

**Transcript from Bondholder Conference Call
January 10, 2019 at 3:00 pm (EST)**

Good afternoon, this is Kevin Quinn. My firm serves as Financial Advisor to the National Law Enforcement Officers Memorial Fund. We have budgeted approximately one hour today for remarks by members of the Memorial Fund's management and will respond to some written questions that have been submitted this will be a muted call so we won't be taking questions during the call; however, after completion of the presentation today, anyone who has additional questions or requests for information, please submit them to the following email address bondinformation@nleomf.org and we will work to develop and submit responses periodically until our next call.

I would like to next introduce today's speakers. First is Lori Sharpe Day. Lori has agreed to serve as interim CEO of the Memorial Fund effective January 1 succeeding Craig Floyd who has retired as CEO of the Memorial Fund. Lori brings considerable experience to the Memorial Fund having served at the Federal Reserve Bank, in the Department of Justice, and for the United States Senate. Lori has worked closely over the years with former Attorney General and U.S. Senator John Ashcroft who has been the Chairman of the Memorial Fund since 2015.

02:41

Since 2007, she has served as managing partner of the Ashcroft Law Firm where she advises Firm clients on corporate governance issues. Most recently she has represented General Ashcroft on the Memorial Fund's Board and on the National Law Enforcement Museum's Leadership Council.

03:00

While the Memorial Fund conducts a search for a permanent CEO, Lori will supervise all aspects of the Memorial Fund's operations. As she will discuss shortly, she is already taking action to address the financial and operational challenges the Memorial Fund currently faces.

We are also joined by David Brant and Robert Wood. Dave became Chief Operating Officer of the Fund in 2017 and also serves as Executive Director of the National Law Enforcement Museum. In his prior law enforcement career, Dave was the director of the NCIS - the National Criminal Investigative Service - from 1997 to 2005 and more recently was Managing Director of the Public Service Practice at BDO. Dave will provide a description of his work supervising the construction, opening, and operation of the Museum and current activities at the Museum.

03:56

Robert Wood became Chief Financial Officer of the Fund in April 2018. Robert is a Certified Public Accountant with extensive experience working in a major accounting firm and in the for-profit and non-profit sectors. As you will probably notice from Robert's distinctive accent, he hails from Pretoria, South Africa. Robert has been living and working in the United States for 14 years and is a U.S. Citizen. He will be providing a preview of the Memorial Funds financial results for 2018, review of the 2019 budget (which has been approved by the Board of Directors) and discuss specific measures which are being taken to conserve costs and improve the Memorial Fund's operations.

04:40

With that I will turn it over to Lori.

Hello, this is Lori Sharpe Day. As Kevin mentioned, I have been closely involved with the Memorial Fund since 2015, as representative of Board Chair John Ashcroft. Because of my prior work with the Board, I have developed a good working relationship with Board members and the Fund's senior management. I have a reasonably good understanding of the Memorial Fund's current operating and financial challenges.

05:13

I started working full time on Memorial Fund matters in December of 2018 to help assure an effective transition of leadership; but before going any further, I would like to salute Craig Floyd for his dedication and hard work over the past 34 years leading the Memorial Fund. Under his stewardship, the organization developed and opened both the National Law Enforcement Officers Memorial in 1991 and the National Law Enforcement Museum this past October. He also played a crucial role in raising over \$74 million in donations for those two projects.

05:58

Although Craig is leaving for a much needed and deserved break, he will continue to be available to help me in a consultant role, and the Memorial Fund over the next 12 months.

06:11

As Robert will describe in greater detail, the Memorial Fund experienced disappointing financial results in 2018. There were a variety of factors that contributed to those results including the following:

- our overall development efforts fell considerably short of original projections by approximately \$4.4 million excluding depreciation,

06:38

- we did not implement the Multi-Channel Fundraising Program that had been envisioned, and
- we did not experience the growth in other revenues that we had anticipated.

There's plenty of responsibility at both the Board and management levels for these outcomes. However, launching the Museum required an all-encompassing focus of the Memorial Fund's attention this past year that, unfortunately, caused planning and fundraising to suffer.

