to review the draft ESR and investigate overlapping managerial responsibilities. An update will be provided at the May 2006 Board.

MG (b) (6) - Privacy asked for comments or questions. Lt Gen (b) (6) - Privacy said the Audit plan looked good and the Audit Committee was doing excellent work. He thanked BG (b) (6) - Privacy and Mr. Oswald.

Lt Gen (b) (6) - Privacy indicated the presentation on the Legislative Agenda would be next, as the Capital Program issues were not yet available. (b)(5) Pre-Decisional

(b)(5) Pre-Decisional

Mr. may bring the essence of this agenda to the attention of the

Board members.

LEGISLATIVE AGENDA

Mr. Director, AAFES Washington Office stated that the legislative update would be presented annually in February. The Board could then have a motion to work these initiatives with the Services. Currently there are no new initiatives, but there are old ones being worked.

Mr. indicated that (b)(5) Pre-Decisional

(b)(5) Pre-Decisional

Mr. discussed the final wording submitted to Congress in the 2006 National Defense Authorization Act (NDAA) regarding the Army Lodging. He pointed out that the language of the NDAA was very restrictive when it stated "...shall submit to Congress..." (required to submit) as opposed to "...may submit...." Mr. was (b)(5) Pre-Decisional

Maj Gen is ready to give the presentation.

Mr. went on to discuss Second Destination Transportation (SDT). This issue comes up repeatedly in Congress and Army FM proposed that in 2007 or 2008 there would be no appropriated fund support available for SDT. Congress felt so strongly about the non discretionary budget of SDT that they changed the wording in Title 10, from "may" to "...shall also be used to cover transportation of exchange supplies." This was done for all the Exchange Services, and DeCA, so all are protected under the current SDT language. Mr. (b)(5) Pre-Decisional

, and Maj Gen (b) (b) Pre-Decisional

Mr. discussed the initiative which allows for compensatory time to be used instead of overtime. He indicated that he brought the subject up because the language mentions nonappropriated fund employees. OSD will issue a directive shortly. The impact to AAFES may be minimal.

Sale of supplies outside CONUS was discussed next. Mr. explained that it was an AAFES initiative that increased the amount of merchandise AAFES could sell to other U.S. Government agencies overseas from \$50,000 to \$100,000. This will have minimal impact to AAFES.

Other provisions that may have possible impact to AAFES:

- Telephone service (actually voice-over-internet), which AAFES is aggressively pursuing. However, until the technology is at a user level there is no widespread use for it, particularly for deployed individuals.
- Finance is looking at predatory lending practices. It is a requirement to review any DOD element having acquisition functions, including AAFES and other exchange services.
- A-76 procedures- privatization of different government functions.
- Buy America-particularly for perishable foods purchased outside of CONUS.
- Support for Youth Organizations requires NAFIs (among others) to support Boy Scouts, Girl Scouts, etc. Maj Gen Said (b)(5) Pre-Decisional
- Increase in Minor Construction threshold before seeking Congressional approval from \$1.5M to \$2.5M and \$3.0M to \$4.0M
- NAFI construction at Ft Buchanan is now specifically covered in NDAA 01 Act. Previously construction was not approved.

^{differ} brought up one last issue that came from the Army regarding expansion of patronage, specifically looking at OCONUS contractors and others. This comes up periodically and when it gets to Congress they ask about commissaries, since they are concerned about appropriated funds used to subsidize the price of groceries for someone who is not entitled. Mr. (b)(5) Pre-Decisional y(b)(5) Pre-Decisional Mr. (b)(5) Pre-Decisional Mr. (b) (6) - Privacy (b)(5) Pre-Decisional he asked if Mr. [™](b)(5) Pre-Decisional Mr. (b) (6) - P Mr. ^{(ឲ)ស៊ុក} (b)(5) Pre-Decisional Mr. (b) (6) - Privacy agreed. (b)(5) Pre-Decisional Lt Gen (b) (6) - Privacy asked if (b)(5) Pre-Decisional Mr. (DIG) - P replied (DXS) Pre After some discussion Mr. (b) (6) - Privacy asked if the AAFES Mr. (b) (6) - Privacy (b)(5) Pre-Decisional (b)(5) Pre-Decisional Mr. (b)(5) Pre-Decisional th Mr. (b) (6) - Privacy (b) (5) Pre-Decis

Mr. (b) (6) - Privacy Maj Gen (b) (6) - Privacy commented (b) (5) Pre-Decisional . Mr. (b) (6) - Privacy is working it through them.

Lt Gen (0) (6) - Privacy asked for any other discussion on the Legislative Agenda. He thanked Mr. (1) for his presentation.

LONG RANGE CAPITAL PROGRAM CONTINUATION

Lt Gen (0) (6) - Privacy indicated that the Board would now hear the updated information on the two construction projects that needed to be reconsidered. The Board would hear information on an individual basis, starting with Ft Riley first, make a decision, and then discuss and vote on Kadena.

Fort Riley

Mr. (D) (0) - Privacy proceeded to verify that the ACSIM pre-decisional brief a few months ago was their last major source of information regarding the strength buildup and timelines. He spoke to Ms. (b) (6) - Privacy Deputy Chief, ACSIM Plans and Operations Division today and said (b) (5) Pre-Decisional

HQDA Chief of Force Management Initiative Division, Col (b) (6) - Privacy (b)(5) Pre-Decisional

Lt Gen (b) (6) - Privacy called for a motion.

Motion: LTG moved that the Board approve the capital project at Fort Riley, Kansas, that meets the desired 7% IRR criteria. The motion was seconded by Mr. (b) (6) - Privacy and unanimously approved by the Board.

Kadena AB

Mr. ^{[0](6)-Privacy} then briefed the updated information requested earlier on the project at Kadena AB, Japan. After presenting four alternatives, Mr. ^{[0](6)-Privacy} indicated the best IRR position was the proposed 330K SF.

Lt Gen (b) (6) - Privacy said the presentation was well laid out and comprehensive. (b)(5) Pre-Decisional

After a lengthy discussion Lt Gen (b) (6) - Privacy called for a motion.

Motion: Mr. (b) (6)-Pressy moved that the Board approve the capital project with a return below 7% at Kadena AB, Japan, with mandatory reviews at the May and August Board meetings. The motion was seconded by Mr. (c) and unanimously approved by the Board.

Lt Gen (b) (6) - Privacy then called for final comments:

FINAL COMMENTS AND ADJOURNMENT

Lt Gen (b) (6) - Privacy thanked everyone for an informative and active meeting.

The meeting adjourned at 1450 hours.

SUMMARY OF MOTIONS

- ♦ MOTION: The motion was made, seconded and passed that the Board approve the capital projects that meet the desired 7% IRR criteria, except the Fort Riley project which will be voted on later in the meeting or out of session.
- ♦ MOTION: The Motion was made, seconded and passed that the Board approve the capital projects with returns below 7%, with the exception of Kadena AB which will be reviewed later in the meeting after receiving updated information.
- ♦ MOTION: The Motion was made, seconded and passed that the Board approve the three resubmitted capital projects with returns above 7%.
- ♦ MOTION: The Motion was made, seconded and passed that the Board approve the four resubmitted projects with IRRs below 7%.
- MOTION: The Motion was made, seconded and passed that the Board approve the capital project at Fort Riley, Kansas, that meets the desired 7% IRR criteria.
- MOTION: The Motion was made, seconded and passed that the Board approve the capital project at Kadena AB, Japan with mandatory reviews at the May and August Board Meetings.

SUMMARY OF FOLLOW-ON ACTIONS

<u>FOR FA:</u> Provide demographics of the type of people who file bankruptcies and report to the Board in May.

<u>FOR MK:</u> Have a component do price checking and checking to make sure AAFES is competitive and report to the Board in May.

<u>FOR RE:</u> Update the Board on the Kadena AB project. Do detailed charts to show if the customer base will still justify the size of store planned.

FOR AAFES: Review changes to marketing via the internet and report to the Board in May.



APPROVED:



(b) (6) - Privacy Lieutenant General, USAF Chairman

MINUTES OF THE REGULAR MEETING OF THE BOARD OF DIRECTORS ARMY AND AIR FORCE EXCHANGE SERVICE

17 MAY 2006

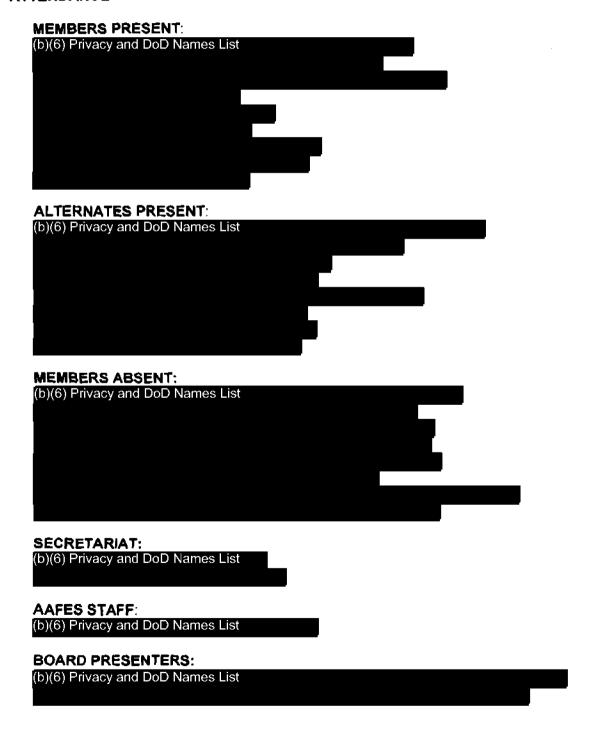
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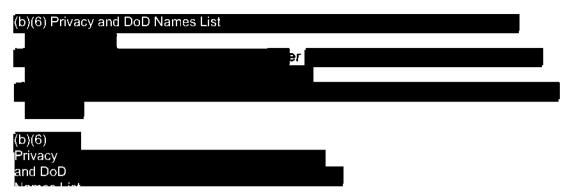
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MINUTES OF THE REGULAR MEETING BOARD OF DIRECTORS ARMY & AIR FORCE EXCHANGE SERVICE (AAFES)

The 244th meeting of the AAFES Board of Directors was called to order by the Chairman on 17 May 2006 at HQ AAFES, Dallas, Texas.

ATTENDANCE





OPENING COMMENTS BY THE CHAIRMAN

The Chairman, Lt Gen (b) (6) - Privacy welcomed Board members. The Chairman asked each person present to introduce themselves and the Executive Secretary noted alternates attending, confirmed proxies, and confirmed a quorum was present. The Chairman pointed out that Board meetings are important to Soldiers and Airmen.

APPROVAL OF FEBRUARY 2006 BOD MINUTES

Lt Gen (b) (6) - Privacy advised Board Members that he had reviewed the minutes of the 7 February 2006 Board of directors Meeting. He then asked for any comments or questions regarding the minutes. There being none, he asked for a motion to approve the minutes.

Motion: Ms. (b) (6) - Privacy moved that the Board of Directors approve the Minutes of the 7 February 2006 meeting as written. The Motion was seconded by Mr. (b) (6) - Privacy moved that the Board of Directors approve the Minutes of the 7 February 2006 meeting as written. The Motion was seconded by Mr. (c) (c) - Privacy moved that the Board of Directors approve the Minutes of the 7 February 2006 meeting as written. The Motion was seconded by Mr. (c) (c) - Privacy moved that the Board of Directors approve the Minutes of the 7 February 2006 meeting as written.

AAFES COMMANDER'S REPORT

Lt Gen (b) (6) - Privacy recognized Maj Gen (c) (6) - Privacy requested the Board review two issues during the meeting. The first involved the Air Force Phase of Force Shaping and the effect it would have on colonel positions within AAFES. The second was a request for Board Members to review and approve promotion board recommendations of four AAFES Executives to Senior Rate level.

Maj Gen (b) (a) - Privacy asked his consultants, Mr. (b) (6) - Privacy and Dr. (b) (6) - Privacy to share with the Board their views on retail industry trends.

Mr. highlighted four industry trends and elaborated on them: 1) Deceleration of sales; 2) Innovation; 3) Inventory reduction; and, 4) Consolidation of department stores.



OUT-OF-SESSION ITEMS

The Chairman noted there were no out-of-session items.

FINANCE COMMITTEE

Mr. (b) (6) - Privacy alternate for MG (b) (6) - Privacy Chairman of the Finance Committee reported that the Finance Committee met on 3 May to address AAFES' Financial Status and its ongoing review of AAFES' dividend formula. Also addressed were Retek key performance indicators, Accelerated Depreciation, and Dividend Methodology. Mr. (b) (6) - Privacy asked Mr. (b) (6) - Privacy AAFES' CFO, to provide AAFES' Financial Status Report to the Board.

Financial Status Report:

Mr. (5)(6) - Privacy presented the financial results of AAFES for the period of 1 February through 31 January 2005, financial metrics through the 4th quarter 2005, and year-to-date March 2006 results.

Mr. [976]-Privary started by reviewing Fiscal Year 2005 results. Sales were 3% above last year but the primary driver was gasoline sales. Gasoline is favorable for sales but adverse to margins. CONUS sales excluding gas would have decreased 1%. The MILSTAR program has benefited our Customers and AAFES alike by continuing to provide competitive rates and a finance revenue increase of \$34M. Concession Income increased 7% or \$12M due to expanded concessions in OEF/OIF. Other income from gift cards and coupons also improved 12% or \$4M. SG&A expenses increased 4% but were offset by decreases of Computed Number of Employees (CNE). FY 2005 earnings were \$326M. Results for core business were even with prior year when excluding prior year appropriated funds (APF) for contingency operations.

Regional sales for FY 2005 increased 3% but earnings were down 5% from last year. This was attributed to the sell price increases in gasoline coupled with reduced initial mark-on in gasoline. OEF/OIF results improved through increased efficiency in the supply chain and reduced expenses.

Mr. (b) (6) - Privacy discussed YTD March 2006 results. Factors of consequence were a marginal increase in sales industry-wide to include AAFES; OEF/OIF; re-stationing; merchandising accountability restructuring in Korea; and the margin erosion from gasoline sales. Mr. (b) (6) - Privacy raised cost of fuel concerns internal to AAFES, i.e., transportation costs. Mr. asked (b)(5) Pre-Decisional . Mr. (b) (6) - Privacy asked if

<u>Follow-on Action:</u> Logistics will review and provide an info paper for the August BOD meeting on alternative vehicles and SDT cost increases.

Mr. (b) (6) - Privacy then introduced the Finance Committee recommendation to absorb the OEF/OIF Costing adjustment through AAFES retained earnings that will not impact dividends to the Services. Mr. (b) (6) - Privacy outlined how AAFES had received \$13M of laptop computers in 2004 in OEF/OIF but they were not charged to the proper account until 2005. A costing default program and additional training will preclude this occurring again. The Chairman asked for a motion.

Motion: Mr. (b) (6) - Privacy moved that the Board of Directors approved the Finance Committee recommendation that OEF/OIF costing adjustment be absorbed through AAFES retained earnings and not impact dividends to Services since it pertains to Fiscal Year 2004.

Brigadier Gen seconded the motion and it was unanimously approved by the Board.

Metrics

Mr. (D) (G) - Privacy identified two items in the red for AAFES Specific Metrics. The first item was APF support unfunded of \$14M versus Plan in FY 2005. The second item was Post Retirement Medical (PRM) funding. Retirement Fund aggregation will increase the funding percentage for the PRM but the plan will remain slightly under funded.

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Mr. (b) (6) - Privacy asked if (b)(5) Pre-Decisional

Mr. (b) (6) - Privacy (b)(5) Pre-Decisional

Ms. (b) (6) - Privacy mentioned that (b)(5) Pre-Decisional

Brig Gen (b) (6) - Privacy (b)(5) Pre-Decisional
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<u>Follow-on Action:</u> Finance Committee to review and determine if there is a better metric that can be used to break out Profit/Loss operations in order to better communicate the AAFES story. Lt Gen (b) (6) - Privacy also requested (b) (5) Pre-Decisional

Mr. (5)(6)-Privacy stated that based on current trends FA will be reviewing the FY 2006 forecast and will have recommendations by 1 July 2006.

Retek Update

Mr. (b) (6) - Privacy AAFES CIO, provided the Board an update on project Retek. Mr. (b) (6) - Privacy stated that RETEK is on time and on budget. Wave 1B has approximately 1800 tasks divided into 34 different work streams of which 22 are complete, 8 are tracking green, 3 are in yellow status, and 1 is in orange. All are expected to go live by outlined dates.

Mr. (b) (6) - Privacy stated that Wave 2 is the largest component of the implementation. This wave culminates the major functionality of RETEK that will drive cost savings to the organization. The latest estimate is that there are 3800 associated tasks identified which will funnel into 33 different work streams. Actual expenses reflect that \$80.2M or 49% of the \$160.9M project budget has been used. Mr. (b) (6) - Privacy briefed a new chart, which provides Key Performance Indicator (KPI) benefits over time for the total advantage derived from RETEK or \$537M.

Dividend Methodology

Mr. (b) (6) - Privacy provided a briefing outlined as follows: Joint Audit Suggestion B-4; Objectives; History and Current Systems; Trends; Actual Revenue/Dividends for FY 2000-2004; Alternatives/ Analysis; and Recommendations. Mr. (b) (6) - Privacy (b) (5) Pre-Decisional Additionally, Mr. (b) (6) - Privacy noted that (b) (5) Pre-Decisional

(b)(5) Pre-Decisional

<u>Follow-on Action</u>: There was consensus to tabling a decision until the November 2006 Board when further details on Joint Basing and AAFES financial requirements may be available. The Chief Operating Officer will present strategies to the **August** Board on depreciation and the amount of earnings AAFES requires to grow successfully. Cost of financing and accelerated depreciation schedules will be addressed. AAFES FA will continue to work with CFSC and AF Services in developing a simplified Dividend Methodology for a formal presentation to the **November** Board. Succinct presentations were requested.

RECOVERING SALES & CUSTOMER LOYALTY/INCREASING INTERNET SALES

Ms. presented strategies to regain sales, customer loyalty and increase internet revenue. AAFES' Worldwide Focus for 2006 will be toward: a) Improvement of Operational Efficiencies, b) New Store Openings and, c) Growing the business.

Turnaround initiatives are to increase sales profitably 7% and decrease WW Expenses \$12-15M. To meet this objective, AAFES worldwide focus for 2006 will be concentrated on: a) Improvement of operational efficiencies; b) New store openings and, c) Growing the business.

Strategies Ms. (b)(6)-Privacy identified to meet these goals were as follows: (b)(5) Pre-Decisional

For internet sales, Ms. Provided a detail presentation of AAFES initiatives to grow Catalog and eCommerce business. It is proven that catalogs and tabloids drive AAFES store traffic directly. AAFES has a 3-tiered strategy to grow the Endless Aisle through: a) Building awareness for the channel; b) Growing the assortment profitably; and, c) Improving shop-ability of the online site.

Mr. (SO) Proces recommended that	at (b)(5) Pre-Decisional	
Brig Gen (b) (6) - Provacy expresse	d support (b)(5) Pre-Decisional	
	Mr. (b) (6) - Privad	(b)(5) Pre-Decisional
		Brig Gen (b) (6) - Privacy
(b)(5) Pre-Decisional (b)(5) Pre-Decisional	. Chief (b)(6)-Ph	
]	Chief (b) (6) - Privacy (b) (5) Pre-Decisional	
Mai	Con District stated that AASES would a	antinus to look at all
Maj (avenues available for addition	Stated that AAFES WOULD C	continue to look at an

ARMY LODGING

Mr. (DIGIN Privacy) Senior Vice President, Strategic Partnership Directorate provided an update to the Board on the Private Army Lodging process. He explained the reasons for increases in projected expenses and discussed the project's proposal submission status to the Army on or about 11 July 2006.

AUDIT COMMITTEE REPORT

Brig Gen (6) (6) - Privacy presented an overview of the Audit Committee's review of:

- Internal Audit reports:
 - Procurement of Hardlines Merchandise
 - HQ Accounting Support-School Feeding Program
 - Markdown Controls
 - Western Region
 - Merchandise Accountability Korea Exchanges Update
 - Retek implementation Update
- ◆ Joint (Army & Air Force) Audit Update AAFES and the Tiger Team continue to work two open items from the Joint Audit:
 - Finding B-4: Dividend Calculation Methodology. Finance Committee working group is analyzing methodological options and will report at next Finance Committee meeting. Extend completion to Nov 06.
 - Finding C-3: Formalize and Document Mission and Functions of the Exchange. Publication of ESR 2-3 was delayed to incorporate possible management-directed reorganizations. The Audit Committee has requested an internal audit to investigate overlapping managerial responsibilities or duplicative functions. Extend completion to Aug 06.

PROMOTION OF AAFES EXECUTIVES TO SENIOR RATE

The Board reviewed and approved the following AAFES Executives for promotion to Senior Rate:

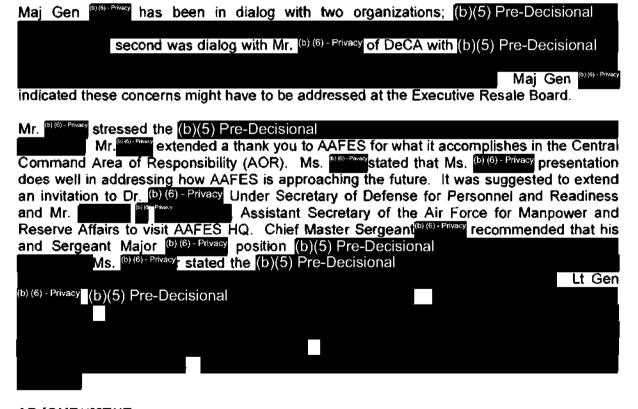
(b) (6) - Privacy Vice President, Sales Directorate, HQ AAFES to Senior Vice President, Logistics Directorate, HQ AAFES.

(b) (6) - Privacy, Vice President, Real Estate Directorate, HQ AAFES to Senior Vice President, Real Estate Directorate, HQ AAFES upon completion of Bachelors degree (currently expected to occur in August 2006).

(b) (6) - Privacy, Vice President, Marketing & Advertising Division, Marketing Directorate, HQ AAFES to Senior Vice President, Marketing Directorate, HQ AAFES.

(b) (6) - Privacy Vice President, Europe Region to Senior Vice President, Pacific Region.

COMMENTS AND ADJOURNMENT



ADJOURNMENT

The Chairman adjourned the meeting at 1445 hours.

SUMMARY OF FOLLOW-ON ACTIONS:

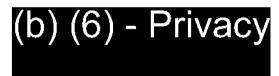
For AAFES:

- 1. **LG** Info Paper to **August** BOD on alternative fuel vehicles, low speed vehicles and Flex Fuel.
- 2. FA Update/Review projected earnings and sales and brief BOD in August.
- COO Present strategies to August BOD on depreciation and the amount of earnings AAFES requires to grow normal businesses.
- 4. FA Work with CFSC, AF Services in developing a more simplified methodology and depreciation for a formal presentation at the **November** Board.
- 5. SD Suggestion of a Teen Focus Group and wireless headset applications.
- 6. LG Estimated increases in SDT based on fuel price increases for August Board.
- 7. HR Diversity Statistics with comparisons to military demographics for August Board.
- 8. RE Separate Army and Air Force utility charges for August Board.

<u>For the Finance Committee</u>: Work with Army and Air Force for 2005 prior year funds for OIF/OEF. Review and think through ways we operate non-profit vs. for profit.

BOD Members engage utility issues.

Consider re-designation of Senior Enlisted membership on committees.



Executive Secretary

APPROVED:

(b) (6) - Privacy

Lieutenant General, USAF Chairman

MINUTES OF THE REGULAR MEETING OF THE BOARD OF DIRECTORS ARMY AND AIR FORCE EXCHANGE SERVICE

16 August 2006

These Minutes are NOT Final Until Approved by the Board of Directors

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MINUTES OF THE REGULAR MEETING BOARD OF DIRECTORS ARMY & AIR FORCE EXCHANGE SERVICE (AAFES)

The 245th meeting of the AAFES Board of Directors was called to order by the Chairman on 16 August 2006 in the Board Room, HQ AAFES, Dallas, Texas.

ATTENDANCE



OPENING COMMENTS BY THE CHAIRMAN

After noting a quorum was present, the Chairman, Lt Gen (b) (6) - Privacy opened the 245th meeting at 0800 hours, welcomed new Board members LTG (b) (6) - Privacy (DCG/CS, USAREUR & 7th Army), Brig Gen (b) (6) - Privacy (Director of Air Force Budget Operations, SAF/FMBO) and Mr. (b) (6) - Privacy (COO, U. S. Army CFSC).

The Chairman explained that the Board generally focuses on specific issues on a rotational basis. The present meeting will concentrate on long term Strategic Planning.

OUT-OF-SESSION ITEMS

The Chairman noted there were no out-of-session items.

APPROVAL OF MAY 2006 BOD MINUTES

Lt Gen (6) (6) - Privacy noted the minutes of the 17 May 2006 meeting and asked for any comments or questions. There being none, he asked for a motion to approve the minutes.

Motion: Mr. (b) (6) - Privacy moved that the Board of Directors approve the minutes of 17 May 2006 as written. The Motion was seconded by Mr. (c) and unanimously approved by the Board.

COMMENTS BY THE COMMANDER

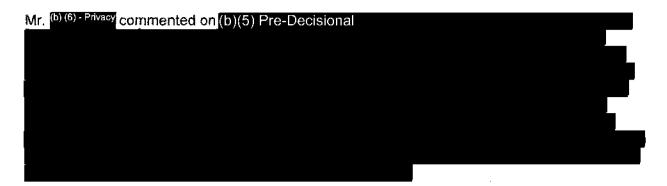
The Chairman then called for the Commander, AAFES' report. The AAFES Commander, Maj Gen announced that executive staff changes were occurring with Ms. and BG (b) (6) - Privacy upcoming retirements.

As an update, Maj Gen informed the Board that on 11 July AAFES made its presentation to the Source Selection Committee for consideration to manage Army Lodging. It is anticipated a decision will be forthcoming in mid-September, although recognized slippage may occur. Maj Gen emphasized (b)(5) Pre-Decisional

The AAFES focus was on benefits and earnings. Upon a final decision, Maj Gen will notify the Board.

Maj Gen then introduced his advisors, Mr. (b) (6) - Privacy and Dr. (b) (6) - Privacy to comment on current retail trends.

Mr. (b) (6) - Privacy (b) (5) Pre-Decisional



STRATEGY UPDATE

Maj Gen reviewed the AAFES strategic planning process beginning with a validation of the key statements of purpose: Mission, Vision, and Business Model. He highlighted other distinct steps in the process: Examine the Retail Trends; Conduct SWOT (Strengths, Weaknesses, Opportunities and Threats); Develop Strategic Objectives utilizing Balanced Score Card; Develop Measures; Measure Execution; and revalidate Objectives and Strategies.

Maj Gen stated that AAFES' strategic objectives are key and were refined three years ago. They must be measurable with the obligation of linkage from top to bottom to insure all participants are working towards the same corporate goals. He highlighted monitoring and measuring efforts through: comprehensive annual review and strategic planning forums; biannual review and updates; quarterly CSI/ASI/MSI results and objectives; monthly senior executive scorecard reviews; weekly staff meetings emphasizing a specific strategic objective, and a daily overall focus on relevant issues and events, with assistance from the Hyperion Balanced Scorecard application system.

The AAFES strategy map is clear through the defined mission: Provide quality goods and services at competitively low prices <u>and</u> generate earnings to support MWR programs. He stressed that our vision, "<u>To Be Our Customers' First Choice</u>," will only be viable if AAFES ensures it provides quality goods and services which its customers desire. Maj Gen discussed that last year AAFES added the business model: "World Class Integrator of Businesses and Services," which speaks to the perpetual climate of change reshaping Department of Defense and how AAFES must address its role in that to insure future relevancy and growth.

Maj Gen concluded by thanking Mr. and Dr. (b) (6) - Privacy for their important part in the strategic planning process and in their future roles of examining industry standards and changes.

Lt Gen (b) (6) - Privacy stressed the key slide in the presentation was the AAFES strategy map. He emphasized the Board's efforts last year to finalize this plan and he encouraged new Board Members to review and understand the four business perspectives and seven strategic objectives of each.

Mr. (b) (6) - Privacy inquired if (b)(5) Pre-Decisional

Gen responded that the mission statement is a constant dynamic and that he is pleased with how the field consistently makes judgment calls with the ultimate outcome of the troops being taken care of.

Ms. (a) (b) Privesy provided a strategic update with the focus on growing sales and earnings. Discussion topics comprised of: Competitive store trends; year-to-date (YTD) June recap; current and future challenges; and strategies to improve sales and earnings.

Strategies previously discussed in the last two Board meetings to improve CONUS sales and margins are showing positive results YTD June 06. (b)(5) Pre-Decisional

[Ms. (b)(5) Pre-Decisional

[Ms. (b)(6) Privacy interjected the (b)(5) Pre-Decisional

[Ms. (b)(6) Privacy identified and discussed key strategies to realize sales lift in CONUS: (b)(5) Pre-Decisional

Mr. (b) (6) - Privacy inquired about AAFES efforts to control and minimize Second Destination Transportation (SDT) costs to the Services. Ms. (b) (6) - Privacy stated AAFES is currently on track to achieve a \$20M reduction.

Maj Gen addressed the rationale and benefits (Quality of Life) to the troops of congressionally mandated SDT support. Additionally, AAFES is the largest peace-time user of the Defense Transportation System (DTS), and is currently charged a 30% surcharge to send American goods overseas. If AAFES utilization of the DTS were eliminated, the cost to the Services and taxpayer would be required to be borne in another manner.

Ms. (6) (6) - Privacy clarified that SDT funds are not utilized for support of inventory movement to U.S. Embassy locations.

LTG (b) (6) - Privacy highlighted the current discrepancies in charges for movement of AAFES versus Defense Commissary Agency (DECA) merchandise and appeal efforts being addressed with Transportation Command to provide consistency.

FINANCE STATUS REPORT

Mr. (b) (6) - Privacy stated the Finance Committee met on 19 July and then introduced Mr. AAFES Chief Financial Officer, to present the current financial position of AAFES.

Mr. (b) (6) - Privacy began by highlighting the influence of higher gas prices and utilities on AAFES and other retailers such as Wal-Mart.

Revenue. Results YTD June reflect a total 2% increase in revenue, however approximately 30% is in gasoline, which has had an adverse impact on margin. AAFES' current overall margin is 7%, whereas two years ago it was approximately 12%. Finance revenue is up \$15M due to interest rate increases and new account openings. Concession income is up \$1.5 M.

Expenses. Cost of goods sold will realize a \$17M improvement due to an incorrect double charge of markdown funds. Approximately \$5M will be credited in August with the remaining \$12M being credited in the next several months based upon the overview and guidance of Ernst and Young. The systems problem which generated double markdown expenditures has been identified. Sales General and Administrative (SG&A) realized an unfavorable \$5.9M expense based on foreign currency exchange rates. Utilities increased \$3.7M with increased energy charges. Credit card fees increased \$2.7M; however, there will be continued aggressive promotion of the Military Star Card throughout the third and fourth quarters to encourage our

customers to utilize the Military Star Card so that AAFES avoids fees of approximately 2% to credit card companies. Depreciation increased to \$7.6M, \$956K due to new facilities and \$700K in accelerated depreciation, which is expected to drop to \$500K in January. Overall expenses are reduced 3% from last year.

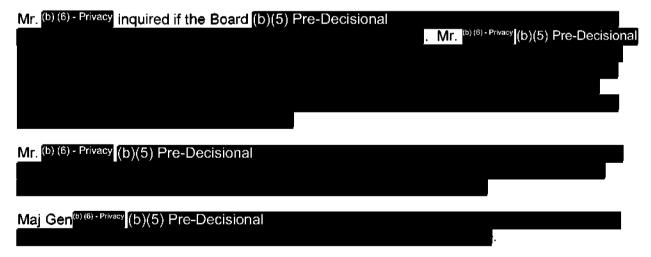
<u>Earnings</u>. Net earnings are currently \$27.8M below last year, but by factoring out the \$17M double charge, the true figure is approximately \$10M. This is identified in \$5.9M in unfavorable Foreign Currency conversion, \$3.7M in increased utility costs, and in negative gasoline margins. AAFES is not pleased with this current position but feels it has made good progress to identify where corrective action is required.

<u>YTD July.</u> Revenue is up 2% or \$98M, of which approximately 30% is gasoline. Cost of goods is up \$115M, of which \$9M is due to increased transportation costs. The delta in earnings is expected to reduce. Last year in July AAFES received \$25.9M of appropriated fund support. AAFES expects to receive \$34.4M for OEF/OIF shortly.

<u>Dividends.</u> Dividends paid are down \$7.9M versus the Annual Financial Plan (AFP). Class Six constitutes a reduction of \$5.7M, due to Black Market curtailment in Korea. Telephone dividends which resulted from barracks phones are reduced due to increasing cell phone utilization.

<u>Region Sales</u>. Worldwide YTD June sales without gas are down 3%. Customer reductions in Europe and Black Market controls in the Pacific are primary factors.

<u>Pension Aggregation</u>. The aggregation package is currently at the Department of the Treasury. Upon Treasury's endorsement, the proposal will move to the Office of Secretary of Defense (OSD) General Counsel.



Maj Gen highlighted that one of AAFES' few competitive advantages over industry is that it offers employees a pension plan. AAFES wages as such are not always competitive.

RETEK UPDATE

Mr. (b) (6) - Privacy introduced Mr. (b) (6) - Privacy, AAFES Chief Information Officer, for an update on project RETEK.

Mr. (b) (6) - Privacy explained that wave 1B is a technical wave which is intended to implement and pilot several modules, thereby reducing the risk of Wave 2 implementation. Extensive testing, based on the complexity of building the new QA legacy test environment, was underestimated

and took longer than anticipated. Testing is tracking approximately 8 weeks late and instead of a 31 July implementation, he now estimates a 25 September implementation. Additional resources have been pulled from Wave 2 staffing, as well as additional resources from IT, to mitigate future risk. Additional time spent on testing Wave 1B is estimated to cost an additional \$1.9M. The project is still within the approved \$182M Budget. There is no projected impact to the \$537M benefit of Project Retek and Wave 2 has not been impacted and is still scheduled for April 07.

Lt Gen (b) (6) - Privacy emphasized the (b)(5) Pre-Decisional

Mr. (b) (6) - Privacy noted that Wave 1A and 1B have had little impact outside the building and primarily concern the procurement staff. External benefits to the workforce will be evident with Wave 2 implementation. Execution of the modules in Wave 2 will provide the ability to view, manage and allocate the inventory properly to derive the greatest benefits to AAFES.

Ms. [316] - Private emphasized that as AAFES proceeds through this year it will continue to bring the Senior Vice Presidents and Vice Presidents on-board to ensure their instrumental roles in the successful implementation phases. Area Managers and General Managers will be in the March 2007 meeting for a complete update. A change management team will be a significant part of this process.

Mr. (b) (6) - Privacy stated that in terms of the budget, AAFES has utilized \$89.4M or 56% of the \$160.9M project budget. Contingency dollars reflect that \$12.4M or 59% of the \$21.1M has been allocated as approved for change requests. In terms of early inventory optimization, 2005 inventory was reduced \$91.2M, which exceeded the goal of \$86.2M. The goal for 2006 is an additional reduction of \$24.9M, which AAFES is currently \$10.5M below. AAFES has made some strategic and tactical merchandising decisions which have contributed to the current increased inventory position.

Ms. (SKU) items in the warehouse are above the prescribed maximum level. The prior rapid optimization from RETEK implementation on fast turning SKU's has been realized. AAFES is addressing these slow turning items.

Mr. (b) (6) - Privacy described Vendor Chain Collaboration (VCC). Retek Collaborate is a dynamic communication platform that supports Collaborative Planning, Forecasting, and Replenishment processes between AAFES and its suppliers. The benefit determined over the course of the project with improved information sharing is estimated to be \$44M. (b)(5) Pre-Decisional

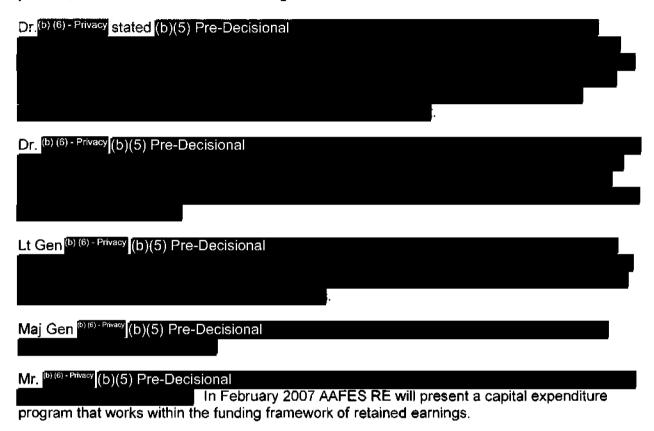
LTG (b) (6) - Privacy inquired what (b)(5) Pre-Decisional
Mr. (b) (6) - Privacy (b)(5) Pre-Decisional

Lt Gen (b) (6) - Privacy (b)(5) Pre-Decisional

. Mr. (b) (6) - Privacy (b)(5) Pre-Decisional

SUSTAINABLE GROWTH

Lt Gen (b) (6) - Privacy Introduced Dr. (b) (6) - Privacy, Ph.D., Texas Christian University, to give the next presentation, and noted the natural tensions between desired dividend distribution and capital expenditures. He stated the Board will be addressing upcoming decisions in regard to a long term dividend policy. The presentation by Dr. (b) (6) - Privacy does not advocate either position, but defines a baseline in framing a suitable balance.



The aftereffect will be that upon completion of the next two Board meetings, AAFES will have established policy/parameters which allow for future long term sustainable growth with limited revisions.

AUDIT COMMITTEE REPORT

Brig Gen (a) (b) - Privacy noted the Audit Committee met on 19 July. He noted this was his first meeting which was very informative. He then introduced Mr. (b) (b) - Privacy to provide the Audit Report.

External Audit Results

Ernst & Young, LLP - Results of FY 2005 Audit

E&Y completed their audit of AAFES' 2005 financial statements and Military Star Program

AAFES conforms with Generally Accepted Accounting Principles (GAAP) E&Y issued unqualified opinion for FY 2005

Internal Audit Reports

Fort Shafter PX Market Review

Findings:

Merchandise accountability procedures were not always followed.

Operating loss from Jan 02 – FY 05 reported as \$727,841. Actual loss was \$3.4 million (understated by \$2.7 million).

Management Actions

AAFES management agreed to correct the accounting deficiencies noted and to ensure the Store Manager follows prescribed policies and procedures.

The Chief Operating Officer also directed an operational and financial analysis to determine facility's potential profitability with a recommendation to either improve the profitability or deactivate the facility.

Merchandise Accountability - Korea Exchanges

Findings:

Ration control policies and procedures were not followed at the facilities visited

Annual sales from ration control violations estimated at \$50 million (16 percent of sales)

Management Actions

Commander, AAFES issued Command Letter No. 05-23, stating AAFES Policy on ration controls and action to be taken on violations.

Food facilities no longer allowed to order Korean beer or Mogen David wine.

Loss Prevention Division will develop a ration control monitoring program.

RETEK Implementation - Update

Status of Overall Project
Within approved budget (\$182 M)
On schedule for completion in August 07

Concerns

Budget and timeline – Very tight

Wave 1B go-live – Delayed 8 weeks to Sep 06

Delay in realizing full benefits of early inventory optimization

Delay in realizing benefits from Vendor Chain Collaboration

Joint Audit (Tiger Team) Update

AAFES and Tiger Team continue to work two open items

Finding B-4: Dividend Calculation Methodology.

Finance Committee will revisit for Nov Board following AAFES briefings on retained earnings and accelerated depreciation. Extend completion to

Nov 06.

Finding C-3: Formalize and Document Mission and Functions of the Exchange.

AAFES requested delay in publishing a revised ESR 2-3 to incorporate possible organizational changes. The Audit Committee has requested a revised document from AAFES in advance of the November 06 Board.

Extend completion to Nov 06.

Mr. (b) (6) - Privacy requested comments or questions. Lt Gen (b) (6) - Privacy thanked Brig Gen (b) (6) - Privacy and Mr. (b) (6) - Privacy

FINAL COMMENTS AND ADJOURNMENT

For the AAFES Board, Lt Gen^{(b) (6) - Privacy} officially recognized BG ^{(b) (6) - Privacy} and Ms. ^{(b) (6) - Privacy} near retirements and thanked them for their hard work and support to AAFES.

LTG commented favorably on his first-hand observations of the maturity and flexibility demonstrated by AAFES in taking care of the Soldiers and Airmen in Southwest Asia.

He requested AAFES continue with a long term review of the Giessen Distribution Center. The Army has made a formal announcement of closure next calendar year. The only U.S. entity remaining will be the Distribution Center. (b)(5) Pre-Decisional

Lt Gen (b) (6) - Privacy noted the cooperative efforts Maj Gen (b) (5) Pre-Decisional

AAFES will continue to review

LTG (b) (6) - Privacy requested that (b)(5) Pre-Decisional

all options available.

Maj Gen discussed the current issue being worked with DODEA and OSD in terms of the school lunch program. There is a statute that stipulates only charging students the average price paid for school lunches in the United States. The additional costs are to be reimbursed in a subsidy from Department of Defense Education Activity (DoDEA) and the United States Department of Agriculture (USDA). The regulation is clear in that nonappropriated funds cannot be utilized to supplement an appropriated fund responsibility. The leading cost increase was related to Local National salary escalation in connection with currency exchange rates. Currently DoDEA is under-funded to reimburse AAFES as required. AAFES is working to recapture what is currently due AAFES and future anticipated reimbursements.

Lt Gen (b) (6) - Privacy recommended (b)(5) Pre-Decisional

Mr. (b) (6) - Privacy addressed that the (b)(5) Pre-Decisional

Mr. (b) (6) - Privacy and Mr. (b) (6) - Privacy (b)(5) Pre-Decisional

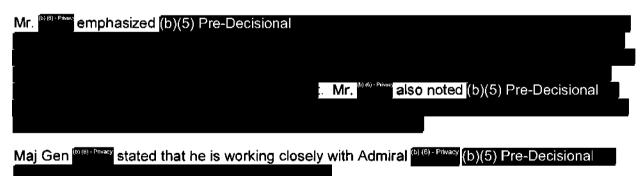
Mr. (b) (6) - Privacy emphasized that CFSC looks forward to continuing cooperative efforts with AAFES and improving business models.

Mr. thanked AAFES, especially at the store level, for its worldwide operations and the great support to our Soldiers, Airmen and family members. He emphasized that while top-line initiatives are important, it is equally significant to ensure that improved earnings are achieved. He thanked Mr. (b) (6) - Privacy for the candid update and stressed the importance of change management initiatives outlined earlier.

Mr. (b)(6) - Privacy thanked AAFES for its support to military members worldwide. He endorsed the sentiment expressed earlier that the Board and the military Services maintain a long term perspective to insure AAFES remains viable.

Mr. (b) (6) - Privacy provided a wholehearted thank you to Ms (b) (6) - Privacy for her 35 years of devotion and service to Soldiers and Airmen worldwide. He commented that he has worked with Ms. (b) (6) - Privacy for over 20 years, during some difficult times in AAFES, and commented how she was always noted for her skill and professionalism.

Maj Gen (1) (1) Privacy thanked BG (1) (1) Privacy and Ms. (1) (1) Privacy for their years of outstanding service to improving the Quality of Life for all military members. He recognized an example of significant long term attentiveness through the cooperative efforts initiative at the Ft. Belvoir town center. He also expressed thanks to all the HQ AAFES staff that supported the BoD meeting.



SMA (b)(6)-Privacy thanked AAFES for its responsiveness to address motorcycle safety and offer personal protective equipment merchandise on line at www.aafes.com which meets these important requirements.

Lt Gen (b) (6) - Privacy concluded by thanking Board Members for their hard work and support and noting that the next Board meeting will be held 15 November at the Shades of Green in Orlando Florida.

ADJOURNMENT:

The meeting adjourned at 1430 hours.

SUMMARY OF MOTIONS

Board minutes of 17 May 2006 were approved.

SUMMARY OF FOLLOW-ON ACTIONS

For AAFES

- 1. **FA:** Presentation on status of aggregation to include pension plan actuarial projections. Additionally, provide workforce demographics in relation to the basic retirement plan. Provide a brief history of pension plans and compare AAFES to Industry.
- 2. FA: Develop consistent parameters for long-term dividend distribution to include retained earnings and capital expenditure requirements.



APPROVED:

24 OCT 2006

(b) (6) - Privacy
Lieutenant General, USAF
Chairman

MINUTES OF THE REGULAR MEETING OF THE BOARD OF DIRECTORS ARMY AND AIR FORCE EXCHANGE SERVICE

15 November 2006

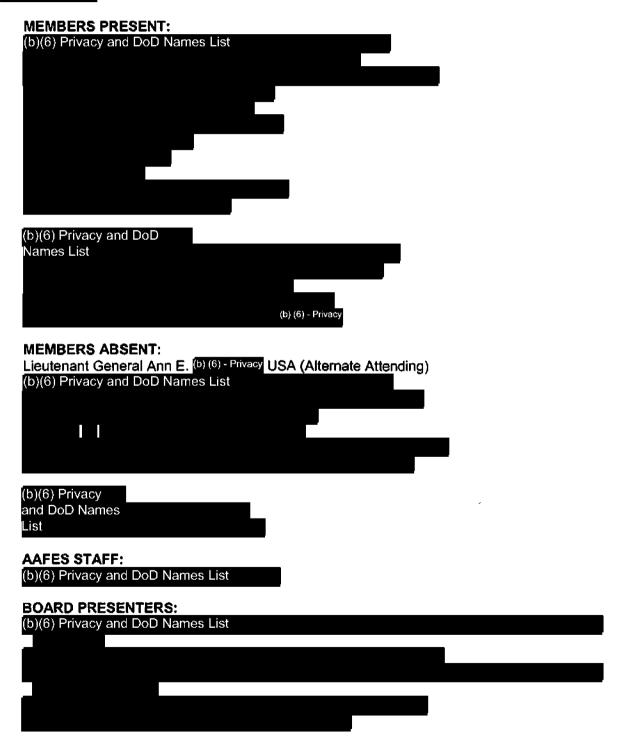
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MINUTES OF THE REGULAR MEETING BOARD OF DIRECTORS ARMY & AIR FORCE EXCHANGE SERVICE (AAFES)

The 246th meeting of the AAFES Board of Directors was called to order by the Chairman on 15 November 2006 at the Shades of Green Resort, Orlando, Florida.

ATTENDANCE



GUESTS: (b)(6) Privacy and DoD Names List

OPENING COMMENTS BY THE CHAIRMAN

After noting a quorum was present, the Chairman, Lt Gen (b) (6) - Privacy opened the 246th meeting at 0800 hours, commented that the Shades of Green Resort is a great MWR facility which AAFES supports, and welcomed new Board members Major General (b) (6) - Privacy (Vice Commander, PACAF).and Chief Master Sergeant of the Air Force (b) (6) - Privacy

The Chairman noted the Board must focus on AAFES' core business, which is retail, to insure continued success in supporting Service members and their families worldwide. Lt Gen (b) (6) - Privacy also noted that turbulent times are ahead and Board participation is vital. He thanked Board members for the service they provide and encouraged continued active participation and attendance.

OUT-OF-SESSION ITEMS

The Chairman noted there were three out-of-session items which were approved.

promotion to COO, AAFES; (b) (6) - Privacy promotion to CFO, AAFES; and the FY 2005 Annual Report.

APPROVAL OF AUGUST 2006 BOD MINUTES

Lt Gen (b) (6) - Privacy noted the minutes of the 16 August 2006 meeting and asked for any comments or questions. There being none, he asked for a motion to approve the minutes.

Motion: Lt Gen moved that the Board of Directors approve the minutes of 16 Aug 2006 as written.

The motion was seconded by SMA (b) (6) - Privacy and unanimously approved by the Board.

COMMENTS BY THE COMMANDER

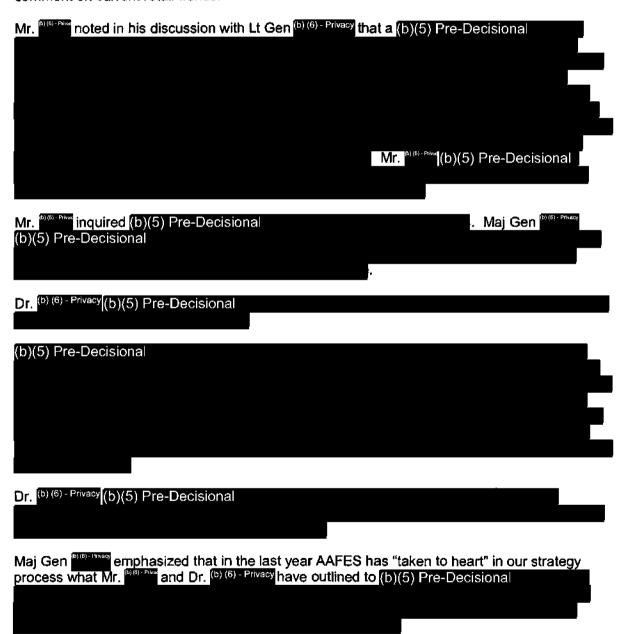
The Chairman then called for the Commander, AAFES' report. The AAFES Commander, Maj Gen announced that during the recent AAFES Executive Strategy Forum two imperatives were stressed. The first was to ensure AAFES is the best retailer in the world. This will be achieved by understanding our customer's wants, needs and desires; and by meeting those requirements with the most efficient supply chain possible. The second imperative was to insure AAFES remains relevant to the military and drives new revenue streams. Our Strategic Partnership Directorate was formed to insure all avenues were explored to meet this objective.

Maj Gen also addressed two ongoing efforts: Partnering with the Defense Commissary Agency (DeCA) and the Exchange Cooperative Efforts Board (ECEB).

Maj Gen and Mr. (b) (6) - Privacy, Director and Chief Executive Officer, DeCA, recently met and committed to redoubling efforts to capitalize on joint efficiencies. The joint goal is to reduce appropriated funds and grow Morale, Welfare, and Recreation (MWR) dividends through synergistic initiatives.

The ECEB is working on four efforts: gift cards, indirect procurement, logistics, and information technology, which are considered the most important and long-range in accomplishment. Lt Gen to updated the members that each Exchange Board has been tasked to work on cooperative efforts. On or about 19 December each Board Chairman will be briefed on current status and direction. This briefing will result in an update to Mr. (b) (6) - Privacy Deputy Under Secretary of Defense for Personnel and Readiness.

Maj Gen then introduced his advisors, Mr. (b) (6) - Privacy and Dr. (b) (6) - Privacy to comment on current retail trends.



Mr. emphasized that a military customer cannot get a better deal than to purchase through AAFES with current price matching policies, no taxes, etc. It simply requires aggressive efforts by AAFES to get out the word.

FINANCE COMMITTEE REPORT

Mr. (b) (6) - Privacy stated the Finance Committee met on 11 October 2006. He noted that the Finance Committee voted and approved a proposal to raise the credit limit for customers with highest credit-worthiness to \$7,500, with an annual review in July to adjust based on inflation.

Mr. (b) (6) - Privacy introduced Mr. (b) (6) - Privacy AAFES Chief Financial Officer, to present the current financial position of AAFES.

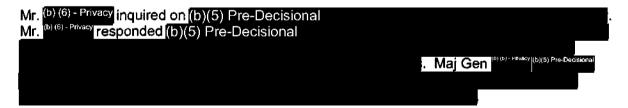
FINANCIAL STATUS REPORT

Mr. (b) (6) - Privacy stated he would address the Financial Status Report, the Annual Financial Plan for 2007 and the current status of aggregation.

Revenue. Results year-to-date (YTD) September reflect 1% increase over Plan and 2% over last year (LY). Gasoline prices are a contributing factor to the increase. Financial revenue increased 20% or \$22.4M over LY due to higher interest rates

<u>Expenses.</u> Overall expenses are down 1% from Plan and 2% from LY. Contributing factors are lower margins on gasoline, increased interest rates to borrow, and depreciation increases based on capitalization of two Retek modules and overall final project additions.

Earnings. Net earnings YTD September are currently 3% above Plan but 4% below LY. Without APF support, earnings are down 23% to Plan and 19% to LY. Earnings were adversely affected by Cost-of-Goods up \$119.6M, Depreciation up \$13.4M, and Interest Expense up \$14.9M.



