

MUNICIPAL CREDIT REVIEW

JANNEY FIXED INCOME STRATEGY

March 3, 2011



Revenue bonds issued through the Philadelphia Authority for Industrial Development, PA

Underlying Ratings

Moody's: NR
S&P: BBB- (Placed on Negative Outlook as of Jan 12, 2011)
Fitch: NR

Outstanding Bonds: \$59,445,000

Security: First lien on all revenues and items owned by the museum. Mortgage interest for bondholders on the 21st Street Center City location, currently for sale. No mortgage pledge on the Memorial Hall property.

No Bond Insurance

Debt Service Reserve Fund: in the amount of \$5.3 million or 125% of average annual debt service.

Covenant Requirements: There are debt service coverage (DSC) and adjusted unrestricted net assets (UNA) covenants. PTM continues to be in violation of the UNA covenant. The PTM deposited 12 months debt service into a Trustee controlled fund and hired a management consultant in response.

These bonds are not backed by the City of Philadelphia or Commonwealth of Pennsylvania.

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Philadelphia Please Touch Children's Museum

Janney Does Not Believe These Bonds Should Be Considered in the Investment Grade Category

CREDIT STRENGTHS

- Experienced strengthening attendance from April 2010 to Dec 2010 following an attendance drop-off in second year after reopening.
- Offers a very high quality and award winning child educational experience.
- Received a moderate to above average level of pre-Great Recession philanthropic support from private donors.
- Limited competition in the region for child-based educational options in the region.
- Other qualitative factors such as the PTM's effective management, economic development considerations and the strength of its Board of Directors should be considered.
- Public sector support of PTM's mission was illustrated by \$32 million of federal, state and local funds given and used for the renovation and move to Memorial Park location.

CREDIT WEAKNESSES

- Reported operating deficit of almost \$4 million in FY2009 and a similar estimated deficit expected for FY2010.
- Dependence upon fundraising is a significant speculative characteristic.
- Stalled capital (fundraising) campaign after receiving pledges of \$67 million out of its \$88 million goal through 2008.
- It remains to be seen if management can re-energize fundraising and maintain attendance.
- Has not sold the 21st St. location partly due to lower commercial property demand.
- High debt service burden compared to expenses (30%), S&P median ratio for similar BBB rated issuers is only 7%.
- Very small endowment, with a market value of \$1.7 million on Dec. 31, 2010.

Janney Outlook

The Please Touch Museum's (PTM) outstanding debt possesses speculative characteristics and should not be considered in the investment grade category, in our opinion. Only fixed income investors with a high threshold for risk should hold these bonds. The financing assumptions for this issue were fashioned at a time when the economy was robust, equity indices were climbing to all-time highs and investor optimism peaked. Then, along came the Great Recession.

This timing is important because gifts from individual and corporate donors are a leading revenue source for the PTM and repayment of the bonds. Higher rated cultural not-for-profits usually possess large endowments which spin off a consistent level of cash-flow. The PTM does not have such an endowment. Fundraising in general is still struggling to rebound two years after the official end of the recession. The PTM's short term ability to pay is not in question but, reliance on fundraising and the resulting lack of quantifiable security for bondholders is a very speculative feature of this credit. This dependence upon an economically sensitive revenue stream led to a FY2009 operating deficit close to \$4 million and a similar shortfall is expected for FY2010, according to S&P (financials should be available in April 2011.) We believe these were/are significant shortfalls on a \$10 million budget. Additionally, the PTM's debt service totals \$3.4 million for 2011 and steadily rises to \$5.6 million in 2036. This rising debt expense also concerns us.

The PTM's debt should not be considered investment grade.

Bond proceeds and privately raised funds were used to relocate the PTM to Memorial Hall, in Philadelphia's Fairmont Park.

Limitations on tax incentives included in the President's 2012 proposed budget may reduce giving by 5% to 10%, according to Moody's.

