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**UNITED STATES BANKRUPTCY COURT
FOR THE EASTERN DISTRICT OF PENNSYLVANIA**

)	
In re:)	Chapter 11
)	
The Philadelphia Orchestra Association)	Case No. 11-13098 (ELF)
)	
Academy of Music of Philadelphia, Inc.)	Jointly Administered
)	
Debtors.)	

**DISCLOSURE STATEMENT WITH RESPECT TO
DEBTORS' FIRST AMENDED JOINT CHAPTER 11 PLAN**

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Dated: June 11, 2012

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THE DEBTORS BELIEVE THAT THE PLAN WILL ACCOMPLISH THE OBJECTIVES OF CHAPTER 11 AND THAT ACCEPTANCE OF THE PLAN IS IN THE BEST INTERESTS OF THE DEBTORS, THEIR CREDITORS AND THEIR ESTATES. THE DEBTORS URGE ALL HOLDERS OF CLAIMS ENTITLED TO VOTE TO ACCEPT THE PLAN.

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I. INTRODUCTION

The debtors and debtors in possession in the above-referenced chapter 11 cases (these “Chapter 11 Cases”) are the following related companies (collectively, the “Debtors”):

**The Philadelphia Orchestra Association; and
Academy of Music of Philadelphia, Inc.**

The Debtors submit this disclosure statement (as may be amended, the “Disclosure Statement”) pursuant to section 1125 of title 11 of the United States Code (the “Bankruptcy Code”) for use in the solicitation of votes on the First Amended Joint Chapter 11 Plan dated as of June 11, 2012 (as may be amended, the “Plan”). A copy of the Plan is attached hereto as Appendix A. **Each capitalized term used in this Disclosure Statement but not otherwise defined herein has the meaning ascribed to such term in the Plan.** See Article I, Section 1.01 of Appendix A hereto. In addition, all references in this Disclosure Statement to monetary figures refer to United States currency, unless otherwise expressly provided.

This Disclosure Statement sets forth certain information regarding the Debtors’ prepetition operating and financial history, their reasons for seeking protection and reorganization under chapter 11 and significant events that have occurred during the Chapter 11 Cases. This Disclosure Statement also describes certain terms and provisions of the Plan, certain effects of confirmation of the Plan, certain risk factors associated with the Plan and the securities to be issued under the Plan and the manner in which distributions will be made under the Plan. In addition, this Disclosure Statement discusses the confirmation process and the voting procedures that Holders of Claims entitled to vote on the Plan must follow for their votes to be counted.

By order entered on June __, 2012, the Bankruptcy Court has approved this Disclosure Statement as containing “adequate information,” in accordance with section 1125 of the Bankruptcy Code, to enable a hypothetical, reasonable investor typical of Holders of Claims against the Debtors to make an informed judgment as to whether to accept or reject the Plan, and has authorized its use in connection with the solicitation of votes with respect to the Plan. **APPROVAL OF THIS DISCLOSURE STATEMENT DOES NOT, HOWEVER, CONSTITUTE A DETERMINATION BY THE BANKRUPTCY COURT AS TO THE FAIRNESS OR MERITS OF THE PLAN.** No solicitation of votes may be made except pursuant to this Disclosure Statement and section 1125 of the Bankruptcy Code. In voting on the Plan, Holders of Claims entitled to vote should not rely on any information relating to the Debtors and their businesses, other than that contained in this Disclosure Statement, the Plan, and all exhibits and appendices hereto and thereto.

Pursuant to the provisions of the Bankruptcy Code, only classes of Claims or Interests that are (a) “impaired” by a plan and (b) entitled to receive a distribution under such plan are entitled to vote on the plan. In the Debtors’ cases, Claims in Classes 3, 4, 5, 6, 7, 8 and 9 are Impaired by and entitled to receive a distribution under the Plan; accordingly, only the Holders of Claims in those Classes are entitled to vote to accept or reject the Plan. Because Holders of Claims in Class 9 are Insiders, the votes of Class 9 will not be counted toward the requisite votes required for the Debtors to confirm the Plan. Claims and Interests in Classes 1, 2 and 10 are Unimpaired by the Plan; accordingly, the Holders thereof are conclusively presumed to have accepted the Plan.

II. OVERVIEW OF THE PLAN

The following is a brief overview of the material provisions of the Plan and is qualified in its entirety by reference to the full text of the Plan. For a more detailed description of the terms and provisions of the Plan, see Article VI of this Disclosure Statement, entitled “Summary of the Plan.”

The Plan provides for the classification and treatment of Claims against and Interests in the Debtors. The Plan designates nine Classes of Claims and one Class of Interests. These Classes take into account the differing nature and priority under the Bankruptcy Code of the various Claims and Interests.

A. General Structure of the Plan

The Plan contemplates the reorganization of the Debtors and the resolution of all outstanding Claims against, and Interests in, the Debtors. Subject to the specific provisions set forth in the Plan, all Claims will be satisfied by cash payments to be issued by the Debtors. Because the Debtor POA is a non-profit corporation, there are no Interests in it to be cancelled. POA’s ownership interest in Debtor AOM, which is a non-profit stock-issuing corporation, and the membership interests of the respective Boards in the Debtors, will be retained.

The Debtors have estimated the ultimate distributions that will be made in respect of Allowed Claims and Interests. As explained more fully in Section VII entitled “Certain Risk Factors to Be Considered,” however, because of inherent uncertainties, many of which are beyond the Debtors’ control, there can be no guaranty that actual performance will meet the Debtors’ estimates. The Debtors nonetheless believe that if the Plan is not consummated, it is likely that Holders of Claims against and Interests in the Debtors’ estates will receive less than they would if the Plan is confirmed because dismissal of these Chapter 11 Cases and subsequent dissolution of the Debtors’ organizations will not result in a higher distribution to any Class of Claims or Interests. Similarly, if the Debtors’ organizations were for-profit entities that could be involuntarily liquidated under chapter 7 of the Bankruptcy Code, liquidation of the Debtors’ assets will not result in a higher distribution to any Class of Claims or Interests.

B. Summary of Treatment of Claims and Interests under the Plan

The table below summarizes the classification and treatment of the prepetition Claims against and Interests in the Debtors under the Plan. For certain Classes of Claims, estimated percentage recoveries are also set forth below. Estimated percentage recoveries have been calculated based upon a number of assumptions, including (where not Allowed by the Plan) the amount of Allowed Claims in each Class.

For certain Classes of Claims, the actual amounts of Allowed Claims could materially exceed or could be materially less than the estimated amounts shown in the table that follows. Except for Claims Allowed by the Plan, estimated Claim amounts for each Class set forth below are based upon the Debtors’ review of their books and records and Claims filed to date in these cases, and include estimates of a number of Claims that are contingent, disputed and/or unliquidated. Accordingly, for these reasons, no representation can be or is being made with

respect to whether the estimated percentage recoveries shown in the table below for Classes 7 and 8 will actually be realized by the Holders of Allowed Claims in such Classes.

Type of Claim or Interest	Description and Treatment under Plan
<p>Unclassified — Administrative Claims</p> <p>Estimated Aggregate Allowed Amount: Approximately \$19,524*</p> <p>*Amount includes filed Administrative Claims as of the date of the filing of this Disclosure Statement, but excludes unpaid Professional fees. As of the date of the filing of this Disclosure Statement, the Debtors estimate that approximately \$2.8 million in Professional fees have either (i) been incurred but not yet paid, or (ii) are projected to be incurred through July 31, 2012.</p>	<p>An Administrative Claim is a Claim for (a) any cost or expense of administration (including, without limitation, the fees and expenses of Professionals) of any of the Chapter 11 Cases asserted or arising under sections 503, 507(a)(2), 507(b) or 1114(e)(2) of the Bankruptcy Code including, but not limited to (i) any actual and necessary post Petition Date cost or expense of preserving the Debtors' respective Estates or operating the organizations of the Debtors, (ii) any post Petition Date cost, indebtedness or contractual obligation duly and validly incurred or assumed by the Debtors in the ordinary course of their respective organizations, (iii) compensation or reimbursement of expenses of Professionals to the extent Allowed by the Bankruptcy Court under sections 330(a) or 331 of the Bankruptcy Code, and (iv) all Allowed Claims that are entitled to be treated as Administrative Claims pursuant to a Final Order of the Bankruptcy Court under section 546 of the Bankruptcy Code; (b) any fees or charges assessed against the Debtors' respective Estates under section 1930 of title 28 of the United States Code; and (c) Claims of the DIP Lender under the DIP Financing Facility.</p> <p>Under the Plan, Administrative Claims are Unimpaired. Unless otherwise provided for therein, each Holder of an Allowed Administrative Claim shall receive, from the Debtor against whom such Claim has been Allowed, in full satisfaction, settlement, release, extinguishment and discharge of such Claim: (a) the amount of such unpaid Allowed Claim in Cash on or as soon as reasonably practicable after the later of (i) the Effective Date, (ii) the date on which such Administrative Claim becomes Allowed, or (iii) a date agreed to in writing by the applicable Debtor and the Holder of such Administrative Claim; or (b) such other treatment on such other terms and conditions as may be agreed upon in writing by the Holder of such Claim and the applicable Debtor, or as the Bankruptcy Court may order.</p> <p>Administrative Claims are not classified and are treated as required by the Bankruptcy Code. The Holders of such Claims are not entitled to vote on the Plan.</p> <p>Estimated Percentage Recovery: 100%</p>

Type of Claim or Interest	Description and Treatment under Plan
<p>Unclassified — Priority Tax Claims</p> <p>Estimated Aggregate Allowed Amount: \$0.00</p>	<p>The Plan defines Priority Tax Claims as any and all Claims accorded priority in payment pursuant to section 507(a)(8) of the Bankruptcy Code. Such Priority Tax Claims include Claims of governmental units for taxes owed by the Debtors that are entitled to a certain priority in payment pursuant to section 507(a)(8) of the Bankruptcy Code. The taxes entitled to priority are (a) taxes on income or gross receipts that meet the requirements set forth in section 507(a)(8)(A) of the Bankruptcy Code, (b) property taxes meeting the requirements of section 507(a)(8)(B) of the Bankruptcy Code, (c) taxes that were required to be collected or withheld by the Debtors and for which the Debtors are liable in any capacity as described in section 507(a)(8)(C) of the Bankruptcy Code, (d) employment taxes on wages, salaries or commissions that are entitled to priority pursuant to section 507(a)(4) of the Bankruptcy Code, to the extent that such taxes also meet the requirements of section 507(a)(8)(D), (e) excise taxes of the kind specified in section 507(a)(8)(E) of the Bankruptcy Code, (f) customs duties arising out of the importation of merchandise that meet the requirements of section 507(a)(8)(F) of the Bankruptcy Code and (g) prepetition penalties relating to any of the foregoing taxes to the extent such penalties are in compensation for actual pecuniary loss as provided in section 507(a)(8)(G) of the Bankruptcy Code.</p> <p>Under the Plan, Priority Tax Claims are Unimpaired. Each Holder of an Allowed Priority Tax Claim shall receive, from the Debtor against whom such Claim is Allowed and at the option of such Debtor, in full satisfaction, settlement, release, extinguishment and discharge of such Priority Tax Claim: (a) the amount of such unpaid Allowed Priority Tax Claim in Cash on or as soon as reasonably practicable after the later of (i) the Effective Date, (ii) the date on which such Priority Tax Claim becomes Allowed and (iii) a date agreed to by the applicable Debtor and the Holder of such Priority Tax Claim; or (b) such other treatment on such other terms and conditions as may be agreed upon in writing by the Holder of such Priority Tax Claim and the applicable Debtor, or as the Bankruptcy Court may order. Prior to the Effective Date, the Plan Proponents, by mutual agreement, shall have the right to prepay at any time, in whole or in part, any Allowed Priority Tax Claim without premium or penalty of any sort or nature.</p>

Type of Claim or Interest	Description and Treatment under Plan
	<p>Priority Tax Claims are not classified and are treated as required by the Bankruptcy Code. The Holders of such Claims are not entitled to vote on the Plan.</p> <p>Estimated Percentage Recovery: 100%</p>
<p>Class 1 —Secured Claims</p> <p>Estimated Aggregate Allowed Amount: \$7,124</p>	<p>Class 1 consists of Secured Claims, which are defined as any Claim arising before the Petition Date that is: (a) secured in whole or part, as of the Petition Date, by a Lien which is valid, perfected and enforceable under applicable law on Property in which the Debtors' respective Estates has an interest and is not subject to avoidance under the Bankruptcy Code or applicable non-bankruptcy law; or (b) subject to setoff under section 553 of the Bankruptcy Code, but, with respect to both case (a) and (b), only to the extent of the value of the assets or Property securing any such Claim or the amount subject to setoff, as the case may be.</p> <p>Under the Plan, Class 1 Secured Claims are Unimpaired. Each Holder of an Allowed Class 1 Secured Claim shall receive, from the Debtor against whom such Claim is Allowed and in the sole discretion of such Debtor, in full satisfaction, settlement, release, extinguishment and discharge of such Claim: (a) Cash equal to the amount of such Allowed Secured Claim, plus any interest due through the date of payment, on or as soon as practicable after the later of (i) the Effective Date, (ii) the date that such Secured Claim becomes Allowed, and (iii) a date agreed to by the applicable Debtor and the Holder of such Class 1 Secured Claim; (b) reinstatement of such Allowed Secured Claim; (c) the Property securing such Secured Claim; or (d) such other treatment on such other terms and conditions as may be agreed upon in writing by the Holder of such Claim and the applicable Debtor.</p> <p>Estimated Percentage Recovery: 100%</p>
<p>Class 2 — Priority Claims</p> <p>Estimated Aggregate Allowed Amount: \$0.00*</p> <p>*Any subscriber Priority Claims will have been paid in kind upon completion of the 2011-2012 Orchestra season.</p>	<p>Class 2 consists of Priority Claims, which are Claims against the Debtors entitled to priority pursuant to section 507(a) of the Bankruptcy Code, other than Priority Tax Claims or Administrative Claims. This Class includes Subscriber Claims.</p> <p>Under the Plan, Class 2 Priority Claims are Unimpaired. Each Holder of an Allowed Class 2 Priority Claim shall receive, from the Debtor against whom such</p>

Type of Claim or Interest	Description and Treatment under Plan
	<p>Claim is allowed, in full satisfaction, settlement, release, extinguishment and discharge of such Claim: (a) the amount of such unpaid Allowed Claim in Cash on or as soon as reasonably practicable after the later of (i) the Effective Date, (ii) the date on which such Class 2 Claim becomes Allowed, and (iii) a date agreed to by the applicable Debtor and the Holder of such Class 2 Priority Claim; or (b) such other treatment on such other terms and conditions as may be agreed upon in writing by the Holder of such Claim and the applicable Debtor. Class 2 includes Subscriber Claims. Subscriber Claims shall receive, in full satisfaction, settlement, release, extinguishment and discharge of such Claim: (a) performance of the Orchestra concert(s) for which such Holder purchased a ticket or which is included in such Holder's purchased subscription as scheduled by POA, or (b) in the event that the performance of any Orchestra concert(s) for which such Holder purchased a ticket or which is included in such Holder's purchased subscription is cancelled or not performed, a refund from the Escrow of the full amount paid by such Holder with respect to such cancelled performance.</p> <p>Estimated Percentage Recovery: 100%</p>
<p>Class 3 – ESI, PNPP and Peter Nero Claims against POA</p> <p>Settlement Amount: \$1,250,000</p>	<p>Class 3 consists of ESI, PNPP and Peter Nero Claims against POA. These Claims include all Claims held by ESI, PNPP and Peter Nero (as himself or Finger Prince, Inc.), each of which was resolved pursuant to the ESI Settlement, approved by the Bankruptcy Court on September 28, 2011. The amount of these Claims was never determined. Pursuant to the ESI Settlement, as described in greater detail in this Disclosure Statement, POA has agreed, <i>inter alia</i>, to make five cash payments to ESI totaling \$1.25 million, beginning on the date of approval of the ESI Settlement and ending on June 30, 2012. All contracts and other agreements between any of ESI, PNPP and/or Peter Nero, on the one hand, and POA, on the other, that existed as of September 28, 2011 other than the ESI Settlement are being rejected pursuant to the Plan and replaced with the ESI Settlement.</p> <p>All claims of POA against ESI, PNPP and/or Nero and all claims of ESI and/or Nero against POA, except those that arise pursuant to the ESI Settlement, are waived and released pursuant to the Plan and all contracts and other agreements that exist between POA, on the one hand, and</p>

Type of Claim or Interest	Description and Treatment under Plan
	<p>ESI, PNPP and/or Nero, on the other, other than the ESI Settlement, are rejected and terminated pursuant to the Plan.</p> <p>Estimated Percentage Recovery: Unknown</p>
<p>Class 4 — KCI Claims</p> <p>Settlement Amount: \$748,000</p>	<p>Class 4 consists of all Claims held by KCI pursuant to the KCI Lease, each of which is being resolved pursuant to the Plan, including a pre-petition general unsecured claim in the amount of \$1,156,520 and an administrative claim in the amount of \$748,000.</p> <p>Under the Plan, Class 4 KCI Claims are Impaired, because there is no payment on the general unsecured claim. Each Holder of an Allowed Class 4 KCI Claim shall receive in full satisfaction, settlement, release, extinguishment and discharge of such Claim the consideration provided in the KCI Settlement, which is attached to the Plan as Exhibit A. All KCI Claims asserted in these Chapter 11 Cases shall be fully resolved upon the Effective Date upon the payment of the amount set forth in the KCI Settlement. Upon the Effective Date, the KCI Lease shall be assumed as modified by the KCI Settlement.</p> <p>Estimated Percentage Recovery: 0%</p>
<p>Class 5 — AFM-EPF Claims</p> <p>Settlement Amount: \$1,750,000</p>	<p>Class 5 consists of all Claims held by AFM-EPF against the Debtors in connection with POA's withdrawal as a participating employer in the AFM-EPF, including a pre-petition general unsecured claim in the amount of \$32,326,188.84 and an asserted administrative claim in the amount of \$3,133,420.16.</p> <p>Under the Plan, Class 5 AFM-EPF Claims are Impaired, because there is no payment on the general unsecured claim. Each Holder of an Allowed Class 5 AFM-EPF Claim shall receive in full satisfaction, settlement, release, extinguishment and discharge of such Claim the consideration provided in the AFM-EPF Settlement, as defined in the Plan, such that upon the Effective Date, AFM-EPF shall receive from POA \$1,750,000 in full satisfaction, settlement, release, extinguishment, and discharge of such Claims. All AFM-EPF Claims asserted in these Chapter 11 Cases shall be fully resolved upon the Effective Date upon the payment of the amount of the AFM-EPF Settlement.</p> <p>Estimated Percentage Recovery: 0%</p>

Type of Claim or Interest	Description and Treatment under Plan
<p>Class 6 — PBGC Claims and Termination Premiums</p> <p>Proposed Settlement Amount: \$1,317,387</p>	<p>Class 6 consists of all Claims held by PBGC against the Debtors relative to the Pension Plans.</p> <p>Under the Plan, Class 6 PBGC Claims and Termination Premiums are Impaired. In settlement of the PBGC Claims and Termination Premiums, POA will pay to PBGC the sum of \$1,317,387 as follows. Upon the Effective Date, POA shall pay to PBGC a payment of \$124,887 in full satisfaction of the PBGC Claims. In addition, POA shall pay Termination Premiums to PBGC in an amount totaling \$1,192,500 to be paid in three payments pursuant to 29 U.S.C. § 1306(a)(7): the initial payment of \$397,500 shall be paid upon the Effective Date; the second payment of \$397,500 shall be paid not later than twelve months following the Effective Date; and the final payment of \$397,500 shall be paid not later than twenty-four months from the Effective Date. Notwithstanding anything in the Plan, the Disclosure Statement, or the Confirmation Order, PBGC's rights to collect Termination Premiums as provided in section 3.10 of the Plan and in 29 U.S.C. § 1307 will not be limited in any way. All PBGC Claims and Termination Premiums arising prior to or after the Effective Date shall be fully resolved upon the final payment to PBGC in accordance with section 3.10 of the Plan.</p> <p>Estimated Percentage Recovery: 0%</p>
<p>Class 7A — General Unsecured Claims Against POA</p> <p>Estimated Aggregate Allowed Amount: Approximately \$553,711</p>	<p>Class 7A consists of General Unsecured Claims against POA, which include all Claims against POA, including Rejection Claims, that are not Administrative Claims; Priority Tax Claims; Secured Claims; Priority Claims; ESI, PNPP and Peter Nero Claims; KCI Claims; AFM-EPF Claims; PBGC Claims and Termination Premiums; General Unsecured Claims Against AOM; Convenience Class Claims; SpectiCast Claims; or Interests.</p> <p>Under the Plan, Class 7A General Unsecured Claims are Impaired. Each Holder of a Class 7A Allowed General Unsecured Claim shall receive, in full satisfaction, settlement, release, extinguishment and discharge of such Claim an amount of Distributable Cash equal to 53% of the aggregate amount in U.S. dollars of such Holder's Class 7A Allowed General Unsecured Claim, paid on the later of the Effective Date or the date that the Claim becomes Allowed.</p> <p>Estimated Percentage Recovery: 53 %</p>

Type of Claim or Interest	Description and Treatment under Plan
<p>Class 7B — General Unsecured Claims Against AOM</p> <p>Estimated Aggregate Allowed Amount: Approximately \$85,892</p>	<p>Class 7B consists of General Unsecured Claims against AOM, which include all Claims against AOM, including Rejection Claims, that are not Administrative Claims; Priority Tax Claims; Secured Claims; Priority Claims; ESI, PNPP and Peter Nero Claims; KCI Claims; AFM-EPF Claims; PBGC Claims and Termination Premiums; General Unsecured Claims Against POA; Convenience Class Claims; SpectiCast Claims; or Interests.</p> <p>Under the Plan, Class 7B General Unsecured Claims are Impaired. Each Holder of a Class 7B Allowed General Unsecured Claim shall receive, in full satisfaction, settlement, release, extinguishment and discharge of such Claim an amount of Distributable Cash equal to 100% of the aggregate amount in U.S. dollars of such Holder's Class 7B Allowed General Unsecured Claim, paid on the later of the Effective Date or the date that the Claim becomes Allowed.</p> <p>Estimated Percentage Recovery: 100 %</p>
<p>Class 8 – Convenience Class Claims Against POA</p> <p>Estimated Aggregate Allowed Amounts: Approximately \$51,681</p>	<p>Class 8 consists of all Claims that are Allowed in the amount of \$1,000 or less, and Allowed Claims that exceed \$1,000, but as to which the Holder has elected to reduce such claim to \$1,000. Each Holder of an Allowed Convenience Class Claim shall receive, in full satisfaction, settlement, release, extinguishment and discharge of such Claim, an amount of Distributable Cash equal to the lesser of the value of such Allowed Claim or \$1,000, without payment of interest, upon the Effective Date.</p> <p>Estimated Percentage Recovery: 50-100%</p>
<p>Class 9 — SpectiCast Claims</p> <p>Estimated Aggregate Allowed Amount: Approximately \$0.00</p>	<p>Class 9 consists of all Claims asserted by SpectiCast, an Insider, pursuant to the SpectiCast Agreement, as defined in the Plan.</p> <p>Under the Plan, SpectiCast Claims are Impaired. Upon the Effective Date, the SpectiCast Agreement shall be deemed rejected and terminated pursuant to the Plan. All SpectiCast Claims are Disputed. Allowed SpectiCast Claims, if any, shall receive, in full satisfaction, settlement, release, extinguishment and discharge of such Claims, treatment in accordance with Class 7A of this Plan.</p> <p>Estimated Percentage Recovery: 0%</p>

Type of Claim or Interest	Description and Treatment under Plan
Class 10 — Interests Estimated Aggregate Allowed Amount: Approximately \$0.00	<p>Class 10 consists of POA's ownership interest of AOM and the membership interests of the Boards in each of the Debtors.</p> <p>Under the Plan, Class 10 Interests are Unimpaired. Each Holder of Allowed Class 10 Interests shall retain its Interest and receive no Property or other value distribution on account of its Interest.</p> <p>Estimated Percentage Recovery: 0%</p>

THE DEBTORS BELIEVE THAT THE PLAN PROVIDES THE BEST RECOVERIES POSSIBLE FOR HOLDERS OF CLAIMS AGAINST THE DEBTORS AND THUS STRONGLY RECOMMEND THAT YOU VOTE TO ACCEPT THE PLAN.