<u>Dividends</u>. Dividends paid YTD are \$150.9M versus earned of \$146.6M. Class Six dividends are down \$7.2M, due primarily to Black Market controls in Korea. Telephone dividends are down \$2.5M which is following a consistent trend. Chief (b) (6) - Privacy inquired about (10) (10) Privacy inquired about (10) Priv

Region Sales. Mr. (b) (6)-Privator noted worldwide YTD September sales with gasoline are up in CONUS and down overseas. Primary reasons for the overseas decline are based on restationing in Europe, Black Market reduction in the Pacific, and the closing of the Doha store in Kuwait. YTD Regional sales without gasoline follow the same trend except at Central Region which has been affected by Keesler sales reductions and deployment at Ft Hood.

LTG clarified that in Europe sales reductions are primarily affected by additional deployments which have involved 20,000 troops.

Main Store Sales. Main Store sales overall are down \$101.6M, of which \$41M is in Europe. Maj Gen noted that although a tough situation, sales are tracking upward due to some high caliber store managers.

Region Earnings. Region earnings throughout are down 4% overall, primarily due to lower sales, decreased gross profit, and higher depreciation with new store openings. Although still reduced, this is much improved over mid-year earnings which were down 18%.

<u>OEF/OIF Results</u>. Earnings with appropriated funds (APF) are up \$14.5M YTD September. Concession income is up \$6.3M YTD September.

<u>Fiscal Year (FY) 2006.</u> Anticipated Net Earnings without APF are projected at \$270M, which is a \$27M reduction from 2005 and \$40M below Plan. Net Earnings with APF are projected to be \$329M, which is \$2M above 2005.

<u>YTD October 2006</u>. Total Revenue is 1% above Plan and 1% above LY. Net Earnings with APF are 8% above Plan and 1% above LY.

<u>Industry Metrics.</u> Two items are showing red versus the goal. <u>Operating Margin</u> is primarily due to reduced sales, and <u>Return on Invested Capital</u> is the result of lower operating margins and increased capital expenditures.

<u>AAFES Specific Metrics.</u> The two items that are red versus the goal are <u>Post Retirement Medical</u> funding and <u>Executive Plan</u> (EMP) funding. These items are red as they are underfunded to the 100% funded goal.

ANNUAL FINANCIAL PLAN (AFP) 2007

Mr. (b) (6) - Privacy discussed economic assumptions utilized to project the AFP. Lt Gen (b) (6) - Privacy inquired (b) (5) Pre-Decisional . Mr. (b) (6) - Privacy (b) (5) Pre-Decisional

Mr. (b)(6)-Privacy discussed the AAFES assumptions and noted the conservative choice made in terms of not projecting APF reimbursement in the plan. Plan Net Earnings are estimated at \$264M which will be a \$65M reduction from earnings projected in 2006. He commented that if aggregation was implemented in 2007, there would be a favorable \$23M impact. Increased earnings will also result if APF funds are received and co-branding of the AAFES credit card and 3rd party gift cards occur.

Mr. ^{(0.15)-17989} noted that (b)(5) Pre-Decisional	
(b)(5) Pre-Decisional	. Lt Gen ^{(b) (6) - Privacy} inquired
Lt Gen ^{(b) (6) - Privacy} (b)(5) Pre-Decisional	

(b)(5) Pre-Decisional Mai Gen noted that AAFES is required to meet Generally Accepted Accounting Principles (GAAP). He addressed the sustainable growth presentation delivered by Dr. (b) (6) - Privacy during the August Board meeting and noted the (b)(5) Pre-Decisional He also noted that increased depreciation is currently based on previous IT projects that were deferred. IT projects, due to the shortness of useable life, do depreciate, based on GAAP requirements, at a faster schedule. New store and closing store depreciation increases are the result of re-stationing and are also GAAP stipulated. Mr. (b) (6) - Privacy noted that with dividend reductions occurring, the Army is beyond cancelling just construction projects, but also programs. Mr. (b) (6) - Privacy reminded the Board (b)(5) Pre-Decisional Mr. (b)(5) Pre-Decisional Maj Gen stated the (b)(5) Pre-Decisional Mr. (b)(5) Pre-Decisional (b)(5) Pre-Decisional Mr. (b) (6) - Privacy inquired (b)(5) Pre-Decisional . Mr. (b) (6) - Privacy stated that the interest expense is based on the prime rate stabilizing at 8.25% from five increases throughout 2006. Bad debt realized a \$6M decrease in 2006 due to the new bankruptcy laws. (b)(5) Pre-Decisional Thus, bad debt is anticipated to return to 2005 averages or slightly below. LTG [b] (5) Pre-Decisional Mr. (b)(6)-Privacy noted collection does occur with the Treasury Offset Program and that the percentage of bad debt for AAFES versus industry is significantly less. Additionally, AAFES reduces its exposure by only offering conservative credit account balances to its customers. Mr. (b) (6) - Privacy explained the timeline chart of total earnings from FY 93 to AFP 07 and noted AAFES had the same earnings reduction during BRAC 95 and recovered correspondingly. AAFES is experiencing the same cycle during 2006-2007, with recovery anticipated in 2010. Maj Gen inquired if the bad debt realized on purchases in the area of responsibility (AOR) had been reduced. Mr. (b)(6) - Privacy commented that AAFES had collected most outstanding amounts. Additionally, point-of-sale (POS) equipment can now be put in quickly to reduce or eliminate reoccurrence.

Mr. (b) (6) - Privacy stated projected 2007 dividends without APF support are \$178.3M, a \$38.6M decrease from projected 2006.

Mr. inquired on the improvement in turns from FY 04 to FY 05. Mr. (b) (6) - Privacy stated it was due to implementation of early inventory optimization which established minimum/maximum ordering requirements in the warehouses. A comparable improvement is anticipated in April 2007 with implementation of AIP.

Mr. (b) (6) - Privacy noted that \$169M in real estate projects is being deferred, along with \$24M in IT.

Mr. (b) (6) - Privacy outlined will assist AAFES in reaching this desired outcome.

Lt Gen (b) (6) - Privacy opened the floor for discussion.

Mr. ^{(b) (6)-Privacy} (b)(5) Pre-Decisional

Mr. (b) (6) - Privacy commented (b) (5) Pre-Decisional

Mr. McLaurin (b) (5) Pre-Decisional

Mr. (b)(5) Pre-Decisional Maj Gen (b)(5) Pre-Decisional

It was requested that a briefing be provided on depreciation strategies at the February BOD meeting.

Lt Gen (b) (6) - Privacy requested a motion to approve the AFP for FY 2007 as presented.

Motion: Mr. (b) (6) - Privacy moved that the Board of Directors approve the Annual Financial Plan for FY 2007 as presented.

The motion was seconded by LTG [19] A show of hands on the vote was accomplished with 16 yeas and 2 nays from Mr. [19] and Mr. [19] The motion carried and the plan was approved.

AAFES AGGREGATION PROPOSAL

Mr. (b) (6) - Privacy discussed the aggregation proposal, which was developed in 1996 by AAFES and the Watson Wyatt consulting firm that provides actuarial services to the Trust. Currently AAFES

offers a basic retirement plan, an executive management plan (EMP) and a post-retirement medical plan (PRM). Aggregation would restructure the obligations and related trust assets. Total plan assets would remain the same before and after aggregation with no asset reversion to pay for business operations. Aggregation protects vested basic pensions, non-vested EMP pensions, and non-vested DOD-mandated PRM benefits. Additionally, aggregation reduces the cost of funding one plan while another is over-funded; reduces impact to dividend/earnings; and leverages financial strength of the plans. As of September 2006 AAFES is awaiting an opinion from the Department of the Treasury to proceed.

An overview of defined benefit plans was presented for Fortune 1000 companies and for specific retail organizations.

DIVIDEND METHODOLOGY

Mr. (b) (6) - Privacy provided a briefing on Dividend Methodology and recommendations from the Finance Committee. The briefing consisted of background information, current methodology, alternatives considered, and the pros and cons of the two options recommended.

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Mr. (b)(5) Pre-Decisional . Lt Gen (b) (6) - Privacy noted (b)(5) Pre-Decisional . Maj Gen (b)(5) Pre-Decisional . Maj Gen (b)(5) Pre-Decisional . Lt Gen (b)(5) Pre-Decisional . Maj Gen (b)(6) - Privacy (b)(5) Pre-Decisional . Lt Gen (b)(6) - Privacy (b)(5) Pre-Decisional . Lt Gen (b)(6) - Privacy (b)(5) Pre-Decisional . Lt Gen (b)(6) - Privacy (b)(6) - Privacy assured him that the (b)(5) Pre-Decisional
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Mr. (b) (6) - Privacy stated that the Finance Committee recommended maintaining the status quo of dividend methodology (thus closing Audit Finding B-4), and at the next BOD meeting have the CFO provide a depreciation cost briefing to include the current schedule, by installation, where closure is expected. The schedule should display three streams: Current normal straight-line depreciation (FY 07-13); accelerated depreciation amount (spread over remaining years to actual closure); and depreciation amount, if remaining value of the asset is written off in the year the facility actually closes.



Lt Gen (b) (6) - Privacy called for a motion.

Motion: Mr. (b) (6) - Privacy moved that the Board of Directors agree to maintain the status quo on current dividend methodology.

LTG seconded the motion and it was unanimously approved by the Board.

POST FISCAL ANALYSIS:

Mr. (b)(6)-Privacy presented a briefing on the purpose and requirements to provide the Board a post fiscal analysis. The briefing entailed 3rd year results of projects completed in 2001. The projects included all shopping centers, name brand fast food projects, and convenience/troop stores selling gasoline that were completed in 2001. Each line item listed the Board-approved internal rate of return (IRR), as well as the actual IRR for each of the first three years. Lt Gen (b)(6)-Privacy) noted as a portfolio, the shopping centers met Board approved IRR but individually there were some glaring concerns, to include the total portfolio for shoppettes which sell gasoline.

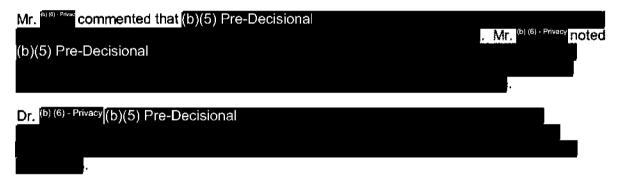
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Mr. (b) (6) - Privacy commented that (b) (5) Pre-Decisional ...

Maj Gen (b) (5) Pre-Decisional ...

Mr. (b) (6) - Privacy (b) (5) Pre-Decisional ...

Mr. (b) (6) - Privacy (b) (5) Pre-Decisional ...
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Mr. (b) (6) - Privacy requested a brief to the February Board on lessons learned to improve capital program assumptions for return on investment (ROI).



<u>RETEK UPDATE</u>

Mr. (b) (6) - Privacy provided an overview and update on project Retek.

Mr. (b) (6) - Privacy explained that Wave 1B went live on 3 October 2006. This wave was originally scheduled to go live in late July. The push back decision AAFES made to ensure complete and comprehensive testing did pay off, as there were minimal problems with implementation.

Wave 2 has five capability releases that will deliver: 1) Advanced Inventory Planning (AIP) - 30 April 2007; 2) Inventory Transaction Management - 30 July 2007; 3) Replenishment/Allocation/ Supply Chain Optimization/Retek Demand Forecast - 27 August 2007; 4) Data warehouse reporting/Price Management - 27 August 2007; and 5) Value Chain Collaboration (VCC) - to be determined (TBD).

Mr. (b) (6) - Privacy noted that the schedule is tight and AAFES is on budget. He provided brief status charts identifying key points. AIP is green and on schedule. Inventory transactions are orange, indicating management attention due to pulled resources for wave 1B. Replenishment Supply Chain Optimization and Pricing are also currently orange.

Mr. (b) (6) - Privacy discussed in detail the change management actions being taken by AAFES to get the organization ready for the impending changes of Retek. The overall process entails

awareness, acceptance, ownership, and commitment. Currently AAFES is between the acceptance and ownership stage. Mr. (b) (6) - Privacy provided a chart on change management actions and enumerated the actions the organization is accomplishing (Communications; Training and Performance Support; Performance Management; Organization Structure; Measurement; and Sponsor/Ownership)

Phased approach rollouts for FY 07 and FY 08 were briefed along with a chart highlighting overall benefits anticipated by 2009.

As of August 2006, actual expenses reflect that \$103.6M or 57% of the \$182M project budget has been used. Contingency dollars reflect that \$10.8M or 51% of the \$21.1M has been allocated as approved change requests. This leaves \$10.4M available in the contingency fund.

AAFES inventory optimization goal for FY 06 is an additional reduction of overall inventory of \$24.9M. This is in addition to \$91.2M reduced in 2005. Currently AAFES is \$40.7M below our current projected inventory decrease. Several steps are being taken and were highlighted to reach the intended savings goal.

AUDIT COMMITTEE REPORT

Internal Audit Reports

Central Region

Findings: 10 internal control areas reviewed were not always followed as required.

Management Actions

Central Management instructed their General Managers to ensure Store Managers are complying with prescribed internal control procedures for each of the 10 internal controls areas noted.

The Chief Operating Officer also tasked the Corporate Compliance Officer to review and update the AAFES Internal Control Evaluation Program annually, based on deficiencies cited by the Audit Division.

Retek Implementation - Update

Status of overall project
Within approved budget (\$182 M)
On schedule for completion in August 07

Concerns

Budget and timeline – Very tight
Delay in realizing full benefits of early inventory optimization

Joint Audit (Tiger Team) Update

AAFES and Tiger Team continue to work two open items

Finding B-4: Dividend calculation methodology.

Finance Committee will revisit for Nov Board. Extend completion

to Nov 06.

Finding C-3: Formalize and document mission and functions of the Exchange.

AAFES requested delay in publishing a revised ESR 2-3 to incorporate possible organizational changes. AAFES is working necessary revisions and will coordinate the revisions with the Tiger

Team.

Mr. (b) (6) - Privacy requested comments or questions. Lt Gen (b) (6) - Privacy thanked Mr. (b) (6) - Privacy and Mr.

MOVE OF DISTRIBUTION CENTER IN GERMANY

LTG provided an introduction addressing the closing of all facilities at Giessen in late 2007 or early 2008 and (b)(5) Pre-Decisional

Mr. (b)(6)-Privacy presentation included information on the current AAFES logistics operation at Giessen and construction/cost impacts for a move to Germershiem. Key assumptions were presented, and three options for relocating were presented. Options presented all had less than desirable financial returns (no IRR and negative NPV) resulting in significant negative impact to AAFES earnings and the capital program. Under these assumptions, funding by APF is essential.

Mr. (b) (6) - Privacy (b)(5) Pre-Decisional	
Lt Gen ^{(b) (6) - Privacy} (b)(5) Pre-Decisional . LTG (b) (b) (5) Pre-Decisional	
Mr. (b) (6) - Privacy recommended (b)(5) Pre-Decisional	
Lt Gen (b) (6) - Privacy requested Mr. (b) (6) - Privacy (b)(5) Pre-Decisional	
·	

SCHEDULE OF BOARD MEETINGS

It was determined to propose and coordinate the following dates for finalization.

28 Feb 2007 9 May 2007 15 August 2007 14 November 2007

Maj Gen requested consideration be given to having a Board meeting near a store so members can review operations.

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Lt Gen<sup>(b) (6) - Privacy</sup> requested (b)(5) Pre-Decisional
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FINAL COMMENTS AND ADJOURNMENT

For the AAFES Board, Lt Gen (b) (6) - Privacy officially recognized BG (b) (6) - Privacy and thanked him for his service and input to the Board.

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Maj Gen (b) (5) Pre-Decisional

Maj Gen (b) (6) - Privacy (b) (5) Pre-Decisional

Lt Gen (b) (6) - Privacy (asked Mr. (b) (6) - Privacy (b) (5) Pre-Decisional

Lt Gen (b) (6) - Privacy (asked Mr. (b) (6) - Privacy (b) (5) Pre-Decisional

Lt Gen (b) (6) - Privacy (b) (5) Pre-Decisional

Lt Gen (b) (6) - Privacy (b) (5) Pre-Decisional

Maj Gen (b) (6) - Privacy (asked Mr. (b) (6) - Privacy (b) (5) Pre-Decisional

Lt Gen (b) (6) - Privacy (b) (6) - Privacy (commented (b) (5) Pre-Decisional

Lt Gen (b) (6) - Privacy (commented (b) (5) Pre-Decisional
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Lt Gen (b) (6) - Privacy concluded by thanking Board Members for their hard work and support.

ADJOURNMENT:

The meeting adjourned at 1430 hours.

SUMMARY OF MOTIONS:

Board minutes of 16 August 2006 were approved.

The Annual Financial Plan for 2007 was approved.

Maintaining the status quo on current dividend methodology was approved.

SUMMARY OF FOLLOW-ON ACTIONS:

For AAFES

- 1. **FA:** Briefing at February BOD meeting on depreciation strategies FA prepares presentation for Finance Committee (FC) FC will review and approve presentation at next meeting. AAFES CFO to do presentation at Board.
- 2. **COO:** Brief the February Board on progress and programs to drive sales, increase profit and decrease markdowns.
- 3. **RE**: Brief February BOD on lessons learned to improve capital program assumptions of ROI given during the post fiscal presentation.
- 4. **RE/LG**: Report on how we could make the DLA buildings work for our Distribution Center in Germersheim, Germany.
- 5. Provide talking points to Board members on our support to MWR programs. Seek opportunities to tell new recruits and new Sgts/Officers the AAFES story to include contributions to MWR, etc.



Executive Secretary

APPROVED:

0 6 FEB 2007

(b) (6) - Privacy

Lieutenant General, USAF Chairman

MINUTES OF THE REGULAR MEETING OF THE BOARD OF DIRECTORS ARMY AND AIR FORCE EXCHANGE SERVICE

28 FEBRUARY 2007

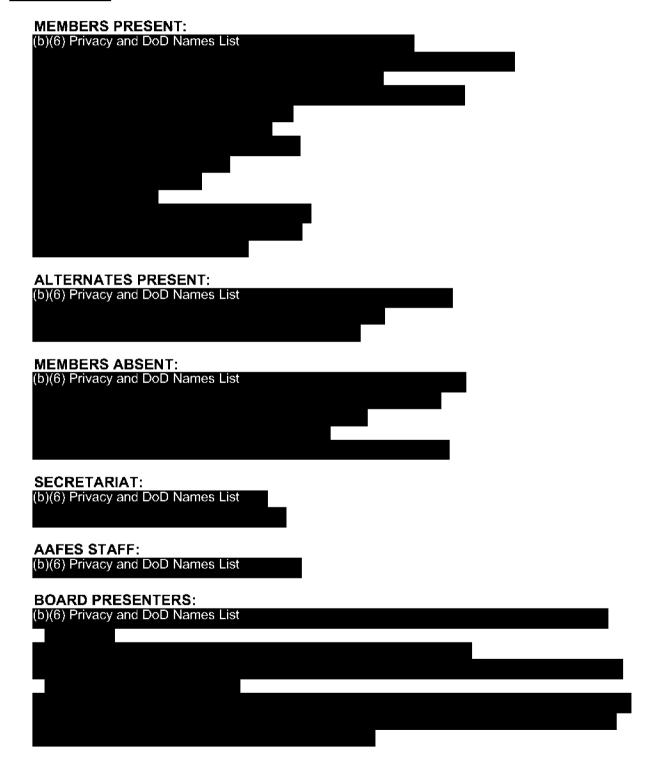
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MINUTES OF THE REGULAR MEETING BOARD OF DIRECTORS ARMY & AIR FORCE EXCHANGE SERVICE (AAFES)

The 247th meeting of the AAFES Board of Directors was called to order by the Chairman on 28 February 2007 in the Board Room, HQ AAFES, Dallas, Texas.

ATTENDANCE



(b)(6)	•	
Privacy		
and DoD		

OPENING COMMENTS BY THE CHAIRMAN

The Chairman, Lt Gen (b)(6)-Privacy opened the 247th meeting at 0800 hours, and welcomed all Board members. He noted that a new AAFES Deputy Commander has been nominated by the Air Force. Lt Gen (b)(6)-Privacy noted his support of the nominee and anticipates the individual will be in the position in the May/June timeframe.

OUT-OF-SESSION ITEMS

The Chairman noted there were no out-of-session items.

APPROVAL OF NOVEMBER 2006 BOD MINUTES

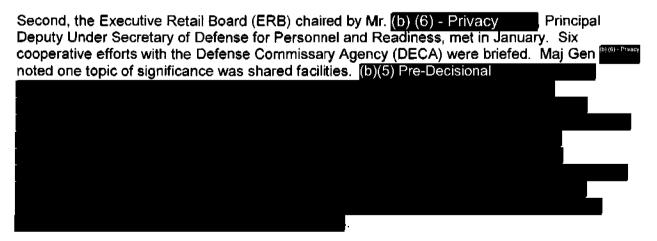
Lt Gen (b) (6) - Privacy noted the minutes of the 15 November 2006 meeting and asked for any corrections or additions. There being none, he asked for a motion to approve the minutes.

Motion: SMA ^{(b) (6)-Privacy} moved that the Board of Directors approve the minutes of 15 November 2006 as written. The motion was seconded by CMSAF (b) (6) - Privacy and unanimously approved by the Board.

COMMENTS BY THE COMMANDER

The Chairman then called for the Commander, AAFES' report. The AAFES Commander, Maj Gen [1] discussed two updates.

The Exchange Cooperative Efforts Board (ECEB) has met as prescribed and is progressing well. There are two significant initiatives, Logistics and Information Technology. The sharing of Information Technology requires extensive effort in long term architectural development. The expense to continue will be assessed at each step to insure capital expenditures provide the required return on investment.



LTG (b) (6) - Privacy noted, as Chairman of the Commissary Operating Board (COB), (b) (5) Pre-Decisional Mr. (b) (6) - Privacy inquired if a

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Maj Gen (b) (b) (c) Pre-Decisional Mr. (b) (d) - Privacy (b) (5) Pre-Decisional Mr. (b) (6) - Privacy (b) (5) Pre-Decisional
(b)(5) Pre-Decisional
Lt Gen (b) (6) - Privacy (b)(5) Pre-Decisional

    Mr(b) (6) - Privacy

(b)(5) Pre-Decisional
(b) (6) - Privacy concurred and (b)(5) Pre-Decisional
Maj Gen (b)(5) Pre-Decisional
                                                         Mai Gen
(b)(6) - Privacy (b)(5) Pre-Decisional
                                                    Maj Gen (b) (b) (5) Pre-Decisional
Maj Gen (b) (6) - Privacy (b) (5) Pre-Decisional
                                          by Mr. (b) (6) - Privacy
Maj Gen (10 15) - Privacy then introduced his advisor, Dr. (b) (6) - Privacy to comment on current retail
trends.
Dr(b) (6) - Privacy stated he will discuss three areas: The current retail outlook, retailer trends, and
e-commerce.
(b)(5) Pre-Decisional
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FINANCE COMMITTEE REPORT

MG [0] (6) - Privacy stated the Finance Committee met on 13 February 2007. The briefings today will consist of the Financial Status Report by Mr. (0) (6) - Privacy Depreciation Scenarios requested by the Board; a Project Retek update and, the Long Range Capital Program for FY 07.

MG (b) (c) - Privacy introduced Mr. (b) (c) - Privacy , AAFES Chief Financial Officer, to present the current financial position of AAFES.

FINANCIAL STATUS REPORT

Mr. (b) (6) - Privacy stated he would address the Financial Status Report as of December 2006.

Revenue. Results year-to-date (YTD) December reflect 1% increase over Plan and 1% over last year (LY). Gasoline prices are a contributing factor to the increase. Sales with gas are up \$83.8M; without gas, sales decreased \$60.2M. Main Store sales decreased \$89.5M or 3%. Financial revenue increased 19% or \$32.6M over LY due to higher interest rates. Prior year interest rates were 11.08%; this year 12.99%.

Expenses. Overall expenses are down 1% from Plan and 1% from LY. Contributing factors are lower margins on gasoline and strong sales in electronics which are highly competitive with reduced margins. Bad debt is down \$12.4M or 37% from LY. Conversely, interest expense is up \$21.9M or 72% due to higher interest rates and borrowing levels. The average monthly level for Star Card receivables is up \$153.5M. Depreciation is up \$19.5M, foreign currency is up \$9.7M and credit card fees are up \$6.9M. Lt Gen (b) (6) - Privacy inquired if SG&A reductions were expected to hold for the remainder of the year. Mr. (c) (6) - Privacy reconfirmed they would.

Net Earnings. Net earnings YTD December with APF are \$316.9M which is 5% above Plan and 2% above LY. Without APF, reimbursement net earnings are \$235.4M or 22% below Plan and 16% below LY. Expenses discussed earlier are a contributing factor. Maj Gen clarified that the AAFES Fiscal Year (FY) is through the end of January.

<u>Dividends</u>. Dividends earned YTD are \$199.9M. Dividends paid YTD are \$216.5M, or an overpayment of \$16.6M. A true up will occur in January but a correction is not foreseen based on the safety net and ending January results. Core earnings are down due to expenses discussed. Class Six dividends are down \$7.7M, primarily due to Black Market controls in Korea. Telephone dividends are down \$3.2M which has followed a consistent trend.

<u>Region Sales</u>. Continental United States (CONUS) regions sales YTD are up by \$211.3M or 5%. Outside CONUS (O-CONUS) regions are down primarily due to troop re-stationing and deployments. Catalog/e-commerce sales are up 12% or \$21.5M YTD. Main Store sales trends are favorable. CONUS region sales without gasoline are up \$88.3M or 2%.

Region Earnings. Region earnings in CONUS are down \$33.1M or 12%. O-CONUS Region earnings in Pacific are down \$28M (26%) and Europe \$28.9M (40%), respectively. Principal factors resulting in the decline are the gross profit on gasoline, higher depreciation, and increased credit card fees. Contingency earnings are up \$60.1M or over 100%.

<u>Black Market Impact.</u> Sales have decreased \$21.7M or 43% from November 2005 to December 2006. Gross Profit has been reduced \$11.1M or 51% with a dividend reduction of \$8.7M.

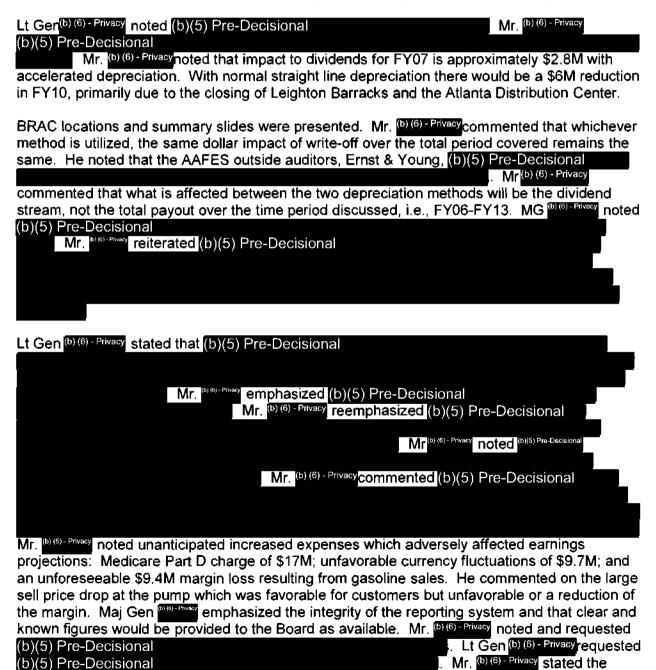
FY06 Projection. Earnings for FY06 are projected to be \$330M with appropriated funds (APF). This is a \$1M increase from the projection provided to the Board in November. Favorable points are receiving APF funds of \$82M; year-end inventory adjustment of \$22M; Military Star Card receiving of \$11M; Bad Debt expense reduced \$6M; Professional Service declined \$5.8M; and utilities expenses down \$4.9M. Unfavorable points are booked \$17M for Medicare Part D; Interest expenses increased \$9M; markdown utilization increased \$8.8M; Local National Personnel Costs based on currency fluctuations increased \$7.8M; and Post Retirement Medical (PRM) necessitated a booking of \$4.5M.

Maj Gen clarified that the Office of Management and Budget (OMB) has declared that AAFES is not eligible to receive reimbursement for Medicare Part D. AAFES holds a contrary position and is attempting to rectify. Mr. (b) (6) - Privacy noted that the increase in markdown utilization was from a warmer fall season which resulted in clearance of fashion clothing. Also aggressive competition during the holidays resulted in reduced margins in electronics merchandise.

<u>Industry Metrics.</u> Two items which were red at the November Board, <u>Operating Margin</u> and <u>Return on Invested Capital are green as a result of receiving APF funding.</u>

DEPRECIATION SCENARIOS

Mr. (b) (6)-Privacy explained accelerated depreciation policy which requires the asset to be re-stated and expensed over its new useful life. He noted the policy is in accordance with Generally Accepted Accounting Principles (GAAP). Comparisons were offered between Straight Line Depreciation and Accelerated Depreciation together with the subsequent total earnings and dividend impact. Mr. (b) (6)-Privacy stated that we are currently booking accelerated depreciation amounts. The decision to be determined is whether to continue in this direction or to fence the dividend calculation to exclude accelerated depreciation impacts until the closure year.



method to fence dividends would be a slightly improved NPV for dividends over the status quo method. For AAFES, the effect would be reversed due to payout being made earlier. LTG inquired (b)(5) Pre-Decisional Mr (b) (6) - Privacy explained that the fenced amount would be the difference between the accelerated depreciation method and the straight line depreciation method. BG(b) (6) - Privacy noted that (b)(5) Pre-Decisional primarily a timing issue, as the total payout during the time frames discussed remain the same. BG Pinckney (b)(5) Pre-Decisional BG (b)(5) Pre-Decisional (b)(5) Pre-Decisional (b)(5) Pre-Decisional

Motion: SMA (a) (b) - Privacy moved that the Board indicate whether it wished to keep the process for calculating the dividend as is (remain with the status quo) or fence the dividend. Chief (b) (d) - Privacy seconded the motion. Seventeen members voted to remain with the status quo; Mr. (b) (d) - Privacy voted for a fenced dividend.

RETEK UPDATE

Mr. (b) (6) - Privacy provided an overview and update on project Retek.

Mr. (b) (6) - Privacy explained that Wave 2 implementation will shift from July/August 2007 to Nov/Dec 2007. Three factors resulted in the delay: 1) the delay realized for wave 1B support was due to extensive testing and Wave 2 resources were required and had to be shifted. 2) An increased number of in-house developed legacy system interfaces were found during detailed functional/technical design; 39 new interfaces were found for the inventory application and 58 new interfaces were found for the replenishment and allocation implementation. 3) Not having the personnel resources available that understood older legacy systems. In summary, an additional 6000 project work days [\$5.8M] to complete Wave 2 are required.

To provide additional insight, AAFES requested the Air Force Audit Agency (AFAA) to revisit and review the project management actions and validate the resulting action plan. The project review is scheduled for March 2007. A re-look of the process will determine if AAFES may have overlooked or misjudged the timelines and the complexities involved. The information will be shared at the May 2007 Board meeting. Mr. (b) (6) - Privacy noted that two modules associated with Wave 2, Advanced Inventory Planning (AIP) and Retail Merchandising System (RMS) Clearance will be delivered on time.

Lt Gen (b) (6) - Privacy requested (b)(5) Pre-Decisional

Mr. (b) (6) - Privacy inquired how (b)(5) Pre-Decisional

Mr. (b) (6) - Privacy inquired how (b)(5) Pre-Decisional

Mr. (b) (6) - Privacy inquired how (b)(5) Pre-Decisional

Mr. (b) (6) - Privacy inquired how (b)(5) Pre-Decisional

Mr. (b) (6) - Privacy inquired how (b)(5) Pre-Decisional

Some standard in the standard in the standard in the scope with this project. Also, a \$5.2M detailed contingency projection has been added. Lt Gen (b) (6) - Privacy indeed that (b)(5) Pre-Decisional

Mr (b) (6) - Privacy indicated that there are three non-labor accounts which are not expected to expend the full budget amount. There is a high confidence of realizing \$7.5M savings and a lomid confidence level of realizing \$1.5M, for a total of \$9.0M. These savings are associated with

non-expenditures of software maintenance, reduced travel, reduced office expenses, and reduction of original planned contracted training by Oracle. Therefore, the total cost increase impact of \$13.4M is offset by the projected savings of \$9.0M, resulting in a reduced potential project shortfall of \$4.4M - \$5.9M based on current estimates and projections.

Maj Gen noted that the potential project shortfall included the 15% additional contingency increase of \$5.2M. Thus, if that contingency amount does not transpire in total or is reduced, the potential project shortfall is further reduced. Mr. (b) (6) - Privacy (b) (5) Pre-Decisional

Mr. (b) (6) - Privacy (b) (5) Pre-Decisional

Mr. (b) (6) - Privacy noted that originally with the closing of the project in August 2007, depreciation would have started in September of approximately \$2.6M per month. Based on current projections of project closure, there will be one month of depreciation in 2007 and thereafter. Thus, depreciation costs charged for this FY is reduced by \$10.4M. Therefore, earnings will not be reduced \$10.4M and dividends will increase by \$5.2M. However, the delay of the project and the corresponding inventory savings benefits for FY07 will reduce earnings/dividends by \$3.9M /\$2.0M. Thus, net positive impact for 2007 to dividends is \$3.2M. The new benefit timeline is extended out to 2010.

Mr. (b) (6) - Privacy r indicated that project Retek will not be implementing the Oracle Retail Invoice Match (ReIM) module. AAFES will use the Prodagio Invoice Match capability, a lifecycle replacement for the Accounts Payable Workflow System (APWin), which was purchased as part of the Retek software suite. Duplication of effort will occur if both Prodagio and ReIM are implemented. ReIM provides 3-way match functionality (PO, Invoice, and Receipt Match) on Retek generated orders only. Prodagio provides 3-way match functionality on all types of invoices. The decision of the executive steering committee for the Retek project was to avoid duplication of applications and not implement. There are two reasons this was not determined initially: The replacement requirement (not vendor supported) of APWin and, Increased benefits derived from Prodagio software.

AAFES has currently spent \$444K with initial implementation of ReIM application, of which \$1.7M is remaining in the budget for work development. By not implementing ReIM there is cost avoidance of \$1.7M which will reduce project Retek total cost to \$180.3M from \$182M.

Mr (b) (6) - Privacy briefed that the testing of functions will start in May 2007. BG(b) (6) - Privacy commented (b)(5) Pre-Decisional

Mr. (b) (6) - Privacy noted that as of year end FY06, Early Inventory Optimization (IO) Distribution Center inventory is \$253M against year end target of \$258M. The target reduction was exceeded by \$5M.

Lt Gen (b) (6) - Privacy commented (b)(5) Pre-Decisional

. Mr. (b) (6) - Privacy noted

there are numerous initiatives being taken by Information Technology (IT) and the Sales Directorate (SD) to insure success.

LTG (b) (6) - Privacy inquired (b)(5) Pre-Decisional

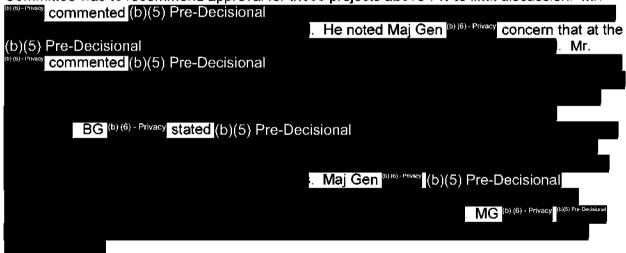
Mr. (b) (6) - Privacy stated it would be funded from AAFES earnings as any requirements over budget would be fenced, thus no impact on the dividend.

LONG RANGE CAPITAL PROGRAM

MG (5)(6)-Privated opened and noted the Finance Committee reviewed 15 construction projects and four image updates. The value of these 19 projects was \$164.1M. Seven of these projects have an Internal Rate of Return (IRR) below the 7% hurdle and the Finance Committee recommended they be brought to the BOD for discussion. It is noted there are four Shopping Center projects with costs which represent 64% of the FY 2007 submission and have an IRR average of 5.45%. The Finance Committee also reviewed five projects that had been previously approved by the Board and now require re-submittal.

The Finance Committee recommends the board approve the eight construction projects and four image updates which have an IRR above 7% without detailed discussion.

<u>Discussion</u>: Maj Gen commented that a past course of action has been that the portfolio was viewed in total. He noted that this portfolio has an overall hurdle rate above 7% and also noted that AAFES does some service projects that are below the 7% hurdle rate in order to support the service members' quality of life. MG commented that all projects in the portfolio could be discussed if desired, but he understood the precedent for the Finance Committee was to recommend approval for those projects above 7% to limit discussion. Mr.



The Chairman called for a motion.

Motion. MG (1006) Privacy moved that the Board approve the eight construction projects and four image updates which have an IRR above 7%. The motion was seconded by Maj Gen and unanimously approved by the Board.

MG^{(b)(6)-Privacy} then indicated that Mr. (b)(6)-Privacy</sup> would address the AAFES new construction strategies. Mr. (b)(6)-Privacy indicated that the top priority was to support Base Realignment and Closure (BRAC)/Army Modular Force (AMF)/Integrated Global Planning and Basing Strategy (IGBPS) gaining locations and to bring them to an end state position. The second priority is a worldwide master plan schedule, a 10 year program that is currently in its eighth year. The process includes command involvement with a systematic approach to plan the entire community integrated with the master plan of the installation. The third priority is a shopping

center replacement strategy that identifies those locations with the greatest need. The strategy measures shopping stress, building condition, age and opportunities. The fourth priority is the positioning of name brand fast foods in Shopping Centers to meet customer expectations and improve sales and earnings. The final strategy incorporates industry's best practices in development a of concept building design for convenience store prototypes. Tab M, Projects Under 7% IRR Information, in the members' books was briefed.

Mr (b) (6) - Privacy provided a summary on the following seven projects with IRRs below 7%:

Ft. Polk - Construct Shopping Center - AMF Gaining
Fort Lewis - Expand Shopping Center - AMF/BRAC Gaining
Luke AFB - Construct Shoppette/Class Six/Gas/BK/CCC/CW - Master Plan
Randolph AFB - Construct Shopping Center - Master Plan
Dal Molin, Italy - Construct Minimall - AMF Gaining
Fort Lewis - Activate Gas at Mini Mall - AMF/BRAC Gaining
Charleston AFB - Expand Shopping Center - Master Plan

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Discussion: Mr. (b) (6) - Privacy noted he had (b)(5) Pre-Decisional Mr (b)(5) Pre-Decisional Mr (b)(5) Pre-Decisional reiterated (b)(5) Pre-Decisional affirmed (b)(5) Pre-Decisional (b)(5) Pre-Deci
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The Chairman called for a motion.

Motion: Mr (b) (6) - Privacy moved that the Board approve the seven projects submitted with IRRs below 7%. The motion was seconded by BG (19) and unanimously approved by the Board.

MG (5)(6)- Privacy noted that the Finance Committee has reviewed the details of the resubmitted projects and recommends the Board approve those projects with IRRs above 7%.

The Chairman called for a motion.

Motion: MG (b) (6) - Privacy moved that the Board approve the five resubmitted projects with IRRs above 7%. The motion was seconded by Mr. (b) (6) - Privacy and unanimously approved by the Board.

Mr. (b) (6) - Privacy then reviewed the conditions requiring that projects be resubmitted to the Board.

1) Projected project cost exceeds approved cost of more than 25% (independent of currency fluctuations.)

- Projected NPV, if approved at a positive dollar amount, drops to a negative dollar amount.
- Significant changes in mission or projected troop strength not considered during initial project development are verified.

He commented that (b)(5) Pre-Decisional Mr. (b)(6) - Privacy stated that the oversight has been duly noted and the correction has been made.

An in-depth briefing was presented on the 3 resubmitted projects with IRRs below 7%:

Travis AFB – Construct Shoppette/Gas/Food
Little Rock AFB – Construct Shopping Center.-.BRAC Gaining
Fort Lee – construct Shoppette/Gas/Food/CCC/CW.-.BRAC Gaining

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Discussion. Mr. (b) (b) - Privacy noted the (b) (5) Pre-Decisional

Mr. (b) (6) - Privacy noted (b) (5) Pre-Decisional

Lt Gen (b) (6) - Privacy nquired (b) (5) Pre-Decisional

Mr (b) (6) - Privacy (b) (5) Pre-Decisional

Mr. (b) (5) Pre-Decisional

Col. (b) (5) Pre-Decisional

Mr. (b) (5) Pre-Decisional

Mr. (b) (6) - Privacy commented (b) (5) Pre-Decisional

Mr. (b) (6) - Privacy commented (b) (5) Pre-Decisional

Mr (b) (6) - Privacy commented (b) (5) Pre-Decisional

Mg (b) (6) - Privacy commented (b) (5) Pre-Decisional

Mg (b) (6) - Privacy commented (b) (5) Pre-Decisional

Maj Ger (b) (b) - Privacy reiterated (b) (5) Pre-Decisional
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The Chairman called for a motion.

Motion: MG (b)(6)-Privacy moved that the Board approve the three resubmitted projects with IRRs below 7%. The motion was seconded by LTG (b)(6)-Privacy y and unanimously approved by the Board.

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Mr. (b) (6) - Privacy noted that (b)(5) Pre-Decisional
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AUDIT COMMITTEE REPORT

In the absence of Brig Gen [10] - Privacy], the Audit Committee Chair, BG [10] introduced the Audit Committee report. She noted that at the Audit Committee meeting on 13 February 2007 two of the four audit committee members were unavailable to attend so there was no quorum. Ernst & Young outlined their Annual Audit Plan for FY 2006 which is expected to be completed by May/June 2007. Also presented was the internal audit plan for FY 2007. She then introduced Mr. [10] Director, Audit Division, to provide the Audit Report. Mr. [10] discussed the steps in developing the internal audit plan and thanked Board members for their valuable input. There were over 160 topics submitted from across the company. Through consolidation and prioritization the list provided to the Board will be the planned functional audits. There will be a planned organization audit of the Eastern Region; and planned follow-up audits of merchandise accountability in Korea, the School Feeding Program and Vehicle Management. Finally, there will be additional functional audits (back-up) of employment policies/practices; review of ESR 2-3, Organization and Functions; and procurement card transactions.

Mr. (b)(6)-Privacy briefed on the summary of four recently completed internal audit reports.

Internal Audit Reports

Accounting Support for OEF/OIF

Findings: Improved internal controls were needed in the accountability over cash deposits and reconciliation of cash instruments.

Management Actions

The Chief Financial Officer will resolve concerns over cash deposits not yet reimbursed by military finance offices.

Reconcile cash instruments and resolve cash variances.

Credit and Debit Card Accounts Receivable.

Findings: Increased management oversight would decrease merchant fees and improve the collection of credit and debit amounts owed AAFES.

Management Actions

The Chief Financial Officer will ensure correct merchant fees are charged.

Establish a web-based credit and debit card training program.

Write-off uncollectible amounts of unprocessed transactions.

Western Union Compliance Program

Findings: AAFES was not complying with the Federal Anti-Money Laundering (AML) prevention regulations.

Management Actions

The Vice President, Corporate Compliance will ensure that effective oversight of the AML program is maintained and required reports are submitted to the IRS.

The Senior Vice President, Human Resources will ensure all associates performing money services transactions are trained annually.

Retek Implementation - Update

Project Status

Wave 2 – Delayed from August 2007 to December 2007. Following factors impact timeline:

Wave 1B extension Increased number of legacy interfaces (181 vs. 97) Limited legacy resources

Budget

Potential projected shortfall of \$4.4M - \$5.9M. Overall budget reduced to \$180.3M from \$182M for Oracle Retail Invoice Match Module 4.

Mr (b)(6) - Privacy commented that original project proposal cost to the Board was \$137M. It was noted at that time there was an allowance for 5% overrun without prior Board approval. The following year the project was approved for \$182M but through perhaps oversight, the 5% overrun was not included.

Joint Audit (Tiger Team) Update

AAFES and Tiger Team continue to work one open item

Finding C-3: Formalize and document mission and functions of the Exchange. AAFES published ESR 2-3 in November 2006. Some concern remains of overlapping responsibilities between area and regional management. The Audit Committee has requested an internal audit to review the structure and responsibilities, and recommends delaying the closure of this item until the audit is complete.

The Chairman called for a motion.

Motion: Mr. ^{(b) (6) - Privacy} moved that the Board approve the FY 2007 Audit Plan. The motion was seconded by BG ^{(b) (6) - Privacy} and unanimously approved by the Board.

Mr. (b) (6) - Privacy in closing noted that he has served with AAFES for the previous 5 years.



Lt Gen (b) (6) - Privacy thanked Mr. (b) (6) - Privacy and the Audit Committee and noted he and LTG (b) (6) - Privacy would take his concern under advisement.

IMPROVE CAPITAL PROGRAM ASSUMPTIONS OF RETURN ON INVESTMENT (ROI)

Mr (b) (6) - Privacy noted that after reviewing the Post Fiscal audit results at the 15 November 2006 Board meeting, the Real Estate Directorate was tasked to brief the February 2007 Board on lessons learned to improve the capital program assumptions for ROI. As a result of this request, AAFES contracted with Deloitte Consulting to review and comment on AAFES methodology for performing post fiscal audits and project selection.

The Deloitte team evaluated core processes that are important to creating a leading planning practice. Areas in their review included: performing post-audits, selecting major construction projects, and comparing AAFES processes with industry's best practice.

Mr. (b)(6)-Privacy briefed on the Deloitte review which noted that AAFES post fiscal analysis, project selection methods, and tools reflected good or leading practices in many ways. However, there were lessons learned which were as follows: Projected ROIs should be presented as bands to account for risk and uncertainty. Also in the near-term, the methods for forecasting and auditing projects should better account for recent declines in sales/earnings and gasoline margins.

Deloitte analyzed a group of Main Stores with and without the benefit of new construction for the 2001 portfolio. The lift in Main Store sales with construction was 18% and the earnings delta was 55%. This highlighted the current AAFES post fiscal model deficiency which does not adjust for the current declining Main Store sales and earnings trend.

Mr. (b) (6) - Privacy noted that the review was discussed with Dr. (b) (6) - Privacy as he had knowledge of the leading practice in this area. The next step will be to develop methods and related toolsets to formalize risk identification, quantification and mitigation for new projects. A progress update will be provided at the next Board meeting.

DLA BUILDINGS FOR DISTRIBUTION CENTER

Mr (b) (6) - Privacy, Senior Vice President for Logistics briefed the Board on a Comprehensive Concept Plan (CCP) on the relocation of Giessen Distribution Center to Germersheim, Germany which proposes a warehousing end state facility at Germersheim. AAFES employed commercial consultants to perform space planning analysis at the existing DLA facilities at Germersheim. He noted the review was based on several assumptions which were outlined. Charts were briefed outlining construction requirements needed to the existing complex. A benefit would be in reduction of transportation expenses by \$.5M annually. An intangible benefit would be to partner with the Defense Logistics Agency (DLA) and DECA. The con's are a negative NPV (\$19.1M), a multiple building configuration, limited truck access/parking, reduced flexibility (cube storage), and increased depreciation of \$902K annually. Total relocation costs are estimated at \$39.5M.

Also briefed was the activation of a new 380K square foot facility. Benefits would be the reduction of transportation expenses by \$.5M annually and the reduction of personnel expenses by \$.5M annually. It would be a single building configuration with adequate truck access and parking. Con's would be a negative NPV (\$66.4M), increased depreciation of \$4.1M annually, and also reduced flexibility with cube storage.

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LTG (b) (6) - Privacy inquired (b)(5) Pre-Decisional
                                                                            Mr (b) (6) - Privacy
(b)(5) Pre-Decisional
                          LTG (b)(5) Pre-Decisional
Mr. Summarized by noting the benefits in Germersheim and through partnering with DLA
and DECA.
Mr. (b) (6) - Privacy inquired if (b)(5) Pre-Decisional
               LTG (b) (6) - Privacy noted (b) (5) Pre-Decisional
                                                                        . Mai Gen<sup>(b) (6) - Privacy</sup> noted that
Germersheim is located right on the Rhein river port as opposed to Ramstein.
BG [b] inquired if (b)(5) Pre-Decisional
         LTG (6)-Privacy (b)(5) Pre-Decisional
Lt Gen (b) (6) - Privacy commented (b) (5) Pre-Decisional
                                                                      LTG (b) (8) - Privacy noted (b)(5) Pre-
                               Gen (b) (6) - Privacy (b) (5) Pre-Decisional
                                   Lt Gen (b) (6) - Privacy noted and requested AAFES move forward
to provide a detailed proposal so that the Army can properly evaluate the project.
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NEW BUSINESS INITIATIVES

Maj Gen (Mill Provided Commented that with the drawdown in Europe and the Pacific, the troops coming home will, in many cases, live off-base where the options to remain off-base to shop increase significantly. The end result will be declining Main Store earnings. Therefore, AAFES' first imperative is to be the best retailer it can be, and Mr. (Mill Provided and his staff are well focused on this objective. The second imperative, to prevent a slow decline, is to increase AAFES' relevancy through new businesses and revenue streams. The way to accomplish this is through strategic partnerships. Thus, the Strategic Partnership Directorate was formed in order to find new ways to do business and partner successfully. He then indicated that Mr. (Would brief the Board on several initiatives)



Maj Gen (1976) Friedding introduced Mr. (1976) to brief the Board on two initiatives.

Mr. periodopened by noting that the AAFES mission is to make military life better. AAFES has a competitive advantage in that it knows its customers' needs and can, therefore, successfully leverage that knowledge by bringing various elements together to meet those needs.

He discussed in detail two current initiatives, Community Development and Advanced Technology Initiative. He noted that Community Development will not be everywhere. The Marketplace has to speak and support. With regard to Advanced Technology, the greatest risk is inaction.

Current trends and customer needs in retail development were presented in detail, expounding on the current layout and future initiatives for Ft. Bliss. Four different alternative financial structures were presented outlining financing models and the impact on NPV and IRR.

Mr. Priefed that the next steps in the Fort Bliss Lifestyle Center process will be: 1) Complete the Ft. Bliss development program in April 2007, 2) Seek approval at the May BOD meeting, and 3) Submit the proposed Public Private Venture (PPV) to the Principal Deputy Under Secretary of Defense for Personnel and Readiness for approval.

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Maj Gen (b) (6) - Privacy noted (b) (5) Pre-Decisional
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Mr. (b) (6) - Privacy expressed (b) (5) Pre-Decisional

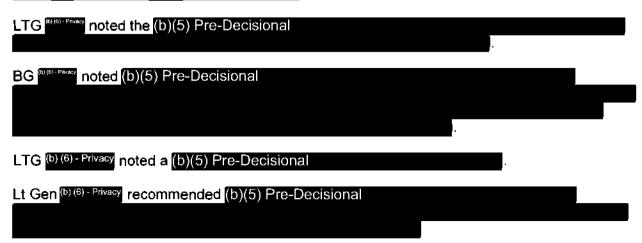
Mr. (b) (6) - Privacy expressed (b) (5) Pre-Decisional

Dr. (c) (6) - Privacy offered three observations: (b) (5) Pre-Decisional
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Mr. Commented that the idea of partnering is to bring people to the table who are the experts. AAFES is teaming with companies that have access to and successful reputations in the marketplace. They have a vested interest in a successful outcome. The consultants, the banks and AAFES are all accomplishing proformas that will be reviewed jointly. That will address part of the risk management concern. Also, it is noted that these concepts generally fail because they are not large enough and do not have enough critical mass.

The second initiative Mr. discussed in detail was Advanced Technology. An historical perspective was presented along with present and future trends.

FINAL COMMENTS AND ADJOURNMENT



Lt Gen (b) (6) - Privacy concluded by thanking Board Members for their hard work and support.

ADJOURNMENT:

The meeting adjourned at 1430 hours.

SUMMARY OF MOTIONS:

Board minutes of 15 November 2006 were approved.

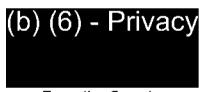
Dividend payout methodology to remain at status quo. Long Range Capital Program in total was approved.

FY 2007 Audit Plan was approved.

SUMMARY OF FOLLOW-ON ACTIONS:

For AAFES

- 1. RE: IRR Modeling results to the Board for post fiscal analysis.
- 2. RE: Germersheim proposal for FY 2010 POM submission.
- 3. CHAIRMAN: Improve Board member training.



Executive Secretary

APPROVED:

16 APR 2807

(b) (6) - Privacy

Lieutenant General, USAF Chairman

MINUTES OF THE REGULAR MEETING OF THE BOARD OF DIRECTORS ARMY AND AIR FORCE EXCHANGE SERVICE

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16 May 2007

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MINUTES OF THE REGULAR MEETING BOARD OF DIRECTORS ARMY & AIR FORCE EXCHANGE SERVICE (AAFES)

The 248th meeting of the AAFES Board of Directors was called to order by the Chairman on 16 May 2007 in the Board Room, HQ AAFES, Dallas, Texas.