Current assets will not be able to continue to offset a lack of fund-raising revenues in the medium term. However, we believe there are several positive qualitative factors investors need to consider. These important intangible factors help reinforce bondholder security and may point to a positive trend of future fundraising success. Investors should keep in mind that by investing in these bonds they are assuming positive fundraising performance. If fundraising falls short support from the public sector is questionable in the current economic environment. That being the case, if there ever was a Philadelphia success story which also fulfilled a worthy mission, the PTM is it. Thus, government support could be warranted.

Use of the Series of 2006 Bonds

Approximately \$42 million of bond proceeds along with around \$36 million of privately raised funds were used to relocate the Please Touch Museum (PTM) from its 21st Street Center City location to Memorial Hall, in Philadelphia's Fairmont Park. The financing also funded Memorial Hall's renovation.

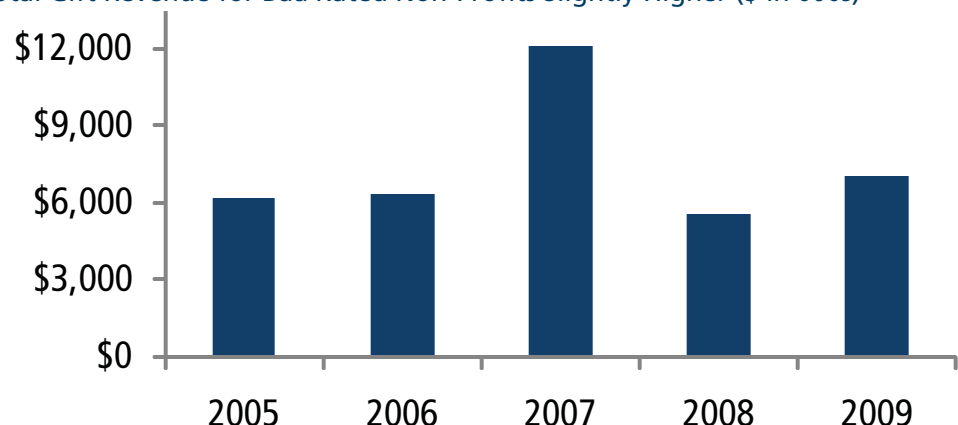
Description of the Please Touch Museum

The Please Touch Museum (PTM) is a tax-exempt 501(c)(3) not-for-profit organization which offers interactive learning and educational exhibits for children. In 1976 the PTM began in a 2,200 square foot corner of the Academy of Natural Sciences and expanded as demand rose for a hands-on environment where children could learn and play. As the operation flourished and required more space a building with 12,000 square feet of presentation space was purchased on 21st street in Center City Philadelphia's museum district, in 1983. On October 18, 2008 the PTM relocated to Memorial Hall, a City of Philadelphia owned landmark building constructed for the U.S. Centennial Exhibition of 1876 with 36,000 square feet of exhibition space (and 45,000 square feet of other public areas) located in the City of Philadelphia's Fairmount Park (Parkside neighborhood), two miles north of Center City. The City and the PTM signed an 80-year lease with an initial 45 year term for \$1. The new facility possesses greatly expanded exhibit space, area for food service and special events such as weddings. A historic carousel was restored as part of the project and is located in a wing of the building. The PTM's reputation is growing and demand ranks high among Philadelphia's educational and cultural destinations, especially on rainy days.

Will Fundraising Pick-Up?

There is currently a high amount of medium to long-term revenue uncertainty because of the PTM's lack of an endowment and reliance on private giving. The PTM suspended its \$88 million capital due to the economic downturn. The campaign will likely resume in the near term but its chances for success are uncertain. Total gift revenue for Baa rated not-for-profits is making a comeback versus its 2008 dip as tallied by Moody's. But, it is uncertain that giving will rise and remain stable and if so, whether those trends will translate to sufficient contributions to the PTM.

Total Gift Revenue for Baa Rated Non-Profits Slightly Higher (\$ in 000s)



Source: Moody's- Dec. 21, 2010 and Janney Fixed Income Strategy.

These intangible factors could help ignite PTM fundraising.

We expect the PTM's popularity and attendance to slightly increase for the remainder of 2011.

There is an aura of empowerment and friendliness within the entire museum.