The Board and management take very seriously the challenges the Memorial Fund currently faces and its obligations to its Bondholders. We won't be able to correct all of the shortcomings quickly. However, action has been taken and the Board and management have committed themselves to a very deliberative and exhaustive effort to develop and implement a new business plan for the organization. I will be spearheading that effort and will describe to you the scope and timing.

07:42

In the meantime, we are taking action to conserve costs by making select staffing reductions and deferring other expenditures that are not absolutely crucial to revenue generation. Specifically, we reduced staff by 12 percent this week. We eliminated positions and consolidated some responsibilities. We are increasing our focus on and enhancing our revenue generating departments - specifically sales and development.

I'm now going to ask Dave Brant to provide an update on the Museum construction, opening, and operations.

08:20

Thank you, Lori. The Memorial Fund's greatest achievement last year was opening the Museum both on time and within budget. The Museum's Grand Opening was on October 13th with thousands of guests in attendance. Media coverage was extensive, and reviews have been overwhelmingly positive for both the opening and the events leading up to the opening of the Museum. As we approach nearly 15,000 visitors during our first three months of operation, visitor feedback and overall critiques from all sources remain consistently - and nearly without exception - positive. The physical structure of the Museum, its interactive and experimental exhibits, and the overall unique content are routinely highlighted by visitors as exceptionally attractive aspects of our Museum.

Since opening, we have hosted 10 major receptions with thousands of visitors. We currently have 9 receptions, representing over 1,500 attendees, booked early in 2019.

The Museum is a very attractive reception venue and can produce revenue significantly greater than originally estimated. Venue rental revenue represents a very positive growth opportunity going forward. We currently have tour groups booked for this year that include over 1,500 visitors and we're adding more each week.

For example, this past Monday we hosted 180 middle and high school tour operators. They coordinate and book trips to Washington, D.C. for schools throughout the country.

09:58

During interactions with many of these tour operators, they commented that our Museum will be a "must visit destination" for school groups they work with. They were uniformly enthusiastic about the uniqueness and "draw" of the Museum. We are very confident that receptions, tours, school groups, etc. represent a strong growth trend in 2019, well beyond original projections.

During the fourth quarter of the year, which is when we open the Museum, is always the lowest for tourism and Museum attendance in Washington, D.C. We were not expecting a large number of visitors for that period. Our original projections called for 420,000 guests every calendar year. In 2017, the Memorial Fund hired Erin Harroun, who had previously served as Director of Sales and Events at the International Spy Museum, the most popular admissions-based Museum in Washington, D.C. Based on Erin's unique history and expertise, and our own more recent market analysis, we have adjusted our first-year visitor projection from 420,000 to 300,000 paying visitors. I will note, however, that concurrent with this lower attendance projection, we raised our ticket price from \$20.95 to \$21.95. We are constantly reevaluating our Museum operating budget. The Museum Security cost has been the single-largest contractor expense.

11:44

Original estimates show that Security costs would be a \$63,000 expense. That estimate was wrong. After conducting an updated Museum risk assessment analysis, the initial cost associated with ensuring an adequate level of security is approximately \$750,000. However, we have cut security resources and will lower that cost commensurate with security requirements.

As we move forward, Museum revenues for Q4 of 2018 were \$313,560 and expenses were \$2,247,591 for a total operating loss of \$1,934,031. Many of the incurred expenses were startup-related, and as I previously stated, the 4th quarter of the year is traditionally the lowest for tourism of all types in Washington, D.C.

12:49

Q4 period numbers do not represent the Museum's potential or current trend. Based on our revised projection of attendance, revenues, and expenses, we are projecting a net loss for Museum operations of approximately \$5,636,421 for 2019. The early reviews for our Museum, from all sources, are outstanding. All indicators regarding public interest are positive. Going forward, we will continue to refine all aspects of Museum operations, and aggressively and innovatively target new audiences to achieve the highest possible visitor levels.

13:36

Thank you, Dave. As I mentioned previously, 2018 has turned out to be a poor year for the Memorial Fund in terms of financial performance. We don't expect the audited results to be available until approximately May of 2019, but I want to share a summary of results with you now to provide context for the financial challenges that we are navigating and the payment of debt service on the Bonds going forward.