ATTENDANCE





<u>OPENING COMMENTS BY THE CHAIRMAN</u>

The Chairman, Lt Gen (b) (6) - Privacy opened the 248th meeting at 0800 hours, and welcomed all Board members. He thanked the Board members and alternates present for taking time out of their busy schedule as their hard work directly benefits the service members and their families.

OUT-OF-SESSION ITEMS

The Chairman noted there were no out-of-session items.

APPROVAL OF FEBRUARY2007 BOD MINUTES

Lt Gen (b) (6) - Privacy noted the minutes of the 28 February 2007 meeting and asked for any corrections or additions. Upon receiving clarification of discussion comments, he asked for a motion to approve the minutes.

Motion: Mr. moved that the Board of Directors approve the minutes of 28 February 2007 as written. The motion was seconded by SMA solution and unanimously approved by the Board.

COMMENTS BY THE COMMANDER

The Chairman then called for the Commander, AAFES' report. The AAFES Commander, Maj Gen of General discussed two updates.

Maj Gen onted a promotion ranking board has been convened as there are two Senior Vice President (SVP) positions to be filled. Mr. (b) (6) - Privacy SVP of HR and Mr SVP of Central Region will be retiring in the next several months. Nomination packages will be forthcoming to the Board for out-of-session approval.

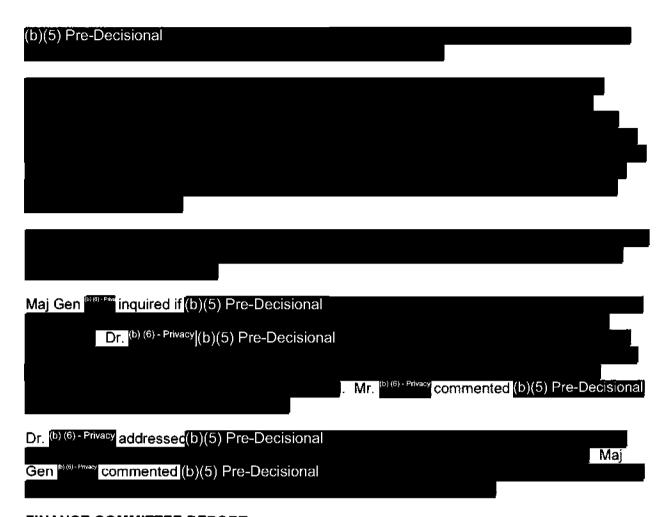
Maj Gen discussed briefly his visit to the Pacific Region, Community Development initiatives, and the status on DeCA resuming operations at Naval Air Station Joint Reserve Base (NASJRB), Fort Worth, Texas.

Maj Gen [10] then introduced his advisor, Dr. (b) (6) - Privacy to comment on current retail trends.

CONSULTANT'S COMMENTS

Dr. (b) (6) - Privacy focused on two areas: The short term outlook in retail and medium term issues.

(b)(5) Pre-Decisional



FINANCE COMMITTEE REPORT

MG (b) (a) Privacy stated the Finance Committee met on 18 April 2007 and noted that the briefings will consist of the Financial Status Report by Mr. (b) (6) - Privacy and two motions to be addressed: Purchasing (PZ) Transformation and Retek.

MG [b) (6) - Privacy introduced Mr. (b) (6) - Privacy AAFES Chief Financial Officer, to present the current financial position of AAFES.

FINANCIAL STATUS REPORT

Mr. (b) (6) - Privacy stated he would address the Financial Status Report for Fiscal Year (FY) 2006 and the year-to-date (YTD) April 2007 results. He noted that based on the Finance Committee recommendations the chart format was changed with overall results addressed.

Revenue. Results FY 06 are 3% above last year (LY) and 2% above plan. Cost of goods is 3% above LY and 4% above plan. The key driver is gasoline sales which were up \$160M or 14%. Gallons sold were up only 1% so the key component is the price per gallon increase. Financial revenue increased 13% above plan and 20% above LY. The key component was an increase in the annual percentage rate (APR) from 11% to 13%. CONUS region sales and direct marketing were up and overseas and contingency sales were down. Region sales without gasoline reflect the same trend. Main store sales reflect a dramatic increase in January based primarily on the extra week in the retail fiscal calendar for January 2006 versus January 2005. Without the additional week CONUS main store sales were down 2%, Pacific down 3%, and Europe up 8%. Worldwide main store sales were down 3% from LY.

Net Earnings. Results are 3% above LY and 8% above plan which is inclusive of appropriated fund (APF) support. Without APF, earnings were 17% below plan and 14% below LY. Region earnings are up over LY in contingency, direct marketing and exchange credit only.

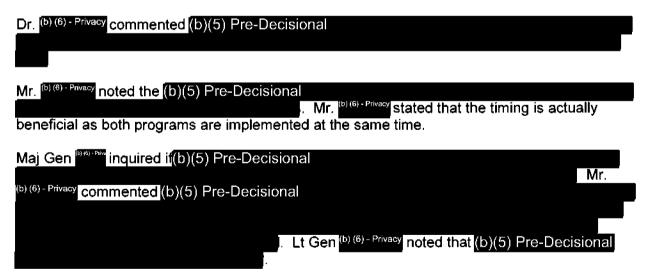
<u>Expenses.</u> Overall expenses are 4% above plan and 3% above LY. Key component is the cost of goods, specifically gasoline.

<u>YTD April 2007</u>. Sales are 4% below plan and 1% below LY. The weather, gasoline prices and the different reporting months in which Easter occurred for FY 05 versus FY 06 were outlined.

<u>Industry Metrics.</u> One item was red, <u>Inventory Turnover</u>. Key component was warmer weather which contributed to slow sell-through of fall/winter clothing. Total inventory dollars through April have been reduced \$190M from LY.

PROCUREMENT SYSTEM ENHANCEMENT

Mr. (b) (6) - Privacy began by explaining that the purpose of the presentation and motion was a Board requirement for discretionary IT projects greater than \$5M to be reviewed and approved by the Board. Mr. (b) (6) - Privacy explained that this project will replace the current inefficient manual, non-retail procurement process with a state-of-the-art commercial off-the-shelf automated process. He highlighted and discussed current limitations and costs along with the benefits derived with project implementation. He summarized that the total project costs are projected at \$7M and upon implementation, net benefits of \$5.6M annually are projected.



Motion: Mr. (b) (6) - Privacy moved that the Board allocate \$7M to the procurement and installation of the proposed Procurement System Enhancement Project. BG (c) - Privacy seconded the motion and it was unanimously approved by the Board.

RETEK UPDATE

Mr.(b) (6) - Privacy, AAFES Chief Information Officer, provided an overview and update on project Retek.

Mr. (b) (6) - Privacy explained that Advanced Inventory Planning (AIP) went live on 2 April 2007. This is a warehouse-to-warehouse replenishment method that supplies off-shore distribution centers (DC) from CONUS DCs by the use of transferring merchandise. This replenishment method provides a lower overall inventory investment to the offshore DC without sacrificing warehouse service levels. The remaining applications to be delivered during Wave 2 are Inventory/Replenishment, Pricing, Demand Forecasting and Retek Data Warehouse. All work streams are on schedule and progressing according to the project plan.

Mr. (b) (6) - Privacy discussed the recent visit by the Air Force Audit Agency (AFAA). The AFAA did not list any repeat occurrences from their previous visit. They did put forth some timeline risks based on their preliminary out-brief. Mr. (b) (6) - Privacy discussed in detail AFAA concerns and AAFES position. He summarized that the Retek Executive Steering Committee and the Project Management Team are confident in meeting the December time-line objective based on current known conditions.

Mr.^{(b) (6) - Privacy} commented and concurred (b)(5) Pre-Decisional

Mr. (b) (6) - Privacy discussed the project budget. Current actual expenses reflect that \$124.8M or 69.2% of the \$180.3M project budget has been expended. The remaining budget is \$55.6M. The estimate to complete the project as of February 2007 was \$57.7M. Shortfall was \$2.1M or 1.2% over budget.

He addressed the total anticipated cost impact based on Wave 2 re-plan cost increases, Wave 2 change requests and a 15% contingency projection. He also addressed the total funds available within two confidence (High/Low) categories. The current potential project shortfall is estimated at \$4,4M - \$5.9M.

Lt Gen (b) (6) - Privacy inquired if the (b)(5) Pre-Decisional

. Mr. (b) (6) - Privacy commented (b)(5) Pre-Decisional

Ms. (b) (6) - Privacy noted that (b)(5) Pre-Decisional

Motion. Maj Gen moved that the Board approve a \$6M additional contingency fund for project Retek with the following stipulations: 1. Funding is controlled by the project Retek Executive Steering Committee, and., 2. There is no impact to the MWR Dividend. The motion was seconded by SMA (5)(6)-Privacy and unanimously approved by the Board.

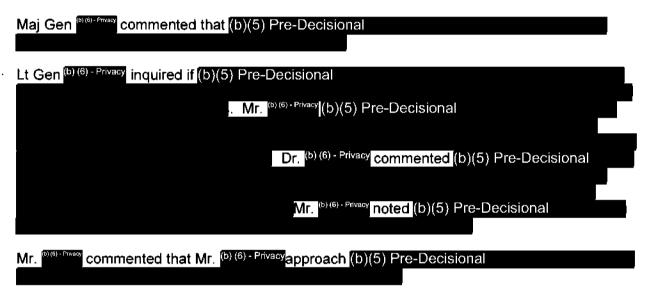
DRIVE PROFITABLE SALES

Mr. (b)(6)-Privacy opened by stating AAFES' goal is to drive **profitable** sales. He outlined three major topics he would discuss: back to basics, update on the Merchandising Planning System, and preparing for Retek implementation. Mr. (b)(6)-Privacy discussed his ongoing visits to the stores and

the proper utilization of current tools and hardware to right size the inventory investment, improve gross margin, and enhance customer service and training.

He discussed current Online and Brick and Mortar initiatives and the positive results achieved. An example is the "Buddy List" which is a local exchange generated e-mail that reaches out to customers in a personal manner, highlighting their local exchange sales events.

Mr. (b)(6) - Privately outlined the new store openings for 2007 and the initiatives in place to effectively open and merchandise new stores and shut down the replaced facilities expediently. He also addressed store category initiatives: Hardlines, Automotive, Private Label, Outdoor Living, Consumables, Softlines, Food, and Services.



KAISERSLAUTERN MILITARY COMMUNITY CENTER (KMCC) UPDATE

Mr. (b) (6) - Privacy, Vice President, AAFES Real Estate Directorate, provided an update on the KMCC project. Currently the project is in litigation with little progress in recent months. The German contracting agency, Landesbetrieb Liegenschafts-und Baubetreuung (LBB) has appointed a new project manager. The USAFE Project Management Office (PMO) remains the lead U.S. agency. The Chairman requested continued updates at future Board meetings.

COMMUNITY DEVELOPMENT AND ADVANCED TELECOMMUNICATIONS

Mr.(b) (6) - Privacy, Senior Vice President, AAFES Strategic Partnerships, presented three current initiatives: Privatization of Army Lodging (PAL), Community Development Initiative (CDI), and Advanced Technology Initiative (ATI).

Mr. discussed the history of PAL, AAFES' proposal and unsuccessful offer and the subsequent request for an administrative review. A final decision on the merit of the AAFES protest is expected in June 2007.

The Community Development Initiative (CDI) was reviewed and the six pilot locations (Ft. Bliss, Ft. Carson, Ft. Sam Houston, Ft. Dix/McGuire AFB, Little Rock AFB, (Eglin AFB) and one unique installation (Ft. Belvoir) were presented.

Mr. properties that convergence is transforming the telecom industry and discussed AAFES' goal to become the preferred provider of all unofficial telecommunications for all of DoD. He discussed specifically the initiative of establishing a joint networking venture with Army Family and MWR Command (FMWRC). Maj Gen expressed his excitement on this endeavor and asked Mr. (b) (6) - Privacy and Mr. (c) (6) - Privacy and Mr. (d) (6) - Privacy commented that (b) (5) Pre-Decisional

BOARD MEMBER TRAINING

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Lt Gen (b) (6) - Privacy discussed the (b)(5) Pre-Decisional

LTG (b) (6) - Privacy concurs, and (b)(5) Pre-Decisional

Lt Gen (b) (6) - Privacy will formally ask LTG (b) (6) - Privacy to (b)(5) Pre-Decisional

Lt Gen (b) (6) - Privacy noted (b)(5) Pre-Decisional
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Mr. (b) (6) - Privacy noted that LTG (b) (6) - Privacy is aware (b) (5) Pre-Decisional

AUDIT COMMITTEE REPORT

In the absence of the Audit Committee Chair, Brig Gen (b) (6) - Privacy, his alternate, Mr. (c) (6) - Privacy introduced the Audit Committee report. He noted the Audit Committee met on 30 April and then introduced Mr. (c) (6) - Privacy, Director, AAFES Audit Division, to provide the Audit Report.

Mr. (b)(6)-Privacy briefed the Board on the summary of four recently completed internal audit reports.

Internal Audit Reports

<u>Information Technology</u> (IT) Maintenance Agreements

Findings: Overall, AAFES effectively used IT Maintenance Agreements to protect the IT infrastructure. However, AAFES found opportunities were available to improve Internal Controls over financial and asset management processes.

Management Actions

The Chief Information Officer will develop and implement an effective strategy for managing all IT assets covered under Maintenance Agreements.

The Director, Procurement Support and Policy Directorate will:

- Assure IT Maintenance Agreement invoices are matched to contract pricing and to covered assets
- · Recover all overpayments

Commissary Tobacco Processing

Findings: The commissary tobacco program was not operating in accordance with all established policies and procedures.

Management Actions

The Senior Vice President, Sales Directorate will:

- Develop and implement procedures for applying tobacco price changes that comply with policies,
- Develop a checklist for Associates to use.

The Regions will ensure inventory levels are monitored and price changes completed in a timely manner.

Concession Accounting Procedures

Findings: Concession Operations could be enhanced by ensuring contract terms are met and kept current.

Management Actions

The Senior Vice President, Sales Directorate will ensure contract data is current and properly maintained.

The Exchange Regions will ensure concession policies and procedures are followed.

The Chief Financial Officer will ensure concession policies and procedures are followed.

Retek Implementation - Update

Project Status

Wave 2 - Go-Live Projected December 2007

Advanced Inventory Planning go-live 2 April 2007 Next implementation: Pricing July 2007

Budget

Overall budget \$180.3M

Request for \$6M in additional funding for the project.

Timeline

Overall project go-live - December 2007

Extension of CPA Contract

The Audit Committee approved extension of the CPA contract (Ernst and Young) for one year.

Lt Gen (b) (6) - Privacy inquired how (b)(5) Pre-Decisional . Mr. (b) (6) - Privacy stated (b)(5) Pre-Decisional

Lt Gen (b) (6) - Privacy thanked Mr. (b) (6) - Privacy and the Audit Committee.

FINAL COMMENTS AND ADJOURNMENT

Ms. (b) (6) - Privacy commented that the Board orientation was very well done and informative. She also thanked Lt Gen (b) (6) - Privacy on behalf of Mr. (b) (6) - Privacy for his leadership of the AAFES Board.

MG (b) (6) - Privacy also thanked Lt Gen (b) (6) - Privacy for Board leadership.

Mr. (b)(6)-Privacy expressed to Maj Gen and Mr. (c)(6)-Privacy appreciation that the focus on Sales and Earnings are in a balanced manner. This approach will better position AAFES for future growth and challenges. He noted that earnings are an <u>enabler</u> which ensures that service members receive the benefits they deserve. He also thanked Lt Gen (b)(6)-Privacy for his leadership.

BG (b)(5) Pre-Decisional

Mr. (b)(5) Pre-Decisional

Mr. (b)(5) Pre-Decisional

Mr. [10] thanked Lt Gen [10] (6) - Privacy for his leadership. He also expressed thanks to Maj Gen and Mr. [10] (6) - Privacy for their leadership in taking AAFES forward in the right direction. He noted Air Force Services works closely with the AAFES Washington Office and expressed thanks to Mr. [10] (6) - Privacy for his responsiveness.

Mr. (b) (6) - Privacy noted that the Board orientation was very enlightening. He reiterated that he will follow (b) (5) Pre-Decisional Mr. (b) (6) - Privacy also thanked Lt Gen (b) (6) - Privacy for his leadership.

Mr. (b) (6) - Privacy inquired (b) (5) Pre-Decisional to Mr. (b) (6) - Privacy on (b) (5) Pre-Decisional Maj Gen (b) (6) - Privacy (b) (5) Pre-Decisional LTG (b) (6) - Privacy Mr. (b) (6) - Privacy also thanked Lt Gen (b) (6) - Privacy for his Board leadership and service.

SMA (b) (6) · Privacy noted that (b)(5) Pre-Decisional

He expressed thanks to Lt Gen (b) (6) - Privacy for his leadership and service on the Board on behalf of Army leadership and all the soldiers.

Lt Gen (b) (6) - Privacy noted that the Chair position will remain Air Force until the fall of 2008. Since Air Force Services is under AF/A1, the new Board chairman, effective 1 June 2007, will be Lt Gen (b) (6) - Privacy. Deputy Chief of Staff, Manpower and Personnel, HQ USAF.

Lt Gen (b) (6) - Privacy also noted that at this time, a new Commander for AAFES had not been announced but indicated that he was comfortable with the Army's process and review. He also noted that the new Deputy Commander for AAFES, Air Force Brig Gen (b) (6) - Privacy will be on-board in June 2007.

Lt Gen (b) (6) - Privacy thanked Board Members for their hard work and support in taking care of all service members throughout the world. He thanked Maj Gen (for the great job he had done in leading AAFES forward. Lt Gen (b) (6) - Privacy concluded by stating it has been an honor and a privilege to serve on the AAFES Board.

ADJOURNMENT:

The meeting adjourned at 1400 hours.

SUMMARY OF MOTIONS:

Board minutes of 28 February 2007 were approved.

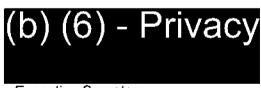
The Board allocated \$7M to the procurement and installation of the proposed Procurement System Enhancement Project.

The Board approved a \$6M additional contingency fund for project Retek with the following stipulations: 1) Funding is controlled by the project Retek Executive Steering Committee, and 2) There is no impact to the MWR Dividend.

SUMMARY OF FOLLOW-ON ACTIONS:

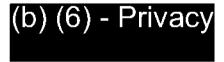
For AAFES

- MK: Improve advertising of AAFES dividend amount.
- 2. RE: KMCC status will be briefed at each Board meeting until completion.
- 3. SP: Follow-up on EUL status at Eglin AFB
- 4. CHAIRMAN: Improve Board member training.



Executive Secretary

APPROVED:



Lieutenant General, USAF Chairman



MINUTES OF THE REGULAR MEETING OF THE BOARD OF DIRECTORS ARMY AND AIR FORCE EXCHANGE SERVICE

15 August 2007

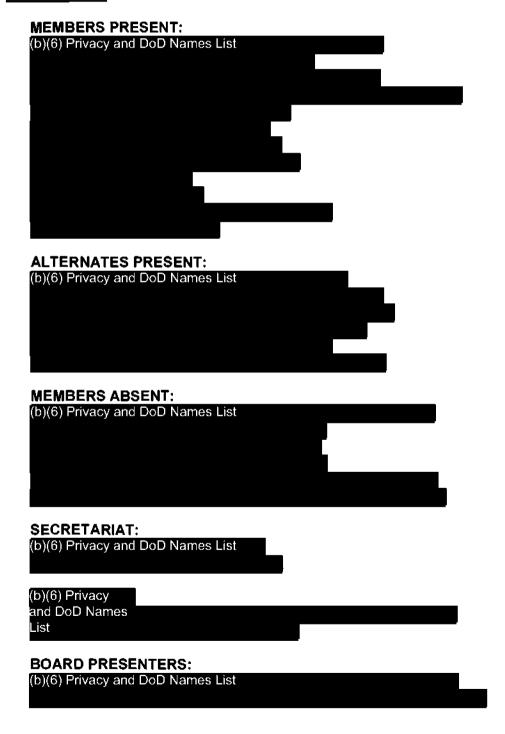
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MINUTES OF THE REGULAR MEETING BOARD OF DIRECTORS ARMY & AIR FORCE EXCHANGE SERVICE (AAFES)

The 249th meeting of the AAFES Board of Directors was called to order by the Chairman on 15 August 2007 in the Board Room, HQ AAFES, Dallas, Texas.

ATTENDANCE



(b)(6) Pri	vacy and DoD Names List		
			_

OPENING COMMENTS BY THE CHAIRMAN

The Chairman, Lt (b) (6) - Privacy, opened the 249th meeting at 0800 hours, and welcomed all Board members. He thanked the Board members and alternates present for taking time out of their busy schedule, as their hard work directly benefits the service members and their families. Lt (b) (6) - Privacy thanked Maj Gen (o) (6) - Privacy thanked Maj Gen (o) (6) - Privacy the exciting direction in which he has taken the organization. He also welcomed BG (b) (6) - Privacy the new AAFES Commander, and noted that he will bring a business-oriented skill set to AAFES.

OUT-OF-SESSION ITEMS

The Chairman noted there were four out-of-session items: the approval of the selection of two Senior Vice Presidents (Mr. as SVP, Central Region and Mr. as SVP, Human Resources); approval of reply to the Office of Secretary Defense (OSD) RE: Future Funding of Commissary and Nonappropriated Fund Instrumentality (NAFI) Facility Requirements; approval of memo to OSD on continuing support of aggregation of AAFES pension plan assets and liabilities; and, from the Finance Committee, approval of four motions concerning the Ft. Bliss Lifestyle Center project.

APPROVAL OF MAY 2007 BOD MINUTES

Lt Gen noted the minutes of the 16 May 2007 meeting and asked for any corrections or additions. He asked for a motion to approve the minutes.

Motion: Mr. moved that the Board of Directors approve the minutes of 16 May 2007 as written. The motion was seconded by SMA (D)(6)-Privacy and unanimously approved by the Board.

AAFES COMMANDER'S REPORT

The Chairman then called for the AAFES Commander to give the Board an update on the organization. The AAFES Commander, Maj Gen noted he was appreciative to have led such a great organization and to work with the Board.

He noted the two strategic imperatives toward which AAFES has been working. The first is to insure AAFES is the best retailer in the world. This will be achieved by understanding our customer's wants, needs and desires and by meeting those requirements with the most efficient supply chain possible. The second imperative is to ensure that AAFES remains relevant to the military and to drive new revenue streams.

Maj Gen then introduced his advisor, Dr. (b) (6) - Privacy to comment on current retail trends.

CONSULTANT'S COMMENTS

Dr. (b) (6) - Privacy addressed four major points: 1) Ongoing economic developments in the retail environment, i.e., volatility; 2) The retail industry's direction of benchmarking and restructuring its cost structure; 3) Retailers deepening of their relationship with existing customers through data driven reports; and 4) Internet and multi channel retailing opportunities.

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Maj Gen (b) (5) Pre-Decisional

Dr. (b) (6) - Privacy (b) (5) Pre-Decisional

Lt Gen

Mr. (b) (6) - Privacy inquired if (bx5) Pre-Decisional

Mr. (b) (6) - Privacy noted (b) (5) Pre-Decisional

Lt Gen (b) (6) - Privacy noted (b) (5) Pre-Decisional

Maj Gen (b) (6) - Privacy commented (b) (5) Pre-Decisional

(b) (5) Pre-Decisional

(b) (5) Pre-Decisional

(b) (6) - Privacy commented (b) (5) Pre-Decisional

Maj Gen (b) (6) - Privacy commented (b) (5) Pre-Decisional

Maj Gen (b) (6) - Privacy noted (b) (5) Pre-Decisional
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FINANCE COMMITTEE REPORT

Mr. (b) (6) - Privacy stated the Finance Committee met on 18 July 2007 and introduced Mr. (b) (6) - Privacy AAFES Chief Financial Officer, to present the current financial position of AAFES.

Financial Status Report

Mr. (b) (6) - Privacy stated he would address the Financial Results through June 2007 and comment on the highlights of July operating results recently released.

Revenue. Results year-to-date (YTD) June 2007 were 2% below last year (LY) and 3% below plan. The primary driver was a decline in Army Combat Uniform (ACU) sales in Military Clothing Sales Stores (MCSS) from last year's spike when initial issues occurred. Financial revenue increased \$15.7M primarily due to the growth of the Military Star receivable. Concession income increased \$2.8M or 4% due to expansion in OEF/OIF concession operations. Other income was up 33% due to the sale of a fixed asset, the AAFES Operations Center (AOC) building and property located in Dallas, Texas for \$5.9M. Regional sales comparisons note that Eastern, Western and Pacific sales were down, primarily driven by ACU sales reductions and deployments. Maj Gen inquired if the reduction in MCSS sales was anticipated. Mr.

(b) (6) - Privacy commented that when the budget was created in August LY, the significant drop was not foreseen. He noted (b)(5) Pre-Decisional

Main store

sales are down YTD 2.84% primarily due to deployments and shifting of resources. LTG commented on the (b)(5) Pre-Decisional

Lt Gen choed (b)(5) Pre-Decisional

Net Earnings. Results are 2% above LY and 0% above plan exclusive of appropriated fund (APF) support. Mr. (10)(6)-Privacy noted AAFES received \$41M in APF reimbursement in June. Region earnings are down in Eastern, Western and Pacific based on the same factors as outlined for revenue reductions.

<u>Expenses.</u> Overall expenses are 4% below plan and 2% below LY. A key component is the cost of goods, which declined as a percentage of sales (78.28% YTD versus 78.85% LY); this 57 basis point reduction is significant in terms of total inventory. Also, interest capitalization of project Retek of \$6.9M resulted in a significant decrease in interest expense.

Dividends. Dividends earned YTD June 2007 are \$105.6M of which \$97.7M has been paid.

YTD July 2007. Earnings before APF are 7% above plan and 12% above LY. With APF, earnings are 36% above plan and 42% above LY. A key component for July increases is a reduction in cost of goods sold (COGS), resulting in an improved gross margin (GM).

Maj Gen inquired if (b)(5) Pre-Decisional

Mr. (b) (6) - Privacy explained (b)(5) Pre-Decisional

Retek Update

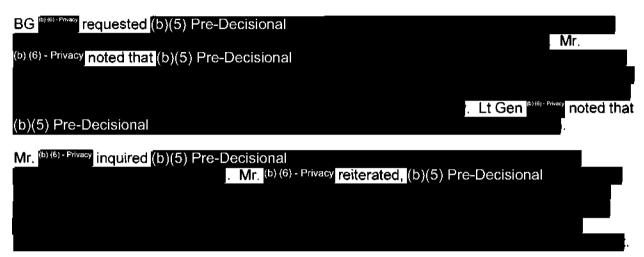
Mr. (b) (6) - Privacy, AAFES Chief Information Officer, provided an overview and update on project Retek.

Mr. (b) (6) - Privacy provided an update on the overall status of project Retek. He outlined that on 23 July 2007 Retail Merchandising System (RMS) Clearance Pricing and Competitive Pricing went live. He noted that Clearance Pricing allows buyers to centrally setup and control clearance markdowns and that Competitive Pricing allows the pricing team at HQ to centrally manage location-specific pricing of select items. He noted that the remaining applications to be delivered during wave two are Inventory/Allocation (currently in integration testing and is a critical path item), Replenishment/Supply Chain Optimization, RPM Pricing, Demand Forecasting and Retek Data Warehouse. Mr. (b) (6) - Privacy discussed in detail the status and project timeline of each remaining application.

He briefed that as of the end of June 2007 actual expenses reflect that \$137.4M or 75.9% of the \$180.3M project budget has been utilized. Contingency dollars reflect there are no available dollars left in the contingency fund. The current shortfall is estimated to be \$1.4M or .8% over budget. It was also noted that the supplemental contingency of \$6M which was approved in the May 2007 Board meeting has been added to the budget sheet and is not reflected as part of the

overall budget. There are no change requests approved against these funds currently. He indicated that the current \$1.4M figure has been decreasing in the last four months and may reduce further as the project closes in on completion and costs originally identified are adjusted appropriately.

Mr. (b) (6) - Privacy next addressed the Air Force Audit final executive summary report recommendations, which were completed earlier this year. He summarized that the Retek Executive Steering Committee and the Project Management Team are still confident in meeting the December time-line objective based on current known conditions.



Lifestyle Center Project at Ft. Bliss

Mr. (b) (6) - Privacy Senior Vice President, AAFES Strategic Partnerships, presented an alternative option to the \$54M Ft. Bliss project which was originally approved by the BOD in February 2006. Mr. reviewed presentations provided to the Board in February and May 2007 which defined the initiatives which were under consideration. He noted the current briefing would request approval to proceed solely with the Ft. Bliss Lifestyle Center. Mr. presented four topics in detail: 1. Rationale for development and construction; 2. Project scope and current status; 3. Financial metrics; and, 4. Risk considerations.

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In relation to site selection for a Lifestyle Center, Lt Gen inquired if (b)(5) Pre-Decisional

Mr. (b)(5) Pre-Decisional or a Lifestyle Center or total authorized customers, income levels and customer demographics are the primary drivers. Lt Gen (b)(5) Pre-Decisional or inquired (b)(5) Pre-Decisional or inquir
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The Chairman concurred and reiterated the importance of command coordination

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on future installation selections. Mr. (b) (6) - Privacy emphasized (b) (5) Pre-Decisional
                                             Mr. (b) (61 - Privacy noted (b)(5) Pre-Decisional
                                             LTG (b) (6) - Privacy inquired (b)(5) Pre-Decisional
                      . Mr. commented (b)(5) Pre-Decisional
Maj Gen (b) (6) - Privacy inquired (b) (5) Pre-Decisional
           Mr. (b)(5) Pre-Decisional
                                          . Mr.
                                                    noted (b)(5) Pre-Decisional
Mr. (b) (6) - Privacy commented (b) (5) Pre-Decisional
                                                        Mr. 101 (6) Privil noted (b)(5) Pre-Decisional
                                                    Ms. (b) (6) - Privacy inquired on Mr.
(b)(5) Pre-Decisional
a new NAFI will be created with the approval of the Family and MWR Command (FMWRC) and
will function as a special purchase entity which will secure the financing and be obligated for the
debt. It will roll up under AAFES operating statements; but is accounted for, audited and
financed separately. It is not an exclusive firewall, but provides something similar to what Army
MWR possesses.
Mr. (b) (6) - Privacy inquired (b)(5) Pre-Decisional
                                                                       ? Mr. (1)(0) Pri
                                                                                  noted
                                                                                   . Мş. <sup>(b) (6) - Pr</sup>
                                                         Mr. (b)(5) Pre-Decisional
        (b)(5) Pre-Decisional
                             stated that since (b)(5) Pre-Decisional
                                                                                          Col.
inquired (b)(5) Pre-Decisional
                                                                     . Mr. "" responded that
AAFES (b)(5) Pre-Decisional
           Lt Gen inquired (b)(5) Pre-Decisional
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(b)(5) Pre-Decisional Mr. Pre-Decisional BG (b)(5) Pre-Decisional BG (b)(5) Pre-Decisional Mr. Proved inquired (b)(5) Pre-Decisional Mr. Proved responded (b)(5) Pre-Decisional Lt Gen (b)(6) Pre-Decisional Lt Gen (b)(6) Pre-Decisional Lt Gen (b)(5) Pre-Decisional Lt Gen (b)(6) Privacy responded (b)(6) Priva
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then called for the motions.

Motion 1: Mr. Press moved that the Board of Directors approve the use of the Public Private Venture (PPV) concept for the construction and development of a Ft. Bliss Lifestyle Center as a designated AAFES pilot capital project. The motion was seconded by SMA (D)(G) - Private Pr

Motion 2: Brig Gen moved that the Board of Directors approve AAFES capital funding in an amount not to exceed \$15M for the Ft. Bliss Lifestyle Center pilot project and that Management seek (through the Finance Committee) Board of Directors approval before committing additional AAFES capital funding. The motion was seconded by BG (and a proved by the Board.

Motion 3: LTG moved that upon the successful solicitation and award of the Lifestyle Center at Ft. Bliss, the Board of Directors withdraw the \$54M capital construction project for a new main store facility at Ft. Bliss previously approved in February 2006. The motion was seconded by Mr.

Motion 4: Mr. Motion 4: Mr. moved that Management will advise the Finance Committee and the Board of Directors on any of the following:

Substantial matters relating to the negotiation of terms for contracts associated with the PPV that increases AAFES risk level in this pilot project.

Legal or regulatory obstacles that arise that are unfavorable to the successful execution of the pilot project or that increase AAFES risk level in this pilot project.

The motion was seconded by Maj Gen (Indian and unanimously approved by the Board.

DRIVE PROFITABLE SALES

Mr. (1916) - Privacy opened by outlining in detail five Strategic Initiatives to drive profitable sales: 1) Sales Directorate (SD) transformation; 2) merchandise planning; 3) purchase analytics; 4) brick and mortar initiatives and, 5) marketing. He discussed the PACE merchandise planning solution and the range of benefits the business intelligence tools bring to AAFES.

Mr. (D)(6) - Privacy discussed the grand opening of the Peterson and Schofield Shopping Centers and highlighted the goals achieved: to 1) open the facilities quickly and 2) insure improved profitability through a concerted effort to reduce excess inventory from the replaced facility.

Topics addressed by Mr. [516] Free to drive profitable sales were outlined as follows: AAFES food; 3rd party gift cards; computers; Bassett furniture; jewelry; Coach concept areas; Brookstone operations; marketing strategies; and catalog/eCommerce initiatives.

Maj Gen (1) - Privacy commented that the positive upturn in earnings is directly attributed to Mr. (6) (6) - Privacy initiatives. Mr. (5) (6) - Privacy initiatives. Mr. (5) (6) - Privacy for his emphasis not only on sales but also on earnings.

Lt Gen (b)(5) Pre-Decisional

KAISERSLAUTERN MILITARY COMMUNITY CENTER (KMCC) UPDATE

Mr.(b) (6) - Privacy, Senior Vice President, AAFES Real Estate Directorate, provided an update on the KMCC project. He addressed the following: KMCC background, current status/cost prognosis and, a way ahead.

Lt Gen (5) (5) - Privacy requested that (b)(5) Pre-Decisional

Mr. (5) (6) - Privacy expressed (b)(5) Pre-Decisional

Mr. (5) (6) - Privacy briefed that any cost increases above the 25% threshold will require approval by the Board. Lt Gen (5) (5) Pre-Decisional

Mr. (6) (6) - Privacy responded (b)(5) Pre-Decisional

Maj Gen (5) (6) - Privacy requested a (b)(5) Pre-Decisional

Lt. Gen (5) (6) - Privacy requested a (b)(5) Pre-Decisional

Maj Gen (6) (6) - Privacy requested a (b)(5) Pre-Decisional

AUDIT COMMITTEE REPORT

Air Force Civil Engineer, (b)(5) Pre-Decisional

In the absence of the Audit Committee Chair, Brig Gen^{(b) (6) - Privacy}, his alternate, Col introduced the Audit Committee report. He noted the Audit Committee met on 2 August 2007, and then introduced Mr. (b) (6) - Privacy Director, AAFES Audit Division, to provide the Audit Report.

Mr. (b) (6) - Privacy briefed the Board on the summary of four recently completed internal audit reports.

External Audit Reports

Ernst & Young, LLP - Results of FY 2006 Audit

E&Y Completed their Audit of AAFES' 2006 Financial Statements and Military Star Program.

E&Y Issued Unqualified Opinion for FY 2006

 Overall, AAFES conforms to Generally Accepted Accounting Principles. One significant deficiency was noted regarding the capitalization of interest expense for capital projects.

Internal Audit Reports

Short-term Borrowing

Findings: Overall, AAFES effectively provided continuous and professional coverage of short-term borrowing needs. However, it was noted there were opportunities for improvements in defining borrowing policies and procedures.

Management Actions

The Chief Financial Officer will:

- Develop a well-defined borrowing policy.
- Establish procedures to address the negotiation of interest rates for modified maturity periods.
- Actively pursue the use of Commercial Paper as a financial alternative to obtaining short-term loans.

Retek Implementation - Report 2

Findings: Overall, AAFES effectively monitored Project Retek costs and timelines.

However, it was noted that there were opportunities for improved internal control over resource and financial management processes.

Management Actions

The Chief Operating Officer will:

- Continue to notify the AAFES Board of Directors of any potential delays in completing the development phase of Project Retek.
- Direct the Retek Executive Steering Committee to withhold approval of any additional change requests in excess of the Project Budget unless these changes are essential.
- Coordinate with the Chief Financial Officer and assure the reconciliation of all financial spreadsheet line-item expenditures is completed.

Exchange Service Regulation 2-3, Organization and Functions Review.

Findings: ESR 2-3 accurately portrayed the organizational structure and functional responsibilities of AAFES region and area management.

Management Actions

This report contained no recommendations, and therefore, requires no further management actions.

The Audit Committee approved the closure of this Army Audit Agency/Air Force Audit Agency audit recommendation.

FINAL COMMENTS AND ADJOURNMENT

Lt Gen thanked Board members and the AAFES staff for their support of the organization. He noted there is great potential for AAFES to pursue new lines of business opportunities with what Brig Gen (b) (6) - Privacy titled "in-sourcing". Initiatives such as housing, energy, etc., can provide a direct benefit back to the Soldiers and Airmen. He requested exploration of business development opportunities through AAFES involvement with Base Operations Support (BOS) management at installations vice privatizing.

Mr. [b] op-Privacy noted that he was impressed with the employees of AAFES and thanked them for their hard work.

Ms. (b) (6) - Privacy on behalf of Mr. (b) (6) - Privacy thanked Maj Gen (9) (9) - Privacy for his hard work and leadership.



SMA ^{(b) (6) - Privacy} thanked all AAFES associates that support the Soldiers and Airmen in OEF/OIF which is truly the "tip of the spear".

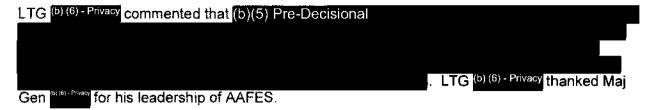
Mr. on (b)(5) Pre-Decisional

He thanked Maj Gen for the successful dialog which has occurred between Air Force Services and AAFES.

Mr. [b) (6) - Privacy thanked Maj Gen [b) (9) - Privacy attention to operational improvement.

BG thanked Maj Gen for his leadership and commented on his great support of OEF/OIF.

Maj Gen of the importance members play in supporting the Soldiers and Airmen. He thanked Maj Gen for his leadership of the AAFES team.



BG (b) (6) - Privacy stated that he is looking forward to the way ahead as the AAFES Commander and thanked Maj Gen (1965-1968) for the great legacy he is leaving.

ADJOURNMENT:

The meeting adjourned at 1400 hours.

SUMMARY OF MOTIONS:

- 1. Board minutes of 16 May 2007 were approved.
- 2. The Board approved the use of the Public Private Venture (PPV) concept for the construction and development of a Ft. Bliss Lifestyle Center as a designated AAFES pilot capital project.
- 3. The Board approved AAFES capital funding in an amount not to exceed \$15M for the Ft. Bliss Lifestyle Center pilot project and that Management seek through the Finance Committee, Board of Directors approval before committing additional AAFES capital funding.
- 4. The Board approved that upon the successful solicitation and award of the Lifestyle Center at Ft. Bliss, the Board of Directors withdraw the \$54M capital construction project for a new main store facility at Ft. Bliss previously approved in February 2006.
- 5. The Board approved that Management will advise the Finance Committee and the Board of Directors on any of the following:
 - a. Substantial matters relating to the negotiation of terms for contracts associated with the PPV that increases AAFES risk level in this pilot project.
 - b. Legal or regulatory obstacles that arise that are unfavorable to the successful execution of the pilot project or that increase AAFES risk level in this pilot project.

SUMMARY OF FOLLOW-ON ACTIONS:

- Explain how AAFES will interact with the Corp of Engineers and the local chain of command on the Ft. Bliss project.
- Explain why the Ft. Bliss project is not the same as the KMCC project and why it will not have the same deficiencies as the KMCC project. Coordinate response with Army and Air Force.
- Provide the breakeven troop strength figures for the Ft. Bliss project.

- 4. Provide information to the BoD through a strategic communication plan and talking points so Board members can educate commanders in the field on the relevance and benefits of AAFES.
- 5. Prepare a letter from the BoD to Air Force Maj Gen (b) (6) Privacy requesting the status and way ahead on the KMCC project.
- Provide the Germersheim project funding figure for MILCON request.
- 7. Provide AAFES update in regards to AFRICOM standup.
- 8. Provide an update/status of AAFES at all BRAC locations.
- 9. Report on AAFES' plan to right size MCSS inventories of ACUs in light of new legislation allowing the Army to issue ACUs (4 sets) directly to soldiers through Unit Supply.
- 10. Lifestyle Center model for display at Ft. Bliss and HQ AAFES.
- 11. Re-look at the C-130 bed down plan at Little Rock AFB.
- 12. Explore business development opportunities for AAFES involvement in BOS management at installations vice privatizing.





Lieutenant General, USAF Chairman

MINUTES OF THE REGULAR MEETING OF THE BOARD OF DIRECTORS ARMY AND AIR FORCE EXCHANGE SERVICE

15 November 2007

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MINUTES OF THE REGULAR MEETING BOARD OF DIRECTORS ARMY & AIR FORCE EXCHANGE SERVICE (AAFES)

The 250th meeting of the AAFES Board of Directors was called to order by the Chairman on 15 November 2007 in the Board Room, HQ AAFES, Dallas, Texas.

ATTENDANCE



(b)(6) Privacy and DoD Names List				

OPENING COMMENTS BY THE CHAIRMAN

The Chairman, Lt Gen opened the 250th meeting at 0800 hours, welcomed all Board members and recognized new Board members. He thanked the Board members and alternates present for taking time out of their busy schedule.

OUT-OF-SESSION ITEMS

The Chairman noted there were no out-of-session items

APPROVAL OF MAY 2007 BOD MINUTES

Lt Gen noted the minutes of the 15 August 2007 meeting and asked for any corrections or additions. He asked for a motion to approve the minutes.

Motion: LTG moved that the Board of Directors approve the minutes of 15 August 2007 as written. The motion was seconded by SMA and unanimously approved by the Board.

AAFES COMMANDER'S REPORT

The Chairman then called for the AAFES Commander to give the Board an update on the organization.

The AAFES Commander, BG (b) (6) - Privacy commented on several issues, which impact AAFES. The first item is the possible implementation of the Government of Japan (GOJ) cost saving initiatives. GOJ is seeking to reduce their support to the U.S. Government as it relates to wages paid to Local National (LN) employees. Thus, the burden may shift from GOJ funding of LN employees to AAFES in some disproportionate manner. Possible impact may be in the area of \$38M. Lt Gen inquired of (b)(5) Pre-Decisional . Lt Gen (Sel) (

Lt Gen (Sel) noted (b)(5) Pre-Decisional

BG (b) Privacy noted a work stoppage is scheduled by the LN workforce on 21 November for four hours and that AAFES has plans in place to mitigate the disruption.

BG (b) (6) - Privacy noted a second item, which he will address in full during his Strategic Plan briefing, focuses on putting effort around sustainability platforms, specifically energy management in terms of environmental and business benefits. A third informational item involves enhancing the revenue stream by completion of a business proposition with the

Veterans Canteen Service (VCS) whereby AAFES acts as the fulfillment center to VCS for authorized Veterans utilizing the VCS internet web site. A fourth point is an OSD approval letter dated 29 October 2007 that supported the re-establishment of a full Commissary at Naval Air Station Joint Reserve Base (NASJRB) Ft. Worth to the Defense Commissary Agency (DECA) within 150 days. He noted the Homestead BX-Mart is also being addressed for turnover in FY 2008.

The fifth point concerns Post Allowance entitlements received by regular full time (RFT) U.S. employees working in a foreign country. DOD has mandated that nonappropriated fund (NAF) employees not on a transportation agreement are entitled to receive a Post Allowance as occurs with APF employees. If AAFES is required to pay Post Allowance for RFT employees working overseas not on a Transportation Agreement (TA), annual cost estimates are \$5M with a ten year retroactive payment of \$55M. The Board recommended a joint response letter to OSD be drafted and coordinated between NAF Agencies with regard to OSD policy requiring the payment of Post Allowance to non-transportation agreement OCONUS local hires.

BG (b) (6) - Privacy noted in closing that the gift card cross acceptance program with other Exchanges has been implemented.

MG noted that based on what BG BG (b) (6) - Privacy highlighted; there is a (b)(5) Pre-Decisional commented that he will take a proactive approach in educating various entities in DOD, such as G-8, on the potential negative impact and cost these programs or policies will have on AAFES.

COMMANDER'S CONSULTANT'S COMMENTS

Dr. (b) (6) - Privacy was not able to attend the meeting.

RELOCATION OF AAFES EU LG TO GERMERSHEIM

Col (b) (6) - Privacy briefed the Board on the proposed relocation of the European Distribution Center (EDC) from Giessen to Germersheim, Germany and the associated construction efforts required. He provided an outline of past events and discussed in depth the following: Background; Assumptions; Other AAFES Requirements; Facility Requirements; Scope of Work and Milestones.

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Mr. (b) (6) - Privacy inquired (b) (5) Pre-Decisional

Col. noted (b) (5) Pre-Decisional

Lig. felt (b) (5) Pre-Decisional

MG noted (b) (5) Pre-Decisional

Mr. (b) (b) - Privacy, SVP

AAFES Logistics, (b) (5) Pre-Decisional

LTG noted (b) (5) Pre-Decisional

Mr. (c) (c) - Privacy, SVP

AAFES Logistics, (b) (5) Pre-Decisional

MG inquired (b) (5) Pre-Decisional

BG (b) (6) - Privacy (b) (5) Pre-Decisional

Reg (b) (6) - Privacy (b) (5) Pre-Decisional
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            Mr. (b) (5) Pre-Decisional
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Lt Gen asked (b)(5) Pre-Decisional
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       noted that (b)(5) Pre-Decisional
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(b)(5) Pre-Decisional
LTG noted that (b)(5) Pre-Decisional
BG (b) (6) - Privacy commented that (b)(5) Pre-Decisional
Lt Gen requested, (b)(5) Pre-Decisional
            made a motion to recommend approval for relocation of the European
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Motion: Mr. made a motion to recommend approval for relocation of the European Distribution Center as an APF requirement for construction and relocation costs. The motion was seconded by Mr. [6] (6) - Privacy and unanimously approved by the Board.

FINANCE COMMITTEE REPORT

Mr. (b) (6) - Privacy stated the Finance Committee met on 17 October 2007 and introduced Mr. (b) (6) - Privacy, AAFES Chief Financial Officer, to present the current financial position of AAFES.

Financial Status Report

Mr. (b) (6) - Privacy stated he would address the financial results through September 2007 and comment on the highlights of October operating results recently released.

Revenue. Results year-to-date (YTD) Sept 2007 were 2% below last year (LY) and 3% below plan. The primary driver was a decline in Army Combat Uniform (ACU) sales of \$60M in Military Clothing Sales Stores (MCSS). Small appliances, compact discs, furniture and outdoor living departments had declines of \$18.8M, \$20.3M, \$10.4M and \$6.4M, respectively. Financial revenue increased \$21.8M or 15% primarily due to the growth of the Military Star receivable. Concession income increased \$5.3M or 4% due to an increase in OEF/OIF of concession operations. Other income was up \$4.4M or 18% due to a \$4.4M increase in vendor discount allowances.

<u>Expenses.</u> Overall expenses are 4% below plan and 2% below LY. Cost of goods sold (COGS) has decreased from 78.66% (Sep 06 YTD) to 78.16% (Sep 07 YTD) or 50 basis points. Interest expense has decreased \$3.4M due to capitalization of interest for project Retek. Bad debt expense is up \$2.4M or 16%.

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Mr. (b) (6) - Privacy inquired (b)(5) Pre-Decisional

BG (v) (v) - Privacy commented (b)(5) Pre-Decisional

Lt Gen inquired if (v)(5) Pre-Decisional

Mr. (b) (v) - Privacy noted (b)(5) Pre-Decisional

BG (v) (v) - Privacy commented (b)(5) Pre-Decisional

Mr. (b) (v) - Privacy noted (b)(5) Pre-Decisional

Mr. (b) (v) - Privacy noted (b)(5) Pre-Decisional
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Net Earnings. Results are 19% above LY and 14% above plan exclusive of appropriated fund (APF) support. Mr. (b) (6) - Privacy noted AAFES received \$54.1M in APF reimbursement, which is \$3.7M below YTD Sep 06 of \$57.8M. Region earnings are up except in Eastern and Pacific. Lt Gen inquired (b)(5) Pre-Decisional . Mr. (b) (6) - Privacy mentioned deployments and markdown utilization in Eastern. Pacific also had troop deployments.

<u>Dividends</u>. Dividends earned YTD September 2007 are \$157.3M, of which \$153.1M have been paid.

<u>YTD October 2007.</u> Earnings before APF are 15% above plan and 18% above LY. With APF, earnings are 43% above plan and 8% above LY.

Annual Financial Plan - FY 2008

Mr. (b) (6) - Privacy presented the Annual Financial Plan (AFP) 2008 highlighting planning assumptions in August and highlighting anticipated results in revenue, expense categories and earnings/dividends.

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Mr. (b) (6) - Privacy inquired if the LN(b)(5) Pre-Decisional

Mr. (b) (6) - Privacy commented (b)(5) Pre-Decisional

Mr. (c) (b) - Privacy inquired (b)(5) Pre-Decisional

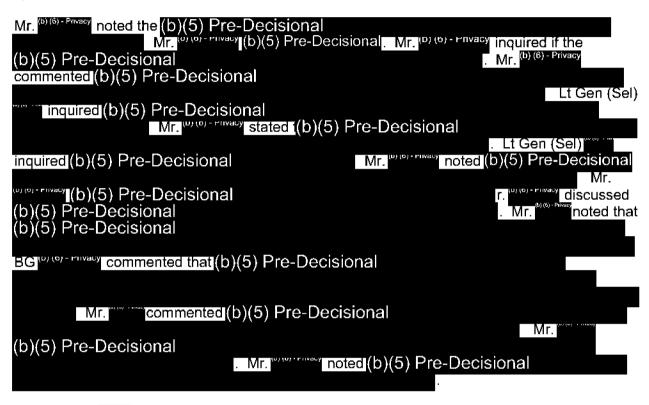
Mr. (b) (6) - Privacy noted (b)(5) Pre-Decisional
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Motion: Lt Gen (Sel) made a motion to recommend approval of the 2008 Annual Financial Plan. The motion was seconded by Mr. (b) (6) - Privacy and unanimously approved by the Board.

IT Projects

Warehouse Management System Replacement Project

Mr. (b) (6) - Privacy presented the case and requirements for procurement and implementation of a Warehouse Management System Suite to replace four antiquated and limited warehouse legacy systems.



Motion: Mr. made a motion to recommend approval of the procurement of the Warehouse Management System replacement. The motion was seconded by Mr. (b) (c) - Privacy and unanimously approved by the Board.

Oracle Retail Markdown Optimization

Mr. (b) (6) - Privacy presented the case and requirements for procurement and implementation of a Price Optimization Module from Oracle. The module would replace the current markdown procedures based on a rules only methodology to a process utilizing complex algorithms to model historical demand data and suggest efficient timing of markdowns, while incorporating optimal financial/inventory objectives. BG (b) (6) - Privacy commented that AAFES spends on average \$550M annually on markdown costs. A savings of 10% or \$55M would fall directly to the bottom line. This program offers that potential. Mr. (b) (6) - Privacy commented (c) (5) Pre-Decisional

Mr. (b) (6) - Privacy discussed the benefits of this program being hosted and the immediate benefits to be derived starting in the second quarter of 2008. Lt Gen (Sel) inquired if (b)(5) Pre-Decisional Mr. (c) (c) - Privacy CIO, commented (b)(5) Pre-Decisional

BG (b) (6) - Privacy commented that Retek is the enterprise backbone and that there are modules that can be plugged into Retek to make it more robust. He believes plugging in this module is a sound investment.

Motion. Mr. (b) (6) - Privacy made a motion to approve the procurement of the Oracle Price Optimization Module. The motion was seconded by Mr. (b) (6) - Privacy and unanimously approved by the Board.