III. PLAN VOTING INSTRUCTIONS AND PROCEDURES

A. Notice to Holders of Claims and Interests

Approval by the Bankruptcy Court of this Disclosure Statement means that the Bankruptcy Court has found that this Disclosure Statement contains information of a kind and in sufficient and adequate detail to enable Holders of Claims to make an informed judgment whether to accept or reject the Plan.

THE BANKRUPTCY COURT'S APPROVAL OF THIS DISCLOSURE STATEMENT DOES NOT CONSTITUTE EITHER A GUARANTY OF THE ACCURACY OR COMPLETENESS OF THE INFORMATION CONTAINED HEREIN OR THEREIN OR AN ENDORSEMENT OF THE PLAN BY THE BANKRUPTCY COURT.

IF THE PLAN IS APPROVED BY THE REQUISITE VOTE OF HOLDERS OF CLAIMS ENTITLED TO VOTE AND IS SUBSEQUENTLY CONFIRMED BY THE BANKRUPTCY COURT, THE PLAN WILL BIND ALL HOLDERS OF CLAIMS AGAINST, AND INTERESTS IN, THE DEBTORS, WHETHER OR NOT THEY WERE ENTITLED TO VOTE OR DID VOTE ON THE PLAN AND WHETHER OR NOT THEY RECEIVE OR RETAIN ANY DISTRIBUTIONS OR PROPERTY UNDER THE PLAN. THUS, ALL HOLDERS OF CLAIMS AGAINST THE DEBTORS ENTITLED TO VOTE ARE ENCOURAGED TO READ THIS DISCLOSURE STATEMENT AND ITS APPENDICES CAREFULLY AND IN THEIR ENTIRETY BEFORE DECIDING TO VOTE EITHER TO ACCEPT OR REJECT THE PLAN.

No solicitation of votes may be made except after distribution of this Disclosure Statement and no person has been authorized to distribute any information concerning the Debtors other than the information contained herein.

B. Voting Rights

Pursuant to the provisions of the Bankruptcy Code, only holders of claims in classes that are (a) treated as “impaired” by the plan and (b) entitled to receive a distribution under such plan are entitled to vote on the plan. In these Chapter 11 Cases, under the Plan, only Holders of Claims in Classes 3, 4, 5, 6, 7, 8 and 9 are entitled to vote on the Plan. Because Holders of Claims in Class 9 are Insiders, the votes of Class 9 will not be counted toward the requisite votes required for the Debtors to confirm the Plan. Claims and Interests in other Classes are Unimpaired and their Holders are deemed to have accepted the Plan.

Only Holders of Allowed Claims in the voting Classes are entitled to vote on the Plan. A Claim that is unliquidated, contingent or disputed is not an Allowed Claim, and is thus not entitled to vote, unless and until the amount is estimated or determined, or the dispute is determined, resolved or adjudicated in the Bankruptcy Court or another court of competent jurisdiction, or pursuant to agreement with the Debtors. However, the Bankruptcy Court may deem a contingent, unliquidated or disputed Claim to be Allowed on a provisional basis, for purposes only of voting on the Plan.

Holders of Allowed Claims in the voting Classes may vote on the Plan only if they are Holders as of the Distribution Record Date, which Distribution Record Date is June 11, 2012.

C. Solicitation Materials

In soliciting votes for the Plan pursuant to this Disclosure Statement, the Debtors, through their voting agent The Garden City Group, Inc. (the “Voting Agent” or “Garden City”), will send to Holders of Claims who are entitled to vote copies of (a) the Disclosure Statement and Plan, (b) the notice of, among other things, (i) the date, time and place of the hearing to consider confirmation of the Plan and related matters and (ii) the deadline for filing objections to confirmation of the Plan (the “Confirmation Hearing Notice”), (c) one or more ballots (and return envelopes) to be used in voting to accept or to reject the Plan and (d) other materials as authorized by the Bankruptcy Court.

If you are the Holder of a Claim that is entitled to vote, but you did not receive a ballot, or if your ballot is damaged or illegible, or if you have any questions concerning voting procedures, you may contact the following:

If by regular mail:

PHILADELPHIA ORCHESTRA ASSOCIATION ADMINISTRATION
c/o GCG
PO BOX 9755
DUBLIN, OH 43017-5655

If by overnight courier or hand delivery:

PHILADELPHIA ORCHESTRA ASSOCIATION ADMINISTRATION

c/o GCG
5151 BLAZER PARKWAY - SUITE A
DUBLIN, OH 43017

If by telephone:

THE GARDEN CITY GROUP, INC.
(631) 470-5000

D. Voting Procedures, Ballots and Voting Deadline

After reviewing the Plan and this Disclosure Statement, you are asked to indicate your acceptance or rejection of the Plan by voting in favor of or against the Plan on the accompanying ballot. You should complete and sign your original ballot (copies will not be accepted) and return it in the envelope provided.

Each ballot has been coded to reflect the Class of Claims it represents. Accordingly, in voting to accept or reject the Plan, you must use only the coded ballot or ballots sent to you with this Disclosure Statement.

IN ORDER FOR YOUR VOTE TO BE COUNTED, YOUR BALLOT MUST BE PROPERLY COMPLETED AS SET FORTH ABOVE AND IN ACCORDANCE WITH THE VOTING INSTRUCTIONS ON THE BALLOT AND RECEIVED NO LATER THAN JUNE 26, 2012, AT 5:00 P.M. EASTERN TIME (THE "VOTING DEADLINE") BY THE FOLLOWING:

If by regular mail:

PHILADELPHIA ORCHESTRA ASSOCIATION ADMINISTRATION
c/o GCG
PO BOX 9755
DUBLIN, OH 43017-5655

If by overnight courier or hand delivery:

PHILADELPHIA ORCHESTRA ASSOCIATION ADMINISTRATION
c/o GCG
5151 BLAZER PARKWAY - SUITE A
DUBLIN, OH 43017

If by local hand delivery on June 26, 2012, from 9:00 A.M. to 5:00 P.M. Eastern Time:

PHILADELPHIA ORCHESTRA ASSOCIATION ADMINISTRATION

c/o DILWORTH PAXSON LLP
1500 MARKET STREET, EAST TOWER LOBBY
PHILADELPHIA, PA 19102

UNLESS OTHERWISE PROVIDED IN THE INSTRUCTIONS ACCOMPANYING THE BALLOTS, FAXED BALLOTS WILL NOT BE ACCEPTED. BALLOTS THAT ARE RECEIVED BUT NOT SIGNED WILL NOT BE COUNTED. BALLOTS THAT ARE SIGNED BUT DO NOT SPECIFY WHETHER THE HOLDER ACCEPTS OR REJECTS THE PLAN WILL BE NULL AND VOID. DO NOT RETURN ANY DEBT INSTRUMENTS OR OTHER EVIDENCE OF YOUR CLAIM WITH YOUR BALLOT.

Copies of this Disclosure Statement, the Plan and any appendices and exhibits to such documents are available to be downloaded free of charge on The Philadelphia Orchestra Association, *et al.* case website: www.gcginc.com/cases/poa. If you have any questions about (a) the procedure for voting your Claim, (b) the packet of materials that you have received, or (c) the amount of your Claim, or if you wish to obtain, at your own expense, unless otherwise specifically required by Bankruptcy Rule 3017(d), an additional copy of the Plan, this Disclosure Statement or any appendices or exhibits to such documents, please contact:

If by regular mail:

PHILADELPHIA ORCHESTRA ASSOCIATION ADMINISTRATION
c/o GCG
PO BOX 9755
DUBLIN, OH 43017-5655

If by overnight courier or hand delivery:

PHILADELPHIA ORCHESTRA ASSOCIATION ADMINISTRATION
c/o GCG
5151 BLAZER PARKWAY - SUITE A
DUBLIN, OH 43017

If by telephone:

THE GARDEN CITY GROUP, INC.
(631) 470-5000

For further information and general instruction on voting to accept or reject the Plan, see Article XI of this Disclosure Statement and the instructions accompanying your ballot.

THE DEBTORS URGE ALL HOLDERS OF CLAIMS ENTITLED TO VOTE TO EXERCISE THEIR RIGHT BY VOTING IN FAVOR OF THE PLAN AND OTHERWISE COMPLETING THEIR BALLOTS AND RETURNING THEM BY THE VOTING DEADLINE.

E. Confirmation Hearing and Deadline for Objections to Confirmation

Pursuant to section 1128 of the Bankruptcy Code and Bankruptcy Rule 3017(c), the Bankruptcy Court has scheduled a Confirmation Hearing for June 28, 2012 at 11:00 a.m. (prevailing Eastern time). The Confirmation Hearing may be adjourned from time to time by the Bankruptcy Court without further notice except for the announcement of the adjournment date made at the Confirmation Hearing or at any subsequent adjourned Confirmation Hearing. Objections to confirmation of the Plan or proposed modifications to the Plan, if any, may be raised at the Confirmation Hearing.

IV. GENERAL INFORMATION CONCERNING THE DEBTORS

A. Overview

The Debtors comprise two entities: (1) POA, a non-profit organization that operates the Philadelphia Orchestra (the "Orchestra") and (2) the AOM, a Delaware non-profit stock-issuing corporation whose shares are solely owned by POA. AOM owns the Academy of Music facility (the "Academy") located at 1420 Locust Street, Philadelphia, PA, 19102, which is a historically certified structure that is encumbered by a long-term lease between AOM and the Kimmel Center, Inc. ("KCI"). The Debtors operate their organizations at 260 South Broad Street, Philadelphia, PA 19102. The Debtors' information technology ("IT") services are operated out of office space at the Academy House, also located at 1420 Locust Street, Philadelphia, PA, 19102. The Orchestra performs at the Academy, as well as at the Kimmel Center for the Performing Arts (the "Kimmel Center"), a facility owned and operated by KCI. POA is considered to be the anchor tenant of the Kimmel Center.

POA also jointly owns and operates with KCI two entities: Ticket Philadelphia ("TP") and a shared IT service department ("IT Shared Services"). TP is a joint venture partnership between POA and KCI. By mutual agreement, POA includes all revenue and expense for IT Shared Services on its financial reports, while KCI includes all TP revenue and expense on its financial reports. POA was also, at the commencement of these cases, financially obligated to support PNPP, a musical ensemble under the direction of Peter Nero and operated by ESI. This contract has since been terminated by the ESI Settlement, approved by the Bankruptcy Court on September 28, 2011, as described more fully in Section V. E. 1. hereof.

B. Description of Debtors' Operations

The Orchestra, operated by POA, is among the world's leading orchestras. Renowned for its artistic excellence since its founding in 1900, the Orchestra has inspired audiences through thousands of live performances, recordings and broadcasts in Philadelphia and around the world. The Orchestra is also noted for its unprecedented record of innovation in recording technologies and was both the first orchestra to appear on a national television broadcast and the first major orchestra to give a live cybercast of a concert on the internet. The Orchestra's presence is vital to Philadelphia's reputation and crucial to Center City businesses and other cultural and educational institutions. The Orchestra is the anchor tenant of the Kimmel Center and a cornerstone of the Avenue of the Arts, and its operations are estimated to create a more than \$200 million ripple effect of economic activity as well as state and local tax revenues. Many of

the Orchestra's musicians are teachers at the Curtis Institute of Music (the "Curtis"), which is one of the finest conservatories in the world; the Curtis, in turn, remains the source for many of the Orchestra's most talented musicians. Each year, the Orchestra performs locally, nationally and internationally. In Philadelphia, the Orchestra presents a major winter subscription each year from September to May, in addition to education and community partnership programs, free concerts in local neighborhoods and a summer outdoor season at The Mann Center for the Performing Arts. The Orchestra's annual national concert schedule includes performances at New York's Carnegie Hall, the John F. Kennedy Center for the Performing Arts, the Bravo! Vail Valley Music Festival, and the Saratoga Performing Arts Center in upstate New York. Each year, the Orchestra usually engages in a three-week international tour.

Like other major orchestras, the POA relies on a mix of earned, endowment and contributed income. Generally, about 35% of the POA's total gross income is derived from earned income (ticket sales and fees for performances), with the vast remainder made up from contributed income and endowment draw. A very small percentage of POA's revenue is derived from income from media ventures and other earned income, including gross revenues from shared IT Shared Services and distributions from TP operations.

As of the Petition Date, in an average year, about one-half (1/2) of POA's total expenses directly related to musician expense, including salary, pension, health insurance and other fringe benefits. An additional one-third (1/3) of all expenses related to other direct costs incurred as part of the Orchestra's and PNPP's performances, including fees for guest artists, production costs and KCI rent. The remainder of POA's budget covered all other operating expenses, including marketing, development, IT Shared Services, staff salary and general administration.

AOM exists solely for the purpose of maintaining and restoring the Academy and as a landlord to KCI under the terms of its long-term lease with KCI governing the use of the Academy. AOM's operations are not revenue producing operations, rather AOM engages in various forms of fundraising to obtain gifts and other donations to support the restoration of the Academy. Most notably, AOM conducts an annual "Academy Ball" to generate funds for its endowment and Restoration Fund.

As of the Petition Date, AOM's annual restoration expenses were approximately \$1 million, which AOM was able to satisfy through the use of endowment spending and application of Restoration Fund monies.

C. Management and Employees

1. Management

Allison Vulgamore, who joined the Orchestra in 2010, is the current President and Chief Executive Officer. Richard Worley serves as Chairman of the Board of Directors. Mario Mestichelli is the Vice-President and Chief Financial Officer. Prior to the 2012 Orchestra Season, musical direction for the Orchestra was provided by Chief Conductor Charles Dutoit, who was appointed to his post in 2009. Starting in the 2012 Orchestra Season, Yannick Nézet-Séguin will become the Orchestra's Music Director.

Joanna McNeil Lewis is the current President, Chief Executive Officer, and Chairperson of the Board of Directors of AOM. Mario Mestichelli serves as the Treasurer of AOM.

2. *Employees/Labor Relations*

As of the Petition Date, Debtor POA employed approximately 172 employees, of whom approximately 169 were full-time employees (the “Full-Time Employees”) and approximately 3 were part-time employees, including interns (the “Part-Time Employees”, and together with the Full-Time Employees, the “Regular Employees”). In addition, POA employed two temporary employees who were paid through the Bettinger Company (the “Temporary Employees”). During various times of the year, POA also employs various event-specific employees (the “Event Employees,” and together with the Regular Employees, the “Employees”). Event Employees are musicians hired to perform with the full-time musicians, as needed for a particular arrangement, and are compensated on a per service basis, as defined in the trade agreement.

Approximately 107 Regular Employees are unionized, including 102 Musicians,¹ two (2) Librarians, and three (3) Stagehands. The POA’s unionized Regular Employees are covered by two (2) collective bargaining agreements and various supplements thereto. Event Employees are covered by one (1) collective bargaining agreement. The Orchestra’s musicians are members of Local 77 of the American Federation of Musicians (“Local 77”). POA and Local 77 are parties to a collective bargaining agreement that dictates terms and conditions of employment for the musicians (the “CBA”). The Orchestra’s musicians annually elect five musicians from the bargaining unit to represent their perspectives with POA management and its Board. The CBA with Local 77 that was in place as of the Petition Date expired in September 2011, and the POA and Local 77 negotiated a new agreement that was ratified by Local 77 on or about October 13, 2011, and approved by the Bankruptcy Court on October 28, 2011. The new CBA became effective November 1, 2011.

AOM does not have employees. POA employees assist with the operation of AOM and costs associated with this assistance is allocated to AOM, which are reimbursed by AOM to POA.

D. Summary of Assets

The Debtors filed Schedules with the Bankruptcy Court that detail the assets owned by the Debtors, respectively. Such assets include cash on hand, bank accounts and investments, deposits, insurance policies, accounts receivable, musical instruments, real property, equipment, furnishings and supplies, fixtures, equipment and supplies used in operations, and other items of personal property. The Schedules will provide asset values on a net book basis, which are not reflective of actual values. The Schedules may be reviewed on the Bankruptcy Court electronic case filing system or during business hours in the offices of the Clerk of the Bankruptcy Court. Additionally, the Schedules may be reviewed at www.gcginco.com/cases/poa. Information

¹ Two of the 102 musicians are on an unpaid leave of absence for the entire 2010-2011 season.

regarding the Debtors' assets is also available in the Liquidation Analysis attached hereto as Appendix D.

E. Historical Financial Information

Attached as Appendix E are the Debtors' audited financial statements for the fiscal year ended August 31, 2011. The Debtors' largest liabilities relate to employee expenses and accrued benefits obligations as well as liabilities relating to POA's two single-employer defined benefit plans and one multi-employer defined benefit plan.

F. The Debtors' Endowments and Annual Operating Support

POA has an endowment that, as of August 31, 2011, was valued at approximately \$116 million. POA has, in recent years, spent all board designated funds that had been invested with endowment funds. In addition, POA has drawn from the board designated and restricted funds at rates higher than the industry-standard level of 5.0 to 5.5% to help finance the deficit. This excess spending coupled with market losses on endowment has considerably reduced the permanently restricted portion of the POA endowment. By the Petition Date, all of POA's quasi or unrestricted endowment had been drawn and used to fund operations. All of the POA's remaining endowment funds are permanently restricted to the endowment and nearly all of POA's remaining endowment funds can only be used for designated purposes such as musician salaries, educational activities, innovation and technology, renovations and other artistic purposes. Because these designations are donor-imposed and legally binding, the Debtors are not permitted to use these remaining funds to support general operations or other liabilities.

POA's declining donation level is the result of several trends. First, POA has, for many years, used funds from incoming unrestricted bequests to support operations. The level of these bequests has dropped off in recent years. Gifts from individuals, corporations and foundations have also declined in recent years. POA believes that the revenue declines in earned, contributed and endowment income are the result of both broader trends in the marketplace as well as Orchestra-specific challenges. The economic recession, stock market declines and increasingly crowded entertainment market have all taken a toll. However, POA also attributes some of these declines to an aging audience and poor retention rates among new Orchestra patrons.

AOM's endowment, as of August 31, 2011, was valued at approximately \$20 million. This endowment is held in trust and PNC Bank, NA serves as the trustee. Similarly to POA, AOM's remaining endowment funds are permanent endowment funds that are wholly subject to donor-imposed restrictions. Accordingly, the Debtors are not permitted to use these funds to support general operations or other liabilities.

G. Events Leading to the Commencement of the Chapter 11 Cases

In recent years, POA has experienced a series of challenges stemming from factors including declining ticket revenues, eroding endowment income, decreased donations, increased operational costs, increasing pension obligations and burdensome contractual agreements.

Similar trends have affected many cultural and artistic entities around the country. Indeed, many of those entities have ceased operations or sought bankruptcy protection over the past several years. In POA's case, these trends have resulted in a widening structural deficit that stood at \$13.5 million in FY 2011, which amounts to roughly 31% of its \$43.6 million annual budget for that year.

POA's main season revenues fell from \$9.9 million in FY 2008 to \$8.1 million in FY 2010, a drop of \$1.8 million. Ticket sales for the main season fell from 183,000 in FY 2008 to 153,000 in FY 2010, a drop of 30,000 tickets. Sales for POA's other concerts in the Philadelphia area showed similarly troubling trends. In FY 2011, POA achieved main season revenues of \$8 million based on ticket sales of 153,000, which marks the first time in four years that attendance has not declined.

POA's rising cost structure has also contributed to the widening deficit. Between FY 2000, when the Orchestra's main season was still held at the Academy of Music, and FY 2010, when the Orchestra was performing at the Kimmel Center, the Debtors' annual expense base rose from \$31.3 million to \$43.6 million, a \$12.3 million increase.

Of this \$12.3 million increase in annual expenses, \$8.4 million represents an increase in costs directly relating to musician expense, including salary, pension, health insurance and other employee benefits. This increase would have been even higher without the help of musicians, who provided a total of \$7 million in collective bargaining agreement relief in two separate contract reopeners in FY 2010 and FY 2011.