As was stated in a recent disclosure statement, interest on the Series 2016 A and B Bonds due on January 2nd were paid from funds on account of Capitalized Interest Funds and Debt Service Reserve Funds for those Series. With respect to the Series 2016 C and corporate bonds, we had to make a very difficult decision. Because of our current working capital and inadequate cash flow, we limited the payment of interest to those months that remained in the Capitalized Interest Fund for those Bonds. As a result, approximately \$460,000 of interest on those bonds was not paid on January 2nd of this year. Let me ask Robert to provide additional details regarding the organization's 2018 financial performance.

Thank you, Lori.

15:05

Q4 2018 financial statements should be available on February 15, 2019. We are currently closing the books for 2018 and have not received all of the December invoices so any amounts related to 2018 are preliminary at this time and subject to change, please keep that in mind as I go through 2018 results.

15:26

The Fund's original projections for calendar year 2018 called for \$28.5 million in revenue and \$28.71 million in expenses, including depreciation. Debt service for 2018 was to be funded out of interest held with the Trustee. Our current estimate for actual revenues for the year are approximately \$22.1 million, including pledges, and expenses are expected to be about \$26.5 million, excluding the depreciation and capitalized interest paid, resulting in an approximate net loss of \$4.4 million. The major areas of revenue shortfall versus projections were one, major gift fundraising and the second is the Museum ticket sales.

Overall expenses for 2018 are projected to be approximately \$2.2 million, excluding depreciation and capitalized interest paid, below the 2018 budget expenses.

Over the course of 2018, we had to draw money from the Liquidity Support Funds that were created as part of the Bond transaction in order to support working capital needs of the Memorial Fund. Those dollars were capital of the Fund that was reserved specifically for such a need. Through November 2018, we drew down

16:52

\$4.5 million, in aggregate. At the end of the year, we withdrew the remaining balance of \$2.4 million.

There is a liquidity covered under the Bond which requires that the Memorial Fund have at least 100 days cash on hand at the end of the year. Our preliminary estimate of the actual amount on account as of December 31st, 2018, is 118 days cash on hand. That amount will be verified in our annual audit.

17:25

With respect to Series B Bond Redemption, \$1,355,000 was redeemed in 2018. Cumulatively through December 31, 2018, \$2,325,000 Series B Bonds have been redeemed. The targeted redemption at the end of 2018 was \$11,220,000.

17:44

In February 2018, pursuant to a covenant in the Loan Agreement, a consultant was engaged to conduct an analysis of our fundraising effort and to submit findings and recommendations. The consultant was a nationally-recognized firm.

18:04

In general, the firm concluded that our research and development strategies were sound. However, it did note that we needed additional development staff execute the fundraising plan. We hired Maureen Desmond as the Memorial Fund's Chief Strategy Officer in October of 2018. She shares a wealth of fundraising experience and will lead the Memorial Fund's development team going forward.

Our fundraising efforts are the highest priority of the Memorial Fund going forward. In addition to prioritizing major gifts, the organization is also reevaluating its direct mail program to better optimize that opportunity.

18:42

We are also focused on digital fundraising which is an extremely cost-effective way to reach a different donor pool.

The Consultant also recommended that the Memorial Fund better utilize its Board-based Development Committee to increase the Memorial Fund's Board of Directors fundraising.

19:01

That process began under Craig Floyd's leadership and will be accelerated during the first quarter of 2019.

So, taken as a whole, the total fundraising from all sources for 2018 was projected at \$28.5 million and the current projected amount is approximately \$22.1 million. It is pretty clear from these results that the Memorial Fund needs to take aggressive action to improve fundraising. Lori will discuss actions taken so far and the types of action that will be considered as part of our business planning process.

19:36

Thank you. In September of 2018, the Memorial Fund Board of Directors took action when it became very apparent that the Memorial Fund was going to have a poor year financially and that changes needed to be made. The Board formed a special oversight committee to review the Memorial Fund's operations and finances. That oversight committee spent a considerable amount of time reviewing our financials and making recommendations. Some of the key findings included the following:

- There had been inadequate planning for operations and fundraising for 2018 and 2019,
- Fundraising results fell short of targets and there is an inadequate pipeline of Capital Campaign and major gift prospects,
- The Memorial Fund's finances have deteriorated significantly; and finally,

20:30

- A thorough planning process needed to be initiated immediately with the objective of the establishing a new business plan by the end of the 1st quarter of 2019.