Germany Fuel Ration Card

Mr. (b) (6) - Privacy provided an informational update on implementation of the AAFES-Germany Fuel Ration Card. The card replaces a paper-based coupon program with a prepaid card system providing electronic gasoline ration control and reporting. The requirement was made by the German Federal Ministry of Finance to HQ USAREUR. Failure to implement the new card by March 2009 will result in AAFES loss of off-base gas sales margin of \$56.1M over 5 years. LTG emphasized that a (b)(5) Pre-Decisional

Lt Gen noted that (b)(5) Pre-Decisional

Post Fiscal Analysis

Mr. (a) (b) Privately discussed factors impacting the post fiscal results and noted external environmental conditions had a direct impact on operating performance and construction costs. Mr. (b) (b) Privately pointed out the retail industry experienced a decline in both same store sales performance and consumer confidence post 9-11. AAFES main stores experienced significant challenges with same store sales and earnings during this same period. Another factor affecting earnings is the AAFES gas pricing strategy of matching the lowest competitor prices. The strategy continues to lower earnings as outside retailers use gas as a loss leader, which has forced gas margins down.

Mr. (10.6)-Private reviewed CONUS Main Store and Convenience Store sales trends (102 – 105) with and without the benefit of construction. The trend showed CONUS Main Store sales and earnings trending down; but those stores benefiting from construction, sales and earnings showed lifts of 25% and 34% respectively. Although the portfolio did not meet the sales projection, it still attained a \$46.6M sales lift while earnings were basically flat. Sales increases experienced by the Main Stores were offset by increased personnel costs and other expenses. Similar trends were experienced by AAFES Shoppettes, Troop Stores and Mini-Malls. Despite good sales increases, the business operations also did not meet their sales and earnings projections. The competition among non-traditional gas businesses (i.e., grocery stores with gas, Wal-Mart, COSCO, etc.) impacted AAFES gas gross profit at most of the CONUS locations.

The actual capital costs for this portfolio were \$94.8M vs. the projected \$87.3M or \$7.5M over plan. The cost increases were partially attributable to user changes (\$2.1M) and unforeseen site conditions (\$1.3M). Prototypical designs and a formal change control process have reduced user changes.

Mr. (a) (6) Prives concluded the presentation addressing three major elements being developed to improve both performance and forecasting of future projects: 1) a performance improvement plan will be put in place with emphasis on operational accountability; 2) Deloitte is currently performing a detailed analysis on AAFES forecasting methodology and post fiscal review the findings and recommendations will be presented to the February Board; 3) AAFES gas strategy is being reviewed to determine if it can still be a low cost provider while maintaining AAFES' profitability.

Retek Update

Mr. (b) (6) - Privacy provided an update on Project Retek. The final applications to be implemented are divided into two "releases". Release 3 (comprised of inventory and allocation) is currently 8 weeks behind schedule in system integration testing due to problems with the interfaces between the legacy application and the new applications. Release 4 (which includes all the major new applications involving replenishment and other related processes) is tracking approximately 5 weeks behind. The reason for this delay is again due to issues found in integration testing and Release 3 testing (which requires completion before Release 4 testing can be completed). Mr. (b) (6) - Privacy asked (b) (5) Pre-Decisional

Mr. (b) (6) - Privacy commented (b)(5) Pre-Decisional

Mr. (b) (c) - Privacy informed the Board that the legacy systems involved were built 10-20 years ago and the individuals who built those systems and the codes are, unfortunately, no longer available. Mr. (b) (6) - Privacy addressed the overall Wave 2 project timeline and noted that the target completion dates for Release 3 and 4 are forecasted for the end of January 2008.

The current projected Go Live date is expected to be 15 February 2008. Actual expenses reflect that \$147.7M or 83.5% of the \$176.8M project budget has been used. The remaining budget is \$29.1M with an estimate to complete of \$29.8M. Current shortfall is estimated to be \$659K or .37% over budget, based on September 2007 actual results. The \$6M contingency authorization has not been utilized. The current project budget carries through February 2008 with a recurring monthly cost estimated at \$2.5M.

noted that (b)(5) Pre-Decisional

Mr. (b)(c) - Frivacy commented on the complexity of Retek and noted this will be the largest system project AAFES has ever executed. He noted that the Accenture Company is the project integrator that has brought in the required skill sets from outside sources. Lt Gen commented (b)(5) Pre-Decisional

Mr. (c) (c) - Frivacy commented in the required skill sets from outside sources. Lt Gen commented (b)(5) Pre-Decisional

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incremental processes that have already occurred, along with ongoing initiatives, for successful employee acceptance and utilization.

FT. BLISS UPDATE

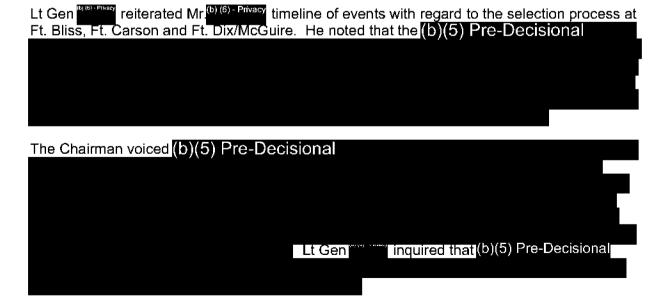
Mr. reviewed the Ft. Bliss Lifestyle Center timeline, provided a comparative analysis of the original Shopping Center versus the Lifestyle Center, and recapped the four approved motions made during the 15 August 2007 Board meeting. He also discussed recent external developments and presented in detail the evolution of Developer selection strategies.

Mr. inquired if AAFES would incorporate the new Deloitte evaluation process for the Ft. Bliss project in terms of the IRR projections. Mr. confirmed the project would be evaluated based on the new criteria, which becomes available. Mr. noted the review model for the

Ft. Bliss project, which was requested by Investment Bankers, might actually be more
conservative than the Deloitte model. Investment Bankers requested the forecast be based on
expected cash flow. Ms (b) (6) - Privacy inquired (b)(5) Pre-Decisional
Mr. Mr. allo server stated that AAFES has statutory authority under Section 2667 USC.
Additionally, Mr (b)(6) - Privacy stated that (b)(5) Pre-Decisional
Mr. noted (b)(5) Pre-Decisional

Mr(b) (6) - Privacy an in-depth briefing on the evolution of developer selection strategies and why AAFES initially established a single source method for Ft. Bliss. He noted that AAFES enjoys a certain degree of flexibility in the selection process due to its status as a Nonappropriated Fund Instrumentality of the Department of Defense. The Department of Defense policies and Joint Army and Air Force regulations govern AAFES and encourage the negotiation process, as compared to the sealed bid process. AAFES procurement philosophy emphasizes negotiation in a form of competition. This authority is vested in the AAFES Commander and is published and outlined in Exchange Service Regulations (ESR) and Exchange Operating Procedures (EOP). It is under those procedures that AAFES went though the process of selecting a developer for the Ft. Bliss project. Mr. noted that initially AAFES utilized a single source process based on some sound reasons. The concept was new and difficult to define, therefore, AAFES sought out a knowledgeable source for knowledge and expertise of the retail development industry. AAFES set up a pilot program consisting of six to eight locations of which Ft. Bliss was to be the first. During each additional pilot process. Ft. Carson and Ft. Dix/McGuire, AAFES garnered additional knowledge and processes. Thus, it made a determination that future Lifestyle Center projects would utilize a competitive down select process.

Mr. [13,40] further explained the evolution of selection processes at Ft. Carson and Ft. Dix/McGuire. He discussed how these additional negotiations affected the final selection for Ft. Bliss of an agreement in terms and retention of ServiceStar Development Company.



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(b)(5) Pre-Decisional
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STRATEGIC VISION

BG (b)(6)-Privacy opened by outlining in detail the current situation and where AAFES stands today with regard to 1) Consumer Trends; 2) Financial Pressures/AAFES Trends; 3) Technology Enhancements; and 4) Military Transformation. He addressed solutions to these challenges through 1) Right Assortment; 2) Cross Channel Shopping; 3) New Lines of Business; and 4) Owners providing the right experience. The Benefits of proper implementation of these solutions will be 1) Strong Earnings and Dividend Streams; 2) the right Capital Expenditures; and 3) Market Leverage.

BG (b) (6) - Privacy outlined and discussed his ABC process: Act now, Build the bench, and Collaboration. He addressed that AAFES Associates must "Think Big, act small..." and provided key examples.

The AAFES Organizational Chart was presented along with "Winning the Future Strategies" and AAFES' seven significant priorities. Six objectives were presented and outlined for 2008-2012 to win the future.

BG (b) (6) - Privacy summarized the strategic plan going forward and the reorganization required to execute required strategies.

Lt Gen thanked BG (b) (6) - Privacy for his leadership and emphasis on looking out for and seizing all business opportunities that may become available.

AUDIT COMMITTEE REPORT

In the absence of the Audit Committee Chair, Brig Gen his alternate, Col introduced the Audit Committee report. He noted the Audit Committee met on 17 October 2007, and then introduced Mr. (b) (6) - Privacy Director, AAFES Audit Division, to provide the Audit Report.

Mr. (b) (6) - Privace) briefed the Board on the summary of two recently completed internal audit reports.

Internal Audit Reports

Merchandise Accountability – Korea Exchanges Follow-up

Conclusions: AAFES made some progress curbing ration control violations; however, 7 of 8 previous recommendations were not implemented.

Recommendations

Commander and Senior Vice President, Pacific Region

- Ensure store associates follow policies and procedures related to ration controls, cash and merchandise accountability, and receipt of distribution merchandise
- Implement strict disciplinary action for repeated violations of established policies and procedures.

BG (b) (6) - Privacy noted that AAFES Management concurs and aggressively pursues corrective action. AAFES Loss Prevention has been provided additional resources and is directly tasked to assist in and ensure compliance.

Vehicle Management Follow-Up

Conclusions: Overall, Audit found purchasing passenger vehicles continued to be more cost advantageous than leasing. However, management actions taken in response to the 2004 audit failed to correct vehicle preventive maintenance and utilization problems. Additionally vehicles were not always replaced in accordance with ESR 50-1, Vehicle Management.

Recommendations

Chief of Staff, AAFES ensure:

The replacement cycle contained in ESR 50-1 is followed for CONUS vehicles. Management needs to follow up with local exchanges to resolve unreported maintenance and mileage exceptions. Also, ensure the new system for AAFES Logistics vehicles is implemented for vehicles managed by the Administrative Branch.

Senior Vice Presidents (SVP), U.S. Regions, and SVP, Logistics Directorate, ensure:

- Required maintenance is performed on all AAFES vehicles and vehicle maintenance and mileage information is reported.
- Management agreed to implement all recommendations.

Retek Implementation - Update

Combined Integration Testing Pass 3 for Release 3 and Release 4 planned for 19 November to 31 December 3, 2007. Combined User Acceptance Testing for Release 3 and 4 estimated to start 1 January 2008. December 2007 Go-Live delayed to between February and March 2008.

Budget - September 2007

Overall Budget - \$176.8M (Previously \$180.3M) Reduced by Mutual Success Bonus - \$1.9M Reduced by Value Chain Collaboration - \$1.6M

Actual Expenditures to date - \$147.7M

Projected Budget Shortfall - \$659.5K (through February 2008)

MEETINGS DATES 2008

The following dates have been proposed for 2008 Board meetings:

- 13 February 2008
- 21 May 2008
- 20 August 2008
- 19 November 2008

BG (b) (6) - Privacy proposed one meeting be held outside Dallas HQ.

FINAL COMMENTS AND ADJOURNMENT

Lt Gen thanked Board members and the AAFES staff for their support of the organization. He noted he was impressed with the expertise and energy level BG things to AAFES. The AAFES staff has shown great innovation and dedication. Numerous opportunities lie ahead for new business pursuits and methods to serve our Soldiers and Airmen. AAFES has a long and valiant history of serving our military members and their families that will clearly continue.

He noted his past relationship with AAFES as a Commander at the Base level was essentially uneventful. He requested AAFES work to educate the local Commanders on the benefits that the organization brings to the local Base/Post team.

BG (b) (6) - Privacy commented AAFES must be a market multiplier and a combat multiplier with the Base/Post.

Mr. noted the great support AAFES has provided in the war effort. Great comments have come in from the Area of Responsibility (AOR). He noted the financial improvements and thanked Mr. (D)(6) - Privace) for his leadership.

ADJOURNMENT:

The meeting adjourned at 1500 hours.

SUMMARY OF MOTIONS:

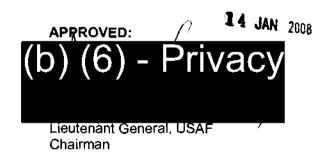
- 1. Board minutes of 15 August 2007 were approved.
- 2. The Board approved relocation of the European Distribution Center as an APF requirement for construction and relocation costs.
- 3. The Board approved the 2008 Annual Financial Plan.

- 4. The Board approved the procurement of the Warehouse Management System replacement.
- 5. The Board approved the procurement of the Oracle Price Optimization Module.

SUMMARY OF FOLLOW-ON ACTIONS:

- 1. A joint response letter worked and drafted for joint signature from all NAF agencies to advance a push back on Post Allowance policy directed from OSD.
- 2. Reference Germersheim, review processes to achieve synergy from all parties involved, i.e., DeCA, DLA, etc.
- 3 AAFES must be part of strategic communication process to insure successful implementation of ESSO Card in Germany.
- 4 AAFES should move forward with the formal coordination of the Ft. Bliss Public Private Venture package. Additionally, reconstitute the process of developer selection and apply to Ft. Bliss.
- 5. Improve relationship with Installation Command at local level.





MINUTES OF THE REGULAR MEETING OF THE BOARD OF DIRECTORS ARMY AND AIR FORCE EXCHANGE SERVICE

13 February 2008

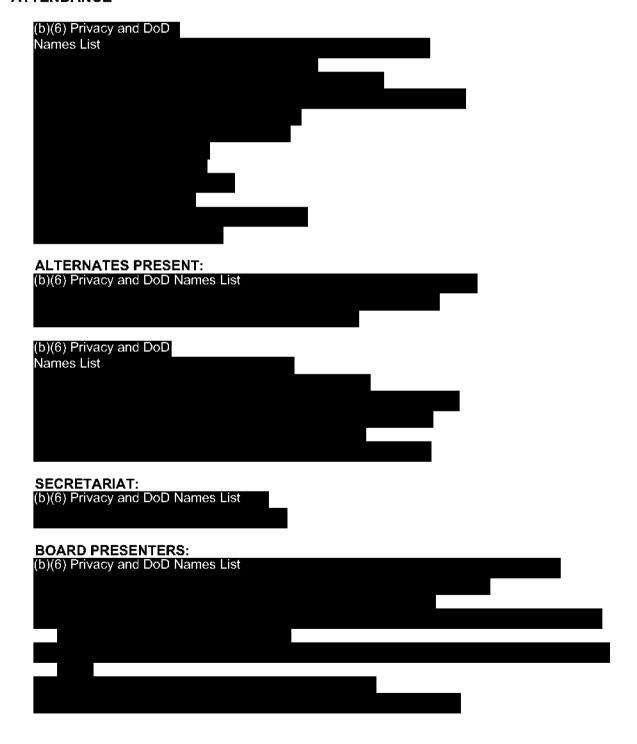
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MINUTES OF THE REGULAR MEETING BOARD OF DIRECTORS ARMY & AIR FORCE EXCHANGE SERVICE (AAFES)

The 251st meeting of the AAFES Board of Directors was called to order by the Chairman on 13 February 2008 in the Board Room, HQ AAFES, Dallas, Texas.

ATTENDANCE



OPENING COMMENTS BY THE CHAIRMAN

Noting a quorum was present, the Chairman, Lt Gen [10] (6) - Privace), opened the 251st meeting at 0800, welcomed all Board members and recognized new Board members. He thanked the Board members and alternates present for taking time out of their busy schedule. Lt Gen noted that he tied the purpose of the Board directly to war fighting and the sustainment of our Soldiers, Airmen and family members. He noted he does not consider his position as Chairman as just a "touch and go" additional duty. Lt Gen of the Board must remain in a tight formation with the Services to champion and oversee the way ahead. Active member participation on the Board is a serious duty and should be treated that way.

OUT-OF-SESSION ITEMS

The Chairman noted there were no out-of-session items.

APPROVAL OF NOVEMBER 2007 BOD MINUTES

Lt Gen onted the minutes of the 15 November 2007 meeting and asked for any corrections or additions. He asked for a motion to approve the minutes.

Motion: Mr. moved that the Board of Directors approve the minutes of 15 November 2007 as written. The motion was seconded by LTG (b) (6) - Privacy and unanimously approved by the Board.

AAFES COMMANDER'S REPORT

The Chairman then called for the AAFES Commander to give the Board an update on the organization.

BG (b) (6) - Privacy provided a briefing which addressed the strategy and way ahead for AAFES. He reiterated that the theme of AAFES is, "Winning the future, think big act small."

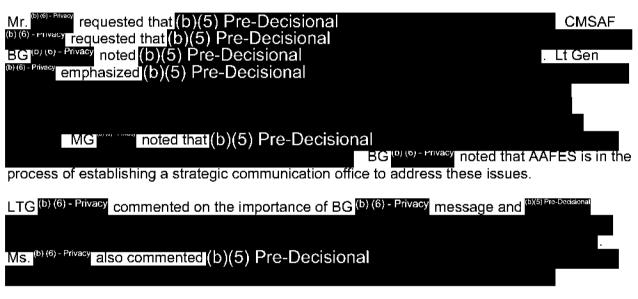
BG (b) (6) - Privacy discussed and expanded upon five strategic platforms to win the future: Drive supply chain productivity; Enable collaboration; Back to basics; Leverage technology; and Sustain the future. Lt Gen (b) (6) - Privacy inquired if AAFES had work force development activities in place in which junior leaders may improve their skills. BG (b) (6) - Privacy responded that AAFES utilizes civilian education programs and that investing in our people is investing in the future of the business.

BG (b)(6) - Privacy addressed the vast changes in the marketplace today versus the 1970s and 80s and defined his Seven Significant Priorities, all of equal value, that are required in order to succeed in 2008: Improve "in-store" experience; Grow leaders and lead with enthusiasm; Lead and support military transformation efforts; Implement Oracle (Retek) and Warehouse Management System (WMS); Build collaborative relationships; Accelerate profitable growth; and Drive enterprise productivity and efficiencies. He also discussed specific 2008 corporate goals to increase sales 3%, increase earnings 8%, increase the Associate Satisfaction Index two points, and the Customer Satisfaction index two points.

BG (b) (6) - Privacy highlighted and discussed key objectives going forward through 2012 as follows: Grow the revenue stream; Improve the Services dividend stream; Deliver \$600M in supply chain productivity; Increase gross operating profit; Reduce mark downs; and Maintain capital expenditures.

The AAFES Commander discussed three stories. The first story concerned Specialist and highlighted the importance of taking care of the customer and ensuring that if something is wrong policy wise, that it is corrected. The second story involved Advanced Individual Training (AIT) students at Ft. Eustis and the entertainment the soldiers experienced in the store while imparting to them the value of AAFES. The third story discussed the Military Clothing Sales Store (MCSS) staff at Ft Sam Houston and how they worked to solve uniform requirements for wounded warriors. The associates had designed and submitted for consideration a boot utilizing Velcro ties.

BG (b) (6) - Privacy emphasized that these stories illustrate how AAFES has capabilities which can be expanded upon to benefit the war fighter and their families. He asked that Board members assist AAFES in communicating the message.



BG (b) (6) - Privacy provided updates on E-commerce, Goods and Services trends and the stance which AAFES must take to meet these changes. He concluded his briefing outlining three areas of which the Board needs to be aware.

- He addressed (b)(5) Pre-Decisional

 Currently AAFES pays Post

 Allowance only to associates who are transferred into the overseas area on a transportation agreement. Estimated costs are \$5M annual cost plus about \$60M in retroactive payments. BG (b) (6) Privacy noted this policy will require AAFES to reduce full-time employees in overseas locations. LTG (b) (6) Privacy recommended a (b)(5) Pre-Decisional BG (b) (6) Privacy noted a
- A December 2007 memorandum was addressed which states nonappropriated (NAF) dollars could not be used for construction related to Base Realignment and Closure (BRAC). BG (b) (6) Privacy noted a (b) (5) Pre-Decisional

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. Lt Gen requested a requested
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FINANCE COMMITTEE REPORT

MG (b) (6) - Privacy stated the Finance Committee met on 23 January 2008 and introduced Mr. (b) (6) - Privacy stated the Financial Officer, to present the current financial position of AAFES.

Financial Status Report

Mr. (b)(6) - Privacy stated he would address the financial results through December 2007 and comment on the projected 2007 results as of 12 February 2008. He noted the AAFES fiscal year closed in January 2008, which is a standard practice in the retail industry.

Revenue. Results year-to-date (YTD) Dec 2007 were 1% below last year (LY) and 3% below plan. A primary cause was due to a delayed roll-out in new Air Force Battle Uniforms (ABU) and a delay in roll-out of the new Army Service Uniforms (ASU) in Military Clothing Sales Stores (MCSS). Main Stores experienced significant declines in computer software, \$33.9M; compact discs, \$28.7M; small appliances and floor care, \$27.3M; and outdoor living, \$15.1M. Revenue increased \$25M or 12% primarily due to the growth of the Military Star receivable. Concession income increased \$6.3M or 4% due to an increase in OEF/OIF concession operations. Other income was up \$4.2M or 13% due to sale of the AOC building for \$3.7M and the recovery of vendor discount allowances of \$3.8M.

Expenses. Overall expenses are 3% below plan and 2% below LY. Cost of goods sold (COGS) has decreased from 79.20% (Dec 06 YTD) to 78.37% (Dec 07 YTD) or 83 basis points. Interest expense has decreased \$6.2M due to capitalization of interest for project Retek. Bad debt expense is down \$6.3M or 30% due to a favorable adjustment to MilStar bad debt accrual. Depreciation has increased by \$19.4M or 11% from the prior year.

Net Earnings. Results are 20% above LY and 15% above plan, exclusive of appropriated fund (APF) support. Mr. (b) (6) - Privacy noted AAFES received \$87.7M in APF

reimbursement, which is \$7.3M above YTD Dec 06 of \$80.4M. Region earnings are up except in Eastern region which is flat, and Pacific region which is up only 1%. Lt Gen inquired on (b)(5) Pre-Decisional . Mr. (b)(5) Pre-Decisional

<u>Dividends</u>. Dividends earned YTD December 2007 are \$227.1M, up \$10.6M.

Projected 2007 results: Projected earnings before APF are 11% above plan and 18% above LY. Adjustments from final physical inventory results may occur. Lt Gen noted tha (b)(5) Pre-Decisional

Mr. Lt Gen noted a (b)(5) Pre-Decisional

Commented (b)(5) Pre-Decisional

Mr. noted that although sales are down, earnings are up due to improved inventory management and markdown controls.

Retek Update

Mr. (b) (6) - Privacy provided an update on Project Retek. He noted that this presentation to the Board should be the final briefing. He noted integration testing was completed December 21, 2007; user acceptance testing was completed February 1, 2008; and the cutover/conversion planning will commence February 26, 2008. Mr. (b) (6) - Privacy addressed the Gantt Chart project timeline which is in a completely green status. He noted as of December 2007 actual expenses reflect that \$159.1M or 89.9% of the \$176.8M project budget has been used. Current shortfall is estimated to be \$1.2M or .68% over budget based on November 2007 actual, with a \$1.5M total estimated upon project completion. He noted the Board approved in May 2007 a \$6M additional contingency amount to which the \$1.5M will be applied.

Mr. (b) (6) - Privacy noted Retek will replace 22 legacy applications upon complete rollout implementation within the next 12 to 18 months. LTG (b) (6) - Privacy noted that noted that noted that noted the integrator was Accenture. Lt Gen (b) (6) - Privacy inquired on (b) (5) Pre-Decisional Mr. (c) (b) - Privacy commented the legacy applications were in-house developed with no associated maintenance fees. He noted the only expense would be utilization of AAFES personnel with job knowledge of those applications. Mr. (b) (6) - Privacy concluded the briefing discussing the rollout plan and providing a look forward of future IT projects.

Ms. (b) (6) - Privacy commended (b) (5) Pre-Decisional

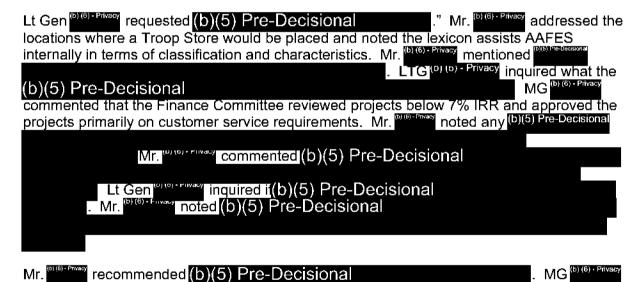
Lt Gen^{(b) (6) - Privacy} requested (b)(5) Pre-Decisional

Long Range Capital Program

Mr. 6-Privacy began with an overview and update of two concerns: the Kaiserslautern Military Community Center (KMCC) project highlighted in Tab L and the memorandum from the PDUSD (P&R) on funding sources for NAFI facilities. Lt Gen 6-Privacy reiterated the

Mr. (D)(G)-Privated presented in detail the FY 2008 Long Range Capital Program consisting of 14 new construction/expansion projects and 3 image updates. The total value of the 17 projects is \$169M. He noted 14 of the 17 construction projects support the following: BRAC gaining locations, Army Modular Force (AMF), Global Defense Posture Realignment (GDPR) overseas, and remote and isolated installations. Eight of the projects are eligible for APF support of \$125.6M as addressed in the memo from PDUSD (P&R). Four shopping center projects were presented representing 69% of the total portfolio expenditures. Mr. (D)(G)-Privated noted a 7% Internal Rate of Return (IRR) is the target or threshold AAFES customarily uses to evaluate a project's financial merit. The portfolio of projects for this year's submission is expected to generate an IRR of 8.1% with a Net Present Value (NPV) of \$10.4M. He noted the projects had been reviewed and approved at the Finance Committee Meeting.

Mr. (b)(6)-Privacy presented new construction strategies AAFES utilizes for project formulation. He briefed individually in detail.



There being no further discussion, the Chairman called for a motion.

Motion: MG (b) (6) - Privacy moved that the Board approve the submitted projects. The motion was seconded by LTG (b) (6) - Privacy and unanimously approved.

Return On Investment Methodology

(b)(5) Pre-Decisional

concurred.

Mr. (DIGITER PRIVARY) presented the final results of the Deloitte study on AAFES' return on investment (ROI) methodology for capital expenditures. The review was based on a November 2006 Board request to identify lessons learned from post fiscal results and to improve capital

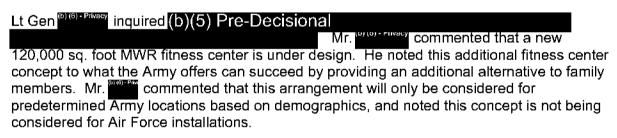
program assumptions for return on investment. At the request of the February 2007 BOD, AAFES was requested to continue efforts to improve upon the ROI methodology and to update the BOD with the findings. AAFES contracted with Deloitte a second time to research current methodology and to refine processes and enhance or develop tools consistent with industry leading capital investment practices.

Mr. (b)(6)-Privately presented a chart depicting the improved IRR accuracy with the Deloitte tool of four shopping center projects from the 2002 Post Fiscal Class. It was noted and discussed that the Deloitte tool was closer to the actual ROI not considering the added new process improvement of cross collaboration within directorates of AAFES.

Mr. onted (b)(5) Pre-Decisional Mr. onted the Balanced Scorecard tool will provide the visibility required for corrective measures to occur at the earliest possible point. Lt Gen onted this (b)(5) Pre-Decisional Mr. onted the Balanced Scorecard tool will provide the visibility required for corrective measures to occur at the earliest possible point. Lt Gen onted this (b)(5) Pre-Decisional Mr. onted the Balanced Scorecard tool will provide the visibility required for corrective measures to occur at the earliest possible point. Lt Gen onted this (b)(5) Pre-Decisional Mr. onted this (b)(5) Pre-Decisional

Ft. Bliss Update

Mr. provided a recap of the project and identified two changes since the August 2007 Board meeting. First noted was a status of a delay of the Ft. Bliss Commissary and second, the impact of DoD announcements on the increase of the post customer demographics.



Additionally presented were changes to the project financing model and structure. Mr. outlined the new requirement of utilizing a Credit Tenant Lease (CTL). Lt Gen inquired (b)(5) Pre-Decisional

He noted that the project is anticipated to generate 400% of cash flow necessary to meet the debt service, thus the risk to AAFES is considered low. Mr. commented that the Ft. Bliss pilot project may not be the financing model for future projects.

Mr. presented the projected dividend enhancement anticipated with the Lifestyle Center project versus the original shopping center concept. He provided a recap slide outlining the financial estimates of the original shopping center project, the Lifestyle Center envisioned in August 2007, and the Lifestyle Center projections as of January 2008.

Lt Gen (b) (b) Privacy requested (b) (5) Pre-Decisional

AUDIT COMMITTEE REPORT

In the absence of the Audit Committee Chair, Brig Genard, his alternate, Col introduced the Audit Committee report. He noted the Audit Committee met on 29 January 2008, and then introduced Mr. Director, AAFES Audit Division, to provide the Audit Report.

Mr. Discontinuous briefed the Board on two audit plans (external and Internal) and discussed in detail three internal reports.

External Audit Plan - FY 2007

Mr. (a) noted the Ernst & Young (E&Y) annual audit will be completed by May/June 2008 and will report on the annual financial statements. E&Y will provide a review of the internal control structure and a review of compliance with laws and regulations.

He noted the Audit Committee authorized the AAFES contracting officer to negotiate a "best price" for a two-year extension to the current E&Y contract. The contract is currently in year three.

Internal Audit Plan

Mr. [b] (6) - Frived addressed 12 planned functional audits for FY 2008 and noted this list was prioritized from 110 subjects, of which the BOD submitted 34. The Audit Committee concurred with the plan and the AAFES Commander approved it. He noted that circumstances may arise in which the plan may require adjustment based on available resources. Mr. [b] (6) - Frivator additionally addressed other additional functional audits (back-up) and a planned organization audit.

Internal Reports

Mr. provided updates on a Burger King Review, Retek implementation, and Shaw AFB.

Lt Gen (b)(5) Pre-Decisional

BOD TRAINING UPDATE

Mr. (a) discussed the BOD member training agenda being developed with Army G-4. Topics being considered are role of BOD members, AAFES as a business, retail strategic leadership, and an overview of corporate finance and internal audit processes. He noted that time-frames and a location for training are being reviewed.

Ms^{(b) (6) - Privacy} requested that (b)(5) Pre-Decisional

Lt Gen (b) (6) · Privacy commented (b)(5) Pre-Decisional

FINAL COMMENTS AND ADJOURNMENT

Lt Gen thanked Board members and the AAFES staff for their support of the organization. He noted that AAFES is an integral supporting element to the total force and war fighting capability and, therefore, must be completely integrated with all Services/Branches.

Lt Gen billion stated that he looked forward to working with LTG billion billion with DeCA to capitalize on synergistic opportunities.

Mr. noted in his travels, a significant improvement with AAFES in terms of customer service, inventory controls, and generating profitable sales. He also noted this Board meeting was very interactive and productive.

BG (b) (6) - Privacy thanked the BOD for its support and strategic focus.

SGM (b) (6) - Privacy noted AAFES CMSGT (and attended a Sergeant Majors Conference the previous month and his presentation was well received and informative.

LTG (b) (6) - Privacy noted an enterprise approach by the BOD in leading AAFES forward is energizing and powerful.

ADJOURNMENT:

The meeting adjourned at 1500 hours.

SUMMARY OF MOTIONS:

- 1. Board minutes of 15 November 2007 were approved.
- 2. The Board approved the Long Range Capital Program FY 2008.

SUMMARY OF FOLLOW-ON ACTIONS:

- Provide a point of contact at AAFES HQ for wounded warrior program.
- 2. Share our good news stories and how AAFES supports the war fighter.
- 3. Link up with all National Guard and Reserve Components to discuss AAFES and its avenues of support Chair/CG/COO.
- 4. Review composition of BOD and Committees G-4/Chair/CG
- Post allowance fact sheet to BOD members.
- 6. Identify the shortfalls for BRAC, joint basing and other related APF obligations and the effect on AAFES, for discussion at next BOD.
- Provide force structure briefings from BOD member/G-3, et al., to AAFES.

- 8. Provide industry trends when looking at sales trends and how AAFES predicts sales, to include troop movements etc. -FA
- 9. Bridging strategy NAF Construction letter from BOD to PDUSD P&R by 13 Mar.
- 10. Brief only projects below 7% IRR RE
- 11. AAFES remains in step with operations tempo of each installation to project changes.
- 12. Check with GC as to our legal ability to contact Burger King about theft AU
- 13. Review 08 audit plan and consider audit of sub-contractors in OIF/OEF AU
- 14. How are we defending our networks RED TEAM IT/Chair

(b) (6) - Privacy

Executive Secretary

APPROVED:

2 2 MAR 2008

(b) (6) - Privacy

Lieutenant General, USAF Chairman

MINUTES OF THE REGULAR MEETING OF THE BOARD OF DIRECTORS ARMY AND AIR FORCE EXCHANGE SERVICE

14 May 2008

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MINUTES OF THE REGULAR MEETING BOARD OF DIRECTORS ARMY & AIR FORCE EXCHANGE SERVICE (AAFES)

The 252nd meeting of the AAFES Board of Directors was called to order by the Chairman on 14 May 2008 in the Board Room, HQ AAFES, Dallas, Texas.

ATTENDANCE

GUESTS

(b)(6) Privacy and DoD Names List

MEMBERS PRESENT: (b)(6) Privacy and DoD Names List **ALTERNATES PRESENT:** (b)(6) Privacy and DoD Names List MEMBERS ABSENT: (b)(6) Privacy and DoD Names List SECRETARIAT: (b)(6) Privacy and DoD Names List **BOARD PRESENTERS:** (b)(6) Privacy and DoD Names List

OPENING COMMENTS BY THE CHAIRMAN

Noting a quorum was present, the Chairman, Lt Gen 0800, welcomed all Board members, and recognized new members and guests. He thanked the Board members and alternates present for taking time out of their busy schedule.

Lt Gen on the interview of the makes it a point when possible to visit Exchange operations as he travels, and he encouraged fellow Board members to do likewise. He also urged becoming familiar with the aafes com website

OUT-OF-SESSION ITEMS

The Chairman noted there would be a motion in the Audit presentation addressing Audit committee membership.

APPROVAL OF FEBRUARY 2008 BOD MINUTES

Lt Gen (b) (6)- Privacy noted the minutes of the 13 February 2008 meeting and asked for any corrections or additions. He asked for a motion to approve the minutes.

Motion: Mr. (10)(1)-Privately moved that the Board of Directors approve the minutes of 13 February 2008 as written. The motion was seconded by Chief (10)(6)-Privately and approved by majority vote of the Board.

AAFES COMMANDER'S REPORT

The Chairman then called for the AAFES Commander to give the Board an update on the organization.

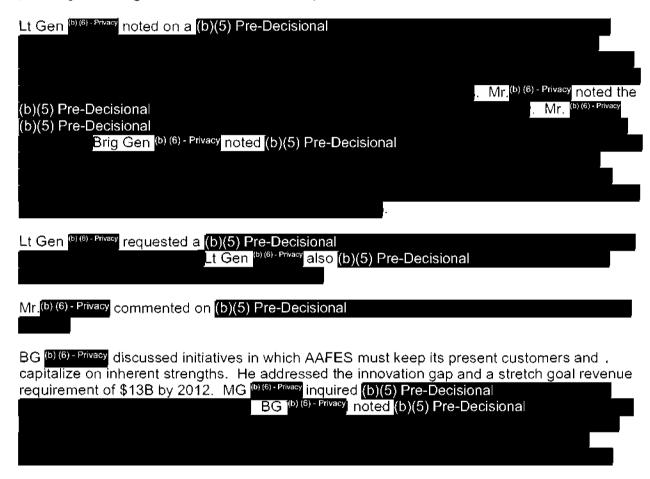
BG (b) (6) - Privacy started by noting his recent trip to the area of responsibility (AOR) and commented on the positive support AAFES provides for the troops. He noted differing requirements for levels of support being expressed by Commanders. Lt Gen (b)(5) Pre-Decisional

BG (b) (6) - Privacy noted various examples that illustrate the untold stories of AAFES and its associate's significant support of service members, families and commanders in the field. BG (b) (6) - Privacy also briefed on marketing initiatives in which customers submitted outstanding home made video commercials to tell the AAFES story and photographic contest for pogs, the round paper coin equivalent utilized in the AOR.

BG (b) (6) - Privacy briefed in detail the AAFES strategic road map. He discussed the mission and vision of AAFES and how the five strategic goals listed below interrelate.

- Goal 1. Develop life-long emotional connections with our customers.
- Goal 2. Provide expeditionary and mission support capabilities.
- Goal 3. Build a culture of loyalty, ownership, sustainability and continuous improvement.
- Goal 4. Be the premier collaborative partner with federal and commercial entities.
- Goal 5. Communicate the benefit value and capabilities of AAFES.

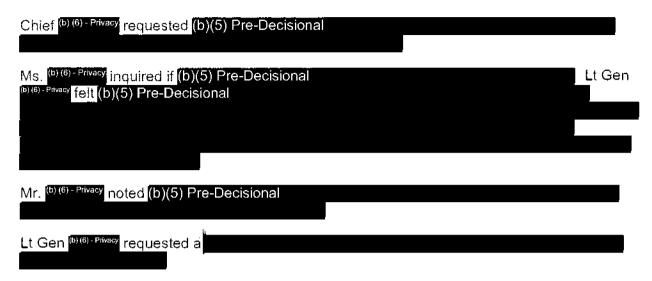
He discussed long term objectives through 2012 of growing the revenue stream and improving the Services dividend. BG (b) (6) - Privacy noted the four 2008 corporate goals of increasing sales 3%, earnings 8%, associate satisfaction index 2 points, and customer satisfaction index 2 points. He highlighted that the last two, or 50% of the focus, are on people. BG (b) (6) - Privacy addressed the demographic changes which the exchange has experienced since the 1970's and the slogan that "it's not your Dad's BX/PX anymore." BG (b) (6) - Privacy commented it is a lot easier to keep a customer than buy a customer, and stressed the importance of conceptual planning, if the organization is to remain competitive.



BG ^{(b) (6) - Privacy} provided a summarization and discussion of the following key take-a-ways:

- Closed fiscal year 2007 with 26% increase in earnings and off to a great start in 2008.
- HASC testimony.
- Rolled out co-branded MilStar Rewards Card (formerly called the Affinity Card).
- Divested Naval Air Station Joint Reserve Base Fort Worth (Carswell) grocery operation.
- Post allowance payment directive implemented.
- Cooperative efforts with MWR, NEXCOM, DeCA and MCX.
- Expeditionary capabilities being recognized.
- Actively engaged in supporting the Army Family Covenant and Air Force initiatives.
- OIF/OEF drawdown (if and when).
- Reserve/National Guard support.

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Mr. (b) (6) - Privacy recommended a (b)(5) Pre-Decisional
Ms. (b) (6) - Privacy commented that (b)(5) Pre-Decisional
Lt Gen (b)(6)-Privacy asked who (b)(5) Pre-Decisional
                                          Principal Deputy Under Secretary of Defense for
                Mr. (b) (6) - Privacy
Personnel and Readiness. Brig Gen (b) (6) - Privacy stated (b)(5) Pre-Decisional
Mr. (b) (6) - Privacy commented on (b) (5) Pre-Decisional
Brig Gen (b) (6) - Privacy noted that (b) (5) Pre-Decisional
BG (b) (6) - Privacy made a recommendation to the BoD to increase his project approval authority
from $1M to $1.5M. The approval authority of the Finance Committee, Executive Committee
and Board will extend to projects exceeding $1.5M. He noted this will provide required flexibility
and would normalize the 13 years of building cost inflation since the last adjustment in January
1995. Currently, AAFES presents approximately four Image Update and minor renovation
projects per year to the Board which fall between $1.0 and $1.5M. The approval level increase
would permit focus on new construction and expansion priorities and allow the start of those
projects under $1.5M to begin at design completion versus after the annual review and approval
by the Board in February.
MG (b) (6) - Privacy inquired on (b)(5) Pre-Decisional
                                                                                           Mr.
                                                    . Mr. (b) (6) - Privacy identified (b)(5) Pre-Decisional
(b)(6)-Privacy noted on (b)(5) Pre-Decisional
                                                  Lt Gen (b) (6)- Privacy inquired (b)(5) Pre-Decisional
                                      BG (b) (6) - Privacy noted the (b)(5) Pre-Decisional
Mr. (b) (6) - Private inquired if a (b)(5) Pre-Decisional
                                                                        Mr. (b) (6) - Privacy noted the
(b)(5) Pre-Decisional
                         . MG (b) (6) - Privacy inquired if(b)(5) Pre-Decisional
                                Mr. (b) (6) - Privacy noted (b)(5) Pre-Decisional
                                                MG (b) (6) - Privacy noted (b) (5) Pre-Decisional
                               . Mr. [[Missenie] inquired if(b)(5) Pre-Decisional
                                      BG (b) (6) - Privacy commented it (b) (5) Pre-Decisional
Lt Gen (b) (6) - Privacy inquired if (b) (5) Pre-Decisional
                               Mr. (b)(5) Pre-Decisional
Mr. firmed the comment by Mr. fin (b)(5) Pre-Decisional
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Motion: Mr. Motion: moved that the Board of Directors approve an increase to the Commander, AAFES project approval authority from \$1M to \$1.5M. The approval authority of the Finance Committee, Executive Committee and Board will extend to projects exceeding \$1.5M. The motion was seconded by SMA (DIGH-Private) and approved by majority vote of the Board.

OPERATIONS UPDATE

Mr. (b)(6)-Privacy presented an update on AAFES operations. He discussed retail industry predictions and the way forward in the following areas: AAFES Starbucks sales; key department sales trends; shopping centers; Scan Based Trading (SBT); PowerZone revitalization; Apple store within AAFES stores; Dell computers in stores; 3rd party cards; expansion of Coach and rollout of Vera Bradley; Martha Stewart; expansion of mattress shop; Car Care Center conversion; GameStop stores; tactical store expansion; vendor collaborative process; and energy sustainability. Mr. (b)(6)-Privacy also provided an update on the Retek rollout.

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Lt Gen (b) (6) - Privacy inquired if (b)(5) Pre-Decisional

Mr. (b) (6) - Privacy noted (b)(5) Pre-Decisional

Lt Gen (b) (6) - Privacy offered the (b)(5) Pre-Decisional

MG (b) (6) - Privacy inquired on (b)(5) Pre-Decisional

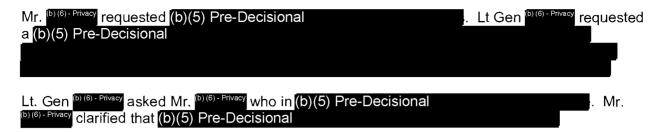
MR. (b) (6) - Privacy addressed (b)(5) Pre-Decisional

MG (b) (6) - Privacy addressed (b)(5) Pre-Decisional

MR. (b) (6) - Privacy addressed (b)(5) Pre-Decisional

MR. (b) (6) - Privacy addressed (b)(5) Pre-Decisional
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MG 600-PMM2 commented on the multiple opportunities to offer brand name/prestige items at aafes.com or in the catalog to meet a market niche versus offerings in brick and mortar operations. He noted this will distinguish AAFES from big box discounters such as Wal-Mart or Target.



FINANCE COMMITTEE REPORT

MG (b) (6) - Privacy stated the Finance Committee met on 9 April 2008 and introduced Mr. (AAFES Chief Financial Officer, to present the current financial report of AAFES.

Financial Status Report

Mr. (b) (6) - Privacy noted the slide presentation had been updated to reflect industry results and future trends and would address Fiscal Year (FY) 2007 results, industry metrics, AAFES specific metrics, April 2008 Year-to-Date (YTD) results, and projections for 2008.

Revenues for FY 07 were \$8,257.3B, or 2% lower than FY06, driven primarily by an extra week in the financial year 2006 (\$147.9M) and a (\$72.8M) decline in the military clothing sales from FY 06. Earnings without Appropriated Funds (APF) were up 30% over last year (LY). AAFES received \$92M in APF reimbursement which is \$13.7M above FY 06 (\$78.2M). Earnings with APF are up 27% over LY. BG (b) (6) - Privacy noted that APF support is reimbursement to cover the cost of doing business in OIF/OEF.

Dividends for FY 07 were \$269.3M, up 18% from LY. All dividend streams increased with Army receiving \$162.9M, Air Force \$90M, and Marines/Navy \$16.4M. FY 07 key impacts and anomalies were presented. Mr. [5](6)-Privacy explained that Visa was charging an incorrect fee for debit cards. A class action lawsuit was brought against them by outside retailers in which AAFES attached a claim.

Mr. (b) (6) - Privacy discussed in detail AAFES goals versus the following industry metrics: operating margin; return on invested capital; capital expenditures; sales/square foot; inventory turnover; same store sales; current ratio; total liabilities/total assets; and debt/equity.

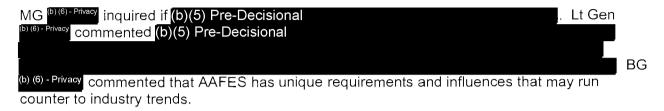
Lt Gen [6] (6)- Privacy commented that AAFES goals should continue to remain aggressive but realistic.

Mr. addressed two points: 1) Store inventory is down \$280M over the last two years; and 2) In-stock performance of stores is up. He noted the key percentages relating to gross profit, cost of goods sold and markdowns are moving in the right direction. This is directly attributed to management attention to detail and the growing of profitable sales.

Brig Gen (b) (6) - Privacy provided an example of marketing Exchange Select items which decreases dollar sales but significantly improves margin and profitability. BG (b) (6) - Privacy commented that AAFES must plan future purchases from overseas suppliers strategically and well in advance to generate future margins.

Mr. (b) (6) - Privacy noted earnings projections for FY 2008 do not include APF reimbursement. Projections are based on the Annual Financial Plan (AFP) which was accomplished in August 2007. MG (b) (6) - Privacy noted a time-line for reimbursement could not be accurately predicted.

Mr. (b) (6) - Privacy referenced and discussed Tab K, AAFES: Update Bankruptcy Trends, in regards to bad debt increases in AAFES.



MG^{(b) (6) - Privacy} inquired (b) (5) Pre-Decisional

Mr. (b) (6) - Privacy commented that each installation General Manager works closely with local command on imminent changes to the Base/Post structure and in long-range demographic forecasts.

Post Allowance

Mr. (b) (6) - Privacy presented the background on post allowance (PA), a timeline, and the impact on earnings/dividends. He noted the retroactive payment of PA would be included in AAFES FY2007 financial statements as advised by Ernst and Young. He recommended a Board motion that AAFES absorb the PA dividend impact for FY 01-07 and seek APF reimbursement.

MG [6]-6]-Privacy recommended this issue be further worked before a motion was approved. He noted this may make it easy for OSD to assume the Services will simply absorb this policy (not law) decision.



Lt Gen (6) (6) - Privacy recommended the motion be tabled at this time pending the final outcome.

Pension Aggregation

Mr. (b) (6) - Privacy presented the timeline of the AAFES pension plan aggregation proposal, financial summary, benefits, and the next steps required. It was noted this proposal was approved by the BoD in 1998 and has been in various stages of accomplishment since. Mr. (b) (5) Pre-Decisional

commented the proposal has been fully reviewed and that it makes sense from all vantage points.

AUDIT COMMITTEE REPORT

Brig Gen introduced the Audit Committee report. He noted the Audit Committee met on 9 April 2008, and then introduced Mr. Director, AAFES Audit Division, to provide the Audit Report.

Internal Reports

Mr. provided updates on four recently completed audits: HQ Accounting Support-School Meal Program; Eastern Region internal control compliance; Time and Attendance review for Call Centers; and the Anti-Money Laundering (AML) compliance program.

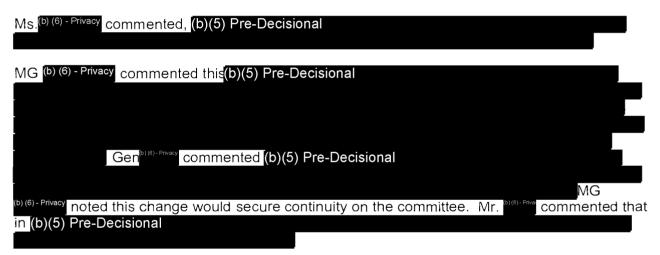
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Lt Gen (b) (6) - Privacy inquired (b) (5) Pre-Decisional

Mr. (b) (6) - Privacy requires (b) (5) Pre-Decisional

Mr. (b) (6) - Privacy discussed the Internal Control Checklist (ICE) and its requirements.
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Audit Committee Membership/Composition

Brig Gen briefed on the current audit membership and composition and proposed changes. He highlighted the advantages and disadvantages and noted the Audit Committee had conducted an out-of-session action and had voted unanimously to recommend the Board of Directors increase the Audit membership.



Motion: Brig Gen moved that the Board of Directors increase the Audit Committee to five permanent members as follows: Chairman, Director of Budget Operations, HQ USAF (SAF/FMBO); CG, Army Family and MWR Command (FMWRC); Director, Air Force Services (AF/A1S); Sergeant Major of the Army; and Chief Master Sergeant of the Air Force. The motion was seconded by MG (b)(6)-Privar) and approved by majority vote of the Board.

BOD TRAINING UPDATE

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Mr. (b) (6) - Privacy addressed the history of this initiative in which LTG (b) (6) - Privacy felt that a (b) (5) Pre-Decisional Additionally, BG (b) (6) - Privacy and Mr. (b) (6) - Privacy were asked to (b) (5) Pre-Decisional . Mr. (b) (6) - Privacy s introduced Mr. (b) (6) - Privacy , President of IDB.
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Mr. (b)(6)-Privacy briefed and offered a proposal on "Corporate Governance in a DoD Retail Business." He presented the mission and capabilities of the Institute, the independent relationship with the University of North Carolina, private and government sector relationships, faculty talents, and major programs offered.

A proposal was provided as follows: "For the above described one-day training program for AAFES at a government-provided facility, the IDB will provide three (3) university faculty, an onsite program director, all materials and a program evaluation instrument. In addition, the faculty involved in presenting the program will visit AAFES and meet with selected executives prior to the training event to understand more about the unique challenges at AAFES. They will obtain background information and data on AAFES and its mission and processes so that they can tailor their plan of study and guide discussion to most effectively use the limited contact time over the one day event. Contract price: \$29,834.00."

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Lt Gen (b) (6) - Privacy commented (b) (5) Pre-Decisional

of LTG (b) (6) - Privacy for an initiative of (b) (5) Pre-Decisional

Decisional of LTG (b) (6) - Privacy for an initiative of inquired if (b) (5) Pre-Decisional

Example 1. Mr. (b) (6) - Privacy stated the (b) (5) Pre-Decisional

Lt Gen (b) (6) - Privacy requested discussion (b) (5) Pre-Decisional
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BG (b) (6) - Privacy proposed that an annual, formal two or three day program may be considered and then, to buttress learning, specific curriculum would be offered the day prior to each BoD meeting in Dallas. Thus, some specific training would be offered on a recurring basis to further renew and update member knowledge. Mr. (b) (5) Pre-Decisional

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BG (b) (6) - Privacy proposal (b) (5) Pre-Decisional
                                                                                              . Lt Gen
b) (6) - Privacy commented (b) (5) Pre-Decisional
                                          that BG (b) (6) - Privacy should (b) (5) Pre-Decisional
                                               Lt Gen (b) (6) - Privacy expressed (b) (5) Pre-Decisional
                                                                                    MG (b) (6) - Privacy
(b)(5) Pre-Decisional
                          Lt Gen (b) (6) - Privacy expressed (b) (5) Pre-Decisional
                               commented (b)(5) Pre-Decisional
                                                   MG (b) (6) - Privacy noted (b) (5) Pre-Decisional
                                                                               BG (b) (6) - Privacy
 commented (b)(5) Pre-Decisional
                                                                                                to finalize
this process. Ms. (b) (6) - Privacy requested (b) (5) Pre-Decisional
                                                                                          Mr.
commented (b)(5) Pre-Decisional
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requested that Mr. (b) (6) - Privacy provide to BG (b) (6) - Privacy (b) (5) Pre-Decisional
Mr. (b) (6) - Privacy commented he would re-accomplish the proposal. (b)(5) Pre-Decisional
                                . Lt Gen (b) (6) - Privacy requested (b) (5) Pre-Decisional
                                                                       to Mr. (b) (6) - Privacy
FINAL COMMENTS AND ADJOURNMENT
Lt Gen (b) (6) - Privacy thanked Board members, BG (b) (6) - Privacy and the AAFES staff for their team
support of the organization. He noted (b)(5) Pre-Decisional
                                   Ms. (b) (6) - Privacy to do likewise. Lt Gen (b) (6) - Privacy requested
Mr. (b) (6) - Privacy recommended that (b) (5) Pre-Decisional
MG (b) (6) - Privacy complemented BG (b) (6) - Privacy and the AAFES team.
Ms. (b) (6) - Privacy complimented the Dell and Apple initiatives Mr. (b) (6) - Privacy addressed and the
teamwork of the Board.
MG (b) (6) - Privacy noted (b) (5) Pre-Decisional
Major (b) (6) - Privacy commented (b) (5) Pre-Decisional
Mr. (b) (6) - Privacy thanked the Board and AAFES for support in USAREUR and offered assistance
whenever required.
Mr. [6](6)-Prosey noted and thanked AAFES for its support in the AOR. He thanked the AAFES
leadership for a business-oriented focus. He noted that (b)(5) Pre-Decisional
with BG (b) (6) - Privacy position (b)(5) Pre-Decisional
                   commented (b)(5) Pre-Decisional
Chief (b) (6) - Privacy noted the efficiency of the AAFES organization and he envisioned a bright
future. (b)(5) Pre-Decisional
SGM (b) (6) - Privacy noted the hard work Mr. (b) (6) - Privacy has done with the Audit Committee and
(b)(5) Pre-Decisional
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ADJOURNMENT:

The meeting adjourned at 1415 hours.