The remaining increases in annual POA expenses are attributable to, among other things, increased hall occupancy costs, an increase in development expenses that was more than offset by increased fundraising, and an increase in other administrative costs, including employee health care.

When the musician defined benefit plan was frozen in October 2004, POA joined the American Federation of Musicians and Employers' Pension Fund ("AFM-EPF"), which is now in critical status. POA requested from AFM-EPF its calculation of the withdrawal liability, which AFM-EPF estimated at \$35 million. While this liability may have decreased if market conditions improved, further market declines or withdrawal or failure of other employers in the plan also threatened to substantially increase this liability. Because of their relationship with POA, AOM and POA's former affiliate, Encore Series, Inc. ("ESI"), may be jointly liable for some of these liabilities.

As of the Petition Date, POA faced significant unfunded pension liabilities, including a balance sheet book value of approximately \$21 million related to its single-employer pension plans and a contingent withdrawal liability of approximately \$35 million related to its participation in the multi-employer AFM-EPF pension plan. Due to market and interest rate declines and changes in regulations, which required greater rapidity of funding, POA's frozen defined benefit plan for musicians and its active defined benefit plan for staff were estimated to be underfunded by \$21.8 million. To address the underfunded status of these plans, POA would have been required to pay out an average of \$2.18 million of cash payments annually from FY 2011 to FY 2020 above and beyond the cash expenses in the main operating budget.

At the time of the transition to the AFM-EPF, POA offered a bridge benefit, which was intended to be a temporary transition or "window" benefit that would guarantee that the move to

the AFM-EPF would not diminish retiring musicians' total pension benefit. However, the promise of the bridge benefit was continued and expanded as part of the 2007 collective bargaining agreement. POA's liability for this bridge benefit was resolved as part of the agreement reached with Local 77 on a new CBA, as described in Section V. E. 3. hereof.

As of the Petition Date, POA and its then-affiliate ESI were facing legal action initiated by Peter Nero and Finger Prince, Inc., who were seeking to enforce the terms of their existing contract with POA. By contract, POA and ESI were required to present a season for PNPP. POA was contractually responsible for any resulting deficit. POA estimated that the PNPP 2010-2011 season would run an \$800,000 deficit, which was one of the factors driving POA's projected FY 2011 deficit.

Lastly, the contractual relationships between POA and AOM, on the one hand, and KCI, on the other, were problematic. POA's existing lease with KCI required it to pay roughly \$2.5 million annually, which is approximately \$1.5 million higher than POA's occupancy costs at the Academy of Music.

As POA's financial problems became increasingly evident, POA responded in the short term by cutting staff, reducing salaries of remaining staff, and initiating the first of two reopeners of the collective bargaining agreement with Local 77. As new POA leadership came on board in 2010, POA initiated a second reopener and raised \$15.5 million in funds to enable the Orchestra to continue performing. Of this sum, \$9.25 million was contributed by the Board above their normal annual giving of close to \$2 million, and \$6.25 million was contributed by other key stakeholders in the community.

In parallel, POA took several steps aimed at resolving the long-term structural challenges. The first long-term track was to undertake a strategic planning process that involved Board, staff, and musicians to diagnose problems and develop a recovery plan. This process resulted in a draft strategic plan that focused on increasing audiences by enhancing the concert experience and connecting patrons to the music in fresh and innovative ways. The strategic plan also focused on encouraging more mutually beneficial partner relationships and placing POA on sound financial footing through changes in revenue and expense structures.

A second long-term track was to engage in early and substantial negotiations with Local 77 to reach a successor contract to the collective bargaining agreement that expired in September 2011. Both the musicians and POA worked diligently over the course of many months to reach agreement on a new contract. While the musicians made substantial concessions – changes in work rules, size of complement, weeks of vacation, pension and pay – these concessions were not, by themselves, sufficient to reconcile the cost structure of POA with the precipitous decline in revenues detailed above.

Once POA had progressed down both of these tracks, it opened discussions with major potential donors in an attempt to raise the funds necessary to continue operations and implement the recovery plan. Unfortunately, despite the good faith concessions made by the musicians and other cost-reduction measures undertaken by POA, the magnitude of the deficit was such that fundraising efforts were rendered futile. POA's conversations with key donors indicated that, while they held the Orchestra in high esteem, any gift for current operations or to support a turnaround would most likely be contingent on presenting a credible, cost-appropriate recovery plan that included a new collective bargaining agreement with the musicians that fostered long-term financial stability.

In spite of their efforts prior to the Petition Date, the Debtors depleted their remaining cash reserves and unrestricted endowments, and projected that they would run out of cash in May 2011 barring any change in circumstances.

V. THE CHAPTER 11 CASES

A. Continuation of Operations; Stay of Litigation

On April 16, 2011, the Debtors filed petitions for relief under chapter 11 of the Bankruptcy Code. On April 26, 2011, the board of directors of ESI held a meeting at which they voted to proceed in chapter 11 independently and separately from POA and AOM. Subsequently, the Debtors requested that the joint administration of their bankruptcy cases be terminated such that the POA and AOM Chapter 11 Cases would be separately administered from that of ESI. [*Docket No. 73*].

Since the Petition Date, the Debtors have continued to operate as debtors in possession subject to the supervision of the Bankruptcy Court and in accordance with the Bankruptcy Code. The Debtors are authorized to operate their respective organizations and manage their property in the ordinary course, with transactions outside of the ordinary course of business requiring Bankruptcy Court approval.

An immediate effect of the filing of the Debtors' bankruptcy petitions was the imposition of the automatic stay under the Bankruptcy Code which, with limited exceptions, enjoins the commencement or continuation of all collection efforts by creditors, the enforcement of liens against property of the Debtors and the continuation of litigation against the Debtors. The relief provides the Debtors with the "breathing room" necessary to assess their operations and prevents creditors from obtaining an unfair recovery advantage while the Chapter 11 Cases are pending.

B. First Day Motions

On the first day of the Chapter 11 Cases the Debtors filed several applications and motions seeking certain relief by virtue of so-called "first day orders." First day motions and orders are intended to facilitate the transition between a debtor's prepetition and post-petition business operations by approving certain regular business practices that may not be specifically authorized under the Bankruptcy Code or as to which the Bankruptcy Code requires prior approval by the Bankruptcy Court. The first day motions filed in the Chapter 11 Cases are typical of motions filed in large Chapter 11 cases across the country. Such motions sought, among other things, the following relief:

- joint administration of the Debtors' bankruptcy cases;
- the maintenance of the Debtors' bank accounts and operation of their cash management systems substantially as such systems existed prior to the Petition Date;
- payment of employees' prepetition compensation, benefits and expense reimbursement amounts;
- payment of prepetition taxes and fee amounts;
- authority to administer customer programs and honor certain prepetition obligations to customers;

- approval of entry into trade agreements with critical vendors and payment of certain prepetition claims to such critical vendors in the ordinary course of business; and
- an extension of the statutory period during which utilities are prohibited from altering, refusing or discontinuing services and/or requiring adequate assurance of payment as a condition of receiving services.

C. Retention of Professionals

POA and AOM are represented in the Chapter 11 Cases by Dilworth Paxson LLP (“Dilworth”). POA and AOM obtained the financial advisory services of Alvarez & Marsal North America, LLC (“Alvarez & Marsal”). Curley, Hessinger & Johnsrud LLP provides labor and employment services to POA and AOM and Morgan, Lewis & Bockius LLP provides POA and AOM with pension and benefits services. Garden City was authorized to provide claims, noticing and balloting services to POA and AOM. Grant Thornton LLP was retained to provide accounting and tax services.

D. Appointment of Creditors’ Committee

On May 4, 2011, the United States Trustee for the Eastern District of Pennsylvania appointed the official committee of unsecured creditors (the “Creditors’ Committee”) in the Chapter 11 Cases. [*Docket No. 95*]. As of that date, the members of the Creditors’ Committee were: Kimmel Center, Inc., Catherine French Group, Pension Benefit Guaranty Corporation, American Federation of Musicians and Employers’ Pension Fund, Local 77 – American Federation of Musicians, Peter Nero, and Smith-Edwards-Dunlap Company. The Creditors’ Committee retained Reed Smith LLP as its legal advisor and Deloitte Financial Advisory Services LLP as its financial advisor.

E. Significant Post-Petition and Restructuring Events

1. Settlement with ESI and PNPP

As of the Petition Date, POA was in a dispute with Nero and ESI over the POA’s ongoing obligation to support and promote PNPP pursuant to an Agreement dated August 24, 2005 (the “ESI Agreement”). Following extensive negotiations with Nero and ESI, on September 15, 2011, POA reached an agreement to terminate its existing contract and to provide financial and operational support to PNPP (the “ESI Settlement”). The ESI Settlement was approved by the Bankruptcy Court by order entered September 28, 2011 [*Docket No. 422*]. The key provisions of the settlement are as follows:

Payments. POA is to make five (5) payments to ESI totaling \$1.25 million according to the following schedule: (a) \$50,000.00 immediately upon the Court’s approval of the settlement, (b) \$300,000.00 within two (2) business days of the Court’s approval of the settlement, (c) \$375,000.00 on or before December 15, 2011, (d) \$375,000.00 on or before March 15, 2012, and (e) \$150,000.00 on or before June 30, 2012. These payments shall be the only payments of money due to ESI and Nero from POA in consideration for this settlement. As of the date of the filing of this Disclosure Statement, POA has made all but the final payment due under the ESI Settlement, and POA will make the final payment of \$150,000.00 to ESI on or before June 30, 2012.

Transition of Operations and Support. Through and including June 30, 2012, POA shall provide to ESI, at POA's sole cost and expense, production, front-office, and accounting support, as well as suitable office space and use of business equipment, all in the same manner and consistent with past practice. During this time POA is to assist ESI, to the extent ESI elects, in the transition of such support and services from POA to ESI. After June 30, 2012, all such support and services shall be provided by ESI at its sole cost and expense. ESI will employ the services of its own bookkeeper no later than March 1, 2012 who shall be responsible for the transition of finance and accounting procedures. In addition, ESI shall bind its own D&O policy and general insurance once current coverage expires December 31, 2011. The settlement also requires ESI, at its sole cost and expense, to immediately begin conducting its own administrative activities including but not limited to (a) marketing and public relations, (b) development and fundraising efforts, and (c) writing, editing and production of its own program books. ESI is also required, at its sole cost and expense, to (a) conclude its negotiations with KCI for access to and rental of performance venues and future dates, (b) either (i) enter into an agreement with Ticket Philadelphia for the provision of ticketing and data services, as well as access to the Tessitura consortium or (ii) pursue other ticketing and data service arrangements, and (c) Enter into such IT/Shared Services contract as may be required by any provider, with POA to continue to pay all expenses for IT/Shared Services for ongoing IT support and access to internet, telephone, and hardware/software support until June 30, 2012.

Plan Process. POA and ESI agreed to endeavor to the fullest extent possible to file a joint plan of reorganization, and to incorporate the terms of the settlement into either a joint plan or their individual bankruptcy plans. Any default by POA under the settlement shall constitute a default under POA's bankruptcy plan and any default by ESI under the settlement shall constitute a default under its plan. Any plan filed by any of the Parties shall provide for rejection of the ESI Agreement. The Debtors believe that the Plan satisfies the plan-related requirements of the ESI Settlement.

Releases. Upon Court approval of the ESI Settlement, Nero resigned from the Creditors' Committee. All discovery requests and Rule 2004 motions initiated by Nero were withdrawn. The parties to the ESI Settlement agreed to release each other of any post-petition or administrative claims on the effective date of the ESI Settlement. The joint plan or any other plan filed by any of the parties to the ESI Settlement shall provide that all claims of POA against ESI and Nero, and of ESI and Nero against POA, except as to obligations set forth in the ESI Settlement and any plan filed by any of the parties, shall be waived and released by the parties to the ESI Settlement. In the event that a plan is not ultimately confirmed for either POA or ESI, then at the conclusion of the cases the parties to the ESI Settlement shall exchange releases of all liabilities except as to obligations set forth in the ESI Settlement.

As required, the Debtors have incorporated the ESI Settlement into their Plan. All claims of POA against ESI, PNPP and/or Nero and all claims of ESI and/or Nero against POA, except those that arise pursuant to the ESI Settlement, are waived and released pursuant to the Plan and all contracts and other agreements that exist between POA, on the one hand, and ESI, PNPP and/or Nero, on the other, other than the ESI Settlement, are rejected and terminated pursuant to the Plan.

2. Debtor-in-Possession Facility

On September 28, 2011, POA filed the *Motion Of The Philadelphia Orchestra Association For Entry Of An Order: (I) Authorizing It To Obtain Post-Petition Financing Pursuant To Sections 363 And 364 Of Bankruptcy Code, (II) Authorizing It To Enter Into The Debtor-In-Possession Credit And Security Agreement, (III) Authorizing Use Of Cash Collateral Pursuant To Section 363 Of Bankruptcy Code, And (IV) Granting Liens And Super-Priority Claims To Dip Lender Pursuant To Section 364 Of Bankruptcy Code And Modifying The Automatic Stay To Implement The Terms Of The Dip Order* [Docket No. 426] (the “DIP Financing Motion”). By the DIP Financing Motion, POA sought approval of a debtor-in-possession financing facility, provided by Sun Federal Credit Union (the “DIP Lender”), in an aggregate amount not to exceed \$3,100,000 (the “DIP Loan”). POA determined that the loan was necessary to ensure timely and uninterrupted payment of its ongoing operating expenses, including post-petition wages, salaries and vendor costs, and to assure its audiences, employees, donors and vendors that it will have the necessary liquidity to complete a successful reorganization.

The DIP Loan was structured as two separate advances, one for \$2,000,000 and another for \$1,100,000, and accrues interest at the non-default rate of 7¼% per annum, payable in arrears. Repayment of the DIP Loan is secured by a first priority lien on and security interest in all of POA’s right, title and interest in certain of its assets, including equipment and real property, as well as by an administrative expense claim having priority pursuant to section 364(c)(1) of the Bankruptcy Code over any and all administrative expenses of any kind and nature specified in section 503(b) or 507(b) of the Bankruptcy Code. The DIP Loan was originally made payable in full by the earliest of: (a) April 16, 2012; (b) if a plan of reorganization has been confirmed by order of the Bankruptcy Court, the earlier of (i) the effective date of such plan of reorganization or (ii) the sixtieth (60th) day after the date of entry of the confirmation order; (c) acceleration by DIP Lender of the obligations due to the occurrence of an event of default; or (d) the indefeasible payment in full of all obligations owing under the DIP Facility in accordance with the terms of the DIP Credit Agreement. The deadline by which the DIP Loan must be repaid has since been extended through and including December 31, 2012.

A limited objection to the DIP Financing Motion was made by the Annenberg Foundation (the “Foundation”) on October 13, 2011 [Docket No. 478]. The Foundation made a grant to POA in the amount of \$50 million by agreement dated September 15, 2003. The terms of the grant contain restrictions on the use and commingling of the funds, and specifically prohibit any creditor or trustee in bankruptcy from asserting any claim to the funds or the proceeds thereof. The objection sought to ensure that the DIP Loan would not encumber the grant funds. POA assured the Foundation that the restricted grants would not serve as collateral for the DIP Loan and inserted language into the proposed order granting the DIP Loan to this effect.

AFM-EPF also filed a limited objection to the DIP Financing Motion [Docket No. 479]. AFM-EPF disputed POA’s need for the DIP Loan, arguing that POA was able to generate sufficient cash from other sources to cover its operating expenses and Chapter 11 costs. AFM-EPF also questioned whether POA truly no longer had unrestricted donor funds from which to pay its operating expenses, and suggested that POA may have “manufactured” the need for the DIP Loan by utilizing unrestricted funds for purposes for which restricted funds could have been used, soliciting funds on a “restricted only” basis, and convincing donors to delay donations until

POA's emergence from Chapter 11. Finally, AFM-EPF objected to the grant of a lien to the DIP Lender on avoidance actions under Chapter 5 of the Bankruptcy Code. POA added language to the proposed order granting the DIP Loan to resolve the concerns of the AFM-EPF.

An order was entered by the Bankruptcy Court on November 1, 2011 approving the DIP Loan [*Docket No. 541*] and an order was entered by the Bankruptcy Court on April 12, 2012, extending the date by which the DIP Loan must be repaid through and including December 31, 2012 [*Docket No. 972*].

3. Agreement with Local 77

In October 2010, six months prior to the Petition Date, POA and Local 77 began negotiations on a successor agreement to the CBA. These negotiations continued in good faith through the spring of 2011, and beyond the Debtors' April 16, 2011 Petition Date, and, at times, were aided and guided by the Federal Mediation and Conciliation Service ("FMCS"). Following the Petition Date, POA and Local 77 continued negotiations, again enlisting the services of FMCS and, ultimately, participating in mediation conducted by the Honorable Stephen Raslavich of the Bankruptcy Court. Through that process, POA and Local 77 were able to achieve consensual resolution of the issues arising from the CBA and arrive at mutually agreeable modifications to the CBA, as set forth in the Agreement.

During the long course of negotiations, Local 77 requested and POA provided information detailing its financial condition, including, but not limited to: (a) detailed and annotated historical and five-year projections of revenues and expenses; (b) sales and donation data; (c) audited financial statements; (d) detailed files relating to endowments, including all documents setting forth restrictions, financial statements and draw policies and history; (e) detailed actuarial data and pension projections; (f) all documents provided to the Creditors' Committee and/or PBGC in connection with the Chapter 11 Cases; (g) statements of pension plan administrative expenses; (h) detailed and highly confidential staff salary histories for the entire staff; (i) minutes from Board meetings and Finance and Investment Committee meetings; and (j) documents relating to POA's leases and other significant contracts.

In view of this information, and resulting from the intensive negotiations described above, POA and Local 77 were able to achieve consensual resolution of the issues arising from the CBA and arrive at mutually agreeable modifications to the CBA (the "Union Settlement"), which was approved by POA's Board of Directors on October 10, 2011, ratified by the members of Local 77 on October 13, 2011, and approved by the Bankruptcy Court on October 28, 2011. [*Docket No. 519*].

The major provisions of the Union Settlement, which represents a reasonable reduction in fixed costs and elimination of participation in pension plans that were no longer supportable in light of POA's reduced revenues, are as follows:

Term: Four (4) contract years, beginning November 1, 2011 and ending September 13, 2015, as follows:

- i. Contract Year 1: November 1, 2011 through September 16, 2012
- ii. Contract Year 2: September 17, 2012 through September 15, 2013

- iii. Contract Year 3: September 16, 2013 through September 14, 2014
- iv. Contract Year 4: September 15, 2014 through September 13, 2015

Compensation: The minimum weekly salary shall be as follows:

- i. Contract Year 1: Effective November 1, 2011: \$2000 + \$50 of Electronic Media Guarantee (“EMG”)
- ii. Contract Year 2: Effective September 17, 2012: \$2100 + \$50 of EMG
- iii. Contract Year 3: Effective September 16, 2013: \$2175 + \$75 of EMG
- iv. Contract Year 4:
 - Effective September 15, 2014: \$2200 + \$100 of EMG
 - Effective December 15, 2014: \$2300 + \$100 of EMG

Overscale Arrangements:

- i. All pre-existing individual overscale bonus arrangements (with the exception of overscale payments pursuant to Section 6 of the CBA) shall be reduced by the applicable percentage reduction in the minimum weekly salary, and shall be restored at the same rate as minimum weekly salary is restored, unless otherwise agreed. Individual Musician Agreements will be issued annually no later than January 15. Musicians may meet with the Orchestra General Manager or his/her designee to discuss his/her individual agreement as reasonably requested and will sign and return said agreement no later than sixty (60) days from the date of issuance.
- ii. Effective as of November 1, 2011 the POA will pay over the life of the Union Settlement (2011-2015) an amount of \$3.33 million to certain active employees and goodwill ambassadors. The POA will pay the annual amounts set forth next to each of the active employees listed in Attachment A to the Union Settlement agreement, in accordance with the normal payroll schedule, as temporary overscale, in addition to any other overscale by individual agreement or pursuant to the Union Settlement. The musicians who committed to retire pursuant to the January 2011 pension letter agreement and who retired by October 31, 2011 shall become goodwill ambassadors and shall be paid the indicated amounts over the first year of the contract as W-2 income pursuant to the normal payroll schedule. All other goodwill ambassadors listed on the schedule attached to the Union Settlement will be paid the indicated amounts over the four years of the contract as W-2 income pursuant to the normal payroll schedule. All such persons will make themselves available at reasonable times to serve as goodwill ambassadors as reasonably and mutually agreed between the parties. These goodwill ambassadors will be

entitled to retirement benefits earned prior to November 1, 2011 as set forth in the trade agreement and subject to any limitations imposed by the PBGC. In addition to the compensation set forth in this paragraph, they will be entitled to receive retiree health benefits. They shall not be entitled to any POA contributions to the The Philadelphia Orchestra 403(b) Annuity Plan, nor any other payments or benefits that will apply to musicians employed after October 31, 2011. In the event that any of the musicians who committed to retire pursuant to the January 2011 pension letter agreement did not retire by October 31, 2011, they shall be treated as active employees and not as goodwill ambassadors, any net incremental expense (defined as total musician expense actually incurred for players in excess of 95 playing musicians + 2 librarians attributable to the aforementioned non-retirements) shall be completely and entirely offset by a concurrent reduction in the compensation referred to in this paragraph and any compensation that would have been paid as compensation as a goodwill ambassador will be treated as an excess to be distributed as described below. Such expense and offset shall be calculated annually at the end of the fiscal year and the amounts payable for the subsequent year adjusted accordingly. In the event that the POA does not spend or is not scheduled to spend the entire \$3.33 million over the four years, the excess shall be distributed to the individuals covered by this paragraph, as determined by the members' committee discretion and in consultation with the POA's CFO. Nothing in this section shall preclude payment to any goodwill ambassador as a substitute or extra musician.