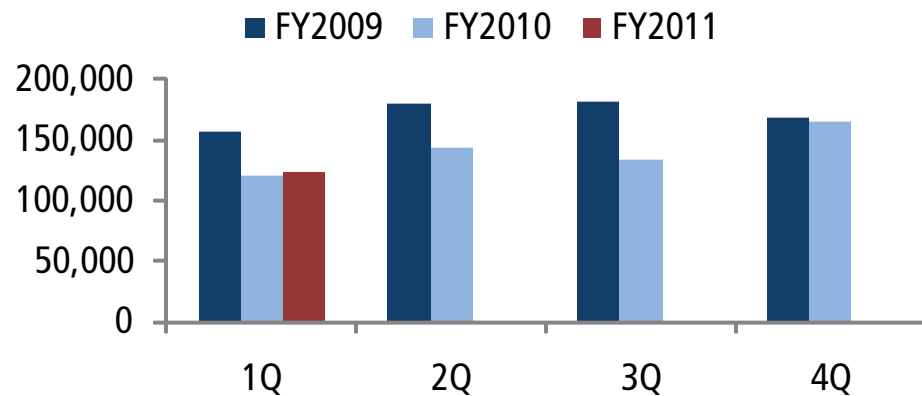
What are the Intangible Factors Investors Should Consider?

It is not only financial factors that need to be considered when evaluating this credit but also some more delicate variables. These intangibles do not offer direct security for bondholders but are very important in influencing and predicting the success rate of fundraising efforts. When development officers and Board Members pitch prospective donors, these will positively influence gift giving. Therefore, these qualitative variables, could help ignite PTM fundraising.

Visitor Demand and Attendance

The first and probably most important intangible factor is visitor demand and attendance. The PTM's attendance has been strong and visitor experiences mostly positive. There are several reasons for this. An encouraging trend that many cultural institutions are benefiting from is that many travelers are making local or regional trips and frequenting area museums or tourist destinations, due to the economic downturn. And repeat visitation is also a trend we are seeing, especially for a top tier destination such as the PTM. That being said one of the worries about museums generally and the PTM specifically is that attendance drops off significantly, especially after an institution's initial opening. The PTM experienced very strong attendance in 2009, just after it re-opened at the new Memorial Hall location. Attendance in 2010 was off versus 2009 but 1Q2011 was strong and we expect the PTM's popularity and attendance to slightly increase for the remainder of 2011.

Total Attendance Has Remained Strong Since the Move to Memorial Hall



Source: Please Touch Museum and Janney Fixed Income Strategy.

PTM Management and Successful Exhibits

In order to keep demand high, not-for-profit cultural institution management teams need to foster the idea that the staff, visitors and donors have a personal interest or ownership stake in the museum. PTM management successfully accomplishes this important assignment. There is an aura of empowerment and friendliness within the entire museum, radiating from senior management, staff, and visitors. This is often an understated quality and is usually the result of good management and effective leadership. The hands-on environment and comfortable employee engagement also fosters this. I saw a high level in interest in the faces of all of the visitors during my site visits and literally every person I have asked said that they had a positive or very positive experience at the PTM and most plan to return.

The museum's activities and exhibits are engaging and effective learning tools which children consider fun. Whether it is the operable backhoe or practically life-sized city bus both part of the Roadside Attraction exhibit, or the more whimsical Wonderland exhibit, based on the book Alice in Wonderland, children do and will return more than once. There are more than enough activities for children to be engaged in for hours and they are interesting enough to where they will want to return. Management expects visitors to return multiple times a year and numerous times through a young persons' life, the theory being that a child will experience, even the same exhibit, differently as they mature.

Public sector financial support is not likely in the current economic environment.

The reworked museum site creates and influences constructive social and economic activity in the traditionally distressed Parkside neighborhood.

Standard and Poor's put the PTM bonds on a Negative Outlook on January 12, 2011. S&P rates the bonds BBB-.