SUMMARY OF MOTIONS:

- 1. Board minutes of 13 February 2008 were approved.
- 2. The Board approved new limits of project approval authority for the AAFES Commander.
- The Board tabled a motion that AAFES absorb the post allowance dividend impact for FY 01-FY07.
- 4. The Board approved an increase in the Audit Committee to five permanent members.

SUMMARY OF FOLLOW-ON ACTIONS:

- 1. How AAFES is focusing on the family and family support.
- 2. Focus on telling the down range support message.
- 3. AFRICOM briefing at next BoD meeting.
- 4. Provide out-of-session actions with metrics on voting requirements/responses.
- 5. Senior member of the BoD invited to a specific event/meeting as determined by AAFES CG.
- 6. Medical services support briefing at next BoD meeting.
- 7. How AAFES forecasts financial trends.
- 8. AAFES CG to work proposal with IDB on BoD training with costs.
- 9. Provide CMSAF adult material business plan.
- 10. Three things that keep the CG up at night presented at next BoD meeting
- 11. How can spouses play a role in AAFES BoD meetings?



Executive Secretary

APPROVED: 2 7 JUN 2008

(b) (6) - Privacy

Lieutenant General, USAF Chairman

MINUTES OF THE REGULAR MEETING OF THE BOARD OF DIRECTORS ARMY AND AIR FORCE EXCHANGE SERVICE

14 August 2008

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MINUTES OF THE REGULAR MEETING BOARD OF DIRECTORS ARMY & AIR FORCE EXCHANGE SERVICE (AAFES)

The 253rd meeting of the AAFES Board of Directors was called to order by the Chairman on 14 August 2008 in the Board Room, HQ AAFES, Dallas, Texas.

ATTENDANCE

(b)(6) Privacy and DoD Names List	
ALTERNATES PRESENT: (b)(6) Privacy and DoD Names List	
MEMBERS ABSENT: (b)(6) Privacy and DoD Names List	
SECRETARIAT: (b)(6) Privacy and DoD Names List	
ROARD PRESENTERS: b)(6) Privacy and DoD Names List	
syley . True g and Beb Hames List	

OPENING COMMENTS BY THE CHAIRMAN

Noting a quorum was present, the Chairman, Lt Gen opened the 253rd meeting at 0800, welcomed all Board members and recognized new Board members. He thanked the Board members and alternates present and noted the great opportunity it provides to make a difference for our Soldiers, Airmen and family members. Lt Gen encouraged members, when traveling, to visit AAFES facilities and to engage and communicate with MG (D) (G) - Privacy and Mr. (D) (G) - Privacy as needed.

OUT-OF-SESSION ITEMS

The Chairman noted there were three approved out-of-session items: Selection of Mr. (b) (6) - Privacy as Senior Vice President, Marketing; Selection of Mr. (b) (6) - Privacy as Senior Vice President, Central Region; and the Finance Committee recommendation that the Board approve the amended budget for the Procurement System Enhancement Project.

APPROVAL OF MAY 2008 BOD MINUTES

Lt Gen noted the minutes of the 14 May 2008 meeting and asked for any corrections or additions. He asked for a motion to approve the minutes.

Motion: MG moved that the Board of Directors approve the minutes of 14 May 2008 as written. The motion was seconded by SMA (b) (6) - Privacy and unanimously approved by the Board.

AAFES COMMANDER'S REPORT

The Chairman then called for the AAFES Commander to provide the Board with an update on the organization.

MG started with two stories which benefit the war fighter and their families. The first story discussed efforts to continue selling gasoline to a small group of Navy Service Members and their families in the United Kingdom. The second addressed collaborative efforts to provide logistical support to the Armstrong Club in Kaiserslautern Germany.

MG presented an update of AAFES' four enterprise objectives to increase sales, earnings, the associate satisfaction index (ASI), and the customer satisfaction index (CSI). He also addressed the seven significant priorities of AAFES: Lead and support military transformation efforts; grow leaders and lead with enthusiasm; improve in-store experience; implement Oracle and Warehouse Management System (WMS); build collaborative relationships; accelerate profitable growth; and drive enterprise productivity and efficiency.

MG (b) (6) - Privacy highlighted a new program being tested, in which gas station customers would receive a discount of 3¢ per gallon when using their Military Star card. This initiative will reduce AAFES cost significantly, even without any increase in sales: it currently costs about 8¢ a gallon to process a commercial credit card transaction, while the cost to process the same transaction on Military Star is negligible. A side benefit, though, is that by making the gas price even more attractive than downtown, AAFES expects gas sales to increase considerably; the test at Carswell showed a 50% increase in gallons sold. Selling a higher volume at lower cost provides a great benefit both to the Service member and to AAFES.

In response to a previous question from the Chairman, MG (b) (6) - Privacy addressed in detail three things that keep him up at night and solutions for the way forward. Are we doing all we can to support the war fighter? Are we growing leaders that are critical, conceptual and enterprise thinkers and doers? Are we developing the right strategies for the future and aligning organizational resources to execute flawlessly? Lt Gen (b) (6) - Privacy commented (b) (6) Pre-Decisional

MG^{(b) (6) - Privacy}provided a summarization and discussion of the following key Board take-aways:

- The next generation shopping center requirement and the need for Congressional release of the Ft. Bliss Lifestyle Center.
- The need to identify a stream for funding improvements at locations impacted by base realignment and closure, grow the Army, global repositioning, and similar initiatives; over \$130 million in new requirements are expected to be addressed at the Feb 09 Board meeting.
- The directed closure of 11 facilities by the Adjutant General of the Puerto Rico National Guard and the adverse effect on 132 employees.

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MG (b) (6) - Privacy indicated that (b) (5) Pre-Decisional

MG (b) (6) - Privacy provided an in-depth update on contingency and operational support and highlighted the new Commanders in Pacific and Europe. MG (b) (6) - Privacy inquired about the (b) (5) Pre-Decisional

Lt Gen (b) (6) - Privacy recommended (b) (5) Pre-Decisional

It Gen (b) (6) - Privacy recommended (b) (5) Pre-Decisional

MG (b) (6) - Privacy requested that Army and Air Force (b) (5) Pre-Decisional

MG (b) (5) Pre-Decisional

MG (c) (5) Pre-Decisional

Lt Gen (c) (c) - Privacy noted (b) (5) Pre-Decisional
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In addressing succession planning and developing leaders for the future, MG (b) (6) - Privacy noted the upcoming retirement of Senior Vice President of Real Estate, Based on the action of the recent selection board, the Commander recommended that Mr. (b) (6) - Privacy current Vice President of Real Estate, be promoted to Senior Vice President.

Motion: MG moved that the Board approve the promotion of Mr. (b) (6) - Privacy to Senior Vice President, Real Estate. The motion was seconded by Mr. and unanimously approved.

OPERATIONS UPDATE

Mr. (b) (6) - Privacy provided a briefing on AAFES operations. He noted AAFES currently ranks # 41 among all top retailers and ranks # 9 within big box and department stores. Mr. (b) (6) - Privacy provided an outline on the way forward identifying the current retail industry pulse, key department sales trends, AAFES shopping center openings, and business intelligence (BI) data. He presented the new Power Zone control counter, lifestyle signing, and the new television display wall. He discussed the demand and importance of electronics merchandise in AAFES stores.

Mr. (b) (6) - Privacy also presented attachment rates and their gross margin potential along with customer satisfaction benefits derived through add-on sales. He identified and discussed new vendor partnerships, AAFES going green initiatives, military community connections, and internet and catalog opportunities.

Lt Gen commended Mr. (b) (6) - Privacy and AAFES for their significant improvements, but (b) (5) Pre-Decisional



FINANCE COMMITTEE REPORT

MG stated the Finance Committee met on 16 July 2008 and introduced Mr (b) (6) - Privacy AAFES Chief Financial Officer, to present the current financial position of AAFES and to provide an update of the Procurement System Enhancement project.

Financial Status Report

Mr. (b) (6) - Privacy stated he would address the financial results through June 2008, address economic trends, and comment on July 2008 Results.

Revenue. Results year-to-date (YTD) June 2008 were 4% above last year (LY) and 3% above plan. Increased revenue at Specialty and Military Clothing Sales Stores (MCSS) coupled with gasoline pricing were primary components. Finance revenue decreased \$12.6M or 12% primarily due to the decrease in the Military Star Annual Percentage Rate (APR). Concession income increased \$4.8M or 6% due to an increase of OEF/OIF concession operations. Other income decreased \$2.1M or 10%, caused by last year's sale of the AOC building in Dallas, Texas.

Net Earnings. Results (YTD June 2008) are 5% above last year (LY) and 35% above plan, exclusive of appropriated fund (APF) support.

Dividends. Dividends earned YTD June 2008 are \$102.8M, down \$2.8M from LY.

Lt Gen^{(b) (6) - Privacy} requested (b)(5) Pre-Decisional s. Mr. (b) (6) - Privacy noted those (b)(5) Pre-Decisional

Mr. discussed FY 08 key impacts and anomalies in sales; cost of goods sold; markdowns; selling; general & administrative expense (SG&A); and inventory.

LTG^{(b) (6) - Privacy} addressed (b)(5) Pre-Decisional

. Mr^{(b) (6) - Privacy} noted future financial slides will address

the gross margin return on investment (GMROI), which is an inventory profitability evaluation ratio that analyzes a firm's ability to turn inventory into cash above the cost of inventory. Mr. commented that decreases in cost of goods sold are the result of clear direction and focus by AAFES executive management.

Mr. presented forecasted trends in sales/earnings; customer sentiment; the prime rate; personnel costs; monthly average wage costs; currency exchange, and inflation. He also addressed other recent factors which may have an influence on the retail industry and the direction AAFES will take to meet these challenges going forward.

Mr noted revenue results year-to-date (YTD) July 2008 were 5% above last year (LY) and 3% above plan. Net earnings results are 7% above LY and 38% above plan, exclusive of appropriated fund (APF) support.

MG inquired about (b)(5) Pre-Decisional inquired about (b)(5) Pre-Decisional inquired about (b)(6) - Privacy noted overall comparisons are utilized. However, he noted that AAFES operates in remote and contingency locations that result in loss or marginal financial results.

Procurement System Enhancement

Mr. (b) (6) - Privacy advised that the project was first briefed in April to the Finance Committee and in May 2007 to the Board. Board approval was based on estimated project costs of \$7M, net present value (NPV) of \$11.6M, and a cost savings of 1%.

Revised project financials requiring BOD approval are estimated costs of \$22.2M, a (NPV) of \$52.7M, and a cost savings of 5%.

Mr. provided a review of the current IT project approval process and outlined the new IT approval framework which will require four phases and three approval gates. The new framework will ensure a higher degree of accuracy in project cost estimates.

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Lt Gen (b) (6) - Privacy nquired if (b) (5) Pre-Decisional

Lt Gen (b) (6) - Privacy commented (b) (5) Pre-Decisional

Ms. (c) (b) - Privacy inquired (b) (5) Pre-Decisional

Mr. (U) (0) - Privacy inquired (b) (5) Pre-Decisional

Mr. (U) (0) - Privacy inquired (b) (5) Pre-Decisional

Lt Gen (b) (6) - Privacy commented (b) (5) Pre-Decisional

Brig Gen inquired (b) (5) Pre-Decisional

MG (b) (6) - Privacy noted the (b) (5) Pre-Decisional

SMA (U) (U) - Privacy noted the (b) (5) Pre-Decisional

SMA (U) (U) - Privacy noted the (b) (5) Pre-Decisional
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Motion: Mr. moved that the AAFES Board approve the amended budget for the Procurement System and Enhancement Project and provide metrics to gauge results. The motion was seconded by Mrs. Ferguson and unanimously approved.

HEALTH SERVICES SUPPORT

MG and Mr updated the Board on health services AAFES currently offers and the potential opportunities going forward.

The presentation addressed a timeline of services offered by AAFES since 1984 to include optical, optometry, and dental services. It was noted that requests for AAFES healthcare services have increased significantly from 14 requests in 6 years (2001-2007) to over 30 within the last 12 months. Mr. provided a breakout between the Military and U.S. healthcare environments and noted by 2007, 49% of military care was purchased care. He noted that future costs and budgets will escalate. Mr.

Mr. presented key imbalances in the military healthcare system, possible concepts derived from those imbalances, and an AAFES timeline going forward. The first phase will conclude with a business assessment presentation to the Board in February 2009. The assessment phase will include performing a risk analysis, creating a strategic communications plan, and developing a financial model.

Mr. (b) (6) - Privacy noted that AAFES currently has been involved in relatively low risk areas of healthcare and must investigate carefully the risks and inherent liabilities involved with new services. CMSAF (b) (6) - Privacy commented that the key to AAFES success will be in establishing patient trust that the service is of the highest quality. MG (b) (6) - Privacy noted a significant challenge involves establishing a workable business relationship with TRICARE. Lt Gen (b) (6) - Privacy directed a (b) (5) Pre-Decisional

MG commented that AAFES must currently move in a measured and cautious manner in order to achieve future rapid growth.

ADULT MATERIAL AND REVIEW PROCESS

CMSAF (b) (6) - Privacy had requested a discussion on adult material sold in the Exchanges.

The Military Honor and Decency Act of 1996 (Section 2489a, Title 10, United States Code) prohibits the sale or rental of sexually explicit materials on property under the jurisdiction of the Department of Defense (DoD). At the direction of the Secretary of Defense, a Resale Activities Board of Review was established to review publications and other materials that might be viewed as sexually explicit. That and subsequent reviews led to publication in 1998 of a list of publications and other materials that may not be sold on property under the authority of DoD, along with a list of publications that may be sold on property under DoD authority. The most recent guidance on authorized sophisticate titles was published by the Office of the Under Secretary of Defense on 28 April 2008.

At that time, some adult magazines and videos were eliminated from the AAFES stock assortment. Other adult sophisticate magazines passed the standards established under the Act, and the current stock assortment reflects those selections.

Mr. Depression noted that AAFES goes to great efforts to ensure our customers have a pleasant experience while shopping in our stores. AAFES has a very clear policy about the location and presentation of adult magazines to eliminate random customer browsing and to minimize exposure to those who would be offended by their display. AAFES cannot impose its own standards, or that of any of its customers, in choosing which magazines to carry. The only choice in this regard is either to carry magazines, or not to carry them. AAFES customers demand that it carry these types of magazines.

If AAFES were to eliminate all adult sophisticates magazines based on any reason other than business judgment, it would most certainly face challenges from publishers of these magazines on First Amendment grounds. It was further discussed that if AAFES were to pursue considering elimination of this category, it would be highly recommended that such action be coordinated with the USD (P&R) and DOD General Counsel before proceeding.

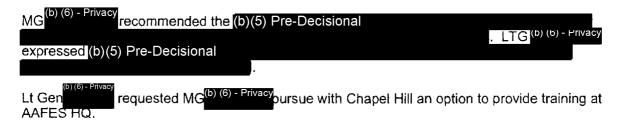
BOARD TRAINING

MG discussed Board of Directors training options and noted two proposals offered by the Institute for Defense and Business in Chapel Hill, North Carolina.

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LTG<sup>(b) (6) - Privacy</sup>noted the (b)(5) Pre-Decisional

. Ms. (b) (0) - Privacy commented (b)(5) Pre-Decisional

. Mr. discussed (b)(5) Pre-Decisional
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AUDIT COMMITTEE REPORT

Brig Ger introduced the Audit Committee report. He noted the Audit Committee met on 9 July 2008, and then introduced Mr. Director, AAFES Audit Division, to provide the Audit Report.

Mr. (b) (6) - Privacy priefed the Board on results of the external audit and two internal reports.

External Audit - FY 2007

Mr. noted the Ernst & Young (E&Y) completed the annual audit of AAFES 2007 Financial Statements and Military Star Program. Overall, AAFES conforms with Generally Accepted Accounting Principles (GAAP).

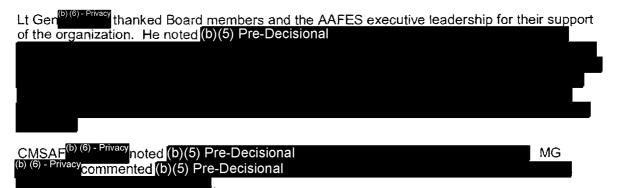
One significant deficiency was noted regarding certain investments related to the Supplemental Deferred Compensation Plan which had been recorded with their value as of 31 December 2007 rather than 2 February 2008. The required update to their value resulted in a negative adjustment of \$15.7M to the financial statements.

Ernst &Young issued an unqualified opinion for FY 2007.

Internal Reports

Mr provided the background, purpose and conclusions on financial reporting for OIF/OEF and the Shaw AFB/Fort Worth e-Bay case.

FINAL COMMENTS AND ADJOURNMENT



Mr. Commended AAFES for the proposed gas reward program as a way to save money for the customers and for AAFES, increasing sales and reducing costs. He noted that MG (b) (6) - Privacy strategy of getting back to basics is not the same as getting back to the way AAFES used to do business, and commended the management team for understanding the difference. He also noted that the way ahead on health care needed to follow the same model that AAFES proposed for information systems: an incremental discovery with decision points along the way.

ADJOURNMENT:

The meeting adjourned at 1330 hours.

SUMMARY OF MOTIONS:

- 1. Board minutes of 14 May 2008 were approved.
- 2. Mr. (b) (6) Privacy was approved for promotion to Senior Vice President, Real Estate.
- 3. The amended budget for the Procurement System Enhancement project was approved.

SUMMARY OF FOLLOW-ON ACTIONS:

- 1. November BOD presentation on AAFES interfacing with National Guard and Reserves. (SD-MK)
- 2. Future updates on things that keep the Commander up at night.
- 3. Updates on associates downrange in the AOR.
- 4. Monthly e-mail to update Board members on significant initiatives and status, and capability to provide input for Board member visits to installations.
- 5. A plan to provide training to BOD members at AAFES HQ utilizing UNC program. (HR-U)
- 6. Updates at each meeting on Procurement System Enhancement. (FA)



APPROVED:

26 SEP 2008

(b) (6) - Privacy

Lieutenant General, USAF Chairman

MINUTES OF THE REGULAR MEETING OF THE BOARD OF DIRECTORS ARMY AND AIR FORCE EXCHANGE SERVICE

6 November 2008

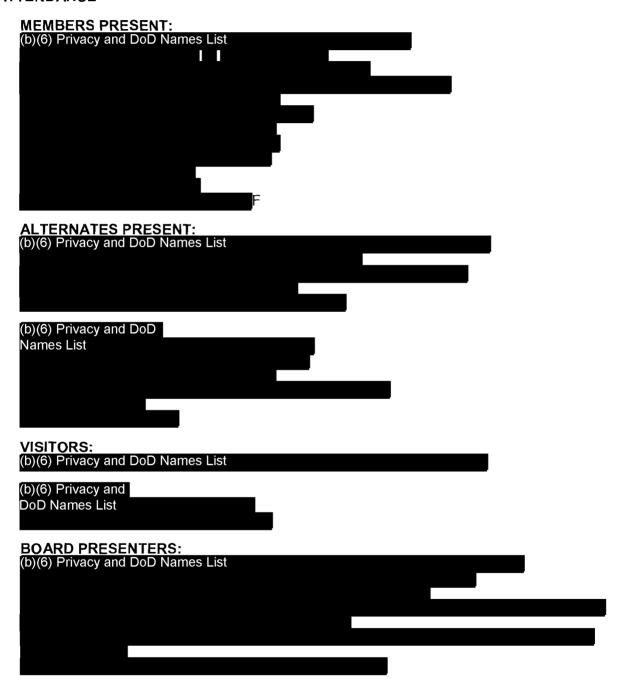
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MINUTES OF THE REGULAR MEETING BOARD OF DIRECTORS ARMY & AIR FORCE EXCHANGE SERVICE (AAFES)

The 254th meeting of the AAFES Board of Directors was called to order by the Chairman on 6 November 2008 in the Board Room, HQ AAFES, Dallas, Texas.

ATTENDANCE



OPENING COMMENTS BY THE CHAIRMAN

Noting a quorum was present, the Chairman, Lt Gen [b) (6) - Privacy] opened the 254th meeting at 0800, welcomed all Board members and recognized new Board members. LTG introduced Col [b) (6) - Privacy], his designated alternate. Col [b) (6) - Privacy] was introduced as the designated alternate for Maj Gen (b) (6) - Privacy]. Lt Gen (b) (6) - Privacy] thanked the Board members and alternates present and noted the great opportunity it provides to make a difference for our Soldiers, Airmen and family members. Lt Gen (b) (6) - Privacy] encouraged members when traveling to visit AAFES facilities and to engage and communicate with MG (b) (6) - Privacy] and Mr. (b) (6) - Privacy] as needed.

OUT-OF-SESSION ITEMS

The Chairman noted there was one out of session item which approved delegation of authority for the Executive Management Program (EMP) to the Commander AAFES.

APPROVAL OF AUGUST 2008 BOD MINUTES

Lt Gen for inverse of the 14 August 2008 meeting and asked for any corrections or additions. He asked for a motion to approve the minutes.

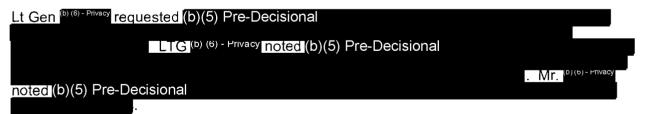
Motion: Mr. moved that the Board of Directors approve the minutes of 14 August 2008 as written. The motion was seconded by MG (b) (6) - Privacy and unanimously approved by the Board.

AAFES COMMANDER'S REPORT

The Chairman then called for the AAFES Commander to provide the Board with an update on the organization.

MG (b) (6) - Privacy referred to a quote from Albert Einstein which he stated identified the theme of his update, "The significant problems we face cannot be solved at the same level of thinking we were at when we created them." He noted that with the ever-changing environment today, AAFES must think strategically in order to successfully support in the future our Soldiers, Airman and their families.

MG (b) (6) - Privacy presented two stories which stress that "We go where you go". He addressed support efforts provided with Mobile Field Exchanges (MFEs) to service members and retirees affected by Hurricanes Ike and Gustav. Second, he described support efforts to National Guard firefighters in California. MG (b) (6) - Privacy noted AAFES will remain "part of the fight" to support Commanders in the field and requested that Board members communicate the capabilities AAFES offers to make a difference. He noted AAFES currently has 11 MFEs with additional procurement occurring.



MG (b) (a) - Privacy noted AAFES must keep an eye on the future. He presented several factoids and noted our customer demographics match correspondingly. He noted that in order to satisfy our customers' needs, AAFES must tie everything to its vision "To be our customers' first choice." In order to support the AAFES vision in 2009, there will be five strategic goals reinforced with seven significant priorities. MG (b) (a) - Privacy discussed in detail the first goal of

developing a life-long emotional connection with our customers and the support of that goal directly through improving the in-store experience priority. He noted the four key components of this priority to ensure success will be to focus on the Customer; get the Assortment right; Rehearse the value story; and fix the Environment; (C.A.R.E.).

MG (b) (6) - Privacy stressed that we must invest in the company now so that we maintain our customers when economic conditions improve. The great value story of AAFES must be communicated as never before to our military members, especially the younger generation who grew up with retail discounters outside the gate. To improve customer communication, MG (b) (6) - Privacy addressed three initiatives: store manager contact, dividend value and customer savings. He provided three examples of information exchange: 1) manager contact and dividend information on customer receipts, 2) an AAFES Blog (a contraction of the term "Web log") http://www.salutetoyourservice.com for customers, and c) a Commander's Blog for AAFES associates.

MG (b) (6) - Privacy presented examples of informing and taking care of our customers such as clearly identifying AAFES phone card values for OEF/OIF locations, improving Military Clothing Sales Store (MCSS) issue item deficiencies, supporting a Fit-for-Life health and wellness program in collaboration with other agencies, and community involvement.

MG (b) (6) - Privacy introduced the new AAFES Chief Master Sergeant, (b) (6) - Privacy, and noted the Chief's focus in improving military uniform issue item deficiencies.

MG (b) (6) - Privacy discussed a process to compete in a transforming economy and highlighted changing customer purchase patterns. He presented and discussed 2008 year-to-date accomplishments and challenges. He closed by stating that AAFES will shape the future by utilizing Albert Einstein's release of energy formula E=MC² by adapting it to AAFES as follows: Everything we do is Magnified when we Communicate and Collaborate.

SMA (b) (6) - Privacy inquired (b) (5) Pre-Decisional es. MG (b) (6) - Privacy addressed initiatives such as skylighting and highlighted an AAFES sustainability pamphlet (provided to the Board). LTG (b) (6) - Privacy requested (b) (5) Pre-Decisional acknowledged that AAFES engagement and support will occur. MG (c) (b) - Privacy acknowledged that AAFES engagement and support will occur. MG (c) (c) - Privacy acknowledged that AAFES engagement and support will occur. MG (c) (c) - Privacy acknowledged that AAFES engagement and support will occur. MG (c) (c) - Privacy addressed initiatives such as skylighting and highlighted an AAFES sustainability pamphlet (provided to the Board). LTG (c) (d) - Privacy addressed initiatives such as skylighting and highlighted an AAFES sustainability pamphlet (provided to the Board). LTG (c) (d) - Privacy addressed initiatives such as skylighting and highlighted an AAFES sustainability pamphlet (provided to the Board). LTG (d) (d) - Privacy acknowledged that AAFES engagement and support will occur. MG (d) - Privacy acknowledged that AAFES engagement and support will occur. MG (d) - Privacy acknowledged that AAFES engagement and support will occur.

Lt Gen (b) (6) - Privacy requested a (b) (5) Pre-Decisional

Ft. Bliss Lifestyle Center

Mr. (b) (6) - Privacy provided a status update on the Ft. Bliss Lifestyle Center and discussed in detail timelines, letters of intent (LOI) to satisfy House Armed Services Committee (HASC) requirements, and the current financial status. MG (b) (6) - Privacy commented (b) (5) Pre-Decisional

. Lt Gen (D) (B) - Privacy offered (b)(5) Pre-Decisional

Lt Gen (b) (6) - Privacy requested (b) (5) Pre-Decisional

Mr. (b)(5) Pre-Decisional

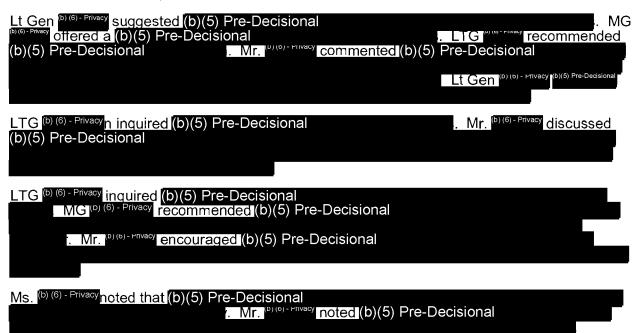
OPERATIONS UPDATE

Mr. [b](6]-Privacy provided a briefing on AAFES operations. He addressed marketing initiatives for sales events being held the day after Thanksgiving, "black" Friday, Saturday and Sunday and discussed the various dynamics negatively affecting retailers this year. AAFES will focus on managing proper inventory levels in order to reduce discounting and preserve gross margin.

Mr. (DIGI-Privated) presented same-store sales results in comparison with industry and key department sales trends. He discussed the benefits of business intelligence (BI) implementation and the new purchase analytics application. Mr. (DIGI-Privated) briefed on the "Ark" control counter sales increases and rollout details in 2009. He provided updates on new sales opportunities with Apple computers, iPods, Serta mattresses, new Army Service uniform, Electronic Services Solutions, GameStop, and the workload-planning project. Mr. (DIGI-Privated) noted the Military Star Card gas promotion has increased card penetration (customer usage) from 10% to 13%, allowing AAFES to avoid credit card fee payments on those transactions. A dual benefit has been achieved by customers saving three cents a gallon, which has boosted the total gallons sold by 18%.

Mr. [DIGN-Privacy] presented initiatives and collaborative efforts with the Defense Commissary Agency (DeCA) to provide support to Guard and Reserve units. He discussed AAFES online initiatives highlighting web site redesign, an improved website search engine, an internet kiosk unit and a "click to brick" order option to have catalog orders shipped to a store for pickup there.

Mr. (b) (6)-Privacy closed by stressing the importance of continuing to invest in employees and facilities to remain competitive.



FINANCE COMMITTEE REPORT

Mr. (b) (6) - Privacy stated the Finance Committee met on 9 October 2008 and introduced Mr. (b) (6) - Privacy stated the Financial Officer, to present the current financial position of AAFES and to provide a presentation of the following: Financial Status Report; Annual Financial Plan FY 09; Post Allowance; Debt Portfolio Strategy; Post Fiscal Analysis; and a Capital Project for Dan Daniels Distribution Center.

Financial Status Report

Mr. (b) (6) - Privacy addressed the financial results through September 2008.

Revenue. Results year-to-date (YTD) September 2008 were 5% above last year (LY) and 2% above plan. Increased revenue at Specialty and Military Clothing Sales Stores (MCSS) along with gasoline pricing were primary components. Finance revenue decreased \$21.1M or 13% primarily due to the decrease in the Military Star Annual Percentage Rate (APR). Concession income increased \$6.4M due to an increase of 70 OEF/OIF concession operations.

Other income increased \$0.8M or 3% which was driven by the MilStar rebate program which provides the store \$100 for every application processed. This is offset by an expense so it is not an actual increase. If this were not considered, other income would have decreased by \$6.1M, due to the sale of the AOC HQ building in 2007.

<u>Net Earnings.</u> Results are 5% above LY and 38% above plan, exclusive of appropriated fund (APF) support.

<u>Dividends</u>. Dividends earned YTD September 2008 are \$171.6M, up \$13.7M from LY.

Mr. (b) (6) - Privacy addressed FY 08 key impacts and anomalies in net sales; cost of goods sold; markdowns; selling, general & administrative expense (SG&A); and inventory. He noted sales projections for FY08 indicate \$8.752M or 3% over plan and earnings of \$341M or 20% over plan.

Annual Financial Plan FY 09

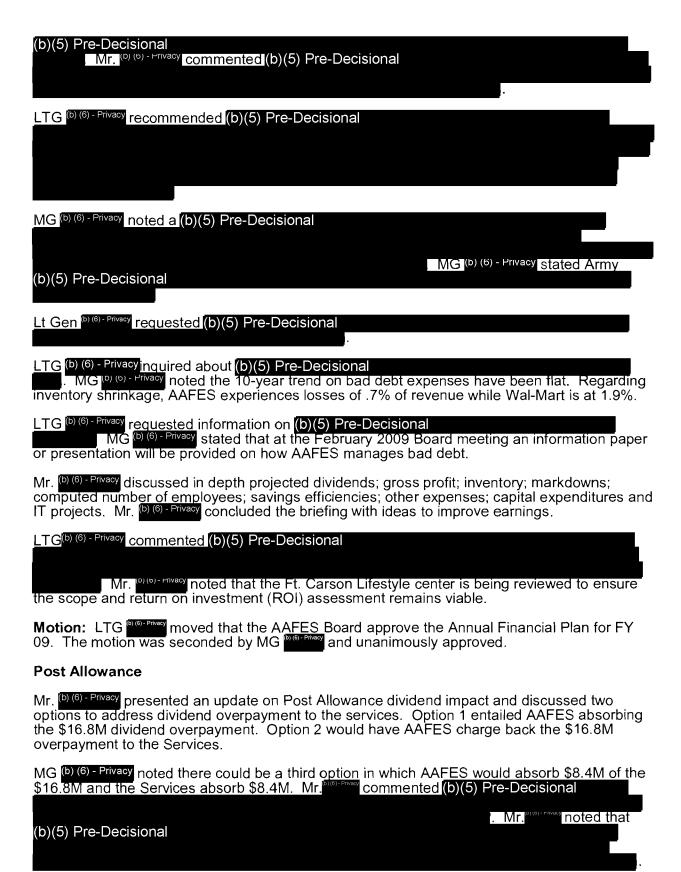
Mr. (b) (6) - Privacy began the presentation briefing current unfavorable retail industry projections and current company bankruptcies/store closings. He indicated total revenue and earnings projections for FY 09 were established utilizing 2007 long-range numbers which were pre-Resilian results. He noted total revenue forecasted for FY 09 is \$9.9B with earnings of \$290M. Earnings without appropriated fund (APF) support were presented and broken out in expense/income categories.

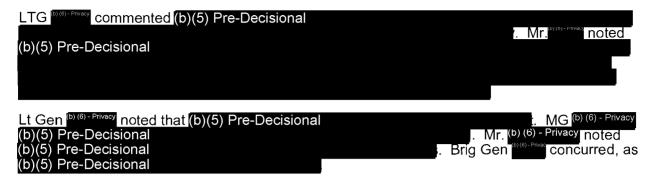
Mr. (b) (6) - Privacy noted two significant unplanned events which positively affected FY 08 results and are not anticipated for FY 09. Increased IRS offset receipts (bad debt income from economic stimulus checks) and lower interest expense (financing costs) the first half of the year. Mr. (b) (6) - Privacy addressed AAFES planning assumptions and noted the Annual Financial Plan (AFP) process started in August 2008. He noted since that time conditions have continued to change dramatically.

Lt Gen (b) (6) - Privacy inquired (b) (5) Pre-Decisional ... MG (b) (6) - Privacy commented that AAFES utilizes many of the same consulting companies and data pools which the retail industry at large utilizes. MG (b) (6) - Privacy inquired (b) (5) Pre-Decisional ... MG (c) (b) - Privacy inquired (b) (c) - Privacy inquired (c) (c) - Privacy inq

MG (b) (6) - Privacy noted AAFES spends approximately 2.7% of the revenue stream on capital expenditures (CapEx). Wal-Mart spends approximately 4.5% while Kohl's spends 7.8% and Target approximately 7%. Target and Kohl's CapEx are being reduced with Wal-Mart's on the increase. He noted AAFES is currently undercapitalized relative to the market place. AAFES must seize this opportunity to invest as it definitely is the time to make a difference for the future.

MG (b) (6) - Privacy commented that in terms of the Board remaining focused on the AAFES enterprise, a consistent dividend stream in which variance and uncertainty are removed may also be desired. Mr. (b) (6) - Privacy commented that (b) (5) Pre-Decisional inquired if (b) (5) Pre-Decisional MG (b) (6) - Privacy commented (b) (5) Pre-Decisional Mr. (b) (5) Pre-Decisional inquired if (b) (5) Pre-Deci





After some discussion, the Chairman agreed to defer the original motion and asked AAFES to further explore APF reimbursement.

Debt Portfolio Strategy

Mr. (b) (6) - Privacy briefed the Board that current credit restrictions have negatively affected AAFES borrowing alternatives. He noted that short-term working capital is required to support sales made through the Exchange Credit Program. He addressed forecasted net borrowing requirements utilizing uncommitted and syndicated lines of credit.

Mr. (b) (6) - Privacy presented forecasted borrowing trends and discussed the following solutions to mitigate liquidity risk: A. Create a new 1-year syndicated credit line; B. Privately placed debt; C. Borrow from Army FMWRC and/or AF Services; D. Commercial paper; E. The Federal financing bank; and F. Securitization of the exchange credit receivable. He noted these options were being fully researched and that they require the Office of Secretary of Defense (OSD) coordination/approval.

Mr. (b) (6) - Privacy commented that statutory authority of securitization of the exchange credit receivable may prove difficult. Positive statutory authority will be required, not simply the absence of prohibitions.

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MG (b) (6) - Privacy and Mr. commented (b)(5) Pre-Decisional

Brig Gen (a)(0)-Privacy questioned (b)(5) Pre-Decisional

Mr. (b) (6) - Privacy commented (b)(5) Pre-Decisional
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Post Fiscal Analysis

Mr. (b)(6)-Privacy presented a briefing on the purpose and requirements to provide the Board a post fiscal analysis. The briefing entailed 3rd year results of projects completed in 2003 which were approved with a portfolio projected internal rate of return (IRR) of 7.45% and a net present value (NPV) of \$1.5M. Mr. (b)(6)-Privacy noted that main stores in the portfolio had 25% sales and 45% earnings lift over stores that had no major construction. He presented each project's Board approved IRR and actual IRR for FY 06, FY 07, 4 year average, and FY 08 projected results. Mr. (b)(6)-Privacy noted that project costs on shopping centers were most affected by the Camp Humphrey's project due to currency fluctuation, time extensions and changes in finishes. He addressed the variables which drive IRR calculations, i.e., sales increases, earnings increases and project costs.

Mr. (b)(6)-Privacy summarized discussing a performance improvement plan which would utilize the AAFES balanced score card and business intelligence to improve results. He also addressed the Deloitte modeling methodology tool to improve project IRR forecasting.

SMA (b)(6)-Privacy asked (b)(5) Pre-Decisional Mr. (b)(6)-Privacy noted that troop repositioning estimates and limited facilities were determinant factors. He noted that in the first two years, the project IRR tracked well; however, the opening of two Shoppette facilities and a new main store at Osan AB shifted sales significantly.

Capital Project for Dan Daniels Distribution Center

Mr. [5)(6)-Privacy] presented a project requirement to relocate the Military Clothing Sales Store (MCSS) function from the Atlanta Distribution Center (ADC) located at Ft. Gillem, GA to the Dan Daniel Distribution Center (DDDC), Newport News, VA. The project is required to support BRAC actions at Ft. Gillem and is an out-of-cycle non-discretionary requirement with execution for efficiency required by the 4th quarter of 2009.

Project cost was estimated at \$1.89M and consisted of conveyor hardware, lighting, electrical, and fire suppression systems. The original plan was to relocate the conveying system from ADC to DDDC; however, the two systems are not compatible with each other.

Motion: Mr. moved that the Board of Directors approve the project to relocate the Military Clothing Sales Store (MCSS) function from the Atlanta Distribution Center (ADC) located at Ft. Gillem, GA to the Dan Daniel Distribution Center (DDDC), Newport News, VA, as submitted. The motion was seconded by SMA (D) (G) - Privacy and unanimously approved by the Board.

AUDIT COMMITTEE REPORT

Brig Gen introduced the Audit Committee report. He noted that the Audit Committee now consists of five members all located at the Pentagon. This change improves the likelihood of attendance of all five members. Brig Gen also noted the Audit Committee reviewed the reporting relationship of the internal auditors to ensure proper due diligence and independence as a committee and Board. Mr. presented the standards stipulated by the Internal Institute of Auditors to ensure independent administrative and functional oversight. It was also noted that the Air Force Auditor General participates in oversight by providing a Chief Auditor to AAFES. The Audit Committee was satisfied that the current organization and reporting structure was adequate and appropriate.

Brig Gen Price noted the Audit Committee met on 15 October 2008, and then introduced Mr. Director, AAFES Audit Division, to provide the Audit Report.

Mr. (b) (6) - Privacy briefed the Board on one internal audit report and a CPA contract extension.

Internal Reports

Mr. (b) (6) - Privacy provided the background, purpose and conclusions of the internal audit of the Military Star Program.

CPA Contract Extension

Mr. (b)(6)-Privacy provided timelines on the current contract with Ernst & Young, LLP and noted the contract was extended two years to 30 June 2010 for \$1.61M.

MG (b) (6) - Privacy thanked Brig Gen (16) - Privacy and Inoted the importance of the audit function and necessary oversight provided.

BOARD MEETING DATES 2009

Mr. noted that based on the Chairman's calendar the following dates are submitted:

04 February 2009

- 13 May 2009
- 12 August 2009 (Date was subsequently changed to 13 Aug by the Chairman.)
- 04 November 2009

Brig Gen noted concerns with budget rollout and testimony requirements in February. LTG proposed the February meeting be held in Washington DC. MG (b) (6) - Privacy proposed meetings be conducted at Ft. Lewis/McCord in May 2009 and Kaiserslautern Germany (KMCC) in November 2009. He discussed the value gained in visiting the stores.

Lt Gen Commented that the proposal to have a meeting at site exchange locations has merit and provides additional Board member familiarity with AAFES retail requirements and programs.

Lt Gen [6] (6) - Privacy finalized 04 February 2009 Board meeting would be held in Washington DC at Andrews AFB. He noted the May 2009 and November 2009 meeting locations would be finalized at a later date.

BOARD TRAINING

MG (6) - Privacy discussed a two-day Board of Directors annual training program offering 14 specific subjects for approximately \$59K for 25 participants. Professors would attend from Harvard and University of North Carolina. The training location would not be at the UNC campus to keep expenditures in line. He commented that the training would be valuable and beneficial in Board oversight. Additional refresher training would be offered as required.

MG (b) (6) - Privacy noted fund expenditures for the program need to be determined. LTG Stevenson commented that transportation should be funded by the individual members.

Motion: Lt Gen both moved that the Board of Directors approve the BOD training proposal. The motion was seconded by Ms. both motion was seconded by Ms. both

FINAL COMMENTS AND ADJOURNMENT

Lt Gen thanked Board members and the AAFES executive leadership for their support of the organization. He noted the current volatility in the economy and significant movement of soldiers and their families within the next several years. AAFES must remain proactive to meet these challenges successfully. He noted he was impressed with the support of AAFES with Hurricane Ike and noted we need to take these initiatives to the next level with regard to contingency support for NORTHCOM or other Areas of Responsibility (AORs).

Lt Gen (b) (6) - Privacy requested an update on a building enclosure between the BX and DeCA at Minot AFB.

MG commented that Guard and Reserve components are being contacted to determine how AAFES can better support their mission. Additionally, information is being communicated on what current support AAFES provides, to include support at training exercises.

ADJOURNMENT:

The meeting adjourned at 1400 hours.

SUMMARY OF MOTIONS:

- 1. Board minutes of 14 August 2008 were approved.
- 2. AFP 2009 approved.
- 3. Deferment of action in order to determine that all AFP reimbursement options have been pursued.
- 4. Capital Project for Dan Daniels Distribution center was approved.
- Board training proposal was approved.

SUMMARY OF FOLLOW-ON ACTIONS:

- 1. Update on contingency operations and interface with NORTHCOM.
- 2. Fact paper on DSCP shortages.
- 3. Operational updates on Ft. Bliss
- 4. Ft. Bliss dividend forecasting at various levels of leasing occupancy.
- 5. Internet kiosk location testing
- 6. Dividend normalization options (Finance Committee).
- 7. AAFES credit management (bad debt).
- 8. Minot AFB enclosure.

(b) (6) - Privacy

Executive Secretary

APPROVED:

20 DEC 2008

(b) (6) - Privacy

Lieutenant General, USAF Chairman

MINUTES OF THE REGULAR MEETING OF THE BOARD OF DIRECTORS ARMY AND AIR FORCE EXCHANGE SERVICE

4 February 2009

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MINUTES OF THE REGULAR MEETING BOARD OF DIRECTORS ARMY & AIR FORCE EXCHANGE SERVICE (AAFES)

The 255th meeting of the AAFES Board of Directors was called to order by the Chairman on 4 February 2009 in the Officers Club, Ft. Myer, Virginia.

ATTENDANCE

MEMBERS PRESENT; (b)(6) Privacy and DoD Names List		
ALTERNATES PRESENT: b)(6) Privacy and DoD Names List		
MEMBERS ABSENT: (b)(6) Privacy and DoD Names List		
SECRETARIAT: (b)(6) Privacy and DoD Names List	1	
DOADD ODECCNIERO.		
BOARD PRESENTERS: b)(6) Privacy and DoD Names List		

OPENING COMMENTS BY THE CHAIRMAN

Noting a quorum was present, the Chairman, Lt Gen opened the 255th meeting at 0800, welcomed all Board members and recognized new members. Lt Gen thanked the members and alternates present and noted the Board is tasked with a great responsibility and opportunity to make a difference for our Soldiers, Airmen and family members. He noted that during his tenure, AAFES has achieved significant progress, but continues to face challenges which require total board member support.

OUT-OF-SESSION ITEMS

The Chairman noted there were no out of session action items.

APPROVAL OF NOVEMBER 2008 BOD MINUTES

Lt Gen noted the minutes of the 6 November 2008 meeting and asked for any corrections or additions. He asked for a motion to approve the minutes.

Motion: Ms moved that the Board of Directors approve the minutes of 6 November 2008 as written. The motion was seconded by Mr. (b) (6) - Privacy and unanimously approved by the Board.

AAFES COMMANDER'S REPORT

The Chairman then called for the AAFES Commander to provide the Board with an update on the organization.

MG (b) (6) - Privacy briefing focused on the tumultuous time ahead for retailers which he called "White Water Retailing". He addressed the dire current events facing retailers and discussed the following: rising unemployment and the economic effects; excessive consumer debt to disposable income; decreasing retail profitability and capital expenditures; vendor bankruptcies; and the way ahead in terms of estimated dates of economic improvement.

MG (b) (6) - Privacy noted that AAFES is at a crossroads and that this is a time of opportunity, especially in terms of capital investment. He noted AAFES should aggressively invest for the future and make inroads while other retailers are in retrenchment. MG addressed the strategic plan of "Winning the Future" in 2009 and addressed in detail the pricing and promotion challenges ahead and that AAFES will be required to strike the right balance between providing value to customers at the point of sale and at the dividend stream. Mr. (b) (5) Pre-Decisional

MG addressed several initiatives to establish and maintain relationships with manufacturers to include an upcoming symposium at AAFES HQ. He noted that AAFES has a distinct advantage now as our market share with key manufacturers improves as other retailers downsize or fail. Brig Gen inquired if the military, as a gated community, is seeing improvements in favorable treatment by companies such as Starbucks. MG (b) (c) - Privacy commented that improved vendor flexibility and support of AAFES requirements is occurring.

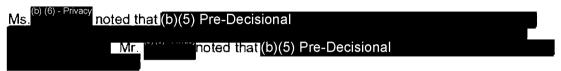
discussed that aggressive pricing and promotion will be required to prompt customers into the store initially, but improving the "In-store" experience will be necessary to developing a life-long emotional connection. Lt Gen (b) (5) Pre-Decisional

. MG (b) (c) History (discussed the family covenant deployment)

passbook initiative. LTG commented (b)(5) Pre-Decisional

PT UNIFORMS

Chief briefed on the current status of the Army PT uniform. He noted that currently the fill rate from the Defense Supply Center Philadelphia (DSCP) is 29% for the shirts and 30% for the shorts. Chief discussed that AAFES is aggressively pursuing commercial options to meet this shortfall and provided a comparable sample to Board members. He noted that if AAFES received approval from Army, relief could start in approximately eight weeks. MG (D) (G) - Privacy commented that 1/3 of all customer comments AAFES received concerned Military Clothing Sales Store (MCSS) out of stocks.



Chief noted that the MCSS stores belong to the Services and the Services pay AAFES a management fee for DSCP issue items sold.

OPERATIONS UPDATE

Mr. (b) (6)-Privacy provided a briefing on AAFES operations. He addressed the current retail industry and noted that a great opportunity exists for AAFES to gain market share as retailers consolidate or close. He provided an update on AAFES same-store sales versus industry and discussed key favorable and unfavorable retail departmental trends He noted that AAFES Regions have been aggressive in minimizing loss and marginal facilities.

Mr. discussed customer acceptance and financial success in the following concepts: GameStop; Premium Java Coffee; Firestone; and Apple "store in store" locations. He addressed the benefits of business intelligence (BI) and solution selling which has driven Main Stores average transactions-per-customer upward. Mr. briefed that the Customer Satisfaction Index (CSI) focus in 2009 will be on: Merchandise selection, pricing, sales promotions, and problem resolution. He noted the importance of associate training and customer interaction directly with HQ AAFES elements and addressed video teleconferencing initiatives for 2009.

MG^(b) (6) - Privacy discussed the benefits and overall impact of utilizing the "blogosphere" and "twitterburst" mediums to reach customers and AAFES associates. MG (b) (6) - Privacy noted AAFES must improve at communicating our "big picture" value to the military customer.

Mr. (b) (6) - Privacy concluded with an update of enhancements in 2009 for the aafes.com website. He also discussed the internet kiosk pilot placement program.

AUDIT COMMITTEE REPORT

Brig Gen noted the Audit Committee met on 14 January 2009, provided an outline of the briefing and introduced Mr. Director, AAFES Audit Division, to present the Audit Report.

Mr. (b) (6) - Privacy briefed the Board on one external audit plan for FY 2008 statements, one internal audit plan for FY 2009, and four internal audit reports.

External Audit Plan - FY 2008

Mr. noted the audit is expected to be completed by May 2009. He commented that no significant internal control problems have been brought forward by Ernst and Young, LLP.

Internal Audit Plan - FY 2009

Mr discussed topics chosen. He noted the Audit Division had received 166 suggestions from the field, of which a risk assessment was accomplished and 20 were selected.

Lt Gen (b) (6) - Privacy inquired about (b) (5) Pre-Decisional

Brig Gen (b) (6) - Privacy noted that AAFES currently has an executive steering group which reviews this requirement to ensure the safeguarding of our customer's identity. Any lapse in protection and oversight is unacceptable. Mr. (b) (6) - Privacy commented that AAFES oversees the credit card processing function for MWR facilities OCONUS and provides significant cost avoidance.

Mr. also noted a planned organizational audit of AAFES Europe will be conducted in FY 2009.

Internal Audit Reports

Mr (b) (6) - Privacy addressed in detail two internal audit reports: Overseas vehicles and dividend calculations and distributions. He noted the overseas vehicles audit included a monetary savings of \$6.8 M based on not replacing underutilized vehicles. He noted also that two management assistance reviews were conducted: Workers compensation and the closure of Puerto Rico National Guard facilities.

Mr. onted on dividend calculations that there are currently 40 separate smaller memorandums of agreement (MOAs) set up in addition to the primary breakout between the services. MG (b) (6) - Privacy commented that these local Command requests had been established over the last 20 years. Lt Gen

. Mr suggested al(b)(5) Pre-Decisional

Lt Ge

concurred and request an update at the May 2009 BoD meeting.

Lt Gen emphasized that the Audit Committee provides a great opportunity for Board members to bring forward topics of concern to review.

FINANCE COMMITTEE REPORT

Mr. (b) (6) - Privacy stated the Finance Committee met on 14 January 2009 and introduced Mr. (b) (6) - Privacy AAFES Chief Financial Officer, to provide presentations on: The Financial Status of AAFES; a Capital Project for debit card acceptance at pump islands; and the Long range 2009 capital program.

Financial Status Report

Mr. (b) (6) - Privacy addressed the financial results through December 2008.

Revenue. Results year-to-date (YTD) December 2008 were 2% above last year (LY) and 0% above plan. Increased revenue at specialty stores, Military Clothing Sales

Stores (MCSS), and food facilities along with gasoline pricing were primary components. Finance revenue decreased \$29M or 13% primarily due to the decrease in the Military Star Annual Percentage Rate (APR). Concession income increased \$8.9M from the prior year due to an increase of 91 OEF/OIF concession operations.

Other income increased \$1.7M or 5% which was driven by the MilStar rebate program which provides the store \$100 for every application processed. This is offset by an expense so it is not an actual increase. If this were not considered, other income would have decreased by \$8.4M, due to the sale of the AOC HQ building in 2007.

<u>Net Earnings.</u> Results are 7% below LY and 6% above plan, exclusive of appropriated fund (APF) support.

<u>Dividends</u>. Dividends earned YTD December 2008 are \$219.2M, down \$12.2M from LY.

Mr. (b) (6) - Privacy addressed FY 08 key impacts and anomalies in net sales; cost of goods sold; markdowns; selling, general & administrative expense (SG&A); and inventory. He noted based on current economic trends FY 08 sales are forecasted at \$8.422B and earnings at \$301M.