- iii. Beginning November 1, 2011 a new category of seniority bonus of two percent (2%) of minimum weekly salary will be established for players who have received tenure and have completed fewer than five (5) years of service.
Tenure-5 years = 2%

Pensions:

- i. The POA may take any appropriate steps to terminate all contribution obligations to the AFM-EPF with respect to work performed after October 31, 2011.
- ii. Contingent on PBGC approval, the POA was authorized to take appropriate steps to terminate the POA defined benefit pension plan and any remaining contribution obligations contained in the CBA, including without limitation, obligations in connection with the "bridge" benefit, which shall be eliminated from the CBA. In the event that a distress termination was not authorized, then the Union Settlement agreement would become null and void upon the election of either party and the parties would promptly meet to negotiate a new collective bargaining agreement. An Order determining that the Debtors met the requirements for a distress termination was entered by the Bankruptcy Court on

November 29, 2011. [*Docket No. 640*]. As such, the Debtors have satisfied the distress termination requirements of the Union Settlement.

- iii. Effective as of November 1, 2011, the POA commenced contributing to the Philadelphia Orchestra 403(b) Annuity Plan 8.0% of minimum weekly salary for members under age 40, 9.5% of minimum weekly salary for members who are at least 40 years of age but younger than 50 years of age and 10.5% of minimum weekly salary for members age 50 and older. For purposes of this paragraph, the age of the employee was determined as of December 1, 2011.
- iv. Employee contributions will be deposited as soon as practicable following each Orchestra pay date to any of the existing 403(b) providers, unless the committee appointed by the musicians decides to reduce the number of providers. The Orchestra's contributions will be deposited no later than the fifteenth day of the month following the month in which an employee earns a contribution, and will be deposited with one of the already existing 403(b) providers to be selected by the committee appointed by the musicians.
- v. Except as otherwise provided in the Union Settlement, those musicians who committed to retire pursuant to the January 2011 pension letter agreement were to retire no later than October 31, 2011.

Rejection of participation agreements:

In connection with the Union Settlement, the Debtors also sought and obtained authority to reject any and all agreements or contracts, written or oral, express or implied, that affected the Debtors' obligations to participate in and contribute to the AFM-EPF, effective as of November 1, 2011. [*Docket No. 519*]. Subsequent to the Union Settlement, the Debtors sought and obtained a determination from the Bankruptcy Court that the Debtors met the requirements for a distress termination of their two single-employer pension plans: the frozen "Musicians' Plan" and the "Staff Plan." [*Docket No. 640*]. As of December 31, 2011, the Debtors have terminated their contributions to the Musicians' Plan and the Staff Plan.

4. **KCI Settlement**

The Debtors are parties to a Master Lease between AOM and Regional Performing Arts Center, Inc. (now KCI) and a Sublease dated as of February 11, 2001 between Regional Performing Arts Center, Inc. and POA, which leases govern the Debtors' use of Verizon Hall at the Kimmel Center and KCI's use of the Academy of Music. Throughout the course of these Chapter 11 Cases, the Debtors and KCI have worked to restructure the lease agreements in a manner that will foster the ongoing sustainability of the lease parties. The Debtors and KCI have executed a lease amendment (the "KCI Settlement"), which is attached to the Plan as Exhibit A.

The KCI Settlement resolves all KCI Claims asserted in these Chapter 11 Cases. Confirmation of the Plan shall constitute approval of the KCI Settlement.

5. AFM-EPF Settlement

Pursuant to the CBA, POA was a participating employer in the AFM-EPF and made contributions thereto in accordance with its obligations under the CBA. Since the time POA joined the AFM-EPF, all contributions due from POA to AFM-EPF were paid in full.

After the Petition Date, on October 12, 2011, the AFM-EPF filed Claim No. 299 in POA's Chapter 11 Case in a contingent, unliquidated amount, and attached to that claim the AFM-EPF's letter to POA dated July 20, 2011, indicating an estimated withdrawal liability of \$35,173,232, which POA "would incur if it experienced a complete withdrawal from the [Fund] during the current plan year (i.e., the 12 months that began on April 1, 2011)."

On November 1, 2011, pursuant to the Union Settlement, POA effected a complete withdrawal from the AFM-EPF. Subsequently, on November 23, 2011, the AFM-EPF filed an amended proof of claim, restating the unsecured Claim for \$35,556,600.40 of withdrawal liability. On March 28, 2012, the Fund filed a Motion for Allowance of Administrative Expense Claim, asserting an administrative expense Claim of \$3,133,420.16. [*Docket No. 936*].

Following lengthy negotiations, POA and the AFM-EPF arrived at a settlement (the "AFM-EPF Settlement") to resolve all AFM-EPF Claims against the Debtors in the Chapter 11 Cases, including any administrative portions thereof. The AFM-EPF Settlement was described on the record by the interested parties in the Bankruptcy Court on April 24, 2012. Pursuant to the terms of the AFM-EPF Settlement, on the Effective Date, POA shall pay to AFM-EPF the sum of \$1,750,000 in full satisfaction, settlement, release, extinguishment and discharge of all Claims against the Debtors. The terms of the AFM-EPF Settlement are incorporated into the Plan, and confirmation of the Plan shall constitute approval of the AFM-EPF Settlement.

6. PBGC Treatment

On November 29, 2011, subsequent to the Union Settlement, the Bankruptcy Court determined that the Debtors met the requirements for a distress termination of their two single-employer pension plans, the frozen "Musicians' Plan" and the "Staff Plan." [*Docket No. 640*]. As of December 31, 2011, the "Musicians' Plan" and the "Staff Plan" were terminated and the PBGC assumed trusteeship of the two plans. PBGC has asserted numerous Claims in each of Debtors' Chapter 11 Cases relative to POA's distress termination of the plans.

Through the Plan, POA proposes to treat all Claims held by PBGC against the Debtors relative to POA's Pension Plans and the distress termination thereof, including PBGC Claims relating to Termination Premiums, which, pursuant to 29 U.S.C. 1306(a)(7)(B), may arise on or after the Effective Date, as follows: in full satisfaction, settlement, release, extinguishment, and discharge of all PBGC Claims, PBGC shall receive from POA sum of \$1,317,387 as follows. Upon the Effective Date, POA shall pay to PBGC a payment of \$124,887 in full satisfaction of the PBGC Claims. In addition, POA shall pay Termination Premiums to PBGC in an amount totaling \$1,192,500 to be paid in three payments pursuant to 29 U.S.C. § 1306(a)(7): the initial payment of \$397,500 shall be paid upon the Effective Date; the second payment of \$397,500 shall be paid not later than twelve months following the Effective Date; and the final payment of

\$397,500 shall be paid not later than twenty-four months from the Effective Date. Notwithstanding anything in the Plan, the Disclosure Statement, or the Confirmation Order, PBGC's rights to collect Termination Premiums as provided in section 3.10 of the Plan and in 29 U.S.C. § 1307 will not be limited in any way. All PBGC Claims and Termination Premiums arising prior to or after the Effective Date shall be fully resolved, including as against ESI, upon the final payment to PBGC in accordance with section 3.10 of the Plan.

7. Annenberg Foundation Trust Agreement

The Annenberg Foundation (as defined above, the "Foundation"), as POA's largest donor and a transformational supporter of both POA and AOM, has worked closely with the Debtors throughout the Chapter 11 Cases to ensure their sustainability and honor the purposes and conditions of the gifts made by the Foundation to the Debtors. Among these gifts is a grant to the POA endowment in the amount of \$50 million, outlined in an agreement dated September 15, 2003. During the Chapter 11 Cases, the Foundation and POA have collaborated on a new trust agreement to redefine the parameters and reiterate the restrictions on those endowment funds (the "Trust Agreement"), which provides for the transfer of the \$50 million to The Northern Trust Company, as trustee, for the continued use and benefit of POA, on the terms and conditions set forth in the Trust Agreement. The Trust Agreement has been reviewed and conditionally approved by the Office of the Attorney General of the Commonwealth of Pennsylvania, and is attached to the Plan as Exhibit B. The Plan contemplates that the Effective Date will also be the effective date of the Trust Agreement, and that confirmation of the Plan shall constitute approval of the Trust Agreement and authorization for POA to enter into the Trust Agreement.

8. SpectiCast Agreement

By agreement dated January 27, 2009, between MediaCast Holdings, LLC (d/b/a "SpectiCast"), an Insider, and POA (the "SpectiCast Agreement"), SpectiCast has provided certain media and broadcast services to POA. POA and SpectiCast have worked throughout these Chapter 11 Cases to renegotiate the terms and conditions of the SpectiCast Agreement, but as of the date of the filing of this Disclosure Statement, have been unable to finalize the terms of a modified agreement. Consequently, the Plan provides that upon the Effective Date, the SpectiCast Agreement shall be deemed rejected. The Debtors dispute all SpectiCast Claims.

9. Litigation against Busan in Art and Eunmi Jung

Pursuant to a contract dated as of September 5, 2009, POA agreed to provide two (2) concerts by the Orchestra on April 22 and 23, 2010, at Sungsan Art Hall, Changwon and Gumi Culture & Art Center, Gumi. In consideration for these two performances, Busan in Art and its President, Eunmi Jung (together "Busan") agreed to pay POA a per-concert fee of \$100,000.00 (U.S.), according to the following schedule:

- February 19, 2010: 50% advance payment of total performance fee in the amount of \$100,000.00.
- April 23, 2010: Final payment of total performance fee in the amount of \$100,000.00.

While the Orchestra performed both of the concerts, and POA and the Orchestra fulfilled all of their other obligations under the contract, Busan has paid only \$20,000.00 of the agreed total fee for the Orchestra's two performances.

Busan has never denied that the outstanding balance of \$180,000.00 (U.S.) is presently due and owing, and in fact has promised to pay this amount to POA on several occasions, but has failed to do so each time.

Accordingly, POA has commenced an adversary proceeding in the Bankruptcy Court against Busan for breach of contract and payment of the outstanding balance. An amended complaint was filed on October 14, 2011, and sent to the Korean Central Authority for service pursuant to the Hague Convention on the Service Abroad of Judicial and Extra Judicial Documents in Civil and Commercial Matters. The adversary proceeding is ongoing. The Debtors specifically reserve all rights, remedies, claims, defenses and Causes of Action with respect to the Busan litigation.

VI. SUMMARY OF THE PLAN

THIS SECTION PROVIDES A SUMMARY OF THE STRUCTURE AND IMPLEMENTATION OF THE PLAN AND THE CLASSIFICATION AND TREATMENT OF CLAIMS UNDER THE PLAN AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE PLAN WHICH ACCOMPANIES THIS DISCLOSURE STATEMENT.

THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT INCLUDE SUMMARIES OF THE PROVISIONS CONTAINED IN THE PLAN AND IN DOCUMENTS REFERRED TO THEREIN. THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT DO NOT PURPORT TO BE PRECISE OR COMPLETE STATEMENTS OF ALL THE TERMS AND PROVISIONS OF THE PLAN OR DOCUMENTS REFERRED TO THEREIN, AND REFERENCE IS MADE TO THE PLAN AND TO SUCH DOCUMENTS FOR THE FULL AND COMPLETE STATEMENTS OF SUCH TERMS AND PROVISIONS.

THE PLAN ITSELF AND THE DOCUMENTS REFERRED TO THEREIN WILL CONTROL THE TREATMENT OF CLAIMS AGAINST, AND INTERESTS IN, THE DEBTORS UNDER THE PLAN AND WILL, UPON THE EFFECTIVE DATE, BE BINDING UPON HOLDERS OF CLAIMS AGAINST, OR INTERESTS IN, THE DEBTORS AND OTHER PARTIES IN INTEREST. IN THE EVENT OF ANY CONFLICT BETWEEN THIS DISCLOSURE STATEMENT AND THE PLAN OR ANY OTHER OPERATIVE DOCUMENT, THE TERMS OF THE PLAN AND/OR SUCH OTHER OPERATIVE DOCUMENT WILL CONTROL.

A. Overall Structure of the Plan

Under the Plan, Claims against and Interests in the Debtors are divided into Classes according to their relative seniority and other criteria, in accordance with the provisions of the Bankruptcy Code.

If the Plan is confirmed by the Bankruptcy Court and consummated: (a) the Claims in certain Classes will be reinstated or modified and receive distributions equal to the full amount of such Claims, (b) the Claims of certain other Classes will be modified and receive distributions constituting a partial recovery on such Claims, and (c) the Claims and Interests in certain other

Classes will receive no recovery on such Claims or Interests. On the Effective Date and at certain times thereafter, the Debtors or the Distribution Agent will distribute Cash and other property in respect of certain Classes of Claims as provided in the Plan. The Classes of Claims against and Interests in the Debtors created under the Plan, the treatment of those Classes under the Plan and the securities and other property to be distributed under the Plan are described below.

B. Substantive Consolidation

The Plan does not provide for the substantive consolidation of the Debtors' assets and liabilities. The Debtors, however, reserve the right to seek substantive consolidation by motion if they conclude that substantive consolidation is necessary or appropriate for effectuation of the Plan.

C. Classification and Treatment of Claims and Interests

Section 1122 of the Bankruptcy Code provides that a plan must classify the claims and interests of a debtor's creditors and equity interest holders. In accordance with section 1122 of the Bankruptcy Code, the Plan divides Claims and Interests into Classes and sets forth the treatment for each Class (other than Administrative Claims and Priority Tax Claims which, pursuant to section 1123(a)(1), do not need to be classified). The Debtors also are required, under section 1122 of the Bankruptcy Code, to classify Claims against and Interests in the Debtors into Classes that contain Claims and Interests that are substantially similar to the other Claims and Interests in such Class.

The Debtors believe that the Plan has classified all Claims and Interests in compliance with the provisions of section 1122 of the Bankruptcy Code and applicable case law, but it is possible that a Holder of a Claim or Interest may challenge the Debtors' classification of Claims and Interests and that the Bankruptcy Court may find that a different classification is required for the Plan to be confirmed. In that event, the Debtors intend, to the extent permitted by the Bankruptcy Code, the Plan and the Bankruptcy Court, to make such reasonable modifications of the classifications under the Plan to permit confirmation and to use the Plan acceptances received for purposes of obtaining the approval of the reconstituted Class or Classes of which each accepting Holder ultimately is deemed to be a member. Any such reclassification could adversely affect the Class in which such Holder initially was a member, or any other Class under the Plan, by changing the composition of such Class and the vote required of that Class for approval of the Plan.

Except as to Claims specifically Allowed in the Plan, the amount of any Impaired Claim that ultimately is Allowed by the Bankruptcy Court may vary from any estimated Allowed amount of such Claim and accordingly the total Claims ultimately Allowed by the Bankruptcy Court with respect to each Impaired Class of Claims may also vary from any estimates contained herein with respect to the aggregate Claims in any Impaired Class. Thus, the value of the property that ultimately will be received by a particular Holder of an Allowed Claim under the Plan may be adversely or favorably affected by the aggregate amount of Claims ultimately Allowed in the applicable Class.

The classification of Claims and Interests and the nature of distributions to members of each Class are summarized below. The Debtors believe that the consideration, if any, provided under the Plan to Holders of Claims and Interests reflects an appropriate resolution of their

Claims and Interests, taking into account the differing nature and priority of such Claims and Interests and the fair value of the Debtors' assets. In the event any Class rejects the Plan, the Debtors will seek confirmation of the Plan pursuant to the "cramdown" provisions of the Bankruptcy Code as to any dissenting Class. Section 1129(b) of the Bankruptcy Code permits confirmation of a chapter 11 plan in certain circumstances even if the plan has not been accepted by all Impaired classes of Claims and Interests. Although the Debtors believe that the Plan can be confirmed under section 1129(b) of the Bankruptcy Code, there can be no assurance that the Bankruptcy Court will find that the requirements to do so have been satisfied.

1. *Treatment of Unclassified Claims under the Plan*

(a) *Administrative Claims*

An Administrative Claim is a Claim for: (a) any cost or expense of administration (including, without limitation, the fees and expenses of Professionals) of any of the Chapter 11 Cases asserted or arising under sections 503, 507(a)(1), 507(b) or 1114(e)(2) of the Bankruptcy Code including, but not limited to (i) any actual and necessary post Petition Date cost or expense of preserving the Debtors' respective Estates or operating the organizations of the Debtors, (ii) any post Petition Date cost, indebtedness or contractual obligation duly and validly incurred or assumed by the Debtors in the ordinary course of their respective operations, (iii) compensation or reimbursement of expenses of Professionals to the extent Allowed by the Bankruptcy Court under sections 330(a) or 331 of the Bankruptcy Code, and (iv) all Allowed Claims that are entitled to be treated as Administrative Claims pursuant to a Final Order of the Bankruptcy Court under section 546 of the Bankruptcy Code; (b) any fees or charges assessed against the Debtors' respective Estates under section 1930 of title 28 of the United States Code; and (c) any Allowed administrative claim or superpriority claim granted to the DIP Lender.

Under the Plan, Administrative Claims are Unimpaired. Unless otherwise provided for therein, each Holder of an Allowed Administrative Claim shall receive, from the Debtors against which such Claim is Allowed, in full satisfaction, settlement, release, extinguishment and discharge of such Claim: (a) the amount of such unpaid Allowed Claim in Cash on or as soon as reasonably practicable after the later of (i) the Effective Date, (ii) the date on which such Administrative Claim becomes Allowed, or (iii) a date agreed to in writing by the applicable Debtor and the Holder of such Administrative Claim; or (b) such other treatment on such other terms and conditions as may be agreed upon in writing by the Holder of such Claim and the applicable Debtor, or as the Bankruptcy Court may order.

All fees payable pursuant to section 1930 of title 28 of the United States Code, as determined by the Bankruptcy Court at the Confirmation Hearing, will be paid on or before the Effective Date by the applicable Debtor.

Applications for compensation for services rendered and reimbursement of expenses incurred by Professionals from the Petition Date through the Effective Date shall be filed no later than forty-five (45) days after the Effective Date. Such applications shall be served on: (a) POA and AOM at 260 S. Broad Street, Philadelphia, PA 19102 (Attn: Mario Mestichelli, Chief Financial Officer); (b) Lawrence G. McMichael, Dilworth Paxson LLP, 1500 Market Street, Suite 3500E, Philadelphia, PA 19102, counsel to POA and AOM; (c) the Office of the United States Trustee; and (d) Claudia Z. Springer, Reed Smith LLP, 1650 Market Street, Philadelphia, PA 19103, counsel to the Creditors' Committee. Applications that are not timely filed will not

be considered by the Court. The Debtors or the Distribution Agent may pay any Professional fees and expenses incurred after the Effective Date without any application to the Bankruptcy Court.

(b) *Priority Tax Claims*

Priority Tax Claims are any and all Claims accorded priority in payment pursuant to section 507(a)(8) of the Bankruptcy Code. Such Priority Tax Claims include Claims of governmental units for taxes owed by the Debtors that are entitled to a certain priority in payment pursuant to section 507(a)(8) of the Bankruptcy Code. The taxes entitled to priority are (a) taxes on income or gross receipts that meet the requirements set forth in section 507(a)(8)(A) of the Bankruptcy Code, (b) property taxes meeting the requirements of section 507(a)(8)(B) of the Bankruptcy Code, (c) taxes that were required to be collected or withheld by the Debtors and for which the Debtors are liable in any capacity as described in section 507(a)(8)(C) of the Bankruptcy Code, (d) employment taxes on wages, salaries or commissions that are entitled to priority pursuant to section 507(a)(4) of the Bankruptcy Code, to the extent that such taxes also meet the requirements of section 507(a)(8)(D), (e) excise taxes of the kind specified in section 507(a)(8)(E) of the Bankruptcy Code, (f) customs duties arising out of the importation of merchandise that meet the requirements of section 507(a)(8)(F) of the Bankruptcy Code and (g) prepetition penalties relating to any of the foregoing taxes to the extent such penalties are in compensation for actual pecuniary loss as provided in section 507(a)(8)(G) of the Bankruptcy Code.

Priority Tax Claims are Unimpaired. Each Holder of an Allowed Priority Tax Claim shall receive, from the Debtor against whom such Claim is Allowed and at the option of such Debtor in full satisfaction, settlement, release, extinguishment and discharge of such Priority Tax Claim: (a) the amount of such unpaid Allowed Priority Tax Claim in Cash on or as soon as reasonably practicable after the later of (i) the Effective Date, (ii) the date on which such Priority Tax Claim becomes Allowed, and (iii) a date agreed to by the applicable Debtor and the Holder of such Priority Tax Claim; or (b) such other treatment on such other terms and conditions as may be agreed upon in writing by the Holder of such Priority Tax Claim and the applicable Debtor or as the Bankruptcy Court may order. Prior to the Effective Date, the applicable Debtor shall have the right to prepay at any time, in whole or in part, any Allowed Priority Tax Claim without premium or penalty of any sort or nature.

2. *Treatment of Classified Claims and Interests under the Plan*

(a) *Class 1: Secured Claims*

Class 1 Secured Claims are Unimpaired. Each Holder of an Allowed Class 1 Secured Claim shall receive, in the discretion of the Debtors and from the Debtor against whom such Claim is Allowed, in full satisfaction, settlement, release, extinguishment and discharge of such Claim: (a) Cash equal to the amount of such Allowed Secured Claim, plus any interest due through the date of payment, on or as soon as practicable after the later of (i) the Effective Date, (ii) the date that such Secured Claim becomes Allowed, and (iii) a date agreed to by the applicable Debtor and the Holder of such Class 1 Secured Claim; (b) Reinstatement of such Allowed Secured Claim; (c) the Property securing such Secured Claim; or (d) such other treatment on such other terms and conditions as may be agreed upon in writing by the Holder of such Claim and the applicable Debtor.

(b) *Class 2: Priority Claims*

Class 2 Priority Claims are Unimpaired. Each Holder of an Allowed Class 2 Priority Claim shall receive, in the discretion of the Debtors and from the Debtor against whom such Claim is Allowed, in full satisfaction, settlement, release, extinguishment and discharge of such Claim: (a) the amount of such unpaid Allowed Claim in Cash on or as soon as reasonably practicable after the later of (i) the Effective Date, (ii) the date on which such Class 2 Claim becomes Allowed, and (iii) a date agreed to by the applicable Debtor and the Holder of such Class 2 Priority Claim; or (b) such other treatment on such other terms and conditions as may be agreed upon in writing by the Holder of such Claim and the applicable Debtor. Class 2 includes Subscriber Claims. Subscriber Claims shall receive, in full satisfaction, settlement, release, extinguishment and discharge of such Claim: (a) performance of the Orchestra concert(s) for which such Holder purchased a ticket or which is included in such Holder's purchased subscription as scheduled by POA, or (b) in the event that the performance of any Orchestra concert(s) for which such Holder purchased a ticket or which is included in such Holder's purchased subscription is cancelled or not performed, a refund from the Escrow of the full amount paid by such Holder with respect to such cancelled performance.