The PTM Received Strong State and Local Government Support

The City of Philadelphia and the Commonwealth of Pennsylvania has already put their support behind the facility by helping to fund its move and renovation with approximately \$36 million of funds. This is an important point because Philadelphia and Pennsylvania offered this support for the PTM, a not-for-profit organization, to occupy and keep-up a historically significant landmark building in Memorial Hall. This should tell investors that the public sector believed in the PTM management and mission but also saw the museum's occupancy of Memorial Hall as a way to keep up a previously empty historically significant building.

Economic Development of West Philadelphia

Another factor to consider is that the museum is in an area that has been the focus of recent economic development efforts. The reworked museum site creates and influences constructive social and economic activity in the traditionally distressed Parkside neighborhood. The museum added a cultural institution which produces positive day-time traffic activity in an area that also includes the Philadelphia Zoo, Mann Music Center and the Park Town West Center, a large retail center anchored by a Lowes home improvement center and Shop-Rite supermarket but has traditional experienced financial distress.

Summary of Series of 2006 Bonds

Maturity	Original Par Amount (\$)	Coupon	Price at Issue	Optional Call	CUSIP
9/1/2009	\$240,000	4.00%	100.000%	Matured	717818R34
9/1/2010	315,000	4.00%	99.820%	Matured	717818R42
9/1/2011	395,000	4.00%	99.562%	None	717818R59
9/1/2012	480,000	4.125%	99.969%	None	717818R67
9/1/2013	570,000	4.125%	99.730%	None	717818R75
9/1/2014	670,000	4.125%	99.433%	None	717818R83
9/1/2015	770,000	4.25%	100.000%	None	717818R91
9/1/2016	875,000	4.25%	99.597%	None	717818S25
9/1/2019	3,335,000	4.25%	98.248%	9/1/16 @ 100%	717818S33
9/1/2021	2,895,000	5.25%	106.053%	9/1/16 @ 100%	717818S41
9/1/2026	10,280,000	5.25%	105.161%	9/1/16 @ 100%	717818S58
9/1/2031	15,855,000	5.25%	104.597%	9/1/16 @ 100%	717818S66
9/1/2036	23,320,000	5.25%	104.357%	9/1/16 @ 100%	717818S74
	\$60,000,000				

Source: Official Statement and Janney Fixed Income Strategy.

Analyst Certification

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Positive: Janney FIS believes there are apparent factors which point towards improving issuer or sector credit quality which may result in potential credit ratings upgrades

Stable: Janney FIS believes there are factors which point towards stable issuer or sector credit quality which are unlikely to result in either potential credit ratings upgrades or downgrades.

Cautious: Janney FIS believes there are factors which introduce the potential for declines in issuer or sector credit quality that may result in potential credit ratings downgrades.

Negative: Janney FIS believes there are factors which point towards weakening in issuer credit quality that will likely result in credit ratings downgrades.

Definition of Ratings

Overweight: Janney FIS expects the target asset class or sector to outperform the comparable benchmark (below) in its asset class in terms of total return

Marketweight: Janney FIS expects the target asset class or sector to perform in line with the comparable benchmark (below) in its asset class in terms of total return

Underweight: Janney FIS expects the target asset class or sector to underperform the comparable benchmark (below) in its asset class in terms of total return

Benchmarks

Asset Classes: Janney FIS ratings for domestic fixed income asset classes including Treasuries, Agencies, Mortgages, Investment Grade Credit, High Yield Credit, and Municipals employ the "Barclay's U.S. Aggregate Bond Market Index" as a benchmark.

Treasuries: Janney FIS ratings employ the "Barclay's U.S. Treasury Index" as a benchmark.

Agencies: Janney FIS ratings employ the "Barclay's U.S. Agency Index" as a benchmark.

Mortgages: Janney FIS ratings employ the "Barclay's U.S. MBS Index" as a benchmark.

Investment Grade Credit: Janney FIS ratings employ the "Barclay's U.S. Credit Index" as a benchmark.

High Yield Credit: Janney FIS ratings for employ "Barclay's U.S. Corporate High Yield Index" as a benchmark.

Municipals: Janney FIS ratings employ the "Barclay's Municipal Bond Index" as a benchmark.

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