Upcoming Project Requiring BoD Approval (Capital Project for Debit Card Acceptance at the Pump Islands)

Mr. (b) (6) - Privacy provided a detailed briefing on upgrading the pay-at—the-pump hardware to accept debit cards, and highlighted the presentation with benefits and estimated costs. SGM (b) (6) - Privacy inquired (b) (5) Pre-Decisional . Mr. (b) (6) - Privacy noted that with Board approval of the definition stage, vendor estimates will be obtained which will reduce cost estimate unknowns. Lt Gen (b) (6) - Privacy commented that

Lt Ger^{(b) (6) - Privacy}requested (b)(5) Pre-Decisional

Motion: Mr. (b) (6) - Privacy moved that the AAFES Board approve the funding for the definition stage of debit card pay at the pump project. The motion was seconded by Mr. (b) (6) - Privacy and unanimously approved.

Long Range Capital Program

Mr. provided a detailed briefing on the FY 09 Long Range Capital Program (LRCP) projects submitted for Board action and scheduled for a construction start in 2010. He explained the Internal Rate of Return (IRR) banding forecasting tool, growth projects (above 7% IRR), service projects (below 7% IRR), image upgrade/sustainment strategies and resubmittal projects.

Mr. noted that AAFES' top priority is to support military transformation and that nine projects met this requirement. He also noted that AAFES has incorporated the U.S. Green Building Council Leadership and Energy Environment Design (LEED) standards for new construction.

Mr. presented 15 new construction/expansion projects and 8 image updates with a value of \$162.8M. He noted the Finance Committee reviewed these projects at their 14 January 2009 meeting and recommended approval. Mr. (b)(6)-Privacy commented

that there are three shopping center projects in this year's submission representing 32% of total cost; McConnell AFB, USAG Ansbach, and Kirtland AFB. LTG (b)(5) Pre-Decisional

Maj Gen Mr. (b) (6) - Privacy requested clarification (b) (5) Pre-Decisional Mr. (c) (6) - Privacy and private industry input to be a prudent return on investment. Mr. (d) (6) - Privacy also commented that although projects generally must meet an IRR of 7%, an overall portfolio for the year is submitted so that service projects with a midrange IRR of less than 7% are not automatically excluded. Lt Gen (c) (6) - Privacy inquired (b) (5) Pre-Decisional II. Mr. (b) (6) - Privacy commented that IRR handing assists the Finance Committee by enhancing the decision making review. Mr. (c) (6) - Privacy inquired (d) (7) Pri

Motion: Mr moved that the Board of Directors approve the growth projects as submitted below. The motion was seconded by LTG

INSTALLATION		DESCRIPTION	COST(\$000)
FT STEWART, GA	NEW CONSTRUCTION	MINI MALL/SUBWAY/GAS (BCT)	3,818
SOUTHCOM, FL	NEW CONSTRUCTION	MINI MALL/FOOD COURT	3,959
FT SILL, OK	NEW CONSTRUCTION	DUAL FOOD -BK/CHURCH'S CHICKEN	4,593
FT EUSTIS, VA	NEW CONSTRUCTION	SHOPPETTE/SUBWAY/GAS/Car Wash (CW)	4,846
FT SILL, OK	NEW CONSTRUCTION	SHOPPETTE/SUBWAY/GAS/CW (SHERIDAN E.)	6,100
FT BLISS, TX	NEW CONSTRUCTION	MINI MALL/BK/SUBWAY/GAS (BCT)	5,522
EGLIN AFB, FL	NEW CONSTRUCTION	MINI MALL/SUBWAY/GAS (7TH SFG)	5,036
FT CARSON, CO	NEW CONSTRUCTION	TRI FOOD - BK/MW/BAGELS	5,276
FT SILL, OK	EXPANSION	SHOPPETTE/GAS (SHERIDAN SOUTH)	4,558
FT CARSON, CO	NEW CONSTRUCTION	MINI MALL/SUBWAY/GAS (BCT)	4,858
ANDREWS AFB, MD	NEW CONSTRUCTION	SHOPPETTE/SUBWAY/GAS	6,017
CAMP BULLIS, TX	NEW CONSTRUCTION	MINI MALL/BK/GAS	3,608

Motion: Mr (b) (6) - Privacy moved that the Board of Directors approve the service projects as submitted below. The motion was seconded by MG (b) (6) - Privacy and unanimously approved by the Board.

INSTALLATION	DESCRIPTION		COST (\$000)
ANSBACH, GE	NEW CONSTRUCTION	SHOPPING CENTER/GAS	23,144
KIRTLAND AFB, NM	NEW CONSTRUCTION	SHOPPING CENTER	20,640
MCCONNELL AFB, KS	EXPANSION	SHOPPING CENTER	8,511

Motion: Mr. (b) (6) - Privacy moved that the Board of Directors approve the image update program as listed below and waive the viability reconfirmation requirement by the Senior Board member of the affected service. The motion was seconded by Maj Gen (b) (6) - Privacy and unanimously approved by the Board.

INSTALLATION	DESCRIPTION		COST (\$000)
COLUMBUS AFB, MS	IMAGE UPDATE	SHOPPING CENTER	3,334
FT DIX/MCGUIRE AFB, NJ	IMAGE UPDATE	SHOPPING CENTER	9,502
EDWARDS AFB, CA	IMAGE UPDATE	SHOPPING CENTER	2,597
ELMENDORF AFB, AK	IMAGE UPDATE	SHOPPING CENTER	4,345
FT HAMILTON, NY	IMAGE UPDATE	SHOPPING CENTER	8,791
HICKAM AFB, HI	IMAGE UPDATE	SHOPPING CENTER	7,165
MAXWELL AFB, AL	IMAGE UPDATE	SHOPPING CENTER	8,635
TRAVIS AFB, CA	IMAGE UPDATE	SHOPPING CENTER	7,992

Motion: Ms^{(b) (6) - Privacy} moved that the Board of Directors approve the resubmitted projects as submitted below. The motion was seconded by Mr. and unanimously approved by the Board.

INSTALLATION	DESCRIPTION		COST (\$000)
RAMSTEIN AB, GE	NEW CONSTRUCTION	SHOPPETTE/GAS	8,512
SPANGDAHLEM AB, GE	NEW CONSTRUCTION	SHOPPING CENTER	29,898

Due to time constraints, the scheduled topics on Dividend Stabilization and the Exchange Credit Program were deferred to the next Board meeting.

DAIG INSPECTION REPORT

Co the standard that there were no findings in repart to AAFES Exchange Operating Procedures or standards and introduced LTC

LTC provided an in-depth briefing of: The scope and objectives; sites visited; methodology; and significant observations and recommendations.

MG (b) (6) - Privacy noted that these observations and customer perceptions require AAFES to improve communication efforts. He commented that these observations are appreciated and AAFES will take the concerns that make sense and place action plans into place. Lt Gen (c) - Privacy requested that (b) (5) Pre-Decisional

Lt Gen (b) (6)-Privacy thanked the DAIG for their due diligence to improve AAFES support for its service members and their families.

FINAL COMMENTS AND ADJOURNMENT

Lt Gen thanked Board members and the AAFES executive leadership for their support of the organization. He noted that Board members must support and equip AAFES for long-term sustainability and success. Lt Gen thanked MG (b) (6) - Privacy for the monthly updates.

Lt Gen noted that he is more inclined to hold future Board meetings either at HQ AAFES or at selected exchanges so that interaction between Board members and AAFES associates and customers occurs. He noted the 14 May 2009 Board meeting will be in HQ AAFES and that a Board member orientation will be provided for new members. He also noted that the November 2009 Board meeting is scheduled to be held in Kajserslautern, Germany.

Lt Gen^{(b) (6) - Privacy} requested MG^{(b) (6) - Privacy}(b)(5) Pre-Decisional

Maj Gen^{(b) (6) - Privacy} noted he would be glad to utilize all venues available to communicate the AAFES message

LTG (b) (6) - Privacy commented (b) (5) Pre-Decisional

ADJOURNMENT:

The meeting adjourned at 1400 hours.

SUMMARY OF MOTIONS:

- 1. Board minutes of 6 November 2008 were approved.
- 2. The Board approved funding for the definition stage of the debit card at the pump project.
- 3. The Board approved in total the long-range capital program for FY 2009.

SUMMARY OF FOLLOW-ON ACTIONS:

- 1. Present to the Board marketing and public affairs initiatives which demonstrate the "value" service members derive from shopping and supporting AAFES.
- 2. Establish a working group of Board members to bring to the BOD recommendations on simplifying dividend calculations and distributions.
- 3. The Finance Committee needs to establish a proper threshold on future project review approval.
- 4. Track and report to the Board at the November 2009 meeting how AAFES is responding to DAIG recommendations.

(b) (6) - Privacy

Executive Secretary

APPROVED:

2 8 FEB 2009

(b) (6) - Privacy

Lieutenant General, USAF Chairman

MINUTES OF THE REGULAR MEETING OF THE BOARD OF DIRECTORS ARMY AND AIR FORCE EXCHANGE SERVICE

13 May 2009

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MINUTES OF THE REGULAR MEETING BOARD OF DIRECTORS ARMY & AIR FORCE EXCHANGE SERVICE (AAFES)

The 256th meeting of the AAFES Board of Directors was called to order by the Senior Member on 13 May 2009 in the Board Room, HQ AAFES, Dallas, Texas.

ATTENDANCE

MEMBERS PRESENT:	
(b)(6) Privacy and DoD Names List	
ALTERNATES PRESENT: (b)(6) Privacy and DoD Names List	
(b)(c) Filvacy and bob Names List	
MEMBERS ABSENT:	
(b)(6) Privacy and DoD Names List	
SECDETADIAT:	
SECRETARIAT: (b)(6) Privacy and DoD Names List	
DOADD DDFOENTEDS.	
BOARD PRESENTERS: (b)(6) Privacy and DoD Names List	

OPENING COMMENTS BY THE CHAIRMAN

A quorum being present, the Senior Member and Acting Chairman, LTG opened the 256th meeting of the Board of Directors at 0800 and thanked all members for attending to important business at hand.

OUT-OF-SESSION ITEMS

The Chairman was advised by the Executive Secretary that there were no out-of-session actions.

APPROVAL OF FEBRUARY 2009 BOD MINUTES

LTG (b) (6) - Privacy asked for any corrections or additions to the minutes of the 4 February 2009 meeting and, there being none, asked for a motion to approve the minutes.

Motion: CMSAF moved that the Board of Directors approve the minutes of 4 February 2009 as written. The motion was seconded by Mr. (b) (6) - Privacy and unanimously approved by the Board.

AAFES COMMANDER'S REPORT

The Chairman then asked the AAFES Commander to provide the Board with an update.

MG reminded members of his discussion on "White Water Retailing" at the February meeting. He continued that discussion noting retailers are facing double-digit sales declines while value has become the AAFES customers' key driver as they focus on necessities. As a retailer, AAFES can be either pessimistic or optimistic. AAFES' optimistic goal is to take advantage of the economic downturn to achieve market leadership in its customer group.

MG (b) (6) - Privacy went on to state that many smart companies have prospered coming out of economic downturns by resisting the temptation to retreat and wait for recovery. Economic turbulence brings both opportunity and risk. Those who fail to prepare for the future will lose market share. AAFES will posture to emerge in a stronger position by taking positive steps before the economic upturn. AAFES will remain competitive, keep its existing customers and deliver excellence in customer service to grow customer base. AAFES' goal is customer loyalty - the highest achievement a retailer can target with customers. MG (b) (6) - Privacy discussed a variety of ways AAFES plans to achieve customer loyalty including promoting its value benefit to get customers to switch to AAFES and then focus on customer service to keep their loyalty. The importance of the value equation (price and promotion) to gaining customers raises a fundamental and important question about balancing the exchange benefit between the cash register and the dividend stream.

MG (b) (6) - Privacy also discussed this "time of opportunity" in terms of capital investment. He reiterated the need for AAFES to continue to invest in good ROI projects for the future in order to make inroads while other retailers retrench. He noted that AAFES had a "Plan B" in the event revenues declined due to the economy. Key aspects of that plan are to focus on improving our supply chain and customer relationship management systems to enable us to better serve our customer in the long term.

AAFES CONSULTANT'S REPORT

Dr. (b) (6) - Privacy Consultant to the AAFES Commander, (b) (5) Pre-Decisional



NEXT GENERATION STORE DEVELOPMENT

Mr. b)(6)-Privacy provided a briefing on the next generation stores AAFES will build. He reviewed the evolution of AAFES flagship PX and BX Shopping Centers which were a major leap forward from previous installation-provided facilities not designed for retail. In 2004, AAFES launched its first prototype shopping centers with significantly larger new stores.

The store of AAFES future – the next generation shopping centers – will focus on "brand integration" to implement a consistent and complete branding image AAFES-wide. They will rely on "customer centricity" and the emerging strategy of "shopper marketing" to provide great customer service using new and emerging technologies. Mr. [D16]—Privacy also responded to questions regarding energy consumption and AAFES' ability to meet energy conservation goals.

FINANCE COMMITTEE REPORT

Mr. (b) (6) - Privacy stated the Finance Committee met on 15 April 2009 and introduced Mr. (b) (6) - Privacy AAFES Chief Financial Officer, to provide presentations on the financial status of AAFES, the exchange credit program, AAFES headquarters master plan, and Board approval criteria for IT projects. The presentation on the AAFES dividend policy review, requested by LI Gen (b) (6) - Privacy will be deferred until the next meeting.

Financial Status Report

Mr^{(b) (6) - Privacy}addressed AAFES financial results for the retail fiscal year (FY) 2008:

Revenues increased \$156.5M (2%) due to higher gas sales which were driven by a 12% higher price per gallon. Net Sales without gas increased 1% over the prior year. Same Store Sales without gas were up 0.6% compared to Wal-Mart's industry-leading same store sales (without gas) increase of 2.1% and Target's same store sales decline of 2.9%.

<u>Earnings</u> without appropriated funds (APF) were down 1% on the year - partially driven by post allowance payments, higher depreciation (Retek began capitalization), and increases in other expenses. Despite these increases, bad debt expense decreased \$39.2M in FY08 (due to the collection of IRS stimulus checks) minimizing the negative impact on earnings. Appropriated fund support of \$98.7M received in FY08 offset incremental costs of contingency operations and contributed to earnings with APF increasing 1% on the year.

<u>Dividends</u> decreased 4% in FY08 compared to FY07. A major contributor to this decrease was the closure of Puerto Rico National Guard stores resulting in a decreased Army Class Six dividend of \$7.5M. The telephone dividend also decreased \$7.9M, largely driven by a one-time Korea phone payment made in FY07. The FY08 core dividend was up \$1.7M which, combined with APF received, helped AAFES mitigate the losses in Class Six and telephone. On a positive note, FY08 dividends exceeded plan by 31%.

Mr. also addressed key impacts and anomalies in 2008 operating results and presented results for March and April 2009. Gasoline price fluctuations will continue to impact results in 2009.

Exchange Credit Program

Mr. (b) (6) - Privacy provided a detailed briefing on the Military Star program and the co-branded Military Star combined revolving exchange credit and rewards Master Card line of credit accounts for qualifying customers. Military Star offers authorized customers unmatched pricing and benefits compared to other retail credit products. Interest rates are very competitive, based solely on prevailing prime rate without a delinquency rate, over limit, late or other predatory lending fees. In addition, Military Star offers deployed personnel options targeted at their specific (family) needs. Deployed accounts may be frozen (no payments or charges) at NO interest during the deployment, or charges and payments may be continued at reduced interest rates (6%) during that period.

Mr. (b) (6) - Privacy briefing included a review of a customer's new account experience to include credit education, customer support and special handling available, as well as delinquent account processing. Maj Gen (commented that the program was a huge benefit to young soldiers, providing the opportunity for new customers to start out right with their personal financial management.

Approval of Information Technology Projects

Mr. (b) (6) - Privacy presented AAFES' "Approval Gate Framework" for initial expenses on the viability and scope of IT projects. At the direction of the Board, the Finance Committee had reviewed and approved the framework.

Master Plan for HQ AAFES

Mr. Previewed a recent master plan effort for the AAFES Headquarters and its recommendation for strategic relocation. He cautioned that the effort was not a project at this point; rather, it was a strategic direction on which feedback was sought. The Finance Committee recommended to the Board that AAFES should continue to explore the feasibility and benefits of a relocation. Mr briefly covered the history of the headquarters in Dallas and the building's condition. The 42-year-old structure requires recapitalization. It does not meet current life safety, code compliance requirements and has antiquated mechanical and electrical systems. Also, the lease of interim space at the Stoneridge building, approved in 2004 as a bridging strategy, expires in two years. The Finance Committee had directed lease purchase analysis for the lease decision. These issues drove the hiring of Jones Lang LaSalle (JLL) through a qualitative process to Master Plan the AAFES HQ.

Mr. provided the effort's results and JLL's long-term recommendations which included options for the status quo, consolidating all requirements at the existing campus and moving the Headquarters to another location within the Dallas/Fort Worth (DFW) metroplex. The potential move of the Headquarters to a military installation had been eliminated for lack of an existing building based on work with the office of the Assistant Chief of Staff for Installation Management, the Air Force Real Property Agency or the General Services Administration.

asked when a decision was needed. Mr. (b) (6) - Privacy aid that the project could not be completed any earlier than 2016, so an immediate decision was not required. He suggested at this point, with the Board's concurrence, AAFES would refine its analysis and update the Board at the August meeting. MG (b) (6) - Privacy said AAFES would fully analyze financing options, dividend scenarios, impact on other projects, and other aspects in order to provide the Board with a look at how everything fits together. Mr. (b) (6) - Privacy asked that the analysis also include a 10-year review of all capital requirements and all existing and potential sources (including debt) and uses of capital funds.

Mr. Continued, presenting the need to renew AAFES' lease for the Stonebridge office facility. His presentation included the results of the lease purchase analysis requested by the Finance Committee. Based on asking prices, the lease option provided the best five-year NPV. If AAFES required longer use of Stoneridge, the best NPV switches to the buy alternative at seven years. Also, if AAFES can negotiate a purchase of Stoneridge for \$6.9M or less, the buy becomes the best five year NPV. Mr. (D) (G) Finance recommended AAFES continue to negotiate both lease and purchase alternatives.

Motion: Maj Gen (b) (6) - Privacy moved that the Board of Directors approve the extension of the Stoneridge lease for an additional five years and conduct ongoing negotiation of an option to buy the property. AAFES will also continue analysis of its headquarters relocation, additional financial analysis of 10-year capital requirements and sources and uses of capital funds. AAFES will update the Board at the Aug 2009 meeting. Mr. (b) (c) - Privacy moved to second the motion which passed unanimously.

PT UNIFORMS

Chief discussed that AAFES has identified a commercial option which can meet requirements at sufficient savings to fund expanded supplies through DSCP. He noted that if AAFES received approval from Army, relief could start in approximately eight weeks. One third of all customer comments AAFES received concerned Military Clothing Sales Store (MCSS) out-of-stocks. LTG (b) (6) - Privacy said that he (b) (5) Pre-Decisional

AUDIT COMMITTEE REPORT

On behalf of Brig Gen College College

Mr^(b) criefed the Board on the steps in progress to solicit a new contract for Certified Public Accountants to audit AAFES financial statements. The current CPA contract ends in June 2010. The solicitation will be a "value added procurement" to be awarded based on best value to AAFES. The Audit Committee will recommend the contract award for the Board's approval in May 2010.

Internal Audit Reports

Mr. (b) (6) - Privacy addressed in detail three internal audit reports: Movie Theater Operations, Consulting and Labor Contracts and Catalog/Ecommerce Operations. MG (b) (6) - Privacy and Brig Ger (b) (6) - Privacy and Internal audit of consulting services and labor contracts, MG (b) (6) - Privacy asked if (b) (5) Pre-Decisional ... Mr. (b) (6) - Privacy (b) (5) Pre-Decisional ... Mr. (b) (6) - Privacy (b) (5) Pre-Decisional ... Mr. (b) (6) - Privacy (b) (5) Pre-Decisional ... Mr. (b) (6) - Privacy (b) (5) Pre-Decisional ... Mr. (b) (6) - Privacy (b) (5) Pre-Decisional ... Mr. (c) (6) - Privacy (b) (7) Pre-Decisional ... Mr. (d) (6) - Privacy (b) (7) Pre-Decisional ... Mr. (d) (6) - Privacy (b) (7) Privacy (b) (7) Privacy (b) (7) Privacy (b) (7) Privacy (6) (7) Privacy (6) (7) Privacy (7

FINAL COMMENTS AND ADJOURNMENT

LTG^{(b) (6) - Privacy} thanked Board members and the AAFES executive leadership for their support of the organization. He asked members for closing comments:

- Mr. (b)(6)-Privacy thanked MG(b)(6)-Privacy for the candor with which AAFES attacked problem areas. The new Commander, Army Family and Morale Welfare and Recreation Command, BG should be on board to attend the August meeting.
- LTG eported to the Board on the status of the POL Fuel Card assessment by the German government.
- MG (b) (6) Privacy thanked all members for their participation, noting that AAFES cannot be successful without the Board's guidance.

ADJOURNMENT:

The meeting adjourned at 1400 hours.

SUMMARY OF MOTIONS:

- 1. Board minutes of 4 February 2009 were approved.
- 2. The Board approved extension of AAFES lease of the Stoneridge Building for an additional five years, and ongoing negotiation of an option to buy the property.

SUMMARY OF FOLLOW-ON ACTIONS:

AAFES will continue analysis of its headquarters relocation, additional financial analysis of 10-year capital requirements and sources and uses of capital funds, and will update the Board at the Aug 2009 meeting.



APPROVED:

(b) (6) - Privacy

Lieutenant General, USAF

Chairman

MINUTES OF THE REGULAR MEETING OF THE BOARD OF DIRECTORS ARMY AND AIR FORCE EXCHANGE SERVICE

18 August 2009

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MINUTES OF THE REGULAR MEETING BOARD OF DIRECTORS ARMY & AIR FORCE EXCHANGE SERVICE (AAFES)

The 257th meeting of the AAFES Board of Directors was called to order by the Chairman on 18 Aug 2009 in the Board Room, HQ AAFES, Dallas, Texas.

MEMBERS PRESENT:	
MEMBERS PRESENT: (b)(6) Privacy and DoD Names List	
	
ALTERNATES PRESENT:	
(b)(6) Privacy and DoD Names List	
MEMBERS ARCENT.	
MEMBERS ABSENT: (b)(6) Privacy and DoD Names List	
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GUESTS: (b)(6) Privacy and DoD Names List	
(b)(0) Privacy and Dob Names List	

OPENING COMMENTS BY THE CHAIRMAN

A quorum being present, the Chairman, Lt Gen opened the 257th meeting of the Board of Directors at 0800. He thanked all members for attending and welcomed Maj Gen (b) (6) - Privacy and CMSgt (b) (6) - Privacy to their first AAFES Board meeting. The Chairman related to the

with customers first hand and to gauge the impact that the board's decisions have on our Soldiers and Airmen. Their expectations are very high.

OUT-OF-SESSION ITEMS

The Chairman asked if there was any old business. There being no old business, the Executive Secretary advised the Chair that there also were no out-of-session actions, and that the minutes of the May 2009 meeting were before the Board for approval. Mr. eminded the members the session was recorded to assist preparation of minutes.

ERRATA: Notice of two out-of-session actions taken by the Executive Committee in June were provided Board Members for read-ahead prior to the meeting. By oversight they were not addressed to the Board in session and will be provided for formal notice by the Board at the November meeting.

APPROVAL OF MAY 2009 BOD MINUTES

Lt Gen asked for any corrections or additions to the minutes of the 13 May 2009 meeting and, there being none, asked for a motion to approve the minutes.

Motion: LTG moved that the Board of Directors approve the minutes of the 13 May 2009 meeting as written. After second by Maj Gen (6) (6) - Privacy the motion was unanimously approved by the Board.

AAFES COMMANDER'S REPORT

The Chairman reminded the members that the next meeting was planned to be at Kaiserslautern Military Community/Ramstein AFB to see and support the new AAFES store and other new facilities there. He then asked the AAFES Commander to update the Board.

MG (b) (6) - Privacy reviewed AAFES collaboration with its British and Canadian counterparts relative to operations in the AOR. He also discussed efforts with Hewlett Packard which will result in new product offerings in AAFES stores, and with ATT on phone cards. Lt Gen the (b) (5) Pre-Decisional (b) (6) - Privacy assured (b) (5) Pre-Decisional

Other retailers' sales have been either down or flat and the financial industry was dealing with an inability to forecast retail sales and earnings. AAFES most important goal is still to capture customers now. LTG asked how AAFES measures customer reaction. MG (b) (6) - Privacy asked how AAFES measures customer reaction. MG (b) (6) - Privacy asked how AAFES measures customer reaction. MG (c) - Privacy asked how AAFES measures customer reaction. MG (c) - Privacy reviewed AAFES surveys and its participation in the independently conducted American Customer Satisfaction Index. AAFES ACSI scores compare favorably with other retailers.

MG^(b) (6) - Privacy announced to the Board AAFES-planned gasoline promotions designed to generate traffic to the exchange. There will be four more promotions over the next year. Lt Gen suggested the (b)(5) Pre-Decisional

his question, (b) (6) - Privacy assured LTG that the (b)(5) Pre-Decisional

FINANCE COMMITTEE REPORT

Mr. (b) (6) - Privacy (Chair, Finance Committee as Alternate for LTG Stanton) said his report included presentations on the financial status of AAFES, the dividend policy review and related Memorandum update projects for Board approval. He introduced Mr. (b) (6) - Privacy AAFES Chief Financial Officer, to provide the Financial Status Report.

Financial Status Report

Mr^{(b) (6) - Privacy} addressed AAFES financial results to date through retail fiscal year (FY) June 2009:

Revenues decreased \$229.5M (6%) against the same period last year due to the decline in gas sales which was driven by a \$1.34 average lower price per gallon. Net sales without gas increased 1% over the prior year.

Earnings without appropriated funds (APF) were down 4% on the year to date, partially driven by higher depreciation (capitalization of information technology projects) and increased bad debt expense. Bad debt expense in May and June 2008 was abnormally low due to accrual adjustments for automatic collections from IRS stimulus checks. Furthermore, an increase in the number of new Military Star® Card accounts and greater credit use helped drive the rise in bad debt. AAFES has continued to mitigate these increases in depreciation and bad debt expense through improved gross margin rates and effective control over personnel costs.

The increased gross margin over last year can be attributed to a decline in gas cost-of-sales as well as lower cost of sales in hardlines from better terms from vendors, re-costing adjustments, better price management, and lower cost from suppliers with excess inventory.

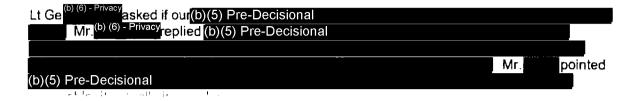
AAFES has also continued to increase finance revenue and concession income compared to last year.

<u>Dividends</u> increased \$7.7M primarily due to increase in core dividends for both Army and Air Force. Without APF expense reimbursement, total dividends increased 4% (\$3.0M) from prior year. Total APF expense reimbursement through June 09 was \$41.6M vs. \$32.2M through June 08. Dividends paid on APF expense reimbursement totaled \$20.8M vs. \$16.1M in dividends paid on APF expense reimbursement through June 08.

Mr also reviewed key impacts and anomalies and sales and earnings projections. Despite the economy's uncertain outlook, AAFES is in position to reach or surpass the planned bottom line number despite the forecasted decrease in net sales (driven by gasoline prices).

LTG^(b) (6) - Privacy inquired about the relationship of appropriated fund reimbursements and dividends. Mr (b) (6) - Privacy advised that expenses that are authorized reimbursement by appropriations initially reduce earnings and hence dividends. Upon reimbursement, the appropriated fund support restores AAFES earnings and dividends.

LTG asked about the ultimate collection of bad debts. Mr advised AAFES collects about 93% of all bad debt. The success rate is assisted by our access to involuntary payroll deduction for active duty debtors and our participation in the Internal Revenue Service Offset Program.



SGM (b) (6) - Privacy asked how (b) (5) Pre-Decisional . Mr. (b) (6) - Privacy inquiry, Mr. (b) (6) - Privacy explained that AAFES incentives for its co-branded MasterCard M/Military Star® Card included a points system that differentiated between on- and off-installation usage.

Dividend Policy Review

Mr. (b) (6) - Privacy first presented the results of the review of the 40 memoranda of agreement or understanding between the Services and AAFES requested by the Chairman to determine if consolidation/reduction was viable. The 40 agreements were re-organized and reclassified as:

- Dividend agreements (Army, AF, Navy and Marine) 19 agreements governing core dividends, alcoholic beverage or Class Six dividends and telecommunications.
- Branch agreements governing Hospitality Management and Name Brand Fast Food
- Installation agreements governing medical services and other local installation agreements

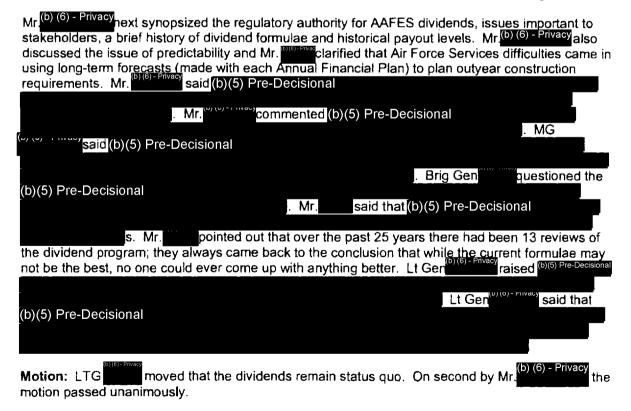


Image Update Projects

Mr. (b) (6) - Privacy Senior Vice President Real Estate presented 12 image update projects which normally would come to the Board next winter. These projects are recommended for acceleration and approval now in order to take advantage of low construction and material prices available in the economy today. He noted that the Finance Committee recommended the projects be approved;

Motion: Mr. moved that the 12 image update projects recommended by the Finance Committee be approved and that the viability reconfirmations be waived. With second, the Board approved the motion unanimously.

Master Plan for AAFES Headquarters

Mr. (b)(6)-Privacy reviewed for new Board members the May meeting presentation on a master plan effort for the AAFES Headquarters including recommendations for strategic relocation. As a result of the May briefing, the BoD asked AAFES to evaluate additional military installation opportunities and the potential impacts to the capital program and dividends. In addition, AAFES has refined potential projects scope and cost estimate reducing initial cost estimates and improving projected earnings impacts. Mr. (b) (c) Privacy said the Finance Committee had been briefed on 22 July 2009 and their comments were incorporated into this presentation.

Mr. Privacy reminded the Board about the efforts of Jones Lang and LaSalle (JLL) to assist AAFES in evaluating potential Headquarters locations and presented an updated "Geo Scorecard" ranking of potential locations. For this updated review to include additional military locations requested at the May Board, the Army had offered eight installations for further consideration. In addition, AAFES included Dobbins AFB since Atlanta was effectively equal to Dallas and Austin on the prior Geo Scorecard and Dobbins had been mentioned as a possible candidate location at the last BoD meeting. Also, LTG CG III Corps and Senior Mission Commander at Ft. Hood, TX had recommended the old Ft. Hood hospital, desiring to engage Killeen community leaders with the AAFES BoD to make the case for relocating our Headquarters to Ft. Hood.

AAFES had asked JLL to score cities adjacent to the military sites; however, only four of the locations ranked in the top 20 based on their market index score. AAFES also developed cost and net present value calculations for the installations and compared them to the Northwest Dallas County alternative. Appropriate adjustments were made to recognize avoided land and force protection costs and to account for personnel separations and transfers. The Northwest Dallas alternative was superior on initial cost, net present value and JLL Market Index criteria.

Mr. also presented the impacts as requested at the May Board on the capital expenditure program and dividends. The impact of the Northwest Dallas move on the capital expenditure program is consistent with current levels of expenditure. Its impact on dividends would be some reduction in the first seven years and then a positive impact thereafter.

Mr. reported that the Finance Committee had recommended to the Board that AAFES should limit alternatives to Status Quo or move to Northwest Dallas County. The Finance Committee agreed AAFES had done sufficient due diligence to limit further planning to these two alternatives.

Motion: LTG moved that the Board of Directors approve continuing to develop both the Status Quo concept and the concept to relocate to Northwest Dallas County. Mr. (b) (6) - Privacy seconded the motion which passed unanimously.

Mr. further advised the Board that the Finance Committee recommended that the Board approve initiation of the National Environmental Policy Act (NEPA) process to identify potential land in Northwest Dallas County for a new Headquarters complex. LTG asked what the cost of the process was. Mr. (1) (1) (1) (1) Private Said \$1.3M to \$1.5M.

Motion: Brig Ger moved that the Board approve initiation of the National Environmental Policy Act (NEPA) process to identify potential land in Northwest Dallas County for a new meadquarters complex and the Motional Environmental provided a second and movem passed unanimously

Mr. also reported that the Finance Committee recognized the current real estate market offered the best opportunity for purchasing land (current estimate is \$6.7M), and recommended the Board approve the purchase of land in Northwest Dallas County.

Motion: Brig Ger moved that the Board approve AAFES initiate the process to purchase land including seeking required Departmental approvals. LTG seconded and the motion passed unanimously.

NOTE: At 1040 hours Lt Gen turned the meeting over to LTG (6) (6) - Privacy Senior Army Member, and departed to meet with the Chief of Staff of the Air Force.

OPERATIONS UPDATE

Mr. (b) (6) - Privacy, AAFES Chief Operating Officer, provided the Board an update on AAFES operations. He began with an update on Shoppette operations. Factoring out the impact of gasoline, sales in Shoppettes are up as are margins in Shoppettes as a percentage of sales. Compared to the industry, AAFES Shoppettes outperform the average convenience store by pumping almost 1/3 more gallons of fuel and nearly doubling in-store sales. He next addressed gasoline sales which were up 2.4% in terms of gallons sold. Gasoline pricing remains highly sensitive to economic conditions, crude inventory and production changes such as refinery shut downs/outages and natural disasters.

AAFES is also using a Shoppette display program featuring advertising at the gas pumps to promote in-store sales at 184 participating facilities. Launched in April 2009, the promotion features eight to ten items every two weeks. With 40 events targeted for 2009 YTD in-store sales are up 5.5%. Mr. also talked about military spouse outreach and Patriot Family focus groups used during field exercises at Ft. Sill, Ft. Lewis, Ft. Drum, and Ft. Bliss.

AAFES has initiated a new exercise to review its corporate branding. Employing consultants used by a majority of well-known retailers, the effort will focus on customers as AAFES stakeholders using site visits, store and online sensing sessions. A key aspect will be the military communities and AAFES' focus on readiness. The effort will also address tradeoffs in customer perception of AAFES between individualist lifestyles and family focus, as well as premium and value. Started in June, the target is for a rollout plan by next January.

Mr. completed his review by addressing AAFES' Exchange Credit Program discount gas promotion. Gas discounts were raised to five cents per gallon for MILITARY STAR® Card account holders on 8 August 2009. The program featured periodic 20-cent-per-gallon discounts for MILITARY STAR® Card account holders with 21-23 August 2009 selected for the first promotion in both CONUS and OCONUS gas stations.

Before the meeting reconvened, MG^(b) (^{c)} - ^{Privacy} noted that this was the last Board meeting for LTG (^{b)} (^{c)} - Privacy and presented him a memento of his Board service.

AAFES SUSTAINABILITY AND ENERGY PROGRAM

Ms. (b) (6) - Privacy

AAFES' Corporate Energy Program Manager, presented the Board an update on

AAFES Sustainability and Energy Program. Her briefing focused on AAFES' six sustainability goals:

(1) reduce energy consumption, (2) reduce water consumption, (3) reduce waste, (4) reduce the

AAFES fleet's dependency on fossil fuels, (5) increase sustainable buildings, and (6) increase

AAFES' procurement, marketing, and sales of environmentally-friendly goods and services.

AUDIT COMMITTEE REPORT

Brig Ger noted the Audit Committee met on 18 August 2009. He provided an outline of the briefing and introduced Mr. Director, AAFES Audit Division, to report on external audit results and internal audits.

External Audit Results

Ernst & Young, AAFES external auditors, completed their audit of AAFES' 2008 Financial Statements and the Military Star® Card Program. Overall, AAFES financial statements conform with generally-accepted accounting principles. No material weaknesses were identified. Ernst & Young representatives briefed the Audit Committee on their observations, accounting policies, fraud considerations, and the summary of audit differences. Most importantly, Ernst & Young issued an unqualified opinion on AAFES financial statements for 2008.

Internal Audit Reports

Mr. (b) (0) - Privacy priefed on the results of internal audits of automotive operations, remedial post allowance, Western Union compliance program, and Kunsan AB vending. For each audit, Mr. provided a background of the audit subject, overall audit concerns specific finding subject areas, and recommendations and management actions. Brig Ger also provided viewpoints from the Audit Committee's meeting.

FINAL COMMENTS AND ADJOURNMENT

At LTG^(b) (6) - Privacy request for members final comments, LTG^(b) noted that this was his last meeting and thanked the Board for everything they do everyday for our military families. Ms. said she thought AAFES was doing a great job on energy and on new promotions and directions in the stores. She congratulated the whole team. MG^(b) (6) - Privacy thanked all for attending and noted that the next meeting will be his last.

ADJOURNMENT:

The meeting adjourned at 1400 hours.

SUMMARY OF MOTIONS:

- 1. Board minutes of 13 May 2009 were approved.
- 2. Dividends to remain status quo.
- 3. Image update projects as briefed were approved, and viability reconfirmation was waived to expedite the projects.
- 4. The Board approved AAFES continuing to develop both the Status Quo concept for Headquarters AAFES and relocation to Northwest Dallas County.
- 5. The Board approved initiation of the National Environmental Policy Act (NEPA) process to identify potential land in Northwest Dallas County for a new Headquarters complex.

6. The Board directed AAFES to initiate the process to purchase land including seeking required Departmental approvals.

SUMMARY OF FOLLOW-ON ACTIONS:

- 1. AAFES to work within the DoD and with the Administration on the "Week of the Military
- Z AAFES to update the Board on cooperative efforts with DeCA at the November meeting.
- 3. AAFES to invite Army Family and MWR Command to Patriot Family functions.



APPROVED:

17 SEP 2009

(b) (6) - Privacy

Lieutenant General, USAF Chairman

MINUTES OF THE REGULAR MEETING OF THE

BOARD OF DIRECTORS

ARMY AND AIR FORCE EXCHANGE SERVICE

25 September 2012

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MINUTES OF THE REGULAR MEETING **BOARD OF DIRECTORS** ARMY & AIR FORCE EXCHANGE SERVICE (AAFES)

The 269th meeting of the AAFES Board of Directors was called to order by the Chairman on 25 September 2012 in the Board room, HQ AAFES, Dallas, Texas.

ATTENDANCE		
MEMBERS PRESENT:		
(b)(6) Privacy and DoD Names List		
ALTERNATES PRESENT. (b)(6) Privacy and DoD Names List		
MEMBERS ABSENT: (b)(6) Privacy and DoD Names List	_	
(=)(=)		
OTHERS ATTENDING b)(6) Privacy and DoD Names List		
b)(6) Privacy and DoD Names List		
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The meeting was called to order at 0750, the BoD secretary staff noted to the Chairman that a quorum was present and proxies were confirmed.

OPENING COMMENTS BY THE CHAIRMAN

The Chairman, LTG opened the meeting and welcomed new Board members. LTG commented that since the last meeting, Mr. has taken the helm and hit the ground running. He brings great military background and excellent business experience. LTG of the stated that he looked forward to Mr. have 90 day assessment of AAFES and his report to the Board on the status of the Red Prairie Warehouse Management System. While there are challenges ahead for AAFES, he asked members to engage in open discussion and focus on what is best for Soldiers and Airmen.

OUT-OF-SESSION ACTIONS

The Chairman stated there was one out of session item to report, Expand the Governance of the Pay and Compensation Committee. Noting no concerns or comments on the out of session item, the meeting continued.

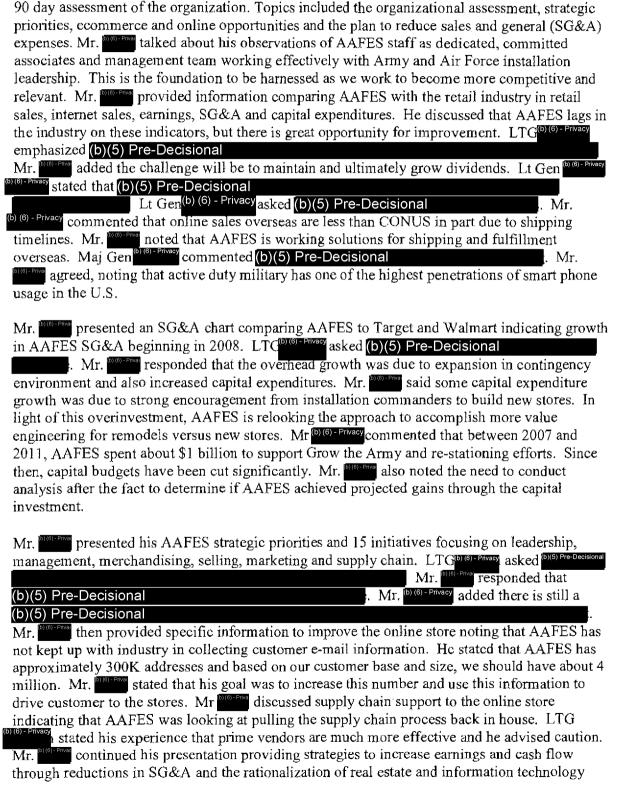
APPROVAL OF MINUTES

The Chairman called the Board's attention to the minutes of the 16 May 2012 meeting. He asked for comments and a motion to approve the minutes.

Motion: That the Board of Directors approve the minutes of 16 May 2012 as written. Lt Gen

(b) (6) - Privacy smoved to approve the minutes and Drivacy seconded the motion. The motion was approved.

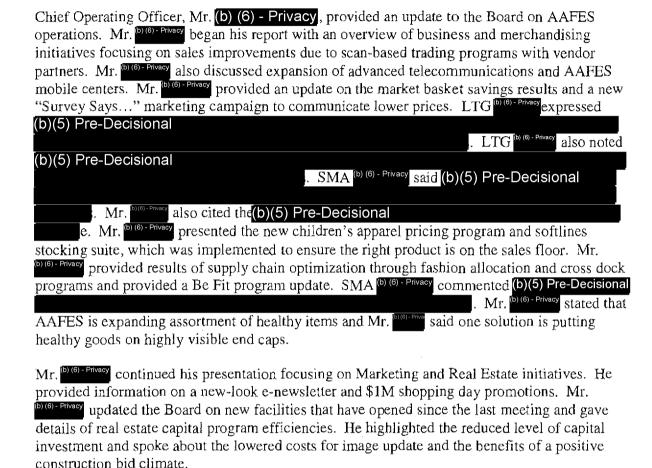
AAFES DIRECTOR/CEO REPORT



The Chairman then called for the Chief Executive Officer, Mr. (b) (6) - Privacy, to give the Board his

capital investments. Mr. occupied his briefing by discussing changes he has made to the organizational structure to support these goals.

OPERATIONS UPDATE

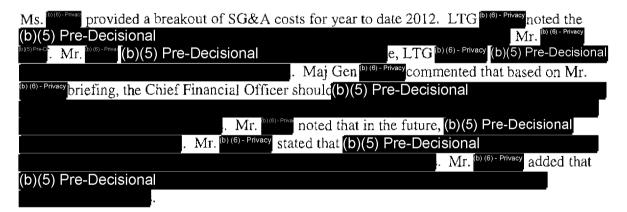


FINANCE COMMITTEE REPORT

Financial Status Report

Chief Financial Officer, Ms. (b) (6) - Privacy presented a summary of the financial status results for YTD August 2012. Total revenue is down 1% over last year and down 3% in comparison to the financial plan. Net earnings are up 36% when compared to last year and 27% up when compared to the plan. Ms. (b) (6) - Privacy noted that total SG&A expenses are 8% lower than plan having a \$101.8M favorable impact on earnings. LTG (b) (6) - Privacy questioned (b) (5) Pre-Decisional of Mr. (b) (6) - Privacy (b) (5) Pre-Decisional . Mr. (b) (6) - Privacy noted that SG&A this year is \$26M less than last year and that these expenses are moving in the right direction.

discussed the impact of higher gas prices on financial results, retail sales and total sales allocation. She discussed the Exchange Credit Program (ECP) finance revenue (\$4.6M) below plan) and other factors impacting the ECP bottom line, including interest expense (\$5.6M) below plan), bad debt expense (\$2,2M below plan) and collections interest income (\$800K above provided information on ECP purchases and revolving accounts by age. SMA asked about the use of loyalty rewards on purchases other than gas, which has lower noted that ECP cardholders receive 10% off food purchases and AAFES is developing more discount programs for retail including fashion and electronics. SMA (b) (8) - Privac asked about promoting these other programs with large signage similar to the gas pump signage. commented that AAFES is changing signage to clearly communicate promotional prices and tax savings to patrons. Lt Ger(b) (6) - Privacy asked (b)(5) Pre-Decisional stated that in the past multiple credit cards enhanced credit worthiness, but noted that in today's credit environment, cardholders should balance the number of cards they have. Mr. (b)(6)-Privacy noted that ECP credit limits are initialized based on credit worthiness of customers, but AAFES works with customers on payment plans and to help them understand the value and benefits of the card.



Ms reported that total dividends for all Services earned are \$5.4M above plan and \$20.8M above last year. Total Army dividends earned are \$2.0M below plan. Total Air Force dividends earned are \$1.5M above plan. Ms. concluded her presentation with an update on borrowing initiatives including the commercial paper program and the federal financing bank program.

Warehouse Management System (WMS) Update

Mr. (b)(5) Pre-Decisional

Mr. (b)(5) Pre-Decisional

Mr. (b)(6)-Privacy stated that he has conducted a thorough review of projects and right now there are no other areas of concern. Since the time this project was initiated, AAFES is doing a much better job with a detailed process looking at project timelines and cost/benefit analysis. Mr. (b)(6)-Privacy provided an overview of worldwide distribution centers and project history. Mr. (b)(6)-Privacy asked (b)(5) Pre-Decisional . Mr. (b)(6)-Privacy noted that the majority of labor costs were capitalized. Mr. (b)(6)-Privacy noted that this contributes to depreciation and is a bill to be paid.

discussed the project scope, comparing the Board approved project with the 2012 noted that AAFES is relooking expansion of Red Prairie Board re-baselined project. Mr. to the South East Distribution Center (DC) since it appears to be an unproductive DC with nonmechanized processes. There was discussion on how many DCs will run Red Prairie, which DCs are at risk in running unsupported legacy systems and which DCs will remain open with manual processes. Mai Gen (b) (6)stated (b)(5) Pre-Decisional Brig Gen (b) (6) - Privacy commented (b) (5) Pre-Decisional (6) - Priva(b)(5) Pre-Decision also (b)(5) Pre-Decisional s. Dr. noted (b)(5) Pre-Decisional Maj Gen n noted (b)(5) Pre-Decisional SMA (b) (6) - Privacy commented (b)(5) Pre-Decisiona SMA^{(b) (6) - Privacy} asked, (b)(5) Pre-Decisional (b)(5) Pre-Decisional (b)(5) Pre-Decisional LTG (b) (6) - Privacy (b) (5) Pre-Decisional LTG (b) (6) - Privacy (b) (5) Pre-Decisional

AUDIT COMMITTEE REPORT

Mr. (b) (6) - Privacy Director of AAFES' Audit Division, reviewed for the Board AAFES' external audit results and findings. Mr (b) (6) - Privacy informed the Board that Ernst and Young (E&Y) issued an unqualified audit opinion for AAFES fiscal year 2011. E&Y briefed the audit committee noting two material weaknesses, both internal control deficiencies related to receivables. Mr. (b) (6) - Privacy provided updates on recently completed internal audits; Accounts Payable: One-time Vendor Payment and Manual Check Receipts, Overseas Vending Operations and Telecommunication Initiatives follow-up. SMA (b) (6) - Privacy commented (b) (5) Pre-Decisional SMA (b) (6) - Privacy suggested (b) (5) Pre-Decisional

Mr. (b)(6)-Pivasy highlighted the fiscal year 2013 Internal Audit Plan process including the request for audit suggestions sent to Board members, senior AAFES leadership and all AAFES associates.

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SMA (b) (6) - Privacy asked Mr. (b) (6) - Privacy to (b) (5) Pre-Decisional

Mr. (b) (6) - Privacy asked (b) (5) Pre-Decisional

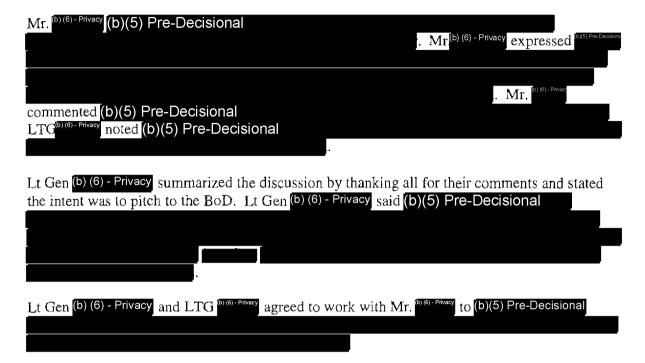
(b) (5) Pre-Decisional

Mr. (b) (6) - Privacy questioned (b) (5) Pre-Decisional
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(b)(5) Pre-Decisional
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         stated (b)(5) Pre-Decisional
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asked (b)(5) Pre-Decisional
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         . Mr.
                                                              commented (b)(5) Pre-Decisional
                                                   Mr.
                                                                  LTG (b) (6) - Privacy stated (b) (5) Pre-Decisiona
          Ms.
                      (b)(5) Pre-Decisional
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BOARD OF DIRECTORS (BoD) REVIEW

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Mr. (b) (6) - Privacy, Special Government Employee presented an overview brief of his project to
assess the structure an operations of the AAFES Board. Mr. (5)(6)-Privacy provided information on
board composition as compared to other DoD organizations and commercial competitor boards.
He noted that the AAFES Board of 18 members determined by position was significantly larger
than competitor boards. Mr. (1969-1970) highlighted a severe absentee and turnover problem, noting
average attendance of primary Board members at 53% and trending downward. Mr.
noted that the skills of AAFES Board members are inconsistent with competitor corporate
boards. Mr. (b) (6) - Privacy provided (b) (5) Pre-Decisional
                                                                    (b)(5) Pre-Decisional
                                                       . Mr.
                                              provided (b)(5) Pre-Decisional
After the presentation, Maj Ger commented (b)(5) Pre-Decisional
          also (b)(5) Pre-Decisional
Maj Gen
Lt Gen (b) (6) - Privacy agreed that (b) (5) Pre-Decisional
                                                                            Lt Ger(b) (6) - Privacy
                                                                                 SMA (b) (6) - Privac
also (b)(5) Pre-Decisional
(b)(5) Pre-Decisional
SMA (b) (6) - Privacy also (b) (5) Pre-Decisional
                                                         Mr<sup>(b) (6) - Privacy</sup> CMSAF
                                                                                    commented
(b)(5) Pre-Decisional
                                                                    CMSAF (6)(6)-Pr also liked the
(b)(5) Pre-Decisional
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AIR FORCE INSPECTION AGENCY QUADRENNIAL INSPECTION OUTBRIEF

Lt Col description of the Air Force Inspection Agency (AFIA) provided the executive briefing on the AFIA quadrennial inspection of AAFES. He highlighted two critical findings in the areas of Procurement and the Sales Directorate. The procurement finding was the failure to delegate authority to contracting officers via Certificate of Appointment. This lack of oversight/training has the potential impact of leading to fraud, waste and abuse. The inspection also found the Sales Directorate failed to ensure the consistency of retail agreements, purchase orders and one-time buy, which can also lead to fraud, waste and abuse. Lt Col highlighted two significant findings in the AAFES Headquarters element; the failure to properly protect personally identifiable information, and not ensuring personnel placed in Positions of Trust had mandatory background investigations. Lt Col dispersion also noted that the Chief of Staff did not establish and maintain an on-going self inspection program. LTG saked Lt Col dispersion to the back brief. Lt Col provided an overview of findings in AAFES field elements and organizational strengths. Lt Col provided an overview of findings in AAFES field elements and organizational strengths. Lt Col

The Chairman called the Board's attention to recommendations made by the AFIA inspection. He asked for comments and a motion to approve the recommendations.