(c) *Class 3: ESI, PNPP and Peter Nero Claims against POA*

Class 3 Claims against POA are Impaired. These Claims include all Claims held by ESI, PNPP, and Peter Nero (as himself or Finger Prince, Inc.), each of which was resolved pursuant to the ESI Settlement, approved by the Bankruptcy Court on September 28, 2011. ESI and PNPP Unsecured Claims against POA shall receive payment in accordance with the terms of the ESI Settlement. All contracts and other agreements between ESI, PNPP, Finger Prince, Inc. and/or Peter Nero, on the one hand, and POA, on the other, are terminated pursuant to the Plan and replaced with the ESI Settlement.

(d) *Class 4: KCI Claims*

Class 4 Claims against the Debtors are Impaired. KCI Claims include all Claims held by KCI pursuant to the KCI Lease. Upon the Effective Date, the KCI Lease shall be assumed as modified by the KCI Settlement. KCI Claims shall be paid as set forth in the KCI Settlement in full satisfaction, settlement, release, extinguishment, and discharge of such Claims. All KCI Claims asserted in these Chapter 11 Cases shall be fully resolved upon the Effective Date upon the payment of the amount set forth in the KCI Settlement.

(e) *Class 5: AFM-EPF Claims*

Class 5 Claims against POA are Impaired. AFM-EPF Claims include all Claims held by AFM-EPF against the Debtors in connection with POA's withdrawal as a participating employer in the AFM-EPF. AFM-EPF Claims shall be paid in accordance with the AFM-EPF Settlement, such that upon the Effective Date, AFM-EPF shall receive \$1,750,000 in full satisfaction, settlement, release, extinguishment, and discharge of such Claims. All AFM-EPF Claims asserted in these Chapter 11 Cases shall be fully resolved upon the Effective Date upon the payment of the amount of the AFM-EPF Settlement.

(f) *Class 6: PBGC Claims and Termination Premiums*

Class 6 Claims are Impaired. PBGC Claims and Termination Premiums include all Claims held by the PBGC against the Debtors, including but not limited to PBGC Claims filed in the Debtors' bankruptcy cases and the Termination Premiums, which, pursuant to 29 U.S.C.

1306(a)(7)(B), may arise on or after the Effective Date. In settlement of the PBGC Claims and Termination Premiums, POA will pay to PBGC the sum of \$1,317,387 as follows. Upon the Effective Date, POA shall pay to PBGC a payment of \$124,887 in full satisfaction of the PBGC Claims. In addition, POA shall pay Termination Premiums to PBGC in an amount totaling \$1,192,500 to be paid in three payments pursuant to 29 U.S.C. § 1306(a)(7): the initial payment of \$397,500 shall be paid upon the Effective Date; the second payment of \$397,500 shall be paid not later than twelve months following the Effective Date; and the final payment of \$397,500 shall be paid not later than twenty-four months from the Effective Date. Notwithstanding anything in the Plan, the Disclosure Statement, or the Confirmation Order, PBGC's rights to collect Termination Premiums as provided in section 3.10 of the Plan and in 29 U.S.C. § 1307 will not be limited in any way. All PBGC Claims and Termination Premiums arising prior to or after the Effective Date shall be fully resolved upon the final payment to PBGC in accordance with section 3.10 of the Plan.

(g) *Class 7A: General Unsecured Claims Against POA*

Class 7A General Unsecured Claims against POA are Impaired. Class 7A General Unsecured Claims include all Claims, including Rejection Claims, that are not: Administrative Claims, Priority Tax Claims, Secured Claims, Priority Claims, ESI, PNPP and Peter Nero Claims against POA, KCI Claims, AFM-EPF Claims, PBGC Claims and Termination Premiums, Class 7B General Unsecured Claims Against AOM, Class 8 Convenience Class Claims, SpectiCast Claims, or Class 10 Interests. Each Holder of a Class 7A Allowed General Unsecured Claim shall receive, in full satisfaction, settlement, release, extinguishment and discharge of such Claim an amount of Distributable Cash equal to 53% of the aggregate amount in U.S. dollars of such Holder's Class 7A Allowed General Unsecured Claim, without payment of interest, paid on the later of the Effective Date or the date that the Claim becomes Allowed.

(h) *Class 7B: General Unsecured Claims Against AOM*

Class 7B General Unsecured Claims against AOM are Impaired. Class 7B General Unsecured Claims include all Claims, including Rejection Claims, that are not: Administrative Claims, Priority Tax Claims, Secured Claims, Priority Claims, ESI, PNPP and Peter Nero Claims, KCI Claims, AFM-EPF Claims, PBGC Claims and Termination Premiums, Class 7A General Unsecured Claims Against POA, Class 8 Convenience Class Claims, SpectiCast Claims, or Class 10 Interests. Each Holder of a Class 7B Allowed General Unsecured Claim shall receive, in full satisfaction, settlement, release, extinguishment and discharge of such Claim an amount of Distributable Cash equal to 100% of the aggregate amount in U.S. dollars of such Holder's Class 7B Allowed General Unsecured Claim, without payment of interest, paid on the later of the Effective Date or the date that the Claim becomes Allowed.

(i) *Class 8: Convenience Class Claims Against POA*

Class 8 Convenience Class Claims against POA are Impaired. Convenience Class Claims include all Claims that are Allowed in the amount of \$1,000 or less, and Allowed Claims that exceed \$1,000, but as to which the Holder has elected to reduce such claim to \$1,000. Each Holder of an Allowed Convenience Class Claim shall receive, in full satisfaction, settlement, release, extinguishment and discharge of such Claim, an amount of Distributable Cash equal to

the lesser of the value of such Allowed Claim or \$1,000, without payment of interest, upon the Effective Date.

(j) *Class 9: SpectiCast Claims*

Class 9 Claims are Impaired. SpectiCast Claims include all Claims asserted by SpectiCast, an Insider, pursuant to the SpectiCast Agreement, the contractual relationship between POA and SpectiCast governing certain media activities and broadcasts of POA. Upon the Effective Date, the SpectiCast Agreement shall be deemed rejected and terminated pursuant to the Plan. All SpectiCast Claims are Disputed. If any, Allowed SpectiCast Claims shall receive, in full satisfaction, settlement, release, extinguishment and discharge of such Claims, treatment in accordance with Class 7A of this Plan.

(k) *Class 10: Interests*

Class 10 Interests are Unimpaired. This Class consists of POA's ownership interest of AOM and the membership interests of the Boards in each of the Debtors. Each Holder of an Allowed Class 10 Interest shall retain its Interest and receive no Property or other distribution of value on account of its Interest.

D. Reservation of Rights Regarding Claims

Except as otherwise explicitly provided in the Plan, nothing will affect the Debtors' or the Distribution Agent's rights and defenses, both legal and equitable, with respect to any Claims, including, but not limited to, all rights with respect to legal and equitable defenses to alleged rights of setoff or recoupment. The Debtors specifically reserve all rights, remedies, claims, defenses and Causes of Action.

E. Allowed Claims, Distribution Rights and Objections to Claims

1. *Allowance Requirement*

Only Holders of Allowed Claims are entitled to receive distributions under the Plan. An Allowed Administrative Claim is a Claim or any portion thereof that has been Allowed, or adjudicated in favor of the Holder by estimation or liquidation, by a Final Order, that was incurred by the Debtors in the ordinary course of business during the Chapter 11 Cases and as to which there is no dispute as to the Debtors' liability, or that has become Allowed by failure to object pursuant to Section 8.05 of the Plan. An Allowed Claim is such Claim or any portion thereof (other than an Administrative Claim) of (a) any Claim against any of the Debtors that has been listed by the Debtors in the Schedules, as such Schedules may have been amended by the Debtors from time to time in accordance with Bankruptcy Rule 1009, as liquidated in amount and not disputed or contingent, and with respect to which no contrary proof of claim has been filed, (b) any Claim specifically allowed under the Plan, (c) any Claim the amount or existence of which has been determined or allowed by a Final Order, or (d) any Claim as to which a proof of claim has been timely filed before the Bar Date, provided that at the time of the Effective Date the Debtors have not identified such Claim as being objectionable in part or in whole and no objection to the allowance thereof has been filed by the Claims Objection Deadline; provided, however, that the term Allowed, with reference to any Claim, shall not include (x) any unliquidated claim or (y) interest or attorneys' fees on or related to any Claim that accrues from and after the Petition Date unless otherwise expressly provided for in the Plan.

2. *Timing of Distributions*

Except as specifically set forth in the Plan, distributions of Property will be made to Holders of Allowed Claims in accordance with Article III of the Plan. If a Claim is not an Allowed Claim as of the applicable distribution date, distributions will be made only if and when the Claim is Allowed, and then in accordance with Article III of the Plan and, with respect to the cure of defaults for assumed executory contracts and unexpired leases, Section 6.02 of the Plan, and in each case, subject to Article VIII of the Plan. Distributions to be made as of the Effective Date on account of Claims that are Allowed as of the Effective Date and are entitled to receive distributions under the Plan shall be made on the Effective Date or as soon as reasonably practicable thereafter. Distributions to be made after the Effective Date shall be made on dates to be established by the Distribution Agent pursuant to the terms of the Plan, taking into account the establishment of reserves for Disputed Claims and the Distribution Agent's right to defer distributions if the amount of the Cash to be distributed on a particular date is insufficient to justify the costs of effectuating the distribution.

3. *Making of Distributions*

Distributions to Holders of Allowed Claims will be made in accordance with Article III of the Plan. On the Effective Date, the Debtors shall deliver cash to the Distribution Agent, if any, who will deposit such cash into the Distribution Account. From the Distribution Account, the Distribution Agent or the Debtors, if no Distribution Agent is appointed, will make Cash distributions in accordance with the Plan. The Distribution Agent or Debtors, as the case may be, shall be entitled to establish reserves for Disputed Claims to provide for payment of such Claims if and when Allowed. If any dispute arises as to the identity of a Holder of an Allowed Claim who is to receive any distribution, the Distribution Agent or the Debtors shall, as appropriate and in lieu of making such distribution to such Holder, delay such distribution until the disposition thereof shall be determined by Final Order of the Bankruptcy Court or by written agreement among the interested parties to such dispute.

Distributions to Holders of Allowed Claims shall be made by the Distribution Agent or Debtors, if no Distribution Agent is appointed: (a) at the last known addresses of such Holders or (b) at the addresses set forth in any written notices of address changes delivered to the Debtors or the Distribution Agent. If any Holder's distribution is returned as undeliverable, no further distributions to such Holder shall be made unless and until the Debtors or Distribution Agent is notified of such Holder's then current address, at which time all missed distributions shall be made to such Holder without interest.

4. *Failure to Negotiate Checks/Unclaimed Distributions*

Checks issued in respect of distributions under the Plan shall be null and void if not negotiated within ninety (90) days after the date of issuance. Any amounts returned to the Debtors in respect of such non-negotiated checks shall be forwarded to (if necessary) and held by the Distribution Agent. Requests for reissuance for any such check shall be made directly to the issuer of the check by the Holder of the Allowed Claim with respect to which such check originally was issued. All amounts represented by any voided check will be held until the earlier of: (a) one (1) month after date on which the check is voided, or (b) the date on which the Bankruptcy Court enters the Final Decree, and all requests for reissuance by the Holder of the Allowed Claim in respect of a voided check are required to be made prior to such date.

Thereafter, all such amounts shall be deemed to be Unclaimed Property, in accordance with Section 5.07 of the Plan, and all Holders of Claims in respect of void checks shall be forever barred, estopped and enjoined from asserting a claim to such funds in any manner against the Debtors or their respective assets, or the Distribution Agent.

All Property distributed on account of Claims must be claimed prior to the date on which the Bankruptcy Court enters the Final Decree, or, in the case of a distribution made in the form of a check, must be negotiated and a request for reissuance be made as provided for in Section 5.07 of the Plan. All Unclaimed Property will be retained by and will revert to the Debtors. All full or partial payments made by the Debtors and received by the Holder of a Claim prior to the Effective Date will be deemed to be payments under the Plan for purposes of satisfying the obligations of the Debtors or the Distribution Agent pursuant to the Plan. Nothing contained in the Plan shall require the Debtors or the Distribution Agent to attempt to locate any Holder of an Allowed Claim other than by reviewing the records of the Debtors and any Claims filed in the Chapter 11 Cases. Pursuant to section 1143 of the Bankruptcy Code, all Claims in respect of Unclaimed Property shall be deemed Disallowed and the Holder of any Claim Disallowed in accordance with Section 5.07 of the Plan will be forever barred, expunged, estopped and enjoined from asserting such Claim in any manner against the Debtors or the Distribution Agent, or their respective assets.

5. Objection Procedures

Unless otherwise ordered by the Court after notice and a hearing, under the Plan, the Debtors or the Distribution Agent, if any, shall have the exclusive right, on and after the Effective Date, to file objections to Claims (other than Claims specifically Allowed in the Plan) and shall serve a copy of each such objection upon the Holder of the Claim to which the objection is made as soon as practicable, but in no event later than the Claims Objection Deadline. An objection to any Claim shall be deemed properly served on the Holder thereof if the Debtor or Distribution Agent effects service in any of the following manners: (i) in accordance with Rule 4 of the Federal Rules of Civil Procedure, as modified and made applicable by Federal Rule of Bankruptcy Procedure 7004, (ii) by first class mail, postage prepaid, on the signatory on the proof of claim or interest or other representative identified in the proof of claim or interest or any attachment thereto, or (iii) by first class mail, postage prepaid, on any counsel that has appeared on the Holder's behalf in the Chapter 11 Cases.

F. Disposition of Executory Contracts and Unexpired Leases

1. Contracts and Leases Deemed Rejected

The Plan provides that POA and AOM executory contracts and unexpired leases shall be deemed automatically rejected as of the Effective Date, except for any executory contract or unexpired lease: (a) that has been assumed or rejected pursuant to an order of the Bankruptcy Court entered prior to the Effective Date, (b) that is the subject of a motion to assume or reject pending on the Effective Date, (c) that is assumed, rejected or otherwise treated pursuant to Section 6.03 or Section 6.04 of the Plan, (d) that is listed on Schedule 6.02(a) or 6.02(b) of the Plan or (e) as to which a Treatment Objection has been filed and properly served by the Treatment Objection Deadline. If an executory contract or unexpired lease either (x) has been assumed or rejected pursuant to an order of the Bankruptcy Court entered prior to the Effective Date or (y) is the subject of a motion to assume or reject pending on the Confirmation Date, then

the listing of any such executory contract or unexpired lease on the aforementioned Schedules shall be of no effect.

Notwithstanding the foregoing, the following are the general categories of executory contracts which, unless they fall into one of the categories (a) through (h) in the foregoing paragraph, shall be deemed assumed as of the Effective Date:

- (a) customer programs, insurance plans and workers' compensation plans;
- (b) certain indemnification obligations to directors, officers or employees employed by either of the Debtors on or after the Petition Date, unless such obligations are contained in an employment agreement that is itself rejected;
- (c) the CBA, as amended by the Agreement with Local 77 described in Section V. E. 3. hereof; provided, however, that such assumption shall not be deemed to effect an assumption of any pension plan, retirement plan, savings plan, health plan or other employee benefit plan rejected, discontinued, withdrawn from, terminated or for which the authority to effectuate the foregoing was granted;
- (d) License Agreements;
- (e) any leases, subleases or other agreements with ITW Mortgage Investments III, Inc. ("ITW") or any successor in interest to ITW, governing the Debtors' use of office space at The Atlantic Building, 260 S. Broad Street, 16th Floor, Philadelphia (the "ITW Lease"). The ITW Lease expired by its terms on or about September 27, 2011, though ITW and the Debtors have agreed to continue the lease in effect on a month-to-month basis, subject to mutual 120-day notice periods of termination. Pursuant to the Plan, the ITW Lease shall be assumed subject to the current terms of mutual 120-day notice periods of termination;
- (f) Independent Artist Contracts;
- (g) Employee Agreements; and
- (h) Charitable gift annuities and other non-endowment annuities.

POA and AOM, in their sole and absolute discretion, may honor, in the ordinary course of business, their written contracts, agreements, policies, programs and plans for, among other things, compensation, health care benefits, disability benefits, severance benefits, retirement benefits, welfare benefits, relocation programs, life insurance and accidental death and dismemberment insurance, including written contracts, agreements, policies, programs and plans for bonuses and other incentives or compensation for the directors, officers and employees of either POA or AOM who served in such capacity at any time; *provided, however*, that this provision does not address collective bargaining agreements or the terms of employment of employees represented by labor unions.

To the extent that the above-listed contracts, agreements, licenses, policies, programs and plans are executory contracts, pursuant to sections 365 and 1123 of the Bankruptcy Code, unless a Treatment Objection is timely filed and properly served, each of them will be deemed assumed (as modified or terminated) as of the Effective Date with a Cure of zero dollars. However, notwithstanding anything else herein, at the discretion of POA and AOM, the assumed executory contracts shall be subject to modification in accordance with the terms thereof.

2. *Schedules of Executory Contracts and Unexpired Leases*

The Debtors shall set forth their intended treatment of all executory contracts and unexpired leases in Schedules 6.02(a) and 6.02(b) of the Plan, which shall be filed as specified in Article VI of the Plan. The Debtors reserve the right, on or prior to 3:00 p.m. (prevailing Eastern time) on the third Business Day immediately prior to the commencement of the Confirmation Hearing, (i) to amend Schedules 6.02(a) and 6.02(b) in order to add, delete or reclassify any executory contract or unexpired lease or amend a proposed assignment and (ii) to amend the Proposed Cure, in each case with respect to any executory contract or unexpired lease previously listed as to be assumed; *provided, however*, that if the Confirmation Hearing is adjourned for a period of more than two consecutive calendar days, such amendment right shall be extended to 3:00 p.m. on the Business Day immediately prior to the rescheduled or continued Confirmation Hearing, and this proviso shall apply in the case of any and all subsequent adjournments of the Confirmation Hearing. Pursuant to sections 365 and 1123 of the Bankruptcy Code, and except with respect to executory contracts and unexpired leases as to which a Treatment Objection is properly filed and served by the Treatment Objection Deadline, (i) each of the executory contracts and unexpired leases listed on Schedule 6.02(a) shall be deemed assumed (and, if applicable, assigned) effective as of the Assumption Effective Date specified thereon and the Proposed Cure specified in the notice mailed to each Assumption Party shall be the Cure and shall be deemed to satisfy fully any obligations the Debtors might have with respect to such executory contract or unexpired lease under section 365(b) of the Bankruptcy Code and (ii) each of the executory contracts and unexpired leases listed on Schedule 6.02(b) shall be deemed rejected effective as of the Rejection Effective Date specified thereon.

With respect to any executory contract or unexpired lease first listed on Schedule 6.02(b) later than the date that is ten calendar days prior to the Voting Deadline, the Debtors shall use their best efforts to notify the applicable Rejection Party promptly of such proposed treatment via facsimile, email or telephone at any notice address or number included in the relevant executory contract or unexpired lease or as otherwise timely provided in writing to the Debtors by any such counterparty or its counsel. With respect to any executory contracts or unexpired leases first listed on Schedule 6.02(b) later than the date that is ten calendar days before the Voting Deadline, affected Rejection Parties shall have five calendar days from the date of such amendment to Schedule 6.02(b) to object to Confirmation of the Plan. With respect to any executory contracts or unexpired leases first listed on Schedule 6.02(b) later than the Voting Deadline, affected Rejection Parties shall have until the Confirmation Hearing to object to Confirmation of this Plan or amend any vote on the Confirmation of this Plan.

3. *Assumption and Rejection Procedures and Resolution of Treatment Objections*

(a) *Proposed Assumption*

With respect to any executory contract or unexpired lease to be assumed pursuant to any provision of the Plan or any Notice of Intent to Assume or Reject, unless an Assumption Party files and properly serves a Treatment Objection by the Treatment Objection Deadline, such executory contract or unexpired lease shall be deemed assumed as of the Assumption Effective Date proposed by the Debtors, without any further notice to or action by the Bankruptcy Court, and any obligation the Debtors may have to such Assumption Party with respect to such

executory contract or unexpired lease under section 365(b) of the Bankruptcy Code shall be deemed fully satisfied by the Proposed Cure, if any, which shall be the Cure.

(b) Proposed Rejection

With respect to any executory contract or unexpired lease to be rejected pursuant to any provision of the Plan or any Notice of Intent to Assume or Reject, unless a Rejection Party files and properly serves a Treatment Objection by the Treatment Objection Deadline, such executory contract or unexpired lease shall be deemed rejected as of the Rejection Effective Date proposed by the Debtors without any further notice to or action by the Bankruptcy Court.

(c) Resolution of Treatment Objections

Both on and after the Effective Date, the Debtors may, in their sole discretion, settle Treatment Objections without any further notice to or action by the Bankruptcy Court or any other party (including by paying any agreed Cure amounts).

With respect to each executory contract or unexpired lease as to which a Treatment Objection is timely filed and properly served and that is not otherwise resolved by the parties after a reasonable period of time, the Debtors, in consultation with the Bankruptcy Court, shall schedule a hearing on such Treatment Objection and provide at least fourteen (14) calendar days' notice of such hearing to the relevant Assumption Party or Rejection Party. Unless the Bankruptcy Court expressly orders or the parties agree otherwise, any assumption or rejection approved by the Bankruptcy Court notwithstanding a Treatment Objection shall be effective as of the Assumption Effective Date or Rejection Effective Date originally proposed by the Debtors or specified in the Plan.

Any Cure shall be paid as soon as reasonably practicable following the entry of a Final Order resolving an assumption dispute and/or approving an assumption, unless the Debtors file a Notice of Intent to Assume or Reject under Section 6.05(d) of the Plan. No Cure shall be allowed for a penalty rate or default rate of interest, each to the extent not proper under the Bankruptcy Code or applicable law.