20:44

The Committee also made recommendations regarding the payment of debt service in 2019.

Consequently, as soon as I started working regularly at the Memorial Fund's offices in December, we began to work with senior management and our advisors to define a planning process. We adopted an internal planning timetable and will be using "management by objective" principals to organize and steer the process. We have enlisted each of our business unit leaders to participate in the process and each has been developing in-depth written plans, objectives, and projections for his or her unit. Over the next two months, we will be conducting regular planning meetings and reporting our progress at least once each month to the Board's Oversight Committee. We propose to have a final draft plan ready by late February for submission to the Oversight Committee for its review and input. By March 15th, we intend to submit the plan to the Board for its review and approval including the following elements:

- a proposed new Business Plan;
- a revised Budget for 2019; and
- new 5-year financial projections.

22:06

Once those items have been reviewed and approved by the Board, they will be disclosed through the EMMA service and we will schedule another Bondholders conference call to present that plan.

22:18

The key to the Memorial Fund's success historically has been philanthropy. The organization traditionally has been very creative in developing and building diverse sources of fundraising revenue. It is clear that we need to be more resourceful going forward if we're going to be able to maintain a stable operation and honor our debt service obligation.

22:41

Consequently, I want to assure you that fundraising, in particular, will receive the highest level of analysis, focus, and priority during our planning process. One change to our fundraising strategy is already apparent to our Board. They are very committed to being more involved and engaged in fundraising. The Board also is considering changes in the Memorial Fund's governance structure to include a

National Law Enforcement Museum Board of Directors. We believe that structure will further enhance the Museum's fundraising capacity.

23:18

I'm going to turn the microphone back to Robert in a second to review and discuss the FY 2019 interim Budget. However, before he begins, I would like to say that we believe that the 2019 Budget is conservative. Our greatest areas of uncertainty are in the area of fundraising revenues. In particular, we have taken a very hard look at our pipeline for Capital Campaign receipts and major gifts and tried to be ruthlessly realistic about what we think we can accomplish in 2019. We will revisit the Budget during the planning process and revise it based on what will be a far more thorough process than the one that resulted in the interim 2019 Budget. Robert...

Thank you, Lori. We posted to EMMA the 2019 Budget on January 8th,

24:13

earlier this week. Please take note of the Summary of Significant Projection Assumptions. An important note there is the paragraph related to unidentified major gift target of \$6.9 million. As mentioned before, the revenue shortfall in 2018 mostly relates to major gifts.

24:34

The \$6.9 million is the current unidentified major gifts needed to balance the budget and has effectively become part of the development teams' goal for 2019. When developing the 2019 Budget we identified all known and needed expenditures as well as all known and reliable revenues that have historically materialized. The unknown or unidentified revenue relates to the potential major gifts.

25:02

This will be a challenge for the development team in 2019, however circumstances can quickly change with potential \$1 million plus gifts coming through from a corporation or wealthy individuals as we expand the development pipeline. So, at a high level, we are protecting total revenues of \$37.1 million. Of that amount, \$29 million is expected to come from fundraising. Included in the \$29 million is the \$6.9 million related to unidentified major gifts, \$7.5 million is projected for Museum operations and about \$600,000 from other sources.

25:43

With respect to cash expenses, we predict a total of \$29.4 million not including bond interest of \$7.7 million. As Lori mentioned previously, we will reevaluate this

budget over the course of our planning period. There is a possibility that it may be revised at the end of the process but for now this will be serving as a Memorial Fund's 2019 Budget.

Based on this Budget and using cash for general working capital to keep operations going there will be no cash flow available from which to pay interest on the Bonds. Thus, unless performance improves significantly in 2019, we expect that interest due on the Series A and B Bonds on July 1 will be paid once again from the Debt Service Reserve Funds at that time. After that payment, we estimate that there will be approximately \$1.6 million remaining in Series A and B Debt Service Reserve Funds. Absent better than projected performance in 2019, we expect that those remaining funds will be spent on interest due on January 1, 2020 and the remaining interest due on those Bonds will be unpaid.