Motion: Mr. (6) (6) - Privacy moved to approve the recommendation made by the AFIA inspection team. Mr. (6) (6) - Privacy seconded the motion. The motion was approved.

Mr. (b) (6) - Privacy, Army IG office, answered a supplemental tasker resulting from a previous Board meeting. Mr. (b) (6) - Privacy updated the Board that AAFES is moving forward to improve the IG oversight of AAFES through enterprise system internal control process, reporting process,

and coordination among the AAFES, Army and Air Force Inspections programs. LTG clarified this supplemental tasker was a result of the AAFES IG request on AAFES IG Office structure, processes, link to leadership and appropriate oversight.

ADJOURNMENT

The Chairman asked for any further comments, thanked members for their participation. The meeting adjourned at 1430 and Board members moved into executive session.

SUMMARY OF MOTIONS

- 1. Minutes of the 16 May 2012 meeting were approved.
- 2. Recommendations of the AFIA Quadrennial Inspection were approved.

SUMMARY OF FOLLOW-ON ACTIONS

- 1. Brief the full assessment on Red Prairie with decision brief
- 2. Provide interim update on Red Prairie status midway before next Board meeting
- 3. Provide breakdown chart of eCommerce IT project phases to include timeline and components
- 4. Present quarterly brief to BoD on tracking of Exchange online store project
- 5. Prepare action plan and update on status of D/CEO Strategic Priorities
- 6. Prepare action plan on the 2 Critical Findings from AF Inspection Agency Outbrief
- 7. Prepare action plan to implement AF Inspection Agency recommendations
- 8. Prepare action plan on implementation of Self Inspection Program





MINUTES OF THE REGULAR MEETING

OF THE

BOARD OF DIRECTORS

ARMY AND AIR FORCE EXCHANGE SERVICE

3 December 2012

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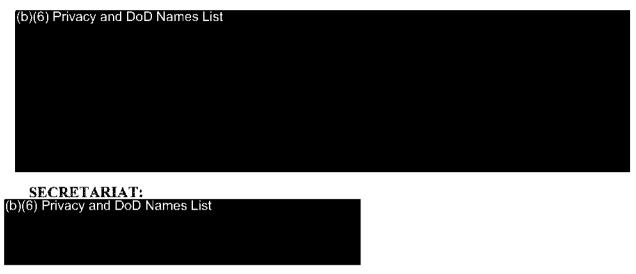
MINUTES OF THE REGULAR MEETING BOARD OF DIRECTORS ARMY & AIR FORCE EXCHANGE SERVICE (AAFES)

The 270th meeting of the AAFES Board of Directors was called to order by the Chairman on 3 December 2012 in Pentagon, Room 1E381, Washington, D.C. Board members, alternates, presenters and others who participated by video teleconference (VTC) are indicated below.

ATTENDANCE

MEMBERS PRESENT:

(b)(6) Privacy and DoD Names List	
ALTERNATES PRESENT:	
(b)(6) Privacy and DoD Names List	
MEMBERS ABSENT: (b)(6) Privacy and DoD Names List	
(b)(6) Privacy and DoD Names List	
OTHERS ATTENDING (b)(6) Privacy and DoD Names List	
(b)(b) I invacy and bob Names List	



BOARD PRESENTERS:

(b)(6)(b)(6) - PrivacyJoD Names List

The meeting was called to order at 1405 Eastern Standard Time, and the BoD Secretary noted to the Chairman a quorum was present and proxies were confirmed.

OPENING COMMENTS BY THE CHAIRMAN

The Chairman, LTG^{(b),(6)-Freed}, opened the meeting and welcomed Board members to the meeting. He noted there would be an executive session at the end of the open meeting.

OUT-OF-SESSION ACTIONS

The Chairman stated there was one out-of-session item to report: Proposed Restructuring of the AAFES Board of Directors. He commented this would be a topic of discussion at the Board Executive Session. The Chairman stated he and Lt Gen(b) (6) - Privacy were preparing to brief their respective Service Chiefs of Staff and Secretaries. He stated there was generally good consensus on moving forward, noting any concerns that have been expressed will be briefed to senior leadership. Noting no concerns or comments on the out of session item, the meeting continued.

APPROVAL OF MINUTES

The Chairman called the Board's attention to the minutes of the 25 September 2012 meeting. He asked for comments and a motion to approve the minutes.

Motion: That the Board of Directors approve the minutes of 25 September 2012 meeting as written. Mr. motion was approved to approve the minutes and Brig Gen seconded the motion. The motion was approved.

STATUS OF ACTION ITEMS

The Chairman noted the Board was provided the Status of Action Items. Noting no concerns or questions on the action items, the meeting continued.

2013 BOARD MEETING DATES

The Chairman called the Board's attention to the proposed 2013 Board meeting dates. He noted he was not in favor of a VTC for the 27 February 2013 meeting and that should be reconsidered. Mr. [916]-Private noted the VTC may be appropriate for the topics of some Board meetings, and may not be appropriate for others. He asked for other comments and a motion to approve the proposed dates.

Motion: That the Board of Directors approves the Board meeting dates for 2013 as proposed. Mr. moved to approve the proposed dates and Maj Gen seconded the motion. The motion was approved.

FINANCE COMMITTEE REPORT

Annual Financial Plan Fiscal Year 2013

Chief Financial Officer, Ms. (b) (6) - Privacy began her briefing with a high level income statement showing the original Annual Financial Plan (AFP) for fiscal year (FY) 2012, the most current projection for FY 2012 results, and the proposed AFP for FY 2013. She noted sales are expected to decrease for FY 2013, but the impact is expected to be mitigated by further expense reductions, resulting in earnings of \$312 million or an increase of \$3 million over projected FY 2012. In addition to earnings, Ms. (10) highlighted the components of total revenue and gross profit commenting in particular on the \$13 million reduction in interest expense planned for FY 2013 primarily due to the ability to borrow from the Federal Financing Bank (FFB) beginning in December 2012. LTG (10) asked how confident AAFES was in this savings and Ms. (10) the stated she was very confident as borrowing rates would be reduced from 85 – 90 basis points in the commercial market to about 30 basis points with the FFB.

Ms. Proposed next presented the earnings bridge information depicting financial impact from AFP FY 2012 to projected FY 2012. She noted after the plan was approved, pension actuaries recommended an \$8M favorable adjustment to pension expenses, resulting in total planned earnings of \$307M in the FY 2012 AFP. Ms. highlighted the decline in gross profit (\$130 million) was a function of sales which were \$380 million lower than expected. She cited the favorable impact of reductions in personnel costs (\$70 million) and other expenses (\$62 million). She commented that AAFES is still working the closure of the Southeast Distribution Center and the success of the Involuntary Early Retirement (IER) offer and the related Voluntary Separation Incentive Pay (VSIP) as key programs supporting reduction of personnel costs. Ms. AAFES is working with external financial auditors on booking these expenses in FY 2012. Mr. noted there will be an estimated \$8 million one-time cost for the VSIP, and AAFES will keep the Board informed as these personnel cost reductions play out.

Ms of then presented information on the components impacting AAFES earnings from projected FY 2012 to AFP FY 2013. She noted sales are expected to decrease in FY 2013 due to

troop withdrawals from Europe and the contingency environment. The increase in earnings, expected to be \$309 million in FY 2012 to \$312 million projected for FY 2013 is due to improved control of expenses. Mr. (b)(5) Pre-Decisional

Mr. (b)(5) Pre-Decisional

Mr. (c)(6) Privacy asked why (b)(5) Pre-Decisional

Mr. (c)(6) Privacy asked why (c)(5) Pre-Decisional

Mr. (c)(6) Privacy asked why (c)(6) Privacy

Ms. Presented five year trend charts in sales, gross profit, and earnings. She noted gas sales, with their low gross margin are expected to be relatively stable in the coming year and sales without gas are projected to be down slightly from FY 2012 (\$6.631 billion) to FY 2013 (\$6.495 billion). LTG (b)(5) Pre-Decisional and Ms. (c) Presponded the plan is very healthy with the basic retirement plan 100 percent funded and the post-retirement medical plan about 70% funded. LTG (b)(6) Pre-Decisional (b)(5) Pre-Decisional . Mr. (c)(6) Pre-Decisional . Mr. (c)(6)

Regional sales trends were presented by region, with Ms. noting sales decreases in Europe and Contingency regions will be the main driver for decreased sales projections for FY 2013.

Ms. displayed worldwide direct sales trends from FY 2010 to AFP FY 2013 broken down into retail, vending and services, food and gas. LTG saked AAFES to break out alcohol and tobacco sales noting the increasing concern within the Services about the availability of these products to Service Members. Mr. stated AAFES is prepared to do our part to be responsive to the needs of the community. Lt Gen (b) (6) - Privacy added (b) (5) Pre-Decisional

Lt Gen(b) (6) - Privacy noted (b) (5) Pre-Decisional

s. Mr. see noted (b) (5) Pre-Decisional

Next, Ms. presented information on the components of the exchange credit program and their impact on AAFES financials. She discussed finance revenue, which is expected to grow to \$285 million in AFP 2013 and earnings which are budgeted for \$95.6 million.

Ms. reviewed personnel and worldwide CNE, stating AAFES reduced about 100 CNE from FY 2011 to FY 2012 mostly in the Pacific Region. She called out the 2.75% budgeted merit increase (approximately \$10 million) for about 6,900 pay band employees who do not receive cost of living or pay step increases.

Ms then briefed the Board on expense trends from 2009 to AFP 2013. One anomaly she noted in FY 2010 was the \$82 million appropriated fund reimbursement for overseas contingency incremental expenses incurred in GFY 2005. She also highlighted the top six decreasing expense categories from 2011 through 2013.

Ms. The provided depreciation expenses from 2009 to AFP 2013 which are planned to be \$338 million. She noted much of the increase in expense for 2013 is due to previously approved projects that will begin to depreciate in the coming year.

Capital expenditures from 2009 to 2014 were displayed, broken out into construction, lifestyle centers, information technology, business unit projects, and vehicles. Ms. noted as with deprecation, much of the increase in FY 2013 is due to previously approved projects. She also informed the Board that AAFES would provide more detailed plans for capital expenditures at the upcoming February 2013 Board meeting.

The next topic of discussion was dividends. Ms. showed the five year historical trend noting projected dividends for FY 2012 are in line with the FY 2012 AFP. She went on to state AFP FY 2013 dividends are expected to be relatively flat compared to projected FY 2012. Lt Gen (b) (6) - Privacy asked why (b)(5) Pre-Decisional and Mr. (b)(6) - Privacy responded (b)(5) Pre-Decisional

Ms. closed her presentation with a chart depicting long range projections. The expected increase in net earnings to \$360 million in FY 2014 and \$374 million in FY 2015 is the result of an increase in sales and improved gross profit from eCommerce initiatives, other retailing strategies, and a continued focus on controlling expenses.

Motion: That the Board of Directors approve the FY 2013 Annual Financial Plan as presented. Mr. (b)(6)-Privacy moved to approve the plan and Mr. (c)(6)-Privacy moved to approve the plan and Mr. (d)(6)-Privacy moved to approve the pla

Financial Status Report

Ms. onted in the interest of time, she would omit presentation of the financial status results (FSR) for year-to-date (YTD) October 2012.

Warehouse Management System (WMS) Update

Mr. presented a status update on the Red Prairie WMS system. He commented the West Coast Distribution Center (WCDC) is stable, but AAFES is still working to confirm the 8% labor savings from the project. Mr. noted AAFES is also taking a two-step approach to cost per case targets: first to reduce labor cost per case to original FY 2010 baseline before implementation of Red Prairie WMS and second to further reduce cost per case to account for 8% savings. The actual cost per case is \$2.66. AAFES recently has identified significant reductions which should result in the interim target of \$1.81 cost per case in the next three to four months with \$1.66 cost per case as the final goal. Lt Gen (b) (6) - Privacy asked w(b)(5) Pre-Decisional

Mr. responded there was a significant learning curve and also when Red Prairie was installed, AAFES did not take the necessary actions to reduce labor costs consistent with demand. Once AAFES demonstrates a return to the FY 2010 cost per case level, the second step will be to realize the additional 8% savings before rolling the software to Waco Distribution Center (WDC) and Daniel Distribution Center (DDDC).

stated AAFES wants to designate Red Prairie WMS as a discretionary project as this may not have been clear at the last meeting. Lt Gen (b) (6) - Privacy clarified (b)(5) Pre-Decisional Mr. 1016-1900 agreed and added AAFES is reviewing the logistics footprint so AAFES can operate more efficiently. Regarding the pros and cons of a formal investigation, Mr. stated he has been keeping LTG and Lt Gen (b) (6) - Privacy apprised on the review of what went wrong with the implementation of Red Prairie WMS. The AAFES audit review found no criminal activity or fraud, but a series of unfortunate missteps. Based on the inquiries conducted, the recommendation of AAFES management is not to proceed with a formal investigation. LTG [5](6)-Filed stated [6](5)(7) , LTG (b) (6) - Privacy agreed (b) (5) Pre-Decisional LTG and Lt Gen assured (b)(5) Pre-Decisional Mr. (b)(5) Pre-Decisional . Maj Gen (b)(6)-Privacy agreed a (b)(5) Pre-Decisional stated (b)(5) Pre-Decisional

Recommendation: That the Board accepts the inquiries/reviews completed to date and not proceed with a formal investigation. Mr. (b) (6) - Privacy moved to approve the recommendation and Mr. (b) (6) - Privacy and Mr. (c) (6)

SPECIAL PRESENTATION

The Chairman recognized MG (b) (6) - Privacy for his service to the AAFES Board and presented an AAFES plaque of appreciation to MG (b) (6) - Privacy, who attended for MG(b) (6) - Privacy.

ADJOURNMENT

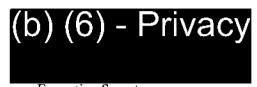
The Chairman asked for any further comments and thanked members for their participation. The meeting adjourned at 1545 and Board members moved into executive session.

SUMMARY OF MOTIONS/RECOMMENDATIONS

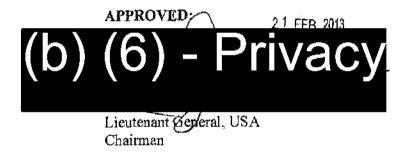
- 1. Minutes of the 25 September 2012 meeting were approved.
- 2. Board meeting dates for 2013 were approved.
- 3. The FY 2013 Annual Financial Plan was approved.
- 4. The recommendation not to proceed with a formal investigation on the Red Prairie WMS project was approved.

SUMMARY OF FOLLOW-ON ACTIONS

- 1. AAFES will provide a breakout of alcohol and tobacco sales information.
- 2. AAFES will provide information on sales of adult magazines.
- 3. AAFES will provide an in-depth briefing on the Red Prairie WMS project to the Board after detailed review by a committee of the Board.



Executive Secretary



MINUTES OF THE REGULAR MEETING OF THE BOARD OF DIRECTORS ARMY AND AIR FORCE EXCHANGE SERVICE

4 March 2013

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MINUTES OF THE REGULAR MEETING BOARD OF DIRECTORS ARMY & AIR FORCE EXCHANGE SERVICE (AAFES)

The 271st meeting of the AAFES Board of Directors was called to order by the Chairman on 4 March 2013 in Pentagon, Room 1E381, Washington D.C. Board members, alternates, presenters and others who participated by video teleconference (VTC) are indicated below.

ATTENDANCE

			•
MEMBERS PRESENT:			
(b)(6) Privacy and DoD Names List			
ALTERNATES PRESENT:			
(b)(6) Privacy and DoD Names List			
MEMBERS ABSENT:			
(b)(6) Privacy and DoD Names List			
			•
OTHERS ATTENDING (b)(6) Privacy and DoD Names List	 		
(b)(6) Privacy and DoD Names List			





The meeting was called to order at 0803 Eastern Standard Time (EST), the BoD Secretary noted to the Chairman a quorum was present and proxies were confirmed.

OPENING COMMENTS BY THE CHAIRMAN

The Chairman, LTG [0](6)-Prince), opened the meeting and welcomed Board members to the meeting. He noted there would be an executive session at the end of the open meeting.

OUT-OF-SESSION ACTIONS

The Chairman stated there was one out-of-session item to report: Promotions to AAFES Senior Rate. Noting no concerns or comments on the out of session item, the meeting continued.

APPROVAL OF MINUTES

The Chairman called the Board's attention to the minutes of the 3 December 2012 meeting. He asked for comments and a motion to approve the minutes.

Motion: That the Board of Directors approve the minutes of the 3 December 2012 meeting as written. Lt Gen motion was approved to approve the minutes and SMA seconded the motion. The motion was approved.

STATUS OF ACTION ITEMS

The Chairman noted the Board was provided the Status of Action Items. Noting no concerns or questions on the action items, the meeting continued.

DIRECTOR'S REPORT

The Chairman recognized Mr. Director/Chief Executive Officer and explained the Director's Update is the briefing presented to the Chief of Staff of the Army in January 2013. Mr. began his briefing with a summary of AAFES statistics that portray the story of the Exchange and its relevance to the military community. The Chairman asked about the status of the plan to move the AAFES bakery in Korea. Mr. stated AAFES has command support to relocate the Korea bakery into the AAFES distribution center. The Chairman asked AAFES to keep the Board informed on progress of the transition. The Chairman applauded AAFES' focus on hiring wounded warriors and asked AAFES to remain vigilant in pursuing this employment category. He also commented AAFES should stay connected with the Services on plans for U.S. presence in Iraq and the drawdown in Afghanistan and directed AAFES to update the Board at the next meeting. Mr. requested an (b)(5) Pre-Decisional Mr. continued his presentation to highlight the unique programs and services and compared AAFES with the Navy Exchange Command and Marine Corps Exchange. He discussed a chart depicting an estimated \$1.3 billion in savings to the federal

compared AAFES with the Navy Exchange Command and Marine Corps Exchange. He discussed a chart depicting an estimated \$1.3 billion in savings to the federal government for service provided by AAFES. Mr. [b](6)-Privacy] asked AAFES to provide bullet talking points to the Board so they can more effectively communicate the value of the exchange benefit to stakeholders in the military community. The Chairman added he had reviewed the AAFES tri-fold brochure on exchange relevance and it was a good product. He asked AAFES to proceed with its publication and acknowledged detailed talking notes would assist the Board in advocating the exchange benefit.

Mr. described the legacy issues facing AAFES and the need to move in a new direction in light of environmental factors such as the federal deficit, decreasing contingency operations, base realignment and closure and overseas versus domestic productivity. Mr. highlighted new initiatives to grow sales, lower costs and improve customer relevance. The Chairman asked Mr. to talk to the impact of Sequestration on AAFES. Mr. reported AAFES has been in discussions with Army

G-4 about reducing second destination transportation (SDT) expenses and is planning to reduce about \$21 million in SDT this government fiscal year (GFY.) While there will be no personnel furloughs, AAFES has proactively set a target to reduce total computed number of employees (CNE) by 1000 by the end of this year. He explained these reductions are permanent and a part of the Selling, General and Administrative (SG&A) expense reductions already underway. He also noted the approximately 350 personnel who will exit under the involuntary early retirement (IER) plan. Mr. (CIGN added that AAFES has greatly reduced the long range capital program (LRCP) this year and has moved the Joint Base Lewis-McChord Lifestyle Center project out by two years. The Chairman asked about the impact of reductions of SDT on merchandise availability. Mr. responded that AAFES was primarily looking at merchandise AAFES ships by surface versus by air since the cost of air shipments is much greater. The Chairman asked (b)(5) Pre-Decisional

responded even with the Defense Commissary Agency's (DeCA) proposed Wednesday closures, AAFES would not change hours. AAFES does good business throughout the exchange in food courts and Express convenience stores can help to supplement on convenience items such as milk and bread if DeCA reduced commissary hours. Mr. ended his presentation with a summary of financial benefits to safeguard new earnings and the morale, welfare and recreation (MWR) dividend. The annualized benefits are expected to total \$276 million dollars; \$125 million from growth opportunities, \$51 million from cost reductions and \$100 million from lower real estate (RE) and information technology (IT) investments.

OPERATIONS UPDATE

Mr. (b)(6)-Privacy Chief Operating Officer, began his presentation by updating Board members on initiatives to intensify national brands in the areas of hardlines, sofflines and consumables. He described several specific name brands along with the number of stores targeted and sales growth projections. Mr. (b) (6) - Privacy then discussed the AAFES strategy to grow Express convenience stores by installing island coolers to improve customer visibility of merchandise and increasing healthy food options. He described growth of trade promotion management collection figures in fiscal year (FY) 2012 of \$155 million, noting the increasing trend over recent years and highlighting the FY 2013 goal of \$170 million. Mr. (6)(6) Privacy discussed AAFES efforts to increase internal operational efficiency by repositioning the main store and plans to grow concessions by transforming AAFES services business in FY 2013. Mr. (b)(6) - Privacy reported on Operation Be Fit initiatives in name brand fast food operations to highlight calorie counts and healthy eating options. He then provided an overview of the business intelligence tools AAFES is using to manage merchandise inventory and item performance. Mr. concluded his presentation with an update on the project to make the in-store assortment available to customers online. Mr. (b) (6) - Privacy asked if these initiatives are included in the FY 2013 financial plan and if AAFES can provide timelines and follow-up information on how AAFES is tracking on progress. Mr. 6-Privately responded the initiatives are include in the plan and AAFES would provide follow-up info on progress.

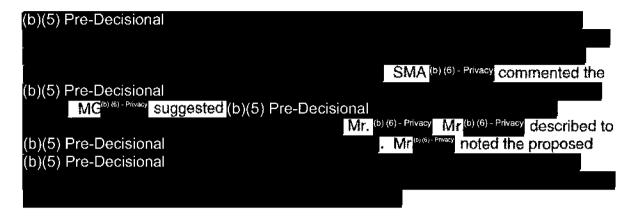
FINANCE COMMITTEE REPORT

Financial Status Report

Ms. Chief Financial Officer, began her report by updating the Board on fiscal year to date (YTD) December 2012 financial status. She highlighted sales and gross profit were lower than planned, but because AAFES continues to be diligent in controlling operating expenses, net earnings are \$24.8 million (9%) above plan. Ms. provided sales comparison by region and business class noting lower sales spanned all regions and business classes resulting in a worldwide variance to plan of 5% for YTD December. The Chairman asked why Europe was 12% below expectations. Ms. responded the AAFES team had not accurately anticipated troop draw downs in contingency environments overseas. The Chairman emphasized the need for AAFES then provided to stay connected with the Services on troop information. Ms. worldwide gross profit, which was down 7% compared to plan. These lower than expected sales and gross profit figures were countered by the lower SG&A expenses resulting in a \$147 million favorable impact on earnings. Ms. [18] reported on the exchange credit program's positive bottom line impact of \$3.2 million, detailing finance revenue, interest expense, bad debt expense and collections interest income compared to plan. Ms. moved on to brief dividends earned for YTD December 2012 with Army and Air Force total dividends \$4.1 million above plan with the Army \$1.9 million and the Air Force \$ 2.2 million over plan. Ms. Tounded out her financial report with FY 2012 projections noting net earnings expected to be \$338.7 million; \$40.1 million and 13% above plan. She attributed these results in part due to AAFES exceptional year-end inventory variance .23% of sales compared to an industry average of 1.5% of sales. Mr. (b) (6) - Privacy asked (b) (5) Pre-Decisional ults. Ms. 🖦

responded AAFES would recognize IER expenses in FY 2012, but would realize the benefit in FY 2013. Due to the very low inventory variance and favorable adjustments there would be no negative impact to FY 2012 earnings.

Ms. Concluded her financial status report with an update from the dividend committee, a Board-appointed working group tasked to review the dividend payment process and make recommendations. She shared the committee's guiding principles and recommendation to base the payment of core dividends on actual financial results instead of the current practice to pay based on the AAFES annual financial plan (AFP). The recommended dividend process would eliminate the safety net, and replace it with a dividend guarantee of 85% of the previous three year's rolling average during the three-year transition period. Any anomalies would be addressed through active dialogue among AAFES, Army MWR and Air Force Services and decisions would be vetted through the Finance Committee to the Board. In addition, AAFES would retain the first 15% of financial results above the AFP with remaining earnings following normal dividend formulas. Mr. (1)(6)-Privacy noted the anomaly definition pertained to anomalies of \$5 million or more. Maj Gen (1)(6)-Privacy raised the (b)(5) Pre-Decisional



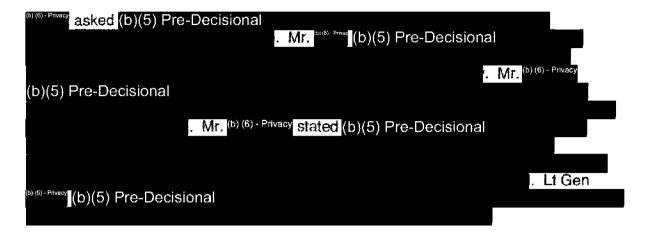
Motion: That the Board of Directors approve proposed dividend payment process as presented (attached). Lt Gen moved to approve the Dividend Payment process and Maj Gen seconded the motion. The motion was approved.

2013 Capital Expenditure Program

Ms. began her presentation by noting the amount available for capital expenditures begins with the AAFES AFP. Earnings are adjusted for depreciation and projected payment of dividends to calculate the funds available for capital expenditures. Ms. reported capital expenditures from 2009 to 2013 broken into four major categories; construction, business unit projects, information technology and vehicles. Capital expenditures for FY 2013 are \$419 million. Ms then provided information on depreciation, broken out by the same four categories. Total depreciation for FY 2013 is \$338 million. Despite AAFES concerted efforts to reduce capital expenditures for FY 2013, depreciation will continue to increase over FY 2012 due to previously approved capital projects completing in FY 2013. Ms. gave an overview of construction expenditures noting the significant reductions in LRCP requests this fiscal year. As a concerted effort to reduce capital expenditures, the 2013 LRCP submission is down to \$29 million, with only \$15 million to be spent in FY 2013.

Ms. turned the presentation over to Mr. (b) (c) - Privacy Vice President, Real Estate to brief the FY 2013 LRCP. Mr (b) (c) - Privacy reminded the Board the LRCP is comprised of projects that exceed \$750 thousand in construction costs or \$1.5 million in total project cost. He noted projects exceeding \$750 thousand in construction costs must be reported to Congress and that there were no projects meeting this threshold in the FY 2013 LRCP. Mr. (b) (c) - Privacy explained the details of two equipment projects supporting the U.S. Forces Korea Transformation totaling \$18.6 million and two image update projects totaling \$10.6 million. (b) (5) Pre-Decisional

Imported, but that the Host Nation had not yet approved. He further explained AAFES would not proceed with the equipment purchase until the host nation had approved, but was requesting approval today to obligate the funds so that a conveyer system could be identified and incorporated into the design of the bakery. The Chairman (b) (c) Pre-Decisional



Motion: That the Board of Directors approve two equipment projects and two image update projects and the waiving of the viability reconfirmation requirement. Approval of the bakery equipment project is contingent upon reconfirmation of support from the Army and Pacific COE. The Chairman moved to approve the projects and SMA Chandler seconded the motion. The motion was approved.

Ms. 2009 to FY 2013. She provided a five year trend for capital expenditures of business unit (BU) programs divided into non-discretionary and discretionary projects. Ms. 2009 to FY 2013. She provided information on specific BU capital expenditure projects beginning with the non-discretionary Food Point of Sale (POS) Simphony project, which was provided for information only. Next Ms. 2009 explained the Automate CONUS Concession project which will automate concession sales and settlements processes and move AAFES away from manual processes. The economic benefit is projected to be \$8.8 million over 5 years.

Motion: That the Board of Directors approve the Automate CONUS Concession project. Mr. [DIGITED PROSE) moved to approve the project and Mr. [SIGNATE] seconded the motion. The motion was approved.

Ms. presented information on the Softlines Planning Management project which will provide improved planning of the softlines assortment and allow the exchange to better respond to sales and market trends by location and category. The budget is \$6 million and the expected FY 2013 spend is \$3 million. The Chairman asked how AAFES determines trends. Ms. stated it was based on what is selling on the floor. Mr. added since fashion plans are made a year in advance, this tool would help AAFES to plan based on industry trends and customer demographics.

Motion: That the Board of Directors approve the Softlines Planning Management project. Lt Gen moved to approve the project and Mr (b) (6) - Privacy seconded the motion. The motion was approved.

Ms. proceeded to brief the Retail Demand Forecasting (RDF) Upgrade project, which will maximize and expand forecasting capabilities across several business processes. The budget for the project is \$5 million and the expected FY 2013 spend is \$4 million. This project will expand a RETEK Oracle solution implemented at the distribution center to the store level. Mr. noted this will assist AAFES in reducing stock outs and help AAFES manage our ability to sell. Mr. of the project will expand a RETEK Oracle solution implemented at the distribution center to the store level. Mr. of the project will expand a RETEK Oracle solution implemented at the distribution center to the store level. Mr. of the project will expand a RETEK Oracle solution implemented at the distribution center to the store level. Mr. of the project will expand a RETEK Oracle solution implemented at the distribution center to the store level. Mr. of the project will expand a RETEK Oracle solution implemented at the distribution center to the store level. Mr. of the project will expand a RETEK Oracle solution implemented at the distribution center to the store level. Mr. of the project will expand a RETEK Oracle solution implemented at the distribution center to the store level. Mr. of the project will expand a RETEK Oracle solution implemented at the distribution center to the store level. Mr. of the project will expand a RETEK Oracle solution implemented at the distribution center to the store level. Mr. of the project will expand a RETEK Oracle solution implemented at the distribution center to the store level. Mr. of the project will expand a RETEK Oracle solution implemented at the distribution center to the store level. Mr. of the project will expand a RETEK Oracle solution and the expected FY 2013 spend is \$4 million.

Motion: That the Board of Directors approve the Retail Demand Forecasting Upgrade project. Lt Gen moved to approve the project and Mr. (b) (6) - Privacy seconded the motion. The motion was approved.

RED PRAIRIE WAREHOUSE MANAGEMENT SYSTEM (WMS) UPDATE

Mr. Presented a status update on the Red Prairie WMS reporting the system is stable at the West Coast Distribution Center (WCDC.) He reported productivity at WCDC continues to trend positive, but a significant improvement in current performance will be required to meet the \$1.66 personnel cost per case (PCPC) target. Mr. Initially highlighted the approximately \$24 million in labor costs associated with implementation at the WCDC. He indicated these labor costs will continue to be an issue as AAFES considers a further rollout at Waco or Dan Daniel distribution centers in the future. Mr. Instated AAFES would know more in August after the completion of the pilot. He noted AAFES has stabilized the current legacy system at Waco and Dan Daniels with minimum investment and can continue to operate at these locations with low risk. While Red Prairie will cost less to implement at Waco or Dan Daniel, Mr. Cautioned the (b)(5) Pre-Decisional

Mr. (b)(5) Pre-Decisional

Mr. stated he is planning to meet with Red Prairie leadership and he would keep the Board informed on significant changes and update at the next Board meeting.

AUDIT COMMITTEE REPORT

Mr (b) (6) - Privacy, Director, Audit presented the list of planned functional audits for FY 2013 and outlined the steps in developing the annual audit plan. Planned audits noted by Mr. (b) (6) - Privacy include Concession Business Development, Follow-up of In-Transit Merchandise Loss Controls, Discretionary Projects, which was recommended by a Board member, and Merchandise Buyer Controls which was suggested by Mr. (b) (6) - Privacy reported there are two additional requested/required audits that will cover the Pacific Region and FY 2013 OEF Inventory Observation. Mr. (c) (6) - Privacy provided updates on five internal audits; Associate and Concession Collections, Anti-Money Laundering Compliance, eProcurement Applications, Select Aspects of Requests for

Operation Enduring Freedom (OEF)/Operation New Dawn (OND) Reimbursement, and Retail Merchandise Contracts Administration. MC asked (b)(5) Pre-Decisional Mr. (b)(6) - Privacy responded SMA(b)(6) - Privacy (b)(5) Pre-Decisional . Mr. (b)(6) - Privacy (b)(5) Pre-Decisional . Mr. (b)(6) - Privacy (c) - Privacy (c

responded AAFES is making strides to improve the organizational culture to foster continuous process improvement and a transparent, open workplace.

CLOSING COMMENTS

The Chairman thanked the AAFES staff for updates and Board members for their participation. He acknowledged the Chairmanship of the Board would be transitioning to Lt Gen in the coming weeks, but the actual date is yet to be decided. The Chairman stated there are two updates planned for discussion in the Executive Session; a report on IG investigations within AAFES and an update on the Board Restructure proposal. The Chairman asked the members for any final comments. Mr. AAFES to provide an update at the next Board meeting on movie theaters and the transition to digital format.

ADJOURNMENT

The Chairman confirmed there were no further comments and thanked members for their participation. The meeting adjourned at 1107 EST and Board members moved into executive session.

SUMMARY OF MOTIONS

- Minutes of the 3 December 2012 meeting were approved.
- 2. The proposed Dividend Payment Process was approved.
- The FY 2013 Capital Expenditure Program was approved. Approval of the bakery equipment project is contingent upon approval from the USFK/Eighth Army and Pacific Army COE.
- 4. The Automate CONUS Concession Project was approved.
- The Softlines Planning Management Project was approved.
- 6. The Retail Demand Forecasting Upgrade Project was approved.

SUMMARY OF FOLLOW-ON ACTIONS

- 1. Update the Board on the progress of the movement of the bakery in Korea.
- 2. Plan for exchange drawdown in Afghanistan & Iraq.
- Provide talking point bullets on AAFES relevance and savings impact to the federal government.
- 4. Update the draft trifold brochure on relevance and publish.
- Update Board on SDT spend reductions for GFY 2013.

- 6. Provide information on retail operational initiatives with execution timeline, cost, and return on investment.
- 7. Provide info to USARPAC on dividend policy for Torii Station, Okinawa, Japan.
- 8. Provide quarterly update on WMS.
- 9. Provide info on AAFES movie theater conversion strategy/timelines and impact on small theaters.



Executive Secretary

(b) (6) - Privacy

Lieutenant General, USA Chairman

Attachment 1

Dividend Payment Process

- a. AAFES will pay dividends to IMCOM G-9 and AF/A1S based on actual net earnings beginning in AAFES' fiscal year (FY) 2013.
- (1) In FYs 2013, 2014 and 2015 AAFES will pay a minimum of 85% of the previous three year's dividend rolling average. The minimum payment is a three-year bridging strategy to be reviewed annually during the three years by AAFES, IMCOM G-9 and AF/A1S. The three-year rolling average for AAFES FY's is as follows:

AAFES FY	Years Used in Rolling Average
2013	FY10, FY11, FY12
2014	FY 11, FY12, FY 13
2015	FY 12, FY 13, FY14

- (2) AAFES will make uninterrupted monthly local dividend payment throughout the year as earned. AAFES will make uninterrupted monthly Central Fund payments throughout the year, except for the final year-end payment (dividend applicable to January earnings), which will be held until June in order to accommodate completion of audited financial statements by an independent certified public accounting firm.
- (3) The three-year rolling average will be calculated to include past safety net payments but will exclude anomalies agreed upon by the Board of Directors (BoD).
- b. During the dividend payment transition/bridge period, if an anomaly occurs, AAFES will dialogue with IMCOM G-9 and AF/A1S to bring a recommendation to the BoD through the Finance Committee on how to adjust earnings based on the anomaly for dividend calculation.
- c. An anomaly is an event or transaction causing a material deviation from the norm or expected earnings results and is clearly beyond management's control. The materiality threshold is anomalies that total a \$5M or greater impact to earnings, which can be positive or negative.

Examples:

DoD policy change resulting in loss of funding for overseas utilities. Unforeseen closure of Puerto Rico Guard/Reserve facilities in 2008. DoD policy mandating Sunday Premium Pay eligibility. Appropriated Funds reimbursement for prior year expense, such as base realignment and closure reimbursement.

d. If AAFES earnings exceed the financial plan, AAFES will receive the first 15% of the excess earnings and the remainder will be treated as Core Earnings.

e. Dividend calculation methodologies as established with the Services in Army ASD Terms and Conditions, dated 24 January 1991, and Air Force ASD Terms and Conditions, dated 4 August 1992, remain unchanged.

MINUTES OF THE REGULAR MEETING OF THE BOARD OF DIRECTORS ARMY AND AIR FORCE EXCHANGE SERVICE

22 May 2013

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MINUTES OF THE REGULAR MEETING BOARD OF DIRECTORS ARMY & AIR FORCE EXCHANGE SERVICE (AAFES)

The 272rd meeting of the AAFES Board of Directors was called to order by the Chairman on 22 May 2013 in Pentagon, Room 1E381, Washington D.C. Board members, alternates, presenters and others who participated by video teleconference (VTC) are indicated below.

ATTENDANCE

MEMBERS PRESENT:		•
(b)(6) Privacy and DoD Names L	ist	
ALTERNATES PRESENT (b)(6) Privacy and DoD Names L		
MEMBERS ABSENT: (b)(6) Privacy and DoD Names L	ist	
OTHERS ATTENDING b)(6) Privacy and DoD Names Li	ot	
b)(o) Privacy and DoD Names Li	St	

(b)(6) Privacy and DoD Names List	
SECRETARIAT:	
SECRETARIAT: (b)(6) Privacy and DoD Names List	
BOARD PRESENTERS:	
(b)(6) Privacy and DoD Names List	

The meeting was called to order at 0802 Eastern Standard Time (EST), the BoD Secretary noted to the Chairman a quorum was present and proxies were confirmed.

OPENING COMMENTS BY THE CHAIRMAN

The Chairman, Lt Ger (0) (6) - Privacy, opened the meeting and welcomed Board members. He acknowledged the transition in Chairmanship from LTG (1) (9) - Privacy and commented they would continue to work together as Board leaders. The Chairman stated the effort to restructure membership to support a smaller Board is still active and noted there would be a closed executive session at the end of the open meeting.

OUT-OF-SESSION ACTIONS

The Chairman stated there was one out-of-session item to report: Promotion of Dr. (b) (6) - Privacy to AAFES Senior Rate. Noting no concerns or comments on the out-of-session item, the meeting continued.

APPROVAL OF MINUTES

The Chairman called the Board's attention to the minutes of the 4 March 2013 meeting. Ms. [10]-Privacy], the Board Secretary, noted one minor correction to the minutes in the area of attendance. The minutes incorrectly included Colonel (b) (6) - Privacy], FORSCOM, as attending with LTG [10]-Privacy]. In fact, BG (b) (6) - Privacy] attended as an alternate in place of LTG [10]-Privacy] that COL [10]-Privacy] did not attend. The Secretary commented the minutes would be corrected, made available on the Board portal, and included in the permanent archives. The Chairman asked for other comments and a motion to approve the minutes.

Motion: That the Board of Directors approve the minutes of the 4 March 2013 meeting as corrected. Mr. (b) (6) - Privacy moved to approve the minutes and SGM (b) (6) - Privacy seconded the motion. The motion was approved.

STATUS OF ACTION ITEMS

The Chairman noted the Board was provided the Status of Action Items. Noting no concerns or questions on the action items, the meeting continued.

DIRECTOR'S REPORT

(b)(5) Pre-Decisional

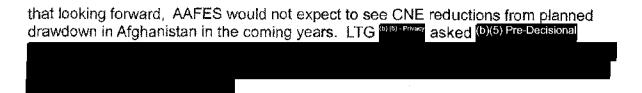
The Chairman recognized Mr. Director/Chief Executive Officer. Mr. began his briefing with a chart displaying AAFES worldwide five year sales trends, depicting total sales as well as comparable worldwide sales without Europe. Contingency, military clothing, and gas. He noted the negative variance of 4.1% in sales from last year attributing the decline to drawdowns in Contingency and troops coming out of Europe. The Chairman asked if troops in Europe and Contingency spent more money in general when assigned overseas, or if they spent more money with AAFES in particular. Mr. responded troops in Europe and Contingency tend to spend more with AAFES overseas due to lower levels of competition outside the gate. However, they tend to purchase fewer big ticket items such as furniture and large televisions when assigned overseas. Mr. added AAFES will push the new eCommerce site once developed, as a destination of choice. LTG (b)(6)-Privately asked (b)(5) Pre-Decisional responded AAFES has just - Mr. ≝ initiated the point of sale e-receipts initiative which will roll out in June. Mr. (6) (6) - Privacy added AAFES will be able to collect customer zip codes later in the year which will allow AAFES to tailor email offers to particular areas. (b)(5) Pre-Decisional Mr. (b) (6) - Privacy responded (b)(5) Pre-Decisional

Mr. continued reporting five-year worldwide trends for earnings noting AAFES has made good progress on the earnings side. He reported AAFES is working toward the goal of repositioning the main store by reducing unprofitable categories as measured by sales per square foot (S/SF). For example, the books and magazines category averages about \$28 S/SF while the Powerzone electronics category averages approximately \$1000 S/SF. Mr. continued by briefing five year trends for inventory at sell, and historical inventory variance. He commented AAFES maintains excellent inventory variance compared to industry standards. Mr. then provided the five year worldwide trend for computed number of employees (CNE) reporting AAFES is working to achieve a 1,500 reduction in CNE through attrition, early retirements and job reviews before refilling a position. LTG (b) Press asked if (b) (5) Pre-Decisional

. Mr. responded that except for a few deployed exchange mangers and associates, AAFES uses contracted labor in the contingency environment and these expenses are not included. The

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. MG (6)(6)-Privacy made the point



Mr. reported net earnings for fiscal year (FY) 2013 year to date (YTD) February/March. He noted while net sales were below last year, increases in other income and reductions in personnel costs, other expenses and total selling, general and administration (SG&A) expenses resulted in significant improvement in net earnings YTD with a \$17M variance (340%) over last year.

Mr. Privacy provided an update to the AAFES theater conversion strategy. Digital conversion by the movie industry resulted in closure of theaters that could not sustain the investment. AAFES is in the process of reevaluating 47 closed theaters as a quality of life issue. Mr. reported there is a potential \$6M cost to reopen theaters under consideration. The actual investment will probably be less as there are some locations where command cannot provide a facility or customer attendance has been very low.

Mr. other noted his desire to push for first-run movies with the movie industry. Mr. suggested (b)(5) Pre-Decisional

. Mr

OPERATIONS UPDATE

Mr. (D)(G)-Privacy Chief Operating Officer, began his presentation by providing a summary chart on concept shop initiatives to intensify national brands in the areas of hardlines, softlines and consumables. He provided implementation targets and sales projections in each category. Overall, implementation goals for quarter one were exceeded and generally sales and gross profit goals were higher than planned. Mr. (D)(G)-Privacy focused on hardlines and softlines strategies by highlighting implementation plans and sales figures for national brands such as Sony, Bose, Michael Kors and Nine West. In the category of Ladieswear brand intensification, Mr. (D)(G)-Privacy described floor plan redesign and strategies to increase vendor shops, enhance visual appeal and generally improve the shopping experience. LTG (D)(G)-Privacy noted the (b)(5) Pre-Decisional

responded stores serving large troop population tend to have lower priced private label merchandise, but noted many consumers, including young troops, seek name brand merchandise.

Mr. (b) (6) - Privacy noted (b) (5) Pre-Decisional

Mr. (b) (6) - Privacy responded AAFES received the new brands just after

Christmas and even without fixtures, stores merchandised the products well and sales

Christmas and even without fixtures, stores merchandised the products well and sales have been strong. In the area of consumables, AAFES is implementing national brands bareMinerals, The Body Shop and Victoria's Secret with implementation and sales growth ahead of plan.

Mr. (b) (b) Privacy reported strategies to grow the Express are focusing on snack avenue, retail food and beverages noting quarter one sales and gross profit are below plan. He commented the beverages category is down about 7% in AAFES and industry-wide as well. All segments, soda, beer and energy drinks demonstrated some decline. LTG asked (b)(5) Pre-Decisional

Mr. (b) (6) Privacy responded AAFES quality assurance is tracking to be sure the ingredient is not in any products AAFES sells. Mr. (c) (c) Privacy expressed (b)(5) Pre-Decisional

. Mr. (c) (c) Privacy added AAFES has eliminated free samples in high troop concentration areas and AAFES strives to balance providing the full class six benefit for retirees with the local commander's declarmorization efforts.

On the grow concessions/services initiative, Mr. (b) (6) - Privacy reported implementation and financial results are trending better than planned. He noted gas sales are down and gross profit on gas is up. Mr. (b) (6) - Privacy attributed this improvement to better management through the Fuel Quest program to allow AAFES to take advantage of spot buys in local markets at a lower cost. Mr. (D)(6) - Privacy reported on growth initiatives for Military Star include enhanced promotion planning, applications at point of sale and advance notice of weekly discount events. Mr. (b)(6) - Privacy asked if there are indicators that would signal if a troop is receiving appropriate credit. Ms. eresponded AAFES works to closely monitor credit issuance to ensure potential cardholders are scored appropriately. She added AAFES will work with cardholders to develop payment plans if necessary and AAFES' very low debt write-offs (less than one percent) indicate good success of the program in helping customers manage credit. Mr. (6) (6) - Privacy commented that AAFES has very favorable deployment credit policies and AAFES writes off the debt completely if the service member is killed in action. LTG [0](5)-Frivaty asked [0](5) Pre-Decisional Mr. (2) (5) Priv stated (b)(5) Pre-Decisional (b) (6) - Privacy concluded his briefing with a report on the implementation of the eReceipt

program in which customers opt for a receipt that is printed, emailed or no receipt at all.

FINANCE COMMITTEE REPORT

Financial Status Report

Ms. Chief Financial Officer, began her report by summarizing FY 2012 financial results. She reported the exchange surpassed planned earnings by more than \$43M, a \$15% growth. Although sales and gross profit were both down compared to plan, AAFES continues to be diligent in controlling operating expenses driving net earnings above plan. Ms. provided a breakout of FY 2012 sales and gross profit by region, highlighting the aggressive nature of the FY 2012 plan. The magnitude of the effects stemming from troop reductions in Europe and Contingency can be seen in these areas through the negative variance in sales both from plan and last year results. Remaining

regions were successful compared to last year, but did not meet projected sales numbers. LTG [910]-Prison commented on the trend of troop movement overseas noting that traditionally, Europe has had higher troop strength than Pacific, but this trend has reversed in recent years with Pacific now having higher troop counts. Mr. commented AAFES is adjusting to downsizing in Europe, but has also been able to perform well in the Pacific to serve customers without a significant addition of people. Ms. continued by reporting FY 2012 sales and gross profit variance by business class, noting the aggressive plan for specialty stores, which were down \$227M compared to plan. Ms. provided a breakout of overall SG&A expenses which were 7% lower than plan having a \$143M favorable impact on earnings. She commented payroll costs were higher than planned in FY 2012 due to the increase in Local National severance pay and the accrual for the incentive pay associated with the planned early retirements. Ms. summarized dividends earned stating total Army and Air Force dividends exceeded plan by \$20M, or 11%. LTG (100-100-100) asked if AAFES could break out dividends by region. Ms. responded AAFES does not apply overhead costs at the installation or region level, but can provide information on what is paid to the Services by region.

Ms. Propositional briefed the Board on the dividend guarantee which is part of the plan for AAFES to pay dividends to the Services based on actual earnings beginning in FY 2013. She reminded the Board, AAFES will guarantee a dividend payment for FY 2013 – 2015 as part of the three year bridging strategy to be reviewed annually by the Board. The dividend guarantee is 85% of the previous three year's dividend rolling average.

Ms. Stated for FY 2013, the recommended dividend guarantee is \$183.4M, which is based on the FY 2010 – 2012 dividend rolling average adjusted for anomalies. LTG

(b)(5) Pre-Decisional

. Mr. (6) (6) - Privac

commented the process to develop the new dividend payment process was effective due to its foundation in transparency and growing partnership between AAFES and the Army and Air Force. MG (b)(6)-Privacy raised (b)(5) Pre-Decisional

. Mr^{(b) (6) - Privacy} noted Torii

Station is paid according to standard Army dividend formulas, but stated the dividends may not be adequate. The Chairman asked that the issue be researched and a final response provided to MG (D) (G) - Privacy).

Motion: That the Board of Directors approve recommended FY 2013 dividend guarantee of \$183.4M. Mr. (b) (6) - Privacy moved to approve the FY 2013 dividend guarantee amount and Ms (b) (6) - Privacy seconded the motion. The motion was approved.

Ms. continued her report with a summary of the FY 2012 yearend audit results. The audit is in the process of being finalized and auditors provided AAFES an unqualified opinion with no material weaknesses found. She noted two statement adjustments which had an impact to earnings. The first was an overstated liability in a

local national severance pay accrual which resulted in a \$19M favorable impact to the earnings. The second was the Identification of Real Estate administrative personnel costs, which were improperly capitalized. These costs should have been expensed, rather than capitalized, and the adjustment over 5 years resulted in approximately \$18M negative impact to earnings. Ms. also informed the Board final earnings figures in the report will incorporate pension expense; actual earnings totaled \$342M as reported, but \$206M will appear in audited statements. As a function of the liability of AAFES assets, auditors re-value the liability of the pension benefit based on current bond rates. She reported this is a common accounting adjustment in the industry. Mr. asked if there was a transfer of funds from operating capital to cover the liability. Ms. responded there is no movement of money, but auditors require restatement of the long-term liability into a short-term view based on current bond rate. This liability is re-valued at the end of each fiscal year. General discussion about the adequacy of funding, size of pension plans and account management followed.

Ms. pupped the Board on the YTD April 2013 financial results, commenting AAFES has surpassed planned earnings by more than \$17M, a 25% growth in today's challenging economy. Sales and gross profit were down compared to plan, but AAFES continues to focus on controlling expenses. Ms. turned her focus to SG&A expenses for YTD April 2013. Overall SG&A expenses are 7% lower than plan, resulting in a \$36M favorable impact to earnings. Ms. closed her briefing by providing a summary of projected FY 2013 results compared to plan for FY 2013 and last year. She noted with a continued focus on SG&A, AAFES is projecting earnings of \$340M, higher than the FY 2013 plan of \$312 and relatively flat compared to FY 2012 total of \$342M.

AUDIT COMMITTEE REPORT

Mr. (b) (6) - Privacy, Director, Audit Division briefed the highlights and management actions taken on three projects completed since the last Board meeting: Tobacco Program, Network Access Controls and Markdown Controls.

Mr. (***O'G*** Privated**) reported AAFES tobacco sales for the first 10 months of FY 2012 totaled \$434.4M and gross profit for the same period was \$127.2M. AAFES purchases tobacco directly from the manufacturer rather than a wholesaler and vendors are granted access to an exchange bank account to directly draft payments. This process provides lower product costs and increases the opportunity for discounts and vendor promotions. This direct payment process accounts for 83% of tobacco payments to vendors. Mr. (***O'G***-Private**) stated overall AAFES has implemented an effective tobacco program; however, the audit identified some areas that require improvement. The audit identified problems with account reconciliation and AAFES' ability to claim vendor credits in a timely manner. Mr. (***O'G****-Private***) stated during the audit, management effectively improved reconciliation procedures for direct draft account balances and reduced the unreconciled balances from almost \$20M down to \$6M. AAFES management concurred with the audit results and recommendations and plans to complete corrective action by July 2013.

Mr (b) (6) - Privacy briefed Network Access Controls audit results noting network controls are designed to protect the systems and data from unauthorized users. AAFES uses various processes to protect systems such as roque system and intrusion detection software along with authentication controls. Mr (b) (6) - Privacy stated overall, AAFES management did a good job of establishing and implementing effective controls, however additional focus was needed to ensure access controls and device management policies were performing as intended. Also, software license restrictions required manual management of approximately 2,000 network devices. Mr (0) (6) - Privacy reported during the audit, AAFES purchased new software to better control resources and address configuration issues. The audit concluded AAFES relied on consultants to identify risks related to specific areas and did not have a broad internal network risk assessment process. Mr (b) (6) - Privacy noted this will be addressed as part of AAFES participation in the Defense Information Assurance Certification and Accreditation Program (DIACAP), which requires an annual network-wide risk assessment. Full implementation of the DIACAP will occur in the 4th quarter 2015. In addition, the audit found background checks were not always current for end user computer technicians and network devices at facilities visited during the audit were not always secured to prevent unauthorized access. These findings and recommendations for improvement were provided to management. Management concurred and planned to complete corrective action by the fourth quarter 2015, Mr. (5)(6) - Privacy remarked the Audit Committee asked for quarterly updates on implementation of these recommendations.