(d) Rejection Claims

Any Rejection Claim must be filed with the Claims Agent by the Rejection Bar Date. Any Rejection Claim for which a Proof of Claim is not properly filed and served by the Rejection Bar Date shall be forever barred and shall not be enforceable against the Debtors, or their respective Estates or properties. The Debtors may contest any Rejection Claim in accordance with Section 6.06 of the Plan.

4. *Assignment*

To the extent provided under the Bankruptcy Code or other applicable law, any executory contract or unexpired lease transferred and assigned pursuant to the Plan shall remain in full force and effect for the benefit of the transferee or assignee in accordance with its terms, notwithstanding any provision in such executory contract or unexpired lease (including those of the type described in section 365(b)(2) of the Bankruptcy Code) that prohibits, restricts or conditions such transfer or assignment.

5. *Approval of Assumption, Rejection, Retention or Assignment of Executory Contracts and Unexpired Leases*

Entry of the Confirmation Order by the Bankruptcy Court shall, subject to the occurrence of the Effective Date, constitute approval of the rejections, retentions, assumptions and/or assignments contemplated by this Plan pursuant to sections 365 and 1123 of the Bankruptcy Code. Each executory contract and unexpired lease that is assumed (and/or assigned) pursuant to the Plan shall vest in and be fully enforceable by the applicable Debtor in accordance with its terms as of the applicable Assumption Effective Date, except as modified by the provisions of this Plan, any order of the Bankruptcy Court authorizing or providing for its assumption (and/or assignment), or applicable federal law.

The provisions (if any) of each executory contract or unexpired lease assumed and/or assigned pursuant to the Plan that are or may be in default shall be deemed satisfied in full by the Cure, or by an agreed-upon waiver of the Cure. Upon payment in full of the Cure, any and all Proofs of Claim based upon an executory contract or unexpired lease that has been assumed in the Chapter 11 Cases or under the terms of the Plan shall be deemed disallowed and expunged with no further action required of any party or order of the Bankruptcy Court.

6. *Modifications, Amendments, Supplements, Restatements or Other Agreements*

Unless otherwise provided by the Plan or by separate order of the Bankruptcy Court, each executory contract and unexpired lease that is assumed, whether or not such executory contract or unexpired lease relates to the use, acquisition or occupancy of real property, shall include (i) all modifications, amendments, supplements, restatements or other agreements made directly or indirectly by any agreement, instrument or other document that in any manner affects such executory contract or unexpired lease and (ii) all executory contracts or unexpired leases appurtenant to the premises, if any, including all easements, licenses, permits, rights, privileges, immunities, options, rights of first refusal, powers, uses, reciprocal easement agreements and any other interests in real estate or rights in remedy related to such premises, unless any of the foregoing agreements has been or is rejected pursuant to an order of the Bankruptcy Court or is otherwise rejected as part of the Plan.

G. Means for Implementation of the Plan

1. *Continued Existence/Structure*

Except as otherwise provided in the Plan, on the Effective Date, POA shall continue to exist as a non-profit corporate entity organized under the laws of the Commonwealth of Pennsylvania and AOM shall exist as a stock issuing corporate entity organized under the laws of the State of Delaware and shall continue to be a wholly-owned subsidiary of POA.

2. *Restructuring Distributions*

On or as of the Effective Date, the distributions provided for under the Plan shall be made by the Debtors from funds on hand that were (a) solicited from the Debtors' Boards of Directors and other donors for the purpose of funding the Plan, (b) derived from the Debtors' ongoing operations, and (c) from the DIP Facility.

3. *Organization Action*

The entry of the Confirmation Order shall constitute authorization for the Debtors to take or cause to be taken all actions necessary or appropriate to consummate and implement the provisions of the Plan prior to, on and after the Effective Date, and all such actions taken or caused to be taken shall be deemed to have been authorized and approved by the Bankruptcy Court. On or, as applicable, before the Effective Date, the appropriate officers and directors of the Debtors are authorized and directed to execute and deliver the agreements, documents and instruments contemplated by the Plan in the name and on behalf of the Debtors.

H. Confirmation and/or Consummation

Described below are certain important considerations under the Bankruptcy Code in connection with confirmation of the Plan.

1. *Requirements for Confirmation of the Plan*

Before the Plan can be confirmed, the Bankruptcy Court must determine at the Confirmation Hearing that the following requirements for confirmation, set forth in section 1129 of the Bankruptcy Code, have been satisfied:

- The Plan complies with the applicable provisions of the Bankruptcy Code.
- The Debtors have complied with the applicable provisions of the Bankruptcy Code.
- The Plan has been proposed in good faith and not by any means forbidden by law.
- Any payment made or promised by the Debtors or by a Person acquiring property under the Plan for services or for costs and expenses in, or in connection with, the Chapter 11 Cases, or in connection with the Plan and incident to the Chapter 11 Cases, has been disclosed to the Bankruptcy Court, and any such payment made before confirmation of the Plan is reasonable, or if such payment is to be fixed after confirmation of the Plan, such payment is subject to the approval of the Bankruptcy Court as reasonable.
- The Debtors have disclosed (a) the identity and affiliations of (i) any individual proposed to serve, after confirmation of the Plan, as a director or officer of the Debtors under the Plan, and (ii) any affiliate of the

Debtors participating in a joint plan with the Debtors, and (b) the identity of any Insider that will be employed or retained by the Debtors and the nature of any compensation for such Insider. See Appendix F.

- With respect to each Class of Claims or Interests, each Impaired Claim and Impaired Interest Holder either has accepted the Plan or will receive or retain under the Plan, on account of the Claims or Interests held by such Holder, property of a value, as of the Effective Date, that is not less than the amount that such Holder would receive or retain if the Debtors liquidated on such date. See Section IX.D.
- The Plan provides that Administrative Claims and Priority Claims other than Priority Tax Claims will be paid in full on the Effective Date and that Priority Tax Claims will receive on account of such Claims deferred cash payments, over a period not exceeding five years after the date of assessment of such Claims, of a value, as of the Effective Date, equal to the Allowed Amount of such Claims, except to the extent that the Holder of any such Claim has agreed to a different treatment.
- If a Class of Claims is Impaired under the Plan, at least one Class of Impaired Claims has accepted the Plan, determined without including any acceptance of the Plan by Insiders holding Claims in such Class.
- Confirmation of the Plan is not likely to be followed by the liquidation, or the need for further financial reorganization, of the Debtors. See Section IX.A.

The Debtors believe that, upon receipt of the votes required to confirm the Plan, the Plan will satisfy all the statutory requirements of chapter 11 of the Bankruptcy Code, that the Debtors have complied or will have complied with all of the requirements of chapter 11 and that the Plan has been proposed and submitted to the Bankruptcy Court in good faith.

Even if all of the foregoing are satisfied, if any Class of Claims is Impaired and votes to reject the Plan, the Debtors must satisfy the applicable “cramdown” standard with respect to that Class. Section 1129(b) of the Bankruptcy Code requires that the plan “not discriminate unfairly” and be “fair and equitable” with respect to such class. The Debtors do not anticipate that any Class of Claims will vote to reject the Plan. However, in the event any Class votes to reject the Plan, the Debtors believe they will satisfy the cramdown standards in section 1129(b) with respect to any such rejecting class.

2. Conditions to Confirmation Date and Effective Date

The Plan specifies conditions precedent to the Confirmation Date and the Effective Date. Each of the specified conditions must be satisfied or waived in whole or in part by the Debtors, without any notice to parties-in-interest or the Bankruptcy Court and without a hearing.

The conditions precedent to the occurrence of the Confirmation Date, which is the date of entry by the clerk of the Bankruptcy Court of the Confirmation Order, are that the form and substance of the Confirmation Order shall have been approved by the Debtors.

The conditions that must be satisfied on or prior to the Effective Date, which is the Business Day upon which all conditions to the consummation of the Plan have been satisfied or

waived, and is the date on which the Plan becomes effective, are that: (a) the Confirmation Order, in form and substance acceptable to the Debtors, shall have been entered and become a Final Order; (b) all actions, documents and agreements required to be executed or delivered under the Plan on or prior to the Effective Date shall have been effected and executed as determined by the Debtors in their sole and absolute discretion; (c) the Debtors shall have received any authorizations, consents, regulatory approvals, rulings, letters, no-action letters, opinions or documents that are necessary to implement the Plan and that are required by law, regulation or order, in each case as determined by the Debtors in their sole and absolute discretion; and (d) the Plan Documents shall have been executed and delivered by all of the parties thereto.

I. Effects of Confirmation

1. *Vesting of Assets*

Upon the Effective Date, pursuant to sections 1141(b) and (c) of the Bankruptcy Code, all property of each of the Debtors shall vest in each of the respective Reorganized Debtors free and clear of all Claims, Liens, encumbrances, charges and other interests, except as otherwise specifically provided in the Plan. All Liens, Claims, encumbrances, charges and other interests shall be deemed fully released and discharged as of the Effective Date, except as otherwise provided in the Plan. Except as otherwise provided in the Plan or the Confirmation Order, all Transferred Avoidance Actions shall automatically revert to and become the property of the Reorganized Debtors. The Reorganized Debtors will waive the right to enforce and prosecute such Transferred Avoidance Actions against any Person or Entity, that arose before the Effective Date, other than those expressly preserved or retained as part of or pursuant to the Plan or Confirmation Order. Nothing in this Disclosure Statement, the Plan, or Confirmation Order shall constitute the Debtors' waiver or release of claims, Causes of Action, or defenses not arising under chapter 5 of the Bankruptcy Code.

2. *Injunction*

(a) Claims and Interests

No Holder of a Claim against either Debtor may, on account of such Claim, seek or receive any payment or other distribution from, or seek recourse against, any member of the Debtors' controlled group, as that term is defined by ERISA, any of the Debtors' respective successors, if any, or their respective property, except as expressly provided in the Plan. Accordingly, except as otherwise provided in the Plan, the Confirmation Order shall provide, among other things, that no Holder of a Claim against either Debtor may, on account of such Claim, seek or receive any payment or other distribution from, or seek recourse against, any member of the Debtors' controlled group, as that term is defined by ERISA, any of the Debtors' respective successors, if any, or their respective property, except that from and after the Confirmation Date, all Persons who have held, hold, or may hold Claims against or Interests in the Debtors are permanently enjoined from taking any actions against the Distribution Agent, or any of its property, in order to collect, enforce, or recover on account of such Claims or Interests. Notwithstanding anything to the contrary in the Plan, creditors' rights of setoff and recoupment are preserved, and the injunctions referenced in Article X of the Plan shall not enjoin the valid exercise of such rights of setoff and recoupment.

(b) Exculpation and Limitation of Liability

The Plan contains standard exculpation provisions applicable to certain of the key parties in interest with respect to their conduct in the Chapter 11 Cases. Specifically, the Plan provides that none of the Debtors, Distribution Agent or Exculpated Persons shall have or incur any liability to any Person, including, without limitation, any Holder of a Claim or Interest or any other party in interest, or any of their respective agents, employees, representatives, financial advisors, attorneys or affiliates or any of their successors or assigns, for any act taken or omission made in good faith in connection with, relating to, or arising out of, the Chapter 11 Cases, filing, negotiating, prosecuting, administering, formulating, implementing, confirming or consummating the Plan, or the Property to be distributed under the Plan, including all post-petition activities leading to the promulgation and confirmation of the Plan, the Disclosure Statement (including any information provided or statement made in the Disclosure Statement or omitted therefrom), or any contract, instrument, release or other agreement or document created in connection with or related to the Plan or the administration of the Debtors or these Chapter 11 Cases, provided, however, that the exculpation will not apply to any act of gross negligence or willful misconduct. Nothing in the Plan or Confirmation Order shall release any Person, other than the Debtors and ESI, from liability to PBGC or the Pension Plans for breach of fiduciary duty.

3. *Releases and Discharge Injunction*

(a) Releases by Debtors in Favor of Third Parties

The Plan provides for certain releases to be granted by the Debtors on and as of the Effective Date. Specifically, effective as of the Effective Date, and except as otherwise provided in the Plan or the Confirmation Order, the Debtors, in their individual capacities and as debtors in possession, will be deemed to have forever released, waived and discharged the Releasees from any and all claims, obligations, suits, judgments, damages, demands, debts, rights, Causes of Action and liabilities (other than the rights of the Debtors or the Distribution Agent to enforce the Plan and the contracts, instruments, releases, indentures and other agreements or documents delivered thereunder), whether for tort, contract, violations of federal or state securities laws, or otherwise, whether liquidated or unliquidated, fixed or contingent, matured or unmatured, known or unknown, foreseen or unforeseen, then existing or thereafter arising, in law, equity or otherwise that are based in whole or part on any act, omission, transaction, event or other occurrence, including actions in connection with indebtedness for money borrowed by the Debtors, taking place on or prior to the Effective Date in any way relating to the Debtors, the Chapter 11 Cases, or the Plan.

(b) Releases by Creditors of Claims

The Plan also provides for certain releases by Holders of Claims and Interests. Effective as of the Effective Date, except as otherwise provided in the Plan or the Confirmation Order, each Person (excluding either of the Debtors) that has held, currently holds or may hold a Claim or Interest, and any Affiliate of any such Person (as well as any trustee or agent on behalf of each such Person), shall be deemed to have forever waived, released and discharged the Releasees from any and all Claims, obligations, suits, judgments, damages, rights, Causes of Action and liabilities whatsoever (other than the right to enforce the performance of their respective

obligations, if any, to the Debtors or the Distribution Agent under the Plan, and the contracts, instruments releases and other agreements delivered under the Plan), whether liquidated or unliquidated, fixed or contingent, matured or unmatured, known or unknown, foreseen or unforeseen, then existing or thereafter arising, in law, equity or otherwise that are based in whole or in part on any act or omission, transaction, event or other occurrence taking place on or prior to the Effective Date in any way relating to the Debtors, the Chapter 11 Cases, the Plan or the Disclosure Statement other than Claims or liabilities arising out of or relating to any act or omission that constitutes a failure to perform the duty to act in good faith and where such failure to perform constitutes willful misconduct, gross negligence, or fraud.

This release does not extend to any Claim or Cause of Action existing as of the Effective Date, based on (x) the Internal Revenue Code or any other domestic state, city or municipal tax code, (y) any liability that the Person may have as an owner or operator of real property after Confirmation under the environmental laws of the United States or any domestic state, city or municipality or (z) any criminal laws of the United States or any domestic state, city or municipality. Nothing in the Plan or Confirmation Order constitutes a release of any claims held by the PBGC against any Persons other than the Debtors and ESI from any liability to the PBGC or the Pension Plans for fiduciary breach.

(c) Discharge Injunction

The Plan further provides that, unless otherwise specifically provided therein, on the Effective Date, the Confirmation Order shall constitute an injunction permanently enjoining any Person (excluding either of the Debtors) that has held, currently holds or may hold a Claim, demand, debt, right, Cause of Action or liability that is released pursuant to Section 10.03 of the Plan from enforcing or attempting to enforce any such Claim, demand, debt, right, Cause of Action or liability against any Releasee or any of their respective Property. Nothing in the Plan or Confirmation Order releases any Persons other than the Debtors and ESI from any liability to the PBGC or the Pension Plans for fiduciary breach.

4. *No Successor Liability*

Except as otherwise expressly provided in the Plan, the Debtors and the Distribution Agent do not, pursuant to the Plan or otherwise, assume, agree to perform, pay, or indemnify or otherwise have any responsibilities for any liabilities or obligations of the Debtors or any other party relating to or arising out of the operations of or assets of the Debtors, whether arising prior to, on, or after the Effective Date. The Distribution Agent is not, and shall not be, a successor to the Debtors by reason of any theory of law or equity, and shall not have any successor or transferee liability of any kind or character.

J. Retention of Jurisdiction

Notwithstanding the entry of the Confirmation Order and the occurrence of the Effective Date, the Bankruptcy Court shall retain after the Effective Date exclusive jurisdiction of all matters arising out of, arising in or related to, the Chapter 11 Cases to the fullest extent permitted by applicable law, including, without limitation, jurisdiction to:

- classify, re-classify or establish the priority or secured or unsecured status of any Claim (whether filed before or after the Effective Date and whether or not

contingent, Disputed or unliquidated) or resolve any dispute as to the treatment of any Claim or Interest pursuant to the Plan;

- grant or deny any applications for allowance of compensation or reimbursement of expenses pursuant to sections 330, 331 or 503(b) of the Bankruptcy Code or otherwise provided for in the Plan, for periods ending on or before the Effective Date;
- determine and resolve any matters related to the assumption, assumption and assignment or rejection of any executory contract or unexpired lease to which any Debtor is a party or with respect to which any Debtor may be liable, and to hear, determine and, if necessary, liquidate any Claims arising therefrom;
- ensure that all payments due under the Plan and performance of the provisions of the Plan are accomplished as provided herein and resolve any issues relating to distributions to Holders of Allowed Claims pursuant to the provisions of the Plan;
- construe, take any action and issue such orders, prior to and following the Confirmation Date and consistent with section 1142 of the Bankruptcy Code, as may be necessary for the enforcement, implementation, execution and consummation of the Plan and all contracts, instruments, releases, indentures and other agreements or documents created in connection with the Plan, including, without limitation, the Disclosure Statement and the Confirmation Order, for the maintenance of the integrity of the Plan and protection of the Distribution Agent in accordance with sections 524 and 1141 of the Bankruptcy Code following consummation;
- determine and resolve any cases, controversies, suits or disputes that may arise in connection with the consummation, interpretation, implementation or enforcement of the Plan (and all Exhibits to the Plan) or the Confirmation Order, including the indemnification and injunction provisions set forth in and contemplated by the Plan or the Confirmation Order, or any Entity's rights arising under or obligations incurred in connection therewith;
- hear any application of the Debtors or Distribution Agent to modify the Plan after the Effective Date pursuant to section 1127 of the Bankruptcy Code and the Plan or modify this Disclosure Statement, the Confirmation Order or any contract, instrument, release, indenture or other agreement or document created in connection with the Plan, the Disclosure Statement or the Confirmation Order, or remedy any defect or omission or reconcile any inconsistency in any Bankruptcy Court order, the Plan, the Disclosure Statement, the Confirmation Order or any contract, instrument, release, indenture or other agreement or document created in connection with the Plan, the Disclosure Statement or the Confirmation Order, in such manner as may be necessary or appropriate to consummate the Plan, to the extent authorized by the Bankruptcy Code and the Plan;
- issue injunctions, enter and implement other orders or take such other actions as may be necessary or appropriate to restrain interference by any Entity with consummation, implementation or enforcement of the Plan or the Confirmation Order;

- enter and implement such orders as are necessary or appropriate if the Confirmation Order is for any reason modified, stayed, reversed, revoked or vacated;
- determine any other matters that may arise in connection with or relating to the Plan, the Disclosure Statement, the Confirmation Order or any contract, instrument, release, indenture or other agreement or document created in connection with the Plan, the Disclosure Statement or the Confirmation Order, except as otherwise provided in the Plan;
- determine such other matters and for such other purposes as may be provided in the Confirmation Order;
- hear and determine any other matters related hereto and not inconsistent with chapter 11 of the Bankruptcy Code;
- hear and determine disputes arising in connection with the interpretation, implementation or enforcement of the Plan;
- enter a final decree closing the Chapter 11 Cases;
- determine and resolve any and all controversies relating to the rights and obligations of the Distribution Agent in connection with the Chapter 11 Cases;
- allow, disallow, determine, liquidate, reduce, re-classify or estimate any Claim, including the compromise, settlement and resolution of any request for payment of any Claim, the resolution of any Objections to the allowance of Claims and to hear and determine any other issue presented hereby or arising hereunder, including during the pendency of any appeal relating to any Objection to such Claim (to the extent permitted under applicable law);
- permit the Debtors or the Distribution Agent, to the extent provided for in the Plan, to recover all assets of the Debtors and Property of their respective Estates, wherever located;
- hear and determine any motions or contested matters involving taxes, tax refunds, tax attributes and tax benefits and similar or related matters with respect to the Debtors or the Debtors' respective Estates arising prior to the Effective Date or relating to the period of administration of the Chapter 11 Cases, including, without limitation, matters concerning federal, state and local taxes in accordance with sections 346, 505 and 1146 of the Bankruptcy Code;
- hear and determine any motions, applications, adversary proceedings, contested matters and other litigated matters pending on, filed or commenced after the Effective Date that may be commenced by the Debtors thereafter, including Avoidance Actions, proceedings with respect to the rights of the Debtors to recover Property under sections 542, 543 or 553 of the Bankruptcy Code, or proceedings to otherwise collect to recover on account of any claim or Cause of Action that the Debtors may have; and
- hear any other matter not inconsistent with the Bankruptcy Code.

If the Bankruptcy Court abstains from exercising or declines to exercise jurisdiction over any matter arising under, arising in or related to the Debtors, including with respect to the matters set forth above, nothing in the Plan shall prohibit or limit the exercise of jurisdiction by any other court having competent jurisdiction with respect to such subject matter.

K. Amendment, Alteration and Revocation of Plan

The Debtors may alter, amend or modify the Plan in accordance with section 1127 of the Bankruptcy Code or as otherwise permitted at any time prior to the Confirmation Date. After the Confirmation Date and prior to the substantial consummation of the Plan, and in accordance with the provisions of section 1127(b) of the Bankruptcy Code and the Bankruptcy Rules, the Debtors may, so long as the treatment of Holders of Claims or Interests under the Plan is not adversely affected, institute proceedings in the Bankruptcy Court to remedy any defect or omission or to reconcile any inconsistencies in the Plan, the Disclosure Statement or the Confirmation Order and any other matters as may be necessary to carry out the purposes and effects of the Plan; provided, however, prior notice of such proceedings shall be served in accordance with Bankruptcy Rules 2002 and 9014.

The Debtors reserve the right, at any time prior to Confirmation of the Plan to withdraw the Plan. If the Plan is withdrawn, the Plan shall be null and void and have no force and effect. In such event, nothing contained herein shall be deemed to constitute a waiver or release of any Claims by or against the Debtors or any other Person or to prejudice in any manner the rights of the Debtors or any Person in any further proceedings involving the Debtors.