26:54

In addition, we do not expect to make any interest payment on the Series C or corporate bonds on July 1, 2019 or January 1, 2020.

Lori, handing back to you.

We have received a number of questions prior to this call. We believe that many of them have been answered in our presentation but we recognize some were not and so we would like to address them at this time. We are going to answer those questions for which we have reasonably complete answers. We will try to address the rest in the coming weeks and post responses to EMMA.

27:33

The first question was raised about funds in the Renewal and Replacement Reserve and whether they can or will be used to make Bond interest payments.

At present there are no funds in the Renewal and Replacement Reserve. Under the Indenture Agreement, we should start making deposits in January of 2020 but we may have to defer doing so until revenues improve.

27:58

Here's another question: How much of the Debt Service Reserve was used and how much is left?

Approximately \$1.9 million of the Series A and B Debt Service Reserve Funds was spent on January 2nd on debt service and approximately \$4.2 million remained in those funds.

Here's another question: Bondholders need much more accurate disclosure to show exactly what is going on and what the monetary shortfall is likely to be going

forward. The Museum needs to show the current financials side by side and in the same layout as the projections in the feasibility study. Can management accomplish this for the next continuing disclosure call and into the future?

28:44

The Fund management team is currently working on a business plan that is targeted for completion by March. Once revised projections are developed we will try to present a comparative analysis with the original projections.

29:00

We have been asked a number of questions regarding the Capital Campaign contributions. For example: What is being done to speed up Capital Campaign contributions?

Our answer is that this will be a significant priority to be addressed in the business planning effort. We expect to provide a more substantive answer to this question once the planning process is completed.

29:24

Another related question was: How are the Board members and large corporate donors being engaged to address the Capital Campaign contributions?

The answer is similar to what was stated in the presentation: The Board of the Memorial Fund is very involved and committed in the business planning process and further information will be forthcoming regarding that effort.

29:50

Here is another question: We see approximately \$9 million in Level 1 securities being held as of June 30 2018. Why are those securities not being used to make debt service payments? What restricts those assets from being used?

So basically, I had a look at those; at the end of the year, \$8.5 million is the amount. From \$9 million it went down to \$8.5 million. Of that \$8.5 million, \$5.8 million is restricted related to the Memorial. It is restricted in two parts: one from a commemorative coin bill as well as an endowment. Specifically, those two sources of funds have been restricted to the future Memorial maintenance and any additions to the Memorial. The remaining \$2.7 million is unrestricted and will be used for working capital this coming year.

Here's an additional question: Who made the determination to tap into the Debt Service Reserve Fund?

30:58

Answer:

The payments from the DSRFs were automatic because the Fund experienced a severe operating loss in 2018 and advised the Trustee that it lacked the money to make any payments from operations or from its working capital without impairing its liquidity.

31:15

That concludes our responses to questions that were presented in advance of the call. Anyone who has additional questions should submit them to the following email address created specifically for that purpose. That email address is bondinformation@nleomf.org. We have received telephone inquiries from a number of investment representatives in recent weeks. I hope that you will appreciate that under disclosure laws we cannot have communications involving material information on a selective basis. All such information must be shared publicly and at the same time. We will try to be as forthcoming as possible with such information requests but will have to respond to them in writing and we will post such questions and answers to EMMA periodically. We will have another Bondholder conference call after completing our business planning process,

32:19

probably in early April. Finally, we've been in regular contact with Wilmington Trust which is Trustee for the Bonds and we have submitted a formal request to the Trustee to enter into a Forbearance Agreement. Our objective in submitting that request is to avoid declarations of default by the Bond Trustee and potentially expensive and damaging litigation. We do not believe that the interest of the Memorial Fund or the Bondholders would be well served if that happened. We thank you for your time today and commit to you that the Board, management, and staff of the Memorial Fund are committed to correcting this difficult situation. We look forward to providing more positive information in the future. This concludes today's presentation.