Mr(b) (6) - Privacy updated the Board on Markdown Controls audit findings, explaining markdowns are reductions to established merchandise selling prices due to excess inventory, damaged goods or sales promotions. During FY 2011, markdowns totaled \$472M (6 percent of sales). Mr (b) (6) Privacy reported the audit concluded the Sales Directorate provided generally effective markdown controls with markdown percentage decreasing from 6.4 in FY 2007 to 5.9 in FY 2011. He also noted discontinued inventory was reduced by \$67.5M since September 2011. In January 2013, Sales Directorate Impact teams and Logistics Directorate liaisons began to work collaboratively to identify monthly dead warehouse inventory. Mr (b) (6) - Privacy stated the audit identified a number of other opportunities for improvement including improved processing of discontinued and expired merchandise, processing of merchandise on a first-in, first-out basis, mechanization of write-off documentation, and additional guidance to the field for local promotions. In February 2013, management started to include guidance in monthly action messages regarding labeling for local vendor sponsored promotions. Management concurred with recommended corrective actions and plans to complete by fourth quarter 2013.

RED PRAIRIE WAREHOUSE MANAGEMENT SYSTEM (WMS) UPDATE

Mr. presented a status update on the Red Prairie WMS at the West Coast Distribution Center (DC). He began his presentation by reminding the Board of AAFES goal to reduce personnel cost per case (PCPC) to a target of \$1.66 and reported AAFES is on track to achieve this goal. Mr. stated the other two locations being

considered for WMS software updates, Waco DC and Dan Daniels DC, are likely to be recommended to implement the JDA version of the software. Mr. informed the Board Red Prairie was bought by JDA and they are leaning forward to support AAFES requirements with a significantly updated software version. AAFES is undergoing final assessment to ensure we can conform to the off-the-shelf technology. He provided a timeline of planned actions at West Coast DC and expected PCPC targets. LTG asked (b)(5) Pre-Decisional

Mr. affirmed AAFES would provide the final, comprehensive assessment of Red Prairie and any recommendations regarding future rollouts at that time.

CLOSING COMMENTS

The Chairman thanked the AAFES staff for updates and Board members for their participation. He asked the members for any final comments. Mr. Commented FORSCOM has connected two AAFES military members with the Army's system to access current and projected troop strengths. The Chairman commented the Air Force has provided AAFES access to this information as well.

Mr. (D)(G)-Privacy asked if there was an update on the Korean government decision to fund the Exchange warehouse and bakery at Camp Humphreys. Mr. (D)(G)-Privacy confirmed the Korean government has given verbal approval, but AAFES is awaiting final written approval.

The Chairman announced AAFES has conducted a financial review of magazine and book sales in the exchange as part of aforementioned efforts to reposition the main store by reducing unprofitable categories. As a result, AAFES has made the business decision to phase out unprofitable merchandise in the category, which includes adult magazines, effective 31 July. Mr. commented sales in the category are down 86% and noted other retailers do not sell adult magazines, so there is no competitive need to maintain.

ADJOURNMENT

The Chairman confirmed there were no further comments and thanked members for their participation. The meeting adjourned at 1015 EDT and Board members moved into executive session.

SUMMARY OF MOTIONS

- 1. Minutes of the 4 March 2013 meeting were approved.
- 2. The recommended FY 2013 dividend guarantee of \$183.4M was approved.

SUMMARY OF FOLLOW-ON ACTIONS

Provide contingency sales for last five years.

- 2. Provide total number of people working for AAFES in contingency.
- 3. Information on AAFES debt forgiveness policy for cardholder death.
- 4. AAFES dividends broken out by region.
- 5. Track AAFES incentive earnings under new dividend payment policy.
- 6. Provide info to USARPAC on dividend policy for Torii Station, Okinawa, Japan.
- 7. Provide full assessment on Red Prairie WMS.



Executive Secretary

APPROVED:

2 6 JUN 2013

(b) (6) - Privacy

Lieutenant General, USAF Chairman

MINUTES OF THE REGULAR MEETING OF THE BOARD OF DIRECTORS ARMY AND AIR FORCE EXCHANGE SERVICE

20 November 2013

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MINUTES OF THE REGULAR MEETING BOARD OF DIRECTORS ARMY & AIR FORCE EXCHANGE SERVICE (AAFES)

The 273rd meeting of the AAFES Board of Directors was called to order by the Chairman in Pentagon Room 1E381, Washington, D.C.

ATTENDANCE

MEMBERS PRESENT: (b)(6) Privacy and DoD Names List

ALTERNATES PRESENT:	
(b)(6) Privacy and DoD Names List	
MEMBERS ABSENT:	
(b)(6) Privacy and DoD Names List	
OTHERS ATTENDING b)(6) Privacy and DoD Names List	
of thirds and Bob Hames List	
	-



BOARD PRESENTERS: (b)(6) Privacy and DoD Names List

The meeting was called to order at 0802 EST, the BoD Secretary noted to the Chairman a quorum was present and proxies were confirmed.

OPENING COMMENTS

The Chairman, Lt Gen (b) (6) - Privacy, opened the meeting and welcomed Board members.

OUT-OF-SESSION ACTIONS

The Chairman stated there were three out-of-session items to report:

- 1. Approval of the 22 May 2013 Board of Directors meeting minutes
- 2. Creation of the NF6 position for Senior Vice President, Exchange Credit Program
- 3. Selection of Ms. (b) (6) Privacy for promotion to Chief Human Resource Officer

Noting no concerns or comments on the out-of-session items, the meeting continued.

PREVIOUS BOARD OF DIRECTORS MEETING MINUTES

The Chairman called the Board's attention to the minutes of the 22 May 2013 meeting that were approved out-of-session. The Chairman asked for other comments and noting no concerns or comments, the meeting continued.

STATUS OF ACTION ITEMS

The Chairman noted the Board was provided the Status of Action Items. Noting no concerns or questions, the meeting continued.

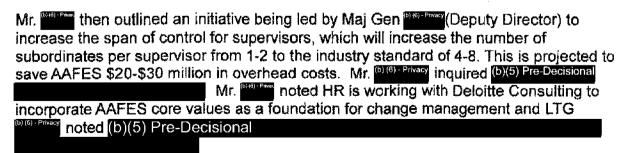
DIRECTOR'S REPORT

The Chairman recognized Mr. Director/Chief Executive Officer. Mr. began by briefing AAFES' priorities. He noted how AAFES associates are incorporating the priorities and how the strategies and initiatives are keeping earnings up in a declining sales environment.

Mr. discussed the status of AAFES' eCommerce program, highlighting the infrastructure and user interface changes that make this a major sales growth area for AAFES. He followed this discussion with how the reorganization of the brick and mortar stores is increasing sales while supporting military and AAFES initiatives such as OpBeFit and the first-ever showing of first run movies at CONUS locations through an agreement with Disney. Mr. discussions with Disney are progressing to opening Disney concept shops in main exchanges at key military locations. Lt Gen asked if the Disney stores on bases are like the ones seen in civilian malls. Mr. explained the stores would be like those seen in malls and added the Disney partnership was a part of a program called "Homeward Bound," that includes key vendors and focuses on the entire military family.

Mr. then covered the current A.T. Kearney logistics review to optimize AAFES' supply chain. The review highlighted areas for improvements, which AAFES will incorporate in order to reduce expenses, improve delivery of products to the customer and optimize the overall supply chain.

Next, Mr. reviewed the \$100 million target to reduce SG&A and referenced the 3000 plus positions that were eliminated. He stated that current savings is at \$90 million and was achieved through attrition. When positions had to be eliminated, they were completed with "soft landings" provided to those individuals impacted by the removal of the position. In another cost saving initiative, functions were combined to allow the elimination of positions. Mr. advised the board members that this approach is different than using furloughs and he would not be including this in the congressional testimony due to the sensitivity of eliminating government positions and the budget cuts that are impacting other agencies.



The next topic was earnings. Mr. explained the new strategy to reduce costs has mitigated the \$209.6 million decrease in sales. LTG saked (b)(5) Pre-Decisional MG

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LTG (b)(5) Pre-Decisional

LTG (b)(6) Prower then asked a (b)(5) Pre-Decisional

Both Lt Gen (b)(6) Prower and LTG (b)(6) Prower (b)(5) Pre-Decisional

The BoD members (b)(5) Pre-Decisional
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Mr. then discussed troop reduction impact on sales. He noted the projected 27% reduction in forces (by 2017) will result in a \$1.5B or 23% drop in sales if AAFES continues doing business as it does today. This discussion led to two main topics:

- Reduction of APF Support: Political considerations must be addressed while
 discussing this issue. The intent is not to transition these support costs to the
 customers or to impact MWR programs. Any APF reduction must be done
 with the right balance of support and not a "cut the umbilical cord" approach.
 BoD members agreed a slow and balanced approach to APF reduction is the
 best path.
- 2. Expanding Patronage for On-Line Sales Only: Mr. outlined the expansion of patronage to all honorably discharged veterans, to shop AAFES' on-line site only. He explained this expansion will attract millions of new customers and will defray the losses expected with troop reductions. Mr. stated this initiative "recognizes the service of past veterans who have served honorably." (b)(5) Pre-Decisional (b)(5) Pre-Decisional

At the conclusion of the discussion Lt Gen asked for and received BoD approval to allow AAFES senior leadership to pursue the expansion initiative.

OPERATIONS UPDATE

Mr. (b) (6)-Privacy Chief Operating Officer, began his presentation by providing a brief summary of "Intensifying National Brands." This strategic priority is a success story in its implementation with the actual planned concept shops exceeding plan in all areas except in hardlines. Together, the concept shops provided over \$37 million in year-to-date sales above the planned \$18.9 million. Mr. (c) (6)-Privacy pointed out how Michael Kors

and the Body Shop are excellent examples of how the rollout is meeting and exceeding customer expectations.

The next priority Mr. (a) (b) Privacy briefed was "Growing the Express." He highlighted Snack Avenue and its ties to OpBeFit (fresh fruit offerings), and noted this area of the Express has seen a 30-40% increase in sales.

The final topic in Mr (b) (6) - Privacy update was "Growing Concessions" (Services & Food). He noted that although sales are down, earnings are up because of the restructuring of concession contracts. Mr. (6) (6) - Privacy mentioned the downward trend in gasoline sales and that a full briefing will be provided (as noted above in the Director's Update). Lastly, Mr. (6) (6) - Privacy stated Express sales are up for merchandise and he expects that trend to continue.

FINANCE COMMITTEE REPORT

Capital Expenditures

Ms. Chief Financial Officer, began her report by discussing Capital Expenditures. She noted that CAPEX spending for FY14 is at \$304 million, down from the approved planned budget from 2013 of \$419 million. She also noted that in 2013 AAFES only spent \$319 million of the planned \$419 million.

LTG will-prove asked Ms. to define the programs that are in the business units. Ms. then covered the upgrade to the current Point of Sale (POS) capability. Although cost of this project is very high, the sub-projects are mission critical as AAFES moves forward (backbone for retail sales capability). Current spending of \$10 million annually for periodic maintenance to try to stay with industry standards will be avoided with the implementation of this POS capability. The POS system is an integral part of the organization's success and this system allows the flexibility needed in a changing environment to meet customer decisions in the Retail, Food, Fuel and Concession lines of business for AAFES. She also highlighted how this program will be integral to the eCommerce program in the future.

Ms. then moved on to construction expenditures and how they've been a major area of focus related to improving AAFES' cash flow. She noted that from 2010 to 2012, AAFES spent an average of \$280M for construction spending and has made a concerted effort to reduce that capital expenditure. The strategic goal of reducing capital expenditures \$100 million in five years has almost been reached in just three years (currently reduction is at 95 percent of the goal).

The next topic Ms. addressed was new construction. She stated that any project budgeted for over \$1.5 million is being brought forward for approval and only projects with high returns are being planned for execution. Ms. highlighted how the new process of identifying new construction projects has reduced the annual expenditure for

construction to \$208 million from a high in 2011 of \$288 million. For new construction going forward there's \$42 million planned with \$14 million identified for spend in 2014.

Mr. (b) (c) - Privacy, Vice President, Real Estate, took over the briefing and explained some of the details behind the projects. He outlined how the FY14 portfolio utilizes the capitalization strategy of reducing costs over the next two years and focuses capital expenditures on high return-on-investment projects. Mr (b) (c) - Privacy noted that only projects more than \$750 thousand in construction, or \$1.5 million in total costs, are being brought forward for BoD approval. The current funding environment was highlighted by Mr. (b) (c) - Privacy as he noted how across-the-board reduction in federal spending creates an environment where it is prudent to reduce AAFES Real Estate Capital Expenditures (CAPEX). Lowering CAPEX on new construction projects, focusing on Image Updates/Renovations and redirecting the funds for growth of on-line sales is consistent with AAFES priorities.

The growth projects that were briefed in detail to the Finance Committee were outlined by Mr. (b) (6) - Privacy and he noted they were all excellent projects with projected average IRRs of 10.4%. He requested a motion to approve the growth projects. Lt Gen asked (b)(5) Pre-Decisional

Motion: That the Board of Directors approve the three Growth Projects. Mr. (b) (6) - Privacy rnoved to approve the projects and SGM (b) (6) - Privacy seconded the motion. The motion was unanimously approved.

A very brief discussion on the Image Update projects followed with Mr. (b) (6) - Privacy outlining the four locations (Barksdale AFB, FE Warren AFB, Fort Drum, and Fort Jackson) and how all locations had not received an update in over 10 years.

Motion: That the Board of Directors approve the four Image Update projects and the waiving of the viability reconfirmation requirement. Lt Gen requested approval of the motion and the BoD unanimously approved the motion as briefed.

Mr. (a) (b) - Privacy then discussed the AAFES Distribution Center (DC) in Europe currently located at Giessen. The Army plans to close Giessen in order to save an estimated \$6-8M in annual operating costs. He explained there's a long history with this project and emphasized the new location is 'right-sized' for AAFES (400K square feet at Germersheim, which operates as the Europe logistics hub). The Army intends to consolidate all logistical operations in Europe to the Germersheim Army Depot (GAD) and asked AAFES to relocate its distribution operations to GAD. This relocation is consistent with the European Infrastructure Consolidation (EIC) initiative and will support potential future efficiency of operations by co-locating DeCA, AAFES and DLA at GAD. The recent issue of no APF to build the AAFES requirements was discussed, with project funding with NAF. Mr. (b) (6) - Privacy highlighted the current Sustainment, Restoration and Modernization (SRM) investment of \$7 million to bring the new location

to modern codes and standards. The new complex requires warehouse merchandise handling equipment and improvements that include a service ring road, loading docks and ramps, required drainage and a hardstand for up to 200 tractor trailers. He explained the new site is exactly what AAFES needs as the drawdown occurs and how the new facility supports more cross-dock versus warehouse logistics for future operations. The total new investment by AAFES to accomplish the move to Germersheim will be \$14.5M

Motion: That the Board of Directors approve the Germersheim Depot Distribution Center Improvements Project. Brig Gen (b) (6) - Privacy moved to approve the project and Mr. (5) (6) - Privacy seconded the motion. The motion was approved.

Ms. then briefed CAPEX trends. She covered a five year trend for Business Units programs from 2010 to 2014. She highlighted how discretionary spending of \$32 million is down from prior years. Ms. then gave a quick update on projects highlighting the avoided costs from the closure and cancellation of three projects. A discussion on avoided costs included the MilStar initiative and how using the pilot for ExTV to cancel full deployment of the project helped save millions of dollars. LTG

Following earlier discussion on the Point of Sale (POS) project, Ms. again highlighted the importance of the program. In addition to replacing end of life systems now in place, the new POS system will give AAFES the capability to meet customer decisions in Retail, Food, Fuel and Concession lines of business.

Motion: That the Board of Directors approve the project for the new POS Program. Brig Gen (b)(6)-Privacy moved to approve the project, Mr (b)(6)-Privacy seconded, and the BoD unanimously approved the motion.

Next Ms. briefed the Warehouse Management System (WMS) Suite upgrade which includes the replacement of end-of-life software and hardware systems and adds new features and flexibility. The upgrade incorporates state-of-the-art add-on modules for workforce management, slotting, and yard management, thus reducing inventory-carrying cost, labor cost and inventory cycle times. She explained that the first phase was complete at the West Coast Distribution Center (WCDC) and the goal of \$1.78 per case had been achieved. The upgrade includes most of the customizations AAFES has written into the existing program along with other capabilities. Lt Gen because (b)(5) Pre-Decisional

Mr. added that this was a major priority since his arrival and that transparency to the BoD as this upgrade is implemented will be followed. The Board of Directors approved funding the upgrade.

Ms. then briefed the eCommerce project outlining how it will provide an internet shopping experience that matches or surpasses other eCommerce alternatives available to our retail and business customers. Also, the eCommerce program includes

the replacement of end-of-life software and hardware systems and adds new features and flexibility. She noted the initial phase is complete with selection of a vendor (Speed Commerce). Ms. then provided an update to the eCommerce solution that has been previously approved by the BoD. She noted a change in the project definition from "Non-discretionary" to "Discretionary" was found during an audit and required BoD approval for that change.

Motion: That the Board of Directors approve the eCommerce program and project.

Internal policy guideline change mandates the classification of this project as
"discretionary". Brig Gen [5169-Prived] moved to approve the change in definition and SGM [5169-Prived] seconded the motion. The motion was approved.

Ms. then briefed the Product Information Manager (PIM) as a new project. She explained the solution is for a single repository of item information. Currently this is completed manually and the new solution will automate the process. An example of this capability is the enabling of internet searches using the repository. The cost of this project is \$12 million with an immediate return of \$6 million. It was noted this capability will follow the rollout of the eCommerce capability.

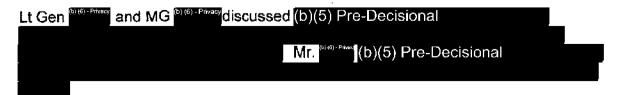
Motion: That the Board of Directors approve the project to fund the PIM in support of the eCommerce Program. Lt Gen requested approval, and the motion was unanimously approved by the BoD.

The next briefing topic was Capital Expenditures for IT. The purpose of the IT CAPEX budget is to maintain the stability of the IT infrastructure and applications. AAFES is required to inform the BoD of initiatives greater than \$5 million. Only two projects fall in this dollar range and they are in support of data storage capabilities at HQ & Disaster Recovery Sites. All other projects are normal life cycle costs.

Financial Status Report

Ms. began by presenting YTD September 2013 results, noting AAFES has surpassed planned earnings by more than \$29M. Sales and gross profit were both down compared to plan.

Ms. then briefed a five year trend chart (2009-2013) breaking out all the major core areas making up sales. Removing contingency and gas sales the trend only shows an overall change of \$24 million.



The final area covered was the Projected FY 2013 Financials. Ms. highlighted how a re-projection was due because of the uncertainty of the budget. She noted that a 12% reduction was applied to the re-projection for 2013. Mr. added that this is a very conservative estimate and that AAFES is making every effort to complete 2013 ahead of the re-projected numbers.

Due to the limited time the briefing was stopped so the Audit Committee Report could be presented. BoD members were informed that their books have information covering all the financial information and any questions should be sent to the FA directorate.

AUDIT DIRECTOR POSITION UPDATE

Ms (b) (6) - Privacy AAFES Chief Human Resources Officer, provided background on the Audit Director position highlighting that the change aligns the conversion of the military billet to a civilian position AAFES is staffed consistent to the other exchanges.

Motion: That the Board of Directors approve the Audit Committee bylaws requiring the Audit Committee Chair approval to replace the Chief Audit Executive and to perform approving official functions for the performance rating. Brig Gen of the performance rating approve the motion and Mr. (b)(6)-Privacy seconded the motion, it was then unanimously approved by the BoD.

Mr. made the announcement that Mr. (b) (6) - Privacy was selected to fill the Audit Director position.

Mr. then recognized Ms. of the retirement in January 2014. He added that Ms. (b) (6) - Privacy was selected as her replacement and that she brings over 32 years of experience to the position.

AUDIT COMMITTEE REPORT

Mr. [916]-Pives, AAFES, Director of Audit, briefed the highlights and management actions taken on the recent audits and the information covered in the past two Audit Committee meetings. He stated the external audit with Ernst & Young, LLP, was completed noting two areas: \$17.5 million in adjustments required for project costs previously capitalized and \$63.2 million adjusted to decrease merchandise inventories for assets in-transit.

The next topic was Human Resource Training Programs, noting the goal for 2012 was to accomplish 95% of required training, and that the actual rate was 87%. Opportunities for improvement were brought to management and corrective actions were put in place to correct the deficiencies and the process that led to the lower training rate.

Mr (a) (b) (c) Prived then briefed Fixed Assets, highlighting that in December 2012 AAFES fixed assets were worth approximately \$4.8B with \$2.7B in accumulated depreciation. He noted that fixed assets inventories are completed every two years and that the biennial inventory was adequate. He highlighted that in 2011 inventory results identified 94% of

all fixed assets and that the opportunity for improvement was to reduce the accumulated depreciation. He ended this topic by noting that management reviewed the current account process and formulated an improved reconciliation process, reducing the figure to approximately \$200K.

Mr (b) (6)-Privacy then briefly covered the completed Pacific Region organization audit. This is an audit that is performed annually at one of AAFES' regions on a rotational basis. Pacific Region 2012 retail sales totaled \$1.1B with operating profits of \$85M. Inventory shrinkage for the region was minimal. He highlighted that Ms. (b) (6) - Privacy and her team received the best audit results seen in years adding that over 49% of all problems were fixed on the spot.

The next audit covered food services operations specifically focused on food waste management and training. Direct food operations provided significant profits totaling over \$61M in 2012. Food waste, personnel cost, and production costs were reported daily. By 2012, sales grew to over \$665 million. Overall Food Operations were performing well based on sales and consistent gross profits. Some opportunities for improvement concerning food waste management and training were identified during the audit. The main deficiency identified was that 33% of associates had not completed required one-time training. Management took immediate corrective actions.

Mr. (1) (1) Privacy then stated AAFES had previously completed a review on in-transit merchandise losses and published an audit report in September 2011. Due to the significant amount of in-transit losses, a follow-up audit was completed. During Fiscal Year 2012, in-transit losses totaled \$4 million with 80 percent of those losses occurring in contingency operations, primarily Afghanistan. Mr (1) (1) Privacy reported since the previous audit, management improved operations and increased recovery rates by eight percentage points. He also stated accurate standard operating procedures are critical for improving the process. Mr. (1) (1) (1) Privacy concluded his briefing by stating that this area has improved greatly and results have been excellent over the past 20 months.

ADDITIONAL TOPICS

Maj Gen (Ret). (DIG) Frivary, AAFES Special Advisor to the CEO/Director, briefed the latest status of the BoD reorganization initiative. He noted that the Chief of Staff of the Air Force had signed the memo on the changes and expected the Chief of Staff of the Army to sign the memo soon. He highlighted that the new BoD required the Chair and Vice Chair to remain military positions, the BoD regulations will be temporary for 18 months at which time a review and changes will be made, nomination for Army and Air Force BoD members is almost complete, and that mandatory BoD training is being planned and will be given before the next BoD meeting in February 2014.

2014 BOARD MEETING DATES

A final motion was requested to approve the proposed dates for the 2014 Board Meetings.

Motion: That the Board of Directors approve the Board meeting dates for 2014 as proposed. Mr. (b)(6)-Privacy moved to approve the proposed dates and Brig Gen (c)(6)-Privacy seconded the motion. The motion was unanimously approved by the BoD.

CLOSING COMMENTS

The Chairman thanked the AAFES staff for updates and Board members for their participation.

ADJOURNMENT

The Chairman confirmed there were no further comments. The meeting adjourned at 1015 EST.

SUMMARY OF MOTIONS

- 1. Approval to allow AAFES senior leadership to pursue the patronage expansion initiative.
- 2. Approved the Growth projects.
- 3. Approved the Image Updates projects.
- 4. Germersheim DC project was approved.
- 5. The POS program was approved.
- 6. The change in definition for the eCommerce project was approved.
- 7. The PIM project was approved.
- 8. The Audit Committee bylaws changes were approved.
- 9. Proposed dates for 2014 BoD meetings were approved.

SUMMARY OF FOLLOW-ON ACTIONS

1. The BoD members requested a complete briefing on how the gas pricing policy is currently being implemented, program progression, where Fuel Quest will impact margins and AAFES's intent for the gas program in the future.



Executive Secretary

APPROVED:

(b) (6) - Privacy (5, 1) 2014

Lieutenant General, USAF Chairman

MINUTES OF THE REGULAR MEETING OF THE BOARD OF DIRECTORS ARMY AND AIR FORCE EXCHANGE SERVICE

29 May 2014

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MINUTES OF THE REGULAR MEETING BOARD OF DIRECTORS ARMY & AIR FORCE EXCHANGE SERVICE (AAFES)

The 274th meeting of the AAFES Board of Directors was called to order by the Chairman in the Boardroom, HQ AAFES, Dallas, TX.

ATTENDANCE

MEMBERS PRESENT: (b)(6) Privacy and DoD Names List	
MEMBERS VIA TELECONFERENCE: (b)(6) Privacy and DoD Names List OTHERS ATTENDING (b)(6) Privacy and DoD Names List	
ACTING SECRETARIAT: b)(6) Privacy and DoD Names List	
BOARD PRESENTERS: b)(6) Privacy and DoD Names List	

The meeting was called to order at 0800 CDT.

OPENING COMMENTS

- Proxy from MG (5)(6)-Privately to Mr. (6)(6)-Privately
- The Chairman, Lt Ger opened the meeting and welcomed Board members.
- Chairman noted with the immersion training and corporate training in DC, the Board continues to build on the partnership with AAFES.
- Lt Gen acknowledged LTG (6)-Proces, this being his last Board meeting, and thanked him for all his contributions.

OUT-OF-SESSION ACTIONS

- Six out-of-session items reported. No concerns noted.
- Request for resumes of three new Senior Vice Presidents be sent to BoD members.

PREVIOUS BOARD OF DIRECTORS MEETING MINUTES

- The Chairman called the Board's attention to the minutes of the 20 Nov 13 meeting.
- Chairman requested status of fuel pricing briefing and was advised it is scheduled for the next BoD meeting.
- Chairman asked about status of supervisory training, changing ratio 1:2 employees to 5:8 employees per supervisor, in line with industry standards. Mr. noted training is progressing and online LEX training program is being utilized.
- MOTION to approve minutes as written. Motion approved.

DIRECTOR'S REPORT

- AAFES LG Team working to drive costs out of shipping and doing so successfully.
- The Exchange is supporting TRANSCOM and is supporting Army in APF reduction.
- Will do what's decided about SDT utilization and related costs; want to be sure readiness & resiliency do not suffer--do not want to erode readiness of the benefit.
- Discussed if there was a defined decision point on SDT or is intent to just continue to manage costs and improve efficiencies to keep it in balance; confirmed the latter.
- Two SDT scenarios
 - One scenario is Army gets completely out of providing over ocean services for AAFES; discussion on how do you get to zero? Do it in house, efficiencies...or is that even reasonable? What is the impact on AAFES, the dividend, and TRANSCOM?
 - Second scenario is AAFES, TRANSCOM and Army work together to lay out goals to get there; do a business case analysis.
- Strengthening the loyalty program, MilStar is the foundation of that program.
- IT focus on Point of Sale system; next BoD to discuss project investment & payback.

- IT review for the next BoD to discuss cyber security; Ernst & Young retained for assessment of capabilities and security.
- Discussion on customer service performance measurement; noted BoD review KPIs;
 plan for update at the next BoD.
- Strategic initiatives precluded a 74% earnings drop for FY 2013, positively affected by concession income, margin improvements and SG&A reductions.
- AAFES experienced positive growth in Q1, ahead of Macy's, while other retailers suffered losses; ahead of competitors due in large part to cost cutting efforts.
- AAFES is tracking ahead of plan for FY 2014 to goal of \$297M in Net Income.
- Forecasting strategic initiatives will preclude 44% earnings drop in FY2014, fueled by SG&A reductions, intensification of national brands, growing concessions, and more.
- Future of Commissary will impact Exchange traffic and was taken into consideration in putting together a conservative FY 2014 Annual Financial Plan (AFP).
- SG&A reductions to date have not removed any staff from the field.
- Significant impact on earnings from online sales will not be seen until next year.
- 70% of Exchange customers shop both Commissary and Exchange on same visit.
- Potential exchange sales drop of 38% of commissary patrons surveyed will not shop with any commissary price increase.
- Exchange needs game changers to help maintain quality of life programs
- Expanding on-line shopping benefit to Honorably Discharged Veterans only needs change to DoDI 1330.21, no laws to change
- Potential financial impact could grow customers from 12M to 44M by 2019, pushing eCommerce sales from \$200M to \$1B by 2019.
- OSD's strong preference is to get the Navy on board with extending the online benefit to Veterans before approving this change to policy.
- What is the retail industry's position about extending the online benefit? The National Retail Federation (NRF) endorses this and will not oppose this move.
- Discussed information on position of other organizations outside of AAFES.
- AAFES will need one year after the new website comes out to get inventory, distribution, call center, etc, ready for the potential increase in customers.
- BoD shown Homeward Bound \$10,000 prize winner's video "My Heart Back Home".
 Submitted by military spouse Laura Jimenez and her son, Leonardo, from Ft. Bliss.

OPERATIONS UPDATE

- Concept shops are big drivers to the Exchange (Disney shop, Michael Kors, etc).
- Concessions and food courts make money for the main store.
- Looking at additional national brands to bring on as anchor stores (e.g., Men's Warehouse, Michael's, North Face).

- Gasoline is 20-25% of our sales but small part of bottom line. Gross margin on sales has gone from 4.8% to 5.5%.
- Buying fuel from more suppliers to get better pricing.
- Food sales are 1.1% above plan, \$3.2M above in earnings.
- Re-evaluating closed theaters and have re-opened 69, converted to digital.
- Seventeen (17) CONUS theater locations now have capability to show first run movies.
- Worldwide theater financials YTD April 2014 sales are \$3.57M, 22% above last year and YTD April 2014 net earnings are \$487K, 965% above last year.
- ACTION: List of the 69 theaters and identifying the 17 first run locations to BoD members.

FINANCE COMMITTEE REPORT

Financial Status Report

- FY 2013 financial results: \$8.3B in revenue, \$332M in earnings, \$208M in dividends.
- \$150M / 7% reduction in SG&A costs in FY 2013.
- Exceeded April YTD earnings plan by \$14M.
- More retirements from May August will be coming off the books.
- Q3 \$120M sales drop due in part to impact of government furloughs and sequestration.

Annual Financial Plan FY2014

- AFP 2014: (in millions) Total Revenue \$7,858; Net Earnings \$297; Projected Dividend \$189; Proposed Guaranteed Dividend \$177.
- Dividends paid on actual earnings; policy requires dividend guarantee through FY15.
- The Finance Committee recommends \$177M for FY 2014 dividend guarantee.

MOTION: The Board of Directors approve the FY 2014 dividends guarantee of \$177M. **Motion approved.**

- Finance Committee questioned on main concerns or focus on the FY 2014 AFP.
- Risk this year is low, but upcoming years, with all the planned new initiatives, may increase risk and will have to start taking a close look at their impacts.
- Impact/risk of the drawdown of troops: AFP numbers were based on assumption of having the troops for some portion of this year.
- Noted next quarter should check how numbers are tracking based on the rapid deployed troop level changes and unpredictable buying habits once they are home; commented there is stability in 2014 and 2015, but not after that.

 Request update budgetary planning assumption of troop strength breakout underlying the long range projections of the financial plan.

MOTION: The Board of Directors approve the FY 2014 Annual Financial Plan. **Motion approved.**

- Long-range projections noted there is \$50M in SG&A to cover utilities at all OCONUS facilities in case APF funding goes away.
- DoD policy requires APF funds to pay for OCONUS utilities, but it is unknown if this will change.
- BoD agreed if utilities go from APF to NAF, it should be done over time; reduce utility costs and partner for solutions.

HQ Consolidation Project

- Proposing \$3.5M renovation and improvements to the Exchange Headquarters building to integrate associates returning from the Stoneridge building.
- Payback in two years

MOTION: The Board of Directors approve the HQ consolidation project. **Motion approved**

- Based on current staff level, Stoneridge is now excess to Exchange's needs.
- Moving staff from Stoneridge to HQ will reduce overhead costs by \$1.7M annually.
- Additional \$300K annual reduction in costs for utilities, security and upkeep of the vacant building.
- Propose selling Stoneridge building and keep the proceeds; requires endorsement from OSD and congressional approval.

MOTION: The Board of Directors approve the sale of the Stoneridge property. **Motion approved.**

Gruenstadt Depot

BLUF: More information is needed and areas of operational and financial responsibilities defined (for ISSA); USD P&R scheduled to brief the SecDef on 4 Jun14. Mr. will take the lead to inform USD P&R of the Exchange's current position.

- Currently there are three options to be considered:
 - Option 1: Close the plant and locally source the baked goods and water.
 - Option 2: Close the plant and source the products from CONUS.
 - Option 3: Installation remains open, AAFES expands product lines and AAFES pays base operations/utility costs.

- Options 1 and 2 were posed by the EIC and analysis was focused on what could be saved by closing the facilities.
- AAFES' goal is to keep the plants open with no reduction in earnings or dividends.
- Recent disclosure of \$10-\$15M estimate in backlog of repairs and maintenance on the installation emphasizes need for deeper review.
- AAFES also operates bakery plants in Japan and Korea.
- DoD policy dictates that products for the DODEA school meal program must be approved by the FDA.
- MG [b) (6) Privacy], SES and a few members from the European Infrastructure Consolidation Executive Steering Group and learned the only data they had was what AAFES had provided.
- Many questions yet to be defined :
 - o How long will the German government let us keep the land?
 - o What expenses are we paying for this land?
 - How would we allocate costs between APF and AAFES for utilities and sustaining the facilities, ancillary cost of land/leasing and repair and maintenance of the facilities?
- This action is likely to be precedent-setting for operation of other exchange -run plants, such as the bakery plant supporting Marines in Okinawa)
- Recommendation to look at what expenses AAFES should bear; responsible for producing the products, not facilities, etc, and IMCOM should continue to pay for facilities, maintenance and repair.
- Propose more time to explore other options; no business case for options 1 and 2.
- USD P& R scheduled to brief SecDef on 4 Jun 14; recommendation to go with Option 3, AAFES' original proposition.
- Mr. (b) (6) Privacy will coordinate meeting change to allow for additional analysis.
- MG recommended status quo for now to understand transition to AAFES.
- Establish functional responsibilities AAFES would pay for rather than a dollar limit.

AUDIT COMMITTEE REPORT

- Maj Gen (6)-Privaty Audit Committee Chairman, noted Exchange Audit Plan is solid.
- Management taking aggressive action to make corrections as identified.
- Exchange strengthening self assessment program, creating a culture of compliance.
- Details of all plans can be found on the BoD portal.
- IT projects reviewed showed management has good controls in place and the Executive Governance Committee (EGC) is reviewing projects as they progress.

ADJOURNMENT

- The Chairman noted no further comments; meeting adjourned at 1128 CDT.

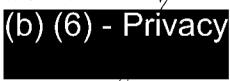
Executive Committee members remained for closed session; ended at 1205 CDT.

SUMMARY OF MOTIONS

- 1. Approved the minutes of the 20 November 2013 BoD meeting.
- 2. Approved the FY 2014 dividends guarantee of \$177M.
- Approved the FY 2014 Annual Financial Plan.
- 4. Approved the HQ consolidation project.
- 5. Approved the sale of the Stoneridge property.

SUMMARY OF FOLLOW-ON ACTIONS

- 1. Fuel pricing briefing for next BoD.
- 2. Resumes of new SVPs (identified in out of session actions) to all BoD members.
- 3. Business case analysis on SDT with G-4 and TRANSCOM.
- 4. Update IT review.
- 5. Update HR associate training.
- 6. Update loyalty program.
- Report on Key Performance Indicators against Strategic Roadmap develop, measure, and follow up.
- 8. List of the 69 movie theaters, identifying the in 17 locations with capability to show first run movies..
- 9. Update on supervisor training at the field level.
- 10. Succession planning EVPs and SVPs.
- 11. Family Serving Family Concessions associate "training" to instill the Exchange's core values.
- 12. BoD request to update budgetary planning assumption of troop strength breakout underlying the long range projections of the financial plan.



Acting Secretary

APPROVED:

(b) (6) - Privacy

Lieutenant General, USAF Chairman

MINUTES OF THE REGULAR MEETING OF THE

BOARD OF DIRECTORS

ARMY AND AIR FORCE EXCHANGE SERVICE

26 January 2015

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MINUTES OF THE REGULAR MEETING BOARD OF DIRECTORS ARMY & AIR FORCE EXCHANGE SERVICE (AAFES)

The 275th meeting of the AAFES Board of Directors (BoD) was called to order by the Chairman in the Pentagon, Room 4E175. Washington DC.

ATTENDANCE

MEMBERS PRESENT: (b)(6) Privacy and DoD Names List	
MEMBERS VIA TELECONFERENCE:	
(b)(6) Privacy and DoD Names List	
MEMBERS ABSENT:	
(b)(6) Privacy and DoD Names List	
OTHERO ATTEMPINO	
OTHERS ATTENDING (b)(6) Privacy and DoD Names List	
BOARD PRESENTERS: (b)(6) Privacy and DoD Names List	
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(b)(6) Privacy and DoD Names List

The meeting was called to order at 1300 EST.

OPENING COMMENTS

- Noted that a quorum is established and the meeting and its decisions are official.
- The Chairman, Lt Gen pened the meeting and welcomed Board members.
- Lt Ger acknowledged this is the last Board meeting for the AAFES Deputy Director,
 Maj Gen (b) (6) Privacy, and for SMA (b) (6) Privacy, and thanked them for all their contributions.

OUT-OF-SESSION ACTIONS

- Approved transition of the Deputy Director to a civilian position.
- BoD electronically staffed & approved eight motions from the October 2014 Finance Committee meeting.
- Established the executive position of Senior Vice President, Global Logistics Transformation.
- Approved the selection and promotion of Mr. (b) (6) Privacy to senior rate executive.

PREVIOUS BOARD OF DIRECTORS MEETING MINUTES

- The Chairman called the Board's attention to the minutes of the 29 May 14 meeting.
- It was noted that follow-up actions on planning assumptions of troop strength in 2015 and the underlying factors on the AAFES budget needed more discussion.
- ACTION: Status of SDT Whitepaper requested; BoD Secretariat to send to all members
 after BoD meeting and fist status at next BoD meeting.
 - TRANSCOM rate increase to 15% versus rate that DeCA receives (7%).
 - 5 Increase will drive AAFES request for additional SDT funds of \$3.5 million.
 - Will require a hybrid transportation solution; Commercial & Military.
 - Hybrid approach may drive rates up even more for all DoD customers.
 - AAFES to engage TRANSCOM; brief BoD on results.

MOTION to approve minutes as written.

Motion approved.

DIRECTOR'S REPORT

- Holiday sales (Thanksgiving to Christmas) a good news story.
 - 6% above when taken into consideration of the troop strength.
 - Normalized to comparative size customer base, 2% ahead of industry.

- Review of financials: 2008 was our top year in our history until 2014.
 - For comparison purposes, we lost \$1 billion in sales because of draw-downs. Once we normalize for troop and contingency reductions, our sales are flat compared to 2008.
 - Projected earnings of \$379 million far exceeds FY 2008 adjusted earnings of \$226 million.
 - December 2014 results even better; 5% of sales in terms of earnings.
- Strategic Roadmap: used to communicate strategic direction (Financial Input)
 - The key focus are merchandising and selling.
 - Core Values complete roadmap; very important to connect to who we serve.
 - Focus of leadership is to improve the customer experience; to be better connected to those we serve.
- Intensify National Brands: achieved over \$18 million.
- Grow Concessions: \$2 million increase.
 - Continue to face challenges implementing BeFit in Expresses and concessions at a faster rate.
- Optimize Supply Chain: Realized \$24 million in savings; continue to think through impact of TRANSCOM rate increase.
- Reduce SG&A: \$128 million improvement over course of the last year.
- Online: Many challenges during launch of new eCommerce web site.
 - Coding issues in 3PL software, site log-in, order processing, order tracking and inventory integrity (refers to in-stock/out-of-stock inaccurate information for customers).
 - Received more calls than eCommerce contractor could handle; stood-up old Call Center in two days to handle call volume.
 - Controlled increase in call volume and stabilized the conversion rate and the abandonment rate in six weeks.
 - Pursuing a breach of contract; AAFES uses the same vendor as the Navy.
 - Currently have a 20% improvement in the conversion rate (current rate is 4.4%).
 - Abandonment rate of 49% at launch; addressed internally.
 - Last 30 days are tracking to contract goals.
 - Displeased with Speed Commerce's productivity; recent efforts have improved customer experience.
- Veterans Online Shopping Benefit (VOSB): Area of emphasis and AAFES biggest opportunity.
 - Using a USAA example: 15-20 years ago they were in financial trouble; couldn't offer their customer a better product or price, so they expanded customer base.
 - By extending VOSB to a large veteran population, AAFES can extend its core focus on active duty, retirees, and quality of life programs.

- All exchanges support the initiative and currently working with the Veterans Canteen Service (VCS) to gain their support.
- Current agreement with VCS using AAFES site: \$1 million in sales per year =
 \$50 thousand in dividend to VCS.
- Future agreement VCS wants a percentage of top line sales, not earnings.
- Chairman directed AAFES to negotiate with VCS and possibly offer to guarantee an amount of funds; BoD leadership will engage if a mutual agreement cannot be made.
- Delay is costing AAFES \$100 million per year (in the out years).
- DMDC has a 98% authentication rate; exchanges will rely on DMDC to authenticate qualified, honorably discharged veterans.
- Air Force Secretary is all in; SecAF sent staff packet to SecDef (Letter of endorsement – importance to the QoL).
- Army Secretary has its staffing packet in a holding pattern.
- Implementation of VOSB is a policy change to the All Services Exchange Regulation (ASER).
- Developed a plan to implement 50 new BeFit concept centers, including athletic wear and footwear, which resonates with customers and supports health based initiatives.
 - Planned to expand brands online to match same as in stores.
- Expanding consumables and increasing categories with focus on core competitors (pharmacies/drug stores).
- Initiated early partnership discussions with Home Depot for appliances and hardware departments.
 - AAFES is moving away from electronics (large TVs, low margin items) online, because of low margins/gross profit.
- Growing concessions & direct run operations, including national brand fast food.
 - Added Chick-fil-A and Boston Market, which are doubling/tripling sales each month.
 - In discussions with Raising Cane, a chicken category food operation.
 - Burgers –rapidly moving away from burgers and toward healthier and more profitable options.
- First run movie update: Premiered Capt America and MacFarlan in Afghanistan.
- Leveraging analytics with more reliable sources.
 - Adobe Analytics, new software, soon to come on board, no exact date, but pushing hard for implementation in next six months.
- Optimize fuel operations better sourcing and pricing.
 - Externally hired two fuel experts.
 - Possible \$20 million opportunity; looking at switching partners be more competitive with our partnerships and provide a better experience at the pump for our customers.

- Island coolers –should have 200 (total) by end of 2015, with fresher product, fresh sandwiches and salads.
 - More healthy food afternative offers to offset tobacco's sales decline.
 - Military Star branding: 70% of online shoppers use the card, representing approximately 2-4% of overall sales and contributes approximately 10% of the overall Military Star income.
 - 10.24% is half the retail industry's card rate
 - Increasing security of the card, adding CVV security coding.
- Company-wide loyalty card, evaluating cards such as USAA card (possible co-brand).
 - Trying to extend the Military STAR card to DeCA; partnership would help reduce the credit card feed DeCA pays; AAFES can split the cost of the fees; DeCA could save millions of dollars (DeCA currently pays 2-1/2% to 3% in fees--they would save that by using STAR card).
 - A paper on MilStar use at commissaries will be developed and sent to members.
- Dot-com (Internet) sales are low overseas.
 - a AAFES to provide a better, more reliable, delivery overseas.
- Logistics: expanding JDA (old Red Prairie), to Dan-Daniels Distribution Center (DDDC), Waco DC, and Germersheim DC.
- SG&A: no additional change. Hiring freeze in place; focusing on growing top fine sales.
- IT improvements in hardware/software and Point-of-Sale (POS) technology for food and main stores.
- Entertainment Centers with multi-screen theaters and first-run movies and food concepts.
 - Economics is better, including food concessions, to build a sense of community.
 - Fort Bragg is next planned location with many more planned in the future.

FINANCE COMMITTEE REPORT

Financial Status Report YTD November 2014

- Financial results in FY14: Earnings to date continue to surpass expectations. Although there were many variables factored into the budget, some never materialized.
 - Currently \$93 million (40% above plan); \$36M above plan.
 - Strong earnings are due to strategic priorities improving margins and contributing to \$30 million in additional earnings; most from SG&A cost reductions and personnel reductions.
- Sales, the largest component of revenue, were = \$6.1 billion (planned down \$400 million); currently above plan by \$44 million.
 - Up in specialty: Contingency area gained significant amount; up \$22 million up in main store.
 - Impact of troop reductions not felt as severely as anticipated in plans.

The state of the

- Two areas of underperformance are:
 - Gasoline (price decreases = \$14 million negative impact, even more in Dec 14).
 - Online site launched later than anticipated (mid-year vs. late fall), but actual sales results are currently in line with projections.
- SG&A improvements since 2011, reduced 6,100 CNE (Full-Time Equivalents or FTEs) had a \$130 million impact to Earnings.
 - c \$60 million favorable impact on earnings; 4% lower than plan.
 - For FY2014, personnel costs improved by \$78 million over last year and \$40 million better than plan.
 - Over 1,000 employees took the VSIP/IER.
 - Other expenses are down as well and will continue into 2015.
- Dividends were \$170 million last year vs. \$188 million (Nov YTD). Dividends are currently \$35 million above plan
 - AAFES will retain 15% of earnings that exceed plan which equates to \$14 million that will be reinvested into the Exchange.
 - NOTE: Information above is different than Finance Committee presentation;
 Finance Committee slides will be updated to reflect current data.
- Dividends are \$35 million above plan.
 - Earnings: \$379 million is projected/\$80 million above plan.
 - December was better than forecasted: earnings could reach \$390 million.
 - Profit margin of 5.12% shows a continual increase
- Dividends forecast: \$223 million with a guarantee of \$177 million.
 - 2013 was \$207 million; dividend improvement of \$16 million.

Annual Financial Plan FY2015

- Exchange projects earnings of \$366 million generated from \$7.4 billion in sales while providing \$223 million in dividends.
 - Gasoline is 25% of AAFES' business and any price fluctuation can have a significant impact on revenue; \$223 million in dividends.
 - Tobacco sales are trending down; expect the policy change regarding discounts will affect sales.
 - Revenue impact: \$7.4 billion forecast includes (impacts) a \$418 million drop in gas sales (25% decrease); \$39 million reduction in tobacco; \$110 million from troop decline; and \$57million in general trends such as the move from brick and mortar to online for a projected sales decline of 8%.
- Factors considered during the budgeting process do include known troop movement and reduction.
 - Contingency is \$3 thousand per spend, OCONUS \$12 thousand per spend.
 - The impact at each Exchange is factored as troop strengths change.

- Expect online sales to increase 10% = \$20 million
- Other expected sales increases include: \$35 million from national brand intensification;
 and \$27 million from solution selling, for a total \$6.86 billion in sales.
- Earnings = FY 2015 earnings strength and quality continues to improve (5.12% of sales/5.34% of sales).
- SG&A planned down \$27 million.
- Depreciation Full depreciation of Retek, a +\$150 million price tag.
- Other Expense The Stoneridge building will provide a \$3 million positive impact.
- Personnel Cost Expect \$26 million negative impact due to increases in benefits costs.
- Dividends for last five years, per capita 2014 and 2015 = \$278 per active duty member, significantly higher since 2011 (\$188 million dividend guarantee).
 - Proposed Dividend Guarantee for FY 2015 is \$188 million no adjustment for anomalies.
- 2015 is the last year of the dividend guarantee.
 - Need to establish new process or retain current policy.

MOTION: Board of Directors to approve FY 2015 Dividends Guarantee of \$188 million. **Motion approved.**

AFP Assumptions

- 2014 forecasted earnings of \$379 million; gaining forward savings momentum beyond 2015 & 2016.
- Financial plan does not include Veterans Online Savings Benefit (VOSB).
 - National Brand Strategy and troop strength reduction/movement are in the plan.
 - if VOSB gets approved, then changes are positive = \$90 million in Gross Profit improvement.
 - Food transformation (entertainment/food center) is not in the plan.
 - Offsets for potential changes in troop strength are in place.
- Sales (w/o gasoline) impacts on strategies (without gas) from four key strategies:
 General Retail, VOSB, eCommerce growth, and POS upgrade rollout.
 - Through 2017 additional \$315 million revenue (w/o gasoline).
 - We expect continued strong earnings as these strategies come in to play.
- Baseline accounts for a factor of 20,000 reduction in troop strength in the out years;
 improved security (i.e.: fence lines, base access, etc.) changes not considered (to date).
 - Factors will be added to financial forecast as AAFES gets more clarity.
 - Currently, only 3% of food/theater traffic at Ft. Bliss, where open access is currently implemented, is non-ID card holders.
- Two contingency areas if VOSB does not get approved this year:
 - Improving online sales overseas; tremendous opportunity for growth.

- Overseas brick and mortar is 3.3% of sales, online is 1.9% of sales.
- Attracting more National Guard and Reserve sales.

Board members discussed DeCA impact; commissaries will be less relevant if they raise prices.

- AAFES impact includes (in the out years) the need to close stores on the same day/time DeCA close stores
- DeCA shut down in 2013 impacted weekend sales.
- If DeCA raises prices, fewer customers will shop commissaries and will impact exchange sales traffic.
- Important to follow what DeCA is doing and its significant impact to the overall health of benefits and dividends.
- DeCA reductions will impact the customer as DeCA makes changes.

MOTION: Board of Directors to approve the FY 2015 Annual Financial Plan. **Motion approved.**

Image Update Project

- Proposal on Image Update Threshold (briefed at 7 Oct 14 Finance Committee).
 - An Image Update is part of sustainment projects (SRM projects).
 - Approvals happen at the installation level.
 - Business unit project between \$1.5 million to \$5 million.
 - Current approval threshold of \$1.5 million requires board approval.
 - Propose change to \$5 million with AAFES Executive Governance Committee providing oversight (over \$5 million would go to the BoD).
- This change allows more internal flexibility, but will not allow anything beyond scope of maintenance projects and BoD will maintain visibility over the portfolio.
 - o Image Updates are more a retain/sustain program than construction.
- Request analysis of IRR calculations on branding projects.
 - Image Update projects rarely have positive IRRs because they are more maintenance to maintain sales and keep the facility to minimal standards.
 - Branded projects have ROIs values; Image Updates are not branded projects.
 - The 50 BeFit branding projects include financial analyses.
 - History at Randolph AFB is an excellent example.
- Brief discussion on Europe Distribution Center's possible delay.
 - Three month delay may impact the Jan/Mar 2016 target date to close operations at Giessen, GE.

MOTION: The Board of Directors to approve new Image Update threshold. **Motion approved**



Cyber Roadmap

- Ernst and Young did an overall security assessment of the Exchange.
 - AAFES did significantly better than other retailers in 18 of 20 categories
 - Two improvement areas identified: Disaster & Recovery; and Metrics & Reporting.
 - AAFES is evaluating bringing IBM on board to assist with Business Continuity,
 Architecture and Metrics and Reporting.
- AAFES has been PCI compliant since 2009.
 - o Deficiency in AAFES Food POS; currently running Microsoft Windows XP.
- Plan to correct by 2017 includes:
 - Chip cards EMV (Eurocard/Mastercard/Visa) protects against card duplication.
 - 3rd party card acceptance for retail Oct 2015, fuel Oct 2017.
- CVV Card Verification Value.
 - No one in industry is working proprietary credit card chips.
 - Applying: expiration date & check-digit verification; end-to-end token encryption.
 - Implemented a more cost effective decision for enhancement to the Military Star card vs. implementing a \$28 million chip and pin.
 - To update the card, AAFES will look at all cards vs. active cards; issue active cards first, then the dormant cards.

AUDIT COMMITTEE REPORT

- Audit: Ernst & Young made an unqualified opinion on the 2013 annual report and noted one on the balance sheet.
 - Peer review of AAFES received the highest possible rating of, "Pass".
- For 2015 Audit Plan –received 70 suggestions; narrowed it to 17.
 - Identified six audits for 2015 (information on the BoD portal).
- For audit on Retail Merchandising System Replenishment:
 - 4.7 million items were replenished in 2013.
- Audit is now combined with IG.
 - IG reviewed the Price Match Policy.
- Hotline calls have increased, likely due to the implementation of improvements (new eComm site launch).

ADJOURNMENT

- Chairman made note of issues for upcoming BoD meetings:
 - Three things on the horizon: Military Compensation and Retirement Modernization Commission report, budget issues for DeCA (reducing costs through reduced hours), and troop size.
 - Getting over the VOSB hurdle with VCS is a priority.