L. Plan Implementation Documents

The documents necessary to implement the Plan include the following:

- DIP Exit Facility
- Annenberg Trust Agreement

VII. CERTAIN RISK FACTORS TO BE CONSIDERED

The Holders of Claims in Classes 3, 4, 5, 6, 7, 8, and 9 should read and carefully consider the following factors, as well as the other information set forth in this Disclosure Statement (and the documents delivered together herewith and/or incorporated by reference herein), before deciding whether to vote to accept or reject the Plan. These risk factors should not, however, be regarded as constituting the only risks associated with the Plan and its implementation.

A. General Considerations

The Plan sets forth the means for satisfying the Claims against each of the Debtors. See Section VI.C. of this Disclosure Statement entitled “Classification and Treatment of Claims and Interests” for a description of the treatments of each class of Claims and Interests. Certain Claims and Interests receive no distributions pursuant to the Plan.

B. Certain Bankruptcy Considerations

Even if all voting Impaired Classes vote in favor of the Plan, and if with respect to any Impaired Class deemed to have rejected the Plan the requirements for “cramdown” are met, the Bankruptcy Court may choose not to confirm the Plan. Section 1129 of the Bankruptcy Code

requires, among other things, a showing that confirmation of the Plan will not be followed by liquidation or the need for further financial reorganization of the Debtors, (see Section IX.A.), and that the value of distributions to dissenting Holders of Claims and Interests will not be less than the value such Holders would receive if the Debtors liquidated. See Section IX.D. Although the Debtors believe that the Plan will meet such tests, there can be no assurance that the Bankruptcy Court will reach the same conclusion. See Appendix D for a liquidation analysis of the Debtors.

C. Claims Estimations

There can be no assurance that any estimated Claim amounts set forth in this Disclosure Statement are correct. The actual Allowed amount of Claims likely will differ in some respect from the estimates. The estimated amounts are subject to certain risks, uncertainties, and assumptions. Should one or more of these risks or uncertainties materialize, or should any underlying assumptions prove incorrect, the actual Allowed amount of Claims may vary from those estimated herein.

D. Conditions Precedent to Consummation

The Plan provides for certain conditions that must be satisfied (or waived) prior to confirmation of the Plan and for certain other conditions that must be satisfied (or waived) prior to the Effective Date. As of the date of this Disclosure Statement, there can be no assurance that any or all of the conditions in the Plan will be satisfied (or waived). Accordingly, even if the Plan is confirmed by the Bankruptcy Court, there can be no assurance that the Plan will be consummated and the restructuring completed.

E. Inherent Uncertainty of Financial Projections

The Projections set forth in Appendix B hereto have been prepared by management of the Debtors in consultation with their financial advisors and cover the projected operations of the Debtors through fiscal year 2014. These Projections are based on numerous assumptions that are an integral part of the Projections, including confirmation and consummation of the Plan in accordance with its terms, realization of the operating strategy of the Debtors, success in soliciting donations from major benefactors, improvements of ticket sale revenues, general business and economic conditions, competition, attraction and retention of key employees, and other matters. Certain additional material assumptions are disclosed on Appendix B, and the Projections should be read in conjunction with these assumptions.

Although the Projections are presented with numerical specificity and are based on assumptions considered reasonable by the Debtors, the assumptions and estimates underlying the Projections are subject to business, economic and competitive uncertainties and contingencies. Accordingly, the Projections are only the Debtors' educated, good faith estimates and are necessarily contingent in nature. It can be expected that some or all of the assumptions in the Projections will not be realized and that actual results will vary from the Projections, which variations may be material and may increase over time. The projected financial information contained herein should not be regarded as a guaranty by the Debtors, the Debtors' advisors or any other Person that the Projections can or will be achieved. However, the Debtors believe that the Projections are credible and that there is a reasonable likelihood that the results set forth in the Projections can be achieved.

F. Certain Tax Considerations

There are a number of income tax considerations, risks and uncertainties associated with consummation of the Plan. Interested parties should read carefully the discussions set forth in Article VIII regarding certain U.S. federal income tax consequences of the transactions proposed by the Plan to the Debtors and to Holders of Claims who are entitled to vote to accept or reject the Plan.

VIII. CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN

THE FOLLOWING DISCUSSION SUMMARIZES CERTAIN ANTICIPATED U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE TRANSACTIONS PROPOSED BY THE PLAN TO THE DEBTORS AND HOLDERS OF CLAIMS THAT ARE ENTITLED TO VOTE TO ACCEPT OR REJECT THE PLAN. THIS SUMMARY IS PROVIDED FOR INFORMATION PURPOSES ONLY AND IS BASED ON THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), TREASURY REGULATIONS PROMULGATED THEREUNDER, JUDICIAL AUTHORITIES, AND CURRENT ADMINISTRATIVE RULINGS AND PRACTICE, ALL AS IN EFFECT AS OF THE DATE HEREOF AND ALL OF WHICH ARE SUBJECT TO CHANGE OR DIFFERING INTERPRETATION, POSSIBLY WITH RETROACTIVE EFFECTS THAT COULD ADVERSELY AFFECT THE U.S. FEDERAL INCOME TAX CONSEQUENCES DESCRIBED BELOW.

THIS SUMMARY DOES NOT ADDRESS ALL ASPECTS OF U.S. FEDERAL INCOME TAXATION THAT MAY BE RELEVANT TO A PARTICULAR HOLDER OF A CLAIM IN LIGHT OF ITS PARTICULAR FACTS AND CIRCUMSTANCES OR TO CERTAIN TYPES OF HOLDERS OF CLAIMS SUBJECT TO SPECIAL TREATMENT UNDER THE CODE (FOR EXAMPLE, NON-U.S. TAXPAYERS, FINANCIAL INSTITUTIONS, BROKER-DEALERS, INSURANCE COMPANIES, TAX-EXEMPT ORGANIZATIONS, AND THOSE HOLDING CLAIMS THROUGH A PARTNERSHIP OR OTHER PASS-THROUGH ENTITY). IN ADDITION, THIS SUMMARY DOES NOT DISCUSS ANY ASPECTS OF STATE, LOCAL, OR NON-U.S. TAXATION AND DOES NOT ADDRESS THE U.S. FEDERAL INCOME TAX CONSEQUENCES TO HOLDERS OF CLAIMS THAT ARE UNIMPAIRED UNDER THE PLAN, HOLDERS OF CLAIMS THAT ARE NOT ENTITLED TO VOTE UNDER THE PLAN, AND HOLDERS OF CLAIMS THAT ARE NOT ENTITLED TO RECEIVE OR RETAIN ANY PROPERTY UNDER THE PLAN.

THE TAX RULES DESCRIBED HEREIN ARE COMPLEX AND THEIR APPLICATION IS UNCERTAIN IN CERTAIN RESPECTS. EACH HOLDER OF A CLAIM IS STRONGLY URGED TO CONSULT WITH ITS OWN TAX ADVISOR REGARDING THE TAX CONSEQUENCES (INCLUDING STATE, LOCAL AND NON-U.S.) OF THE PLAN TO SUCH HOLDER.

A SUBSTANTIAL AMOUNT OF TIME MAY ELAPSE BETWEEN THE DATE OF THIS DISCLOSURE STATEMENT AND THE RECEIPT OF A FINAL DISTRIBUTION UNDER THE PLAN. EVENTS SUBSEQUENT TO THE DATE OF THIS DISCLOSURE STATEMENT, SUCH AS ADDITIONAL TAX LEGISLATION, COURT DECISIONS, OR ADMINISTRATIVE CHANGES, COULD AFFECT THE U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN AND THE TRANSACTIONS CONTEMPLATED THEREUNDER. NO RULING HAS BEEN OR IS EXPECTED TO BE SOUGHT FROM THE

INTERNAL REVENUE SERVICE (THE “IRS”) WITH RESPECT TO ANY OF THE TAX ASPECTS OF THE PLAN AND NO OPINION OF COUNSEL HAS BEEN OR IS EXPECTED TO BE OBTAINED BY THE DEBTORS WITH RESPECT THERETO.

To ensure compliance with United States Internal Revenue Service Circular 230, (a) any discussion of U.S. federal tax issues in this Disclosure Statement is not intended or written to be relied upon, and cannot be relied upon by Holders, for purposes of avoiding penalties that may be imposed on such Holders under the Code; (b) such discussion is written to support the promotion of the Plan; and (c) each Holder of a claim should seek advice based on such Holder’s particular circumstances from an independent tax advisor.

A. U.S. Federal Income Tax Consequences to the Debtors

As non-profit organizations, the Debtors shall incur no U.S. federal income tax obligations as a result of the confirmation and consummation of the Plan and distributions made thereunder. The Debtors’ tax-exempt status as organizations under section 501(c)(3) of the Internal Revenue Code shall remain unaffected by the Plan.

B. U.S. Federal Income Tax Consequences to Claim Holders

The U.S. federal income tax consequences to a Holder receiving, or entitled to receive, a payment in partial or total satisfaction of a Claim may depend on a number of factors, including the nature of the Claim, the Holder’s method of accounting, and its own particular tax situation. Because the Holders’ Claims and tax situations differ, Holders should consult their own tax advisors to determine how the Plan affects them for federal, state and local tax purposes, based on their particular tax situations.

Among other things, the U.S. federal income tax consequences of a payment to a Holder may depend initially on the nature of the original transaction pursuant to which the Claim arose. For example, a payment in repayment of the principal amount of a loan is generally not included in the gross income of an original lender.

The U.S. federal income tax consequences of a transfer to a Holder may also depend on whether the item to which the payment relates has previously been included in the Holder’s gross income or has previously been subject to a loss or bad debt deduction. For example, if a payment is made in satisfaction of a receivable acquired in the ordinary course of a Holder’s trade or business, the Holder had previously included the amount of such receivable payment in its gross income under its method of accounting, and had not previously claimed a loss or bad debt deduction for that amount, the receipt of the payment should not result in additional income to the Holder but may result in a loss. Conversely, if the Holder had previously claimed a loss or bad debt deduction with respect to the item previously included in income, the Holder generally would be required to include the amount of the payment in income.

A Holder receiving a payment under the Plan in satisfaction of its Claim generally may recognize taxable income or loss measured by the difference between (i) the amount of cash and the fair market value (if any) of any property received and (ii) its adjusted tax basis in the Claim. For this purpose, the adjusted tax basis may include amounts previously included in income (less any bad debt or loss deduction) with respect to that item. The character of any income or loss that is recognized will depend upon a number of factors, including the status of the creditor, the nature of the Claim in its hands, whether the Claim was purchased at a discount, whether and to what extent the creditor has previously claimed a bad debt deduction with respect to the Claim,

and the creditor's holding period of the Claim. This income or loss may be ordinary income or loss if the distribution is in satisfaction of accounts or notes receivable acquired in the ordinary course of the Holder's trade or business for the performance of services or for the sale of goods or merchandise. Generally, the income or loss will be capital gain or loss if the Claim is a capital asset in the Holder's hands.

Market discount is the amount by which a Holder's tax basis in a debt obligation immediately after its acquisition is exceeded by the adjusted issue price of the debt obligation at such time, subject to a *de minimis* exception. A Holder generally is required to include gain on the disposition of a market discount debt instrument as ordinary income to the extent of the accrued market discount on the debt instrument.

C. Other Tax Matters

1. Information Reporting and Backup Withholding

Certain payments or distributions pursuant to the Plan may be subject to information reporting to the IRS. Moreover, such reportable payments may be subject to backup withholding (at the then applicable rate (currently 28%)) unless the taxpayer: (i) comes within certain exempt categories (which generally include corporations) and, when required, demonstrates this fact or (ii) provides a correct taxpayer identification number and certifies under penalty of perjury that the taxpayer identification number is correct and that the taxpayer is not subject to backup withholding because of a failure to report all dividend and interest income.

Backup withholding is not an additional tax but merely an advance payment, which may be refunded to the extent it results in an overpayment of tax and the appropriate information is supplied to the IRS.

In addition, from an information reporting perspective, Treasury Regulations generally require disclosure by a taxpayer on its federal income tax return of certain types of transactions in which the taxpayer participated, including, among other types of transactions, certain transactions that result in the taxpayer's claiming a loss in excess of specified thresholds.

2. Importance of Obtaining Professional Tax Assistance

THE FOREGOING DISCUSSION IS INTENDED ONLY AS A SUMMARY OF CERTAIN U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN AND IS NOT A SUBSTITUTE FOR CAREFUL TAX PLANNING WITH A TAX PROFESSIONAL. THE ABOVE DISCUSSION IS FOR INFORMATION PURPOSES ONLY AND IS NOT TAX ADVICE. THE TAX CONSEQUENCES ARE IN MANY CASES UNCERTAIN AND MAY VARY DEPENDING ON A HOLDER'S INDIVIDUAL CIRCUMSTANCES. ACCORDINGLY, HOLDERS SHOULD CONSULT THEIR TAX ADVISORS ABOUT THE U.S. FEDERAL, STATE, LOCAL AND NON-U.S. INCOME AND OTHER TAX CONSEQUENCES OF THE PLAN.

IX. FEASIBILITY OF THE PLAN AND BEST INTERESTS OF CREDITORS

A. Feasibility of the Plan

In connection with confirmation of the Plan, the Bankruptcy Court will be required to determine that the Plan is feasible pursuant to section 1129(a)(11) of the Bankruptcy Code,

which means that the confirmation of the Plan is not likely to be followed by the liquidation or the need for further financial reorganization of the Debtors.

To support their belief in the feasibility of the Plan, the Debtors have prepared and relied upon the Projections with respect to the Debtors' operations and fundraising capabilities post-confirmation, which are annexed to this Disclosure Statement as Appendix B.

The Plan contemplates that the Debtors will raise certain revenues, gifts and other donations as of the Effective Date. These amounts, together with the liquidity provided by the DIP Loan, will ensure that the Debtors have sufficient Cash to satisfy all Allowed Claims as and to the extent provided in the Plan, and that no further financial restructuring will be necessary in the foreseeable future. Accordingly, the Debtors believe that the Plan complies with the financial feasibility standard of section 1129(a)(11) of the Bankruptcy Code.

The Projections were developed by the Debtors' management in consultation with the Debtors' financial advisors.

The Projections, however, are based upon numerous assumptions that are an integral part of the Projections, including, without limitation, confirmation and consummation of the Plan in accordance with its terms, realization of the Debtors' fundraising strategies, ticket and subscription sales, no material adverse changes in applicable legislation or regulations, or the administration thereof, exchange rates or generally accepted accounting principles, general business and economic conditions, competition, absence of material contingent or unliquidated litigation, indemnity or other claims, and other matters. To the extent that the assumptions inherent in the Projections are based upon future operational decisions and objectives, they are subject to change. In addition, although they are presented with numerical specificity and the assumptions on which they are based are considered reasonable by the Debtors, the assumptions and estimates underlying the Projections are subject to organizational, economic and competitive uncertainties and contingencies. Accordingly, the Projections are only an educated, good faith estimate and are necessarily contingent in nature. It can be expected that some or all of the assumptions in the Projections will not be realized and that actual results will vary from the Projections, which variations may be material and may be adverse. The Projections should therefore not be regarded as a guaranty by the Debtors or any other Person that the results set forth in the Projections will be achieved. The Projections were prepared by the Debtors, and not by any of their creditors, and the Debtors' creditors make no representations concerning the reasonableness of the Projections. In light of the foregoing, readers are cautioned not to place undue reliance on the Projections. The projected financial information contained herein and in the Projections should not be regarded as a representation or warranty by the Debtors, the Debtors' advisors or any other Person that the Projections can or will be achieved. The Projections should be read together with the assumptions set forth in the Projections and information in Article VII of this Disclosure Statement entitled "Certain Risk Factors to be Considered," which sets forth important factors that could cause actual results to differ from those in the Projections. The Debtors, however, believe that the Projections are credible and that there is a reasonable likelihood that the results set forth in the Projections can be achieved.

The Debtors do not intend to update or otherwise revise the Projections, including any revisions to reflect events or circumstances existing or arising after the date of the Projections or to reflect the occurrence of unanticipated events, even if any or all of the underlying assumptions

do not come to fruition. Furthermore, the Debtors do not intend to update or revise the Projections to reflect changes in general economic or industry conditions.

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995: This Disclosure Statement and the financial projections contained herein and in the Projections include “forward-looking statements” within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. All statements other than statements of historical fact included in this Disclosure Statement are forward-looking statements, including, without limitation, financial projections, the statements, and the underlying assumptions, regarding the timing of, completion of and scope of the current restructuring, the Plan, debt and equity market conditions, current and future economic conditions, the potential effects of such matters on the Debtors’ operating strategy, results of operations or financial position, and the adequacy of the Debtors’ liquidity. The forward-looking statements are based upon current information and expectations. Estimates, forecasts and other statements contained in or implied by the forward-looking statements speak only as of the date on which they are made, are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to evaluate and predict. Although the Debtors believe that the expectations reflected in the forward-looking statements are reasonable, parties are cautioned that any such forward-looking statements are not guarantees of future performance, and involve risks and uncertainties, and that actual results may differ materially from those contemplated by such forward-looking statements. Certain important factors that could cause actual results to differ materially from the Debtors’ expectations or what is expressed, implied or forecasted by or in the forward-looking statements include developments in the Chapter 11 Cases, adverse developments in the timing or results of the Debtors’ business plan (including the time line to emerge from chapter 11), the timing and extent of changes in economic conditions, the demand for live performances by orchestras, motions filed or actions taken in connection with the bankruptcy proceedings, the availability of and the Debtors’ ability to attract or retain highly skilled musicians and other high-quality personnel. Additional factors that could cause actual results to differ materially from the Projections or what is expressed, implied or forecasted by or in the forward-looking statements are stated herein in cautionary statements made in conjunction with the forward-looking statements or are included elsewhere in this Disclosure Statement.

B. Acceptance of the Plan

As a condition to Confirmation, the Bankruptcy Code requires that each Class of Impaired Claims vote to accept the Plan, except under certain circumstances.

Section 1126(c) of the Bankruptcy Code defines acceptance of a plan by a class of impaired claims as acceptance by holders of at least two-thirds ($\frac{2}{3}$) in dollar amount and more than one-half ($\frac{1}{2}$) in number of claims in that class, but for that purpose counts only those who actually vote to accept or to reject the Plan. Thus, Holders of Claims in each of Classes 3, 4, 5, 6, 7 and 8 will have voted to accept the Plan only if two-thirds ($\frac{2}{3}$) in amount and a majority in number of the Claims actually voting in each Class cast their ballots in favor of acceptance. Holders of Claims who fail to vote are not counted as either accepting or rejecting the Plan.

C. Best Interests Test

As noted above even if a plan is accepted by each class of claims and interests, the Bankruptcy Code requires a bankruptcy court to determine that the plan is in the best interests of

all holders of claims or interests that are impaired by the plan and that have not accepted the plan. The “best interests” test, as set forth in section 1129(a)(7) of the Bankruptcy Code, requires a bankruptcy court to find either that all members of an impaired class of claims or interests have accepted the plan or that the plan will provide a member who has not accepted the plan with a recovery of property of a value, as of the effective date of the plan, that is not less than the amount that such holder would recover if the debtor were liquidated.

To calculate the probable distribution to holders of each impaired class of claims and interests if the debtor could be liquidated under chapter 7, a bankruptcy court must first determine the aggregate dollar amount that would be generated from the debtor’s assets if its chapter 11 case were converted to a chapter 7 case under the Bankruptcy Code. This “liquidation value” would consist primarily of the proceeds from a forced sale of the debtor’s assets by a chapter 7 trustee.

The amount of liquidation value available to unsecured creditors would be reduced by, first, the claims of secured creditors to the extent of the value of their collateral and, second, by the costs and expenses of liquidation, as well as by other administrative expenses and costs of both the chapter 7 cases and the chapter 11 cases. Costs of liquidation under chapter 7 of the Bankruptcy Code would include the compensation of a trustee, as well as of counsel and other professionals retained by the trustee, asset disposition expenses, all unpaid administrative expenses incurred by the debtors in their chapter 11 cases that are allowed in the chapter 7 cases, litigation costs and claims arising from the operations of the debtor during the pendency of the chapter 11 case. The liquidation itself would trigger certain priority payments that otherwise would be due in the ordinary course of business. Those priority claims would be paid in full from the liquidation proceeds before the balance would be made available to pay general unsecured claims or to make any distribution in respect of equity security interests. The liquidation would also prompt the rejection of a large number of executory contracts and unexpired leases and thereby significantly enlarge the total pool of unsecured claims by reason of resulting rejection damages claims.

Once the bankruptcy court ascertains the recoveries in liquidation of secured creditors and priority claimants, it must determine the probable distribution to general unsecured creditors and equity security holders from the remaining available proceeds in liquidation. If such probable distribution has a value greater than the distributions to be received by such creditors and equity security holders under the plan, then the plan is not in the best interests of creditors and equity security holders.

D. Liquidation Analysis

The Debtors operate non-profit organizations. As such, they generally cannot be forced to liquidate under chapter 7 of the Bankruptcy Code and, in the event that they were unable to confirm a chapter 11 plan, would be subject to dismissal of their bankruptcy cases. In the event of dismissal, or in the event of liquidation, the Debtors would be left with insufficient funds to sustain operations and would need to cease operating and dissolve under state law.

Although not entirely applicable to non-profit entities, for purposes of the best interests test, the Debtors, with the assistance of their financial advisors, prepared a liquidation analysis, annexed hereto as Appendix D (the “Liquidation Analysis”), which concludes that if a forced liquidation of the Debtors’ assets under chapter 7 could occur, the aggregate value to be realized

by the Debtors' estates would be approximately \$0 (net of repayment the DIP Loan). All such value would be distributed to Holders of Allowed Class 1 Secured Claims and no other Holder of a Claim, including unpaid Administrative Priority Claims incurred during the administration of the Debtors' Chapter 11 Cases (other than the DIP Loan), would receive a distribution. These conclusions are premised upon the assumptions set forth in Appendix D, which the Debtors and their financial advisors believe are reasonable.

The Debtors believe that any liquidation analysis with respect to the Debtors is inherently speculative. The Liquidation Analysis for the Debtors necessarily contains estimates of the net proceeds that would be received from a forced sale of assets, as well as the amount of Claims that would ultimately become Allowed Claims. Claims estimates are based solely upon the Debtors' books and records and Claims filed to date in these cases. No order or finding has been entered by the Bankruptcy Court estimating or otherwise fixing the amount of Claims at the projected amounts of Allowed Claims set forth in the Liquidation Analysis. In preparing the Liquidation Analysis, the Debtors have projected an amount of Allowed Claims that represents an estimate of the chapter 7 liquidation dividend to Holders of Allowed Claims. The estimate of the amount of Allowed Claims set forth in the Liquidation Analysis should not be relied on for any other purpose, including, without limitation, any determination of the value of any distribution to be made on account of Allowed Claims under the Plan.

E. Application of the "Best Interests" of Creditors Test

It is impossible to determine with certainty the value each Holder of a Claim will receive under the Plan as a percentage of any Allowed Claim. Notwithstanding the difficulty in quantifying recoveries with precision, the Debtors believe that the financial disclosures and projections contained herein imply the greatest potential recovery to Holders of Claims in Impaired Classes. Accordingly, the Debtors believe that the "best interests" test of section 1129 of the Bankruptcy Code is satisfied.

F. Confirmation Without Acceptance of All Impaired Classes: The "Cramdown" Alternative

In the event any Class of Impaired Claims rejects the Plan, the Debtors may seek confirmation of the Plan pursuant to the "cramdown" provisions of the Bankruptcy Code.

Section 1129(b) of the Bankruptcy Code provides that a plan can be confirmed even if the plan is not accepted by all impaired classes, as long as at least one impaired class of claims has accepted it. The Bankruptcy Court may confirm a plan at the request of a debtor if the plan "does not discriminate unfairly" and is "fair and equitable" as to each impaired class that has not accepted the plan. A plan does not discriminate unfairly within the meaning of the Bankruptcy Code if a dissenting class is treated equally with respect to other classes of equal rank. The Debtors believe the Plan does not discriminate unfairly with respect to the Claims and Interests in Classes 3 through 10.

A plan is "fair and equitable" as to holders of unsecured claims that reject the plan if the plan provides either that: (a) each holder of a claim of such class receives or retains on account of such claim property of a value, as of the effective date of the plan, equal to the allowed amount of such claim; or (b) the holder of any claim or interest that is junior to the claims of such class will not receive or retain under the plan on account of such junior claim or interest any property.

A plan is fair and equitable as to a class of equity interests that rejects a plan if the plan provides (a) that each holder of an interest included in the rejecting class receive or retain on account of that interest property that has a value, as of the effective date of the plan, equal to the greatest of the allowed amount of any fixed liquidation preference to which such holder is entitled, any fixed redemption price to which such holder is entitled or the value of such interest or (b) that the holder of any interest that is junior to the interests of such class will not receive or retain under the plan on account of such junior interest any property at all.

The Debtors believe that they could, if necessary, meet the “fair and equitable” requirements of section 1129(b) of the Bankruptcy Code with respect to Holders of Claims and Interests in Classes 3 through 10.

X. ALTERNATIVES TO CONFIRMATION AND CONSUMMATION OF THE PLAN

The Debtors believe that the Plan affords Holders of Claims in Classes 3 through 9 the potential for the greatest realization on the Debtors’ assets and, therefore, is in the best interests of such Holders. If, however, the requisite acceptances are not received, or the Plan is not confirmed and consummated, the theoretical alternatives include (a) formulation of an alternative plan or plans of reorganization or (b) dismissal of the Debtors’ bankruptcy cases.

A. Alternative Plan(s) of Reorganization

If the requisite acceptances are not received or if the Plan is not confirmed, the Debtors (or, if the Debtors’ exclusive periods in which to file and solicit acceptances of a plan of reorganization have expired, any other party in interest) could attempt to formulate and propose a different plan or plans of reorganization. Such a plan or plans might involve either a reorganization and continuation of the Debtors’ organizations or an orderly liquidation of assets.

The Debtors believe that the Plan enables Creditors to realize the greatest possible value under the circumstances and has the greatest chance to be confirmed and consummated.

B. Liquidation

If no plan is confirmed, the Debtors may be forced to liquidate outside of bankruptcy or to convert to cases under chapter 7 of the Bankruptcy Code, pursuant to which a trustee would be elected or appointed to liquidate the Debtors’ assets for distribution in accordance with the priorities established by the Bankruptcy Code. It is impossible to predict with certainty how the proceeds of the liquidation would be distributed to the respective Holders of Claims against or Interests in the Debtors. However, the Debtors believe these proceeds would go entirely to secured, administrative and priority claims, leaving nothing for distribution to general unsecured claims.

The Debtors further believe that a liquidation would cause a substantial diminution in the Debtors’ Estates given (i) the fact that they are relying upon donations and ongoing ticket sales to fund their reorganization, sources which would become unavailable in the event of a cessation of operations, (ii) the fact that their endowments would be placed in the control of the Attorney General and unavailable to creditors, and (ii) the substantial premium in the distribution value pursuant to the Plan over the liquidation value of their assets, as well as the additional administrative expenses involved in the appointment of a trustee or trustees and attorneys, accountants and other professionals to assist such trustees. The assets available for distribution to Creditors would be reduced by such additional expenses and by Claims, some of which would

be entitled to priority, arising by reason of the liquidation and from the rejection of leases and other executory contracts in connection with the cessation of operations and the failure to realize the greater going concern value of the Debtors' assets.

XI. THE SOLICITATION; VOTING PROCEDURES

A. Parties in Interest Entitled to Vote

In general, a holder of a claim or interest may vote to accept or to reject a plan if (a) the claim or interest is "allowed," which means generally that no party in interest has objected to such claim or interest, and (b) the claim or interest is "impaired" by the plan but entitled to receive or retain property under the plan.

Under section 1124 of the Bankruptcy Code, a class of claims or interests is deemed to be "impaired" under a plan unless (a) the plan leaves unaltered the legal, equitable and contractual rights to which such claim or interest entitles the holder thereof or (b) notwithstanding any legal right to an accelerated payment of such claim or interest, the plan cures all existing defaults (other than defaults resulting from the occurrence of events of bankruptcy) and reinstates the maturity of such claim or interest as it existed before the default.

If, however, the holder of an impaired claim or interest will not receive or retain any distribution under the plan on account of such claim or interest, the Bankruptcy Code deems such holder to have rejected the plan and, accordingly, holders of such claims and interests do not actually vote on the plan. If a claim or interest is not impaired by the plan, the Bankruptcy Code deems the holder of such claim or interest to have accepted the plan and, accordingly, holders of such claims and interests are not entitled to vote on the plan.

B. Classes Entitled to Vote to Accept or Reject the Plan

Holders of Claims in Classes 3 through 9 are entitled to vote to accept or reject the Plan. Because Holders of Claims in Class 9 are Insiders, the votes of Class 9 will not be counted toward the requisite votes required for the Debtors to confirm the Plan. By operation of law, each Unimpaired Class of Claims is deemed to have accepted the Plan, therefore, the Holders of Claims in such Unimpaired Classes are not entitled to vote to accept or reject the Plan. Consequently, Classes 1, 2 and 10 are deemed to have accepted the Plan, therefore, none of the Holders of Claims or Interests in such Classes are entitled to vote to accept or reject the Plan.

C. Solicitation Order

Upon approval of this Disclosure Statement, the Bankruptcy Court entered an order that, among other things, determines the dates, procedures and forms applicable to the process of soliciting votes on the Plan and establishes certain procedures with respect to the tabulation of such votes (the "Solicitation Order"). Parties in interest may obtain a copy of the Solicitation Order through the Bankruptcy Court's electronic case filing system, by downloading the Solicitation Order from the Debtors' case website at www.gcginc.com/cases/poa or by making written request upon the Debtors' counsel or Voting Agent.

D. Waivers of Defects, Irregularities, Etc.

All questions with respect to the validity, form, eligibility (including time of receipt), acceptance and revocation or withdrawal of ballots will be determined by the Bankruptcy Court.

As indicated below under “Withdrawal of Ballots; Revocation,” effective withdrawals of ballots must be delivered to the Voting Agent prior to the Voting Deadline. The Debtors reserve the absolute right to contest the validity of any such withdrawal. The Debtors also reserve the right to seek rejection of any and all ballots not in proper form. The Debtors further reserve the right to seek waiver of any defects or irregularities or conditions of delivery as to any particular ballot. Ballots previously furnished (and as to which any irregularities have not theretofore been cured or waived) may be invalidated by the Bankruptcy Court.

E. Withdrawal of Ballots; Revocation

Any party who has delivered a valid ballot for the acceptance or rejection of the Plan may withdraw such acceptance or rejection by delivering a written notice of withdrawal to the Voting Agent at any time prior to the Voting Deadline. A notice of withdrawal, to be valid, must (a) contain the description of the Claim(s) to which it relates and the aggregate principal amount represented by such Claim(s), (b) be signed by the withdrawing party in the same manner as the ballot being withdrawn, (c) contain a certification that the withdrawing party owns the Claim(s) and possesses the right to withdraw the vote sought to be withdrawn and (d) be received by the Voting Agent in a timely manner *via* regular mail, at The Philadelphia Orchestra Association Administration c/o GCG, P.O. Box 9755, Dublin, OH 43017-5655, or *via* overnight courier or hand delivery at Philadelphia Orchestra Association Administration c/o GCG, 5151 Blazer Parkway - Suite A, Dublin, OH 43017. The Debtors intend to consult with the Voting Agent to determine whether any withdrawals of ballots were received and whether the requisite acceptances of the Plan have been received. As stated above, the Debtors expressly reserve the absolute right to contest the validity of any such withdrawals of ballots.

Unless otherwise directed by the Bankruptcy Court, a purported notice of withdrawal of ballots which is not received in a timely manner by the Voting Agent will not be effective to withdraw a previously cast ballot.

Any party who has previously submitted to the Voting Agent prior to the Voting Deadline a properly completed ballot may revoke such ballot and change its vote by submitting to the Voting Agent prior to the Voting Deadline a subsequent properly completed ballot for acceptance or rejection of the Plan. In the case where more than one timely, properly completed ballot is received, only the ballot which bears the latest date will be counted for purposes of determining whether the requisite acceptances have been received.

F. Voting Rights of Disputed Claimants

Holders of Disputed Claims in Classes 3 through 9 whose Claims are asserted as wholly unliquidated or wholly contingent in Proofs of Claim filed prior to the Distribution Record Date (collectively, the “Disputed Claimants”) are not permitted to vote on the Plan except as provided in the Solicitation Order. Pursuant to the procedures outlined in the Solicitation Order, Disputed Claimants may obtain a ballot for voting on the Plan only by filing a motion under Bankruptcy Rule 3018(a) seeking to have their Claims temporarily Allowed for voting purposes (a “Rule 3018 Motion”). Any such Rule 3018 Motion must be filed and served upon the Debtors’ counsel and the Voting Agent no later than the Voting Deadline. The ballot of any creditor filing such a motion will not be counted unless temporarily allowed by the Bankruptcy Court for voting purposes, after notice and a hearing. Any party timely filing and serving a Rule 3018 Motion will be provided a ballot and be permitted to cast a provisional vote to accept or reject the Plan. If and to the extent that the Debtors and such party are unable to resolve the issues raised by the

Rule 3018 Motion prior to the Confirmation Hearing, then at the Confirmation Hearing the Bankruptcy Court will determine whether the provisional ballot should be counted as a vote on the Plan. Nothing herein affects the Debtors' right to object to any Proof of Claim after the Distribution Record Date.

G. Further Information; Additional Copies

If you have any questions or require further information about the voting procedures for voting your Claim or about the package of materials you received, or if you wish to obtain an additional copy of the Plan or this Disclosure Statement, or any exhibits or appendices to such documents (at your own expense, unless otherwise specifically required by Bankruptcy Rule 3017(d) or the Solicitation Order), please contact the Voting Agent at:

If by regular mail:

PHILADELPHIA ORCHESTRA ASSOCIATION ADMINISTRATION
c/o GCG
PO BOX 9755
DUBLIN, OH 43017-5655

If by overnight courier or hand delivery:

PHILADELPHIA ORCHESTRA ASSOCIATION ADMINISTRATION
c/o GCG
5151 BLAZER PARKWAY – SUITE A
DUBLIN, OH 43017

If by telephone:

THE GARDEN CITY GROUP, INC.
(631) 470-5000

RECOMMENDATION AND CONCLUSION

For all of the reasons set forth in this Disclosure Statement, the Debtors believe that confirmation and consummation of the Plan is preferable to all other alternatives. Consequently, the Debtors urge all Holders of Claims in Classes 3, 4, 5, 6, 7, 8 and 9 to vote to ACCEPT the Plan, and to complete and return their ballots so that they will be RECEIVED on or before June 26, 2012, at 5:00 p.m. prevailing Eastern time.

THE PHILADELPHIA ORCHESTRA
ASSOCIATION ACADEMY OF MUSIC OF
PHILADELPHIA, INC.

June 11, 2012

By: /s/ Mario Mestichelli

Name: Mario Mestichelli

Title: Vice President and Chief Financial
Officer, The Philadelphia Orchestra Association
and Treasurer, Academy of Music of
Philadelphia, Inc.

Appendix A

[Debtors' First Amended Joint Chapter 11 Plan]

**UNITED STATES BANKRUPTCY COURT
FOR THE EASTERN DISTRICT OF PENNSYLVANIA**

)	
In re:)	Chapter 11
)	
The Philadelphia Orchestra Association)	Case No. 11-13098 (ELF)
)	
Academy of Music of Philadelphia, Inc.)	Jointly Administered
)	
Debtors.)	

DEBTORS' FIRST AMENDED JOINT CHAPTER 11 PLAN

The above-captioned debtors and debtors in possession (collectively, the "Debtors") hereby submit their First Amended Joint Chapter 11 Plan dated as of June 11, 2012.

Dated: Philadelphia, Pennsylvania
June 11, 2012

DILWORTH PAXSON LLP

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INTRODUCTION

This First Amended Joint Chapter 11 Plan (as may be amended or modified hereafter in accordance with its terms, the “Plan”), dated as of June 11, 2012, is proposed by Debtors The Philadelphia Orchestra Association (“POA”) and Academy of Music of Philadelphia, Inc. (“AOM”) and, together, the “Plan Proponents”. Reference is made to the Disclosure Statement, filed on June 11, 2012, accompanying the Plan for a discussion of the Debtors’ history, business, results of operations, historical financial information, properties, projections for future operations and risk factors, a summary and analysis of the Plan, and certain related matters.

SUBJECT TO CERTAIN RESTRICTIONS AND REQUIREMENTS SET FORTH IN SECTION 1127 OF THE BANKRUPTCY CODE, BANKRUPTCY RULE 3019 AND THE PLAN, THE PLAN PROPONENTS RESERVE THE RIGHT TO ALTER, AMEND, MODIFY, REVOKE OR WITHDRAW THE PLAN PRIOR TO ITS SUBSTANTIAL CONSUMMATION.

Capitalized terms used herein shall have the meanings set forth in Article I hereof. POA and AOM have obtained Bankruptcy Court authority to have the Chapter 11 Cases jointly administered for administrative and procedural purposes only and the Plan is being proposed as a joint plan of the Debtors for administrative and procedural purposes only. The Plan is not premised upon the substantive consolidation of the Debtors and nothing herein shall be otherwise construed. The Debtors, however, reserve the right to seek substantive consolidation by motion or amendment to the Plan if they conclude that substantive consolidation is necessary or appropriate for effectuation of the Plan. Claims against, and Interests in, the Debtors (other than Administrative Claims and Priority Tax Claims) are classified in Article II hereof and treated in Article III hereof.

ARTICLE I. DEFINITIONS, INTERPRETATION, AND EXHIBITS.

Section 1.01. Definitions

Unless the context requires otherwise, the following terms shall have the following meanings whether presented in the Plan or the Disclosure Statement with initial capital letters or otherwise. As used herein:

“Academy House Office Spaces” means suites 320 and 400 of the Academy House commercial condominiums, located at 1420 Locust Street, Philadelphia, PA 19102.

“Administrative Claim” means a Claim for: (a) any cost or expense of administration (including, without limitation, the Professional Fee Claims) of either of the Chapter 11 Cases asserted or arising under sections 503, 507(a)(1), 507(b) or 1114(e)(2) of the Bankruptcy Code including, but not limited to (i) any actual and necessary post Petition Date cost or expense of preserving the Debtors’ respective Estates or operating the Debtors, (ii) any post Petition Date cost, indebtedness or contractual obligation duly and validly incurred or assumed by the Debtors in the ordinary course of their respective organizations, (iii) compensation or reimbursement of expenses of Professionals to the extent Allowed by the Bankruptcy Court under sections 330(a) or 331 of the Bankruptcy Code, and (iv) all Allowed

Claims that are entitled to be treated as Administrative Claims pursuant to a Final Order of the Bankruptcy Court under section 546 of the Bankruptcy Code; (b) any fees or charges assessed against the Debtors' respective Estates under section 1930 of title 28 of the United States Code; and (c) Claims of the DIP Lender in connection with the DIP Financing Facility.

"AFM" means the American Federation of Musicians national union.

"AFM-EPF" means the American Federation of Musicians and Employers' Pension Fund.

"AFM-EPF Settlement" means the settlement agreement described on the record in the Bankruptcy Court on April 24, 2012, resolving all Claims (defined below) asserted by AFM-EPF in the Debtors' Chapter 11 Cases, including but not limited to Claim No. 299 filed against POA and the administrative expense Claim asserted in the AFM-EPF's Motion for Allowance of Administrative Expense Claim filed at Docket No. 936. Pursuant to the terms of the AFM-EPF Settlement, on the Effective Date, POA shall pay to AFM-EPF the sum of \$1,750,000 in full satisfaction, settlement, release, extinguishment and discharge of all Claims against the Debtors and the members of any POA controlled group.

"Affiliate" shall have the meaning set forth in section 101(2) of the Bankruptcy Code.

"Allowed" means, with reference to any Claim, (a) any Claim against either of the Debtors that has been listed by the Debtors in the Schedules, as such Schedules may have been amended by the Debtors from time to time in accordance with Bankruptcy Rule 1009, as liquidated in amount and not Disputed or contingent, and with respect to which no contrary Proof of Claim has been Filed, (b) any Claim specifically allowed under the Plan, (c) any Claim the amount or existence of which has been determined or allowed by a Final Order, or (d) any Claim as to which a Proof of Claim has been timely Filed before the Bar Date, provided that at the time of the Effective Date the Debtors have not identified such Claim as being objectionable in part or in whole and no Objection to the allowance thereof has been Filed by the Claims Objection Deadline; provided, however, that the term Allowed, with reference to any Claim, shall not include (x) any unliquidated Claim or (y) interest or attorneys' fees on or related to any Claim that accrues from and after the Petition Date unless otherwise expressly provided for in the Plan.

"Allowed Claim" means a Claim that is Allowed.

"Allowed Interest" means an Interest that is Allowed.

"AOM" shall have the meaning set forth in the Introduction.

"Assumption Effective Date" means the date upon which the assumption of an executory contract or unexpired lease under this Plan is deemed effective.

"Assumption Party" means a counterparty to an executory contract or unexpired lease to be assumed and/or assigned by the Debtors.

“Avoidance Actions” means any and all Causes of Action which a trustee, debtor in possession, the Estates or other appropriate party in interest may assert under sections 502, 510, 541, 542, 543, 544, 545, 547, 548, 549, 550, 551, or 553 of the Bankruptcy Code (other than those which are released or dismissed as part of and pursuant to the Plan) or under other similar or related state or federal statutes or common law, including fraudulent conveyance laws.

“Ballot” means the ballots, substantially similar to the forms accompanying the Disclosure Statement as such forms shall be subsequently amended by the Plan Proponents, upon which Holders of Impaired Claims and Interests entitled to vote on the Plan shall, among other things, indicate their acceptance or rejection of the Plan in accordance with the instructions regarding voting.

“Bankruptcy Code” means the Bankruptcy Reform Act of 1978, as codified in title 11 of the United States Code, 11 U.S.C. §§ 101 et seq., as in effect on the Petition Date, together with all amendments and modifications thereto that subsequently may be made applicable to the Chapter 11 Cases.

“Bankruptcy Court” means the United States Bankruptcy Court for the Eastern District of Pennsylvania or, if such court ceases to exercise jurisdiction over these proceedings, the court or adjunct thereof that exercises jurisdiction over the Chapter 11 Cases.

“Bankruptcy Rules” means: (a) the Federal Rules of Bankruptcy Procedure and the Official Bankruptcy Forms, as amended and promulgated under section 2075 of title 28 of the United States Code; (b) the Federal Rules of Civil Procedure, as amended and promulgated under section 2072 of title 28 of the United States Code; (c) any local rules applicable to the Bankruptcy Court; and (d) any standing orders governing practice and procedure issued by the Bankruptcy Court, each as in effect on the Petition Date, together with all amendments and modifications thereto that were subsequently made applicable to the Chapter 11 Cases or proceedings therein, as the case may be.

“Bar Date” means the applicable bar date by which a Proof of Claim must be, or must have been, filed, as established by an order of the Bankruptcy Court.

“Board(s)” shall mean the members of the Board of Directors of each of the Debtors, as may be appointed and may resign from time to time.

“Business Day” means any day which is not a Saturday, a Sunday, a “legal holiday” as defined in Bankruptcy Rule 9006(a), or a day on which banking institutions in the State of Pennsylvania are authorized or obligated by law, executive order or governmental decree to be closed.

“Cash” means money, currency and coins, negotiable checks, balances in bank accounts and other lawful currency of the United States of America and its equivalents.

“Causes of Action” means any and all actions, Claims, rights, defenses, third-party claims, damages, executions, demands, crossclaims, counterclaims, suits, choses in action, controversies, agreements, promises, rights to legal remedies, rights to equitable remedies, rights to payment and claims whatsoever, whether known, unknown, reduced to judgment, not reduced

to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, Disputed, undisputed, secured or unsecured and whether asserted or assertable directly, indirectly or derivatively, at law, in equity or otherwise, accruing to the Debtors, including, but not limited to, the Avoidance Actions.

“Chapter 11 Cases” means the cases under chapter 11 of the Bankruptcy Code commenced by the Debtors in the Bankruptcy Court on the Petition Date.

“Claim” shall have the meaning set forth in section 101(5) of the Bankruptcy Code.

“Claims Objection Deadline” means the latest of: (a) 120 days after the Effective Date; (b) 75 days after the date on which any Claim is Filed; or (c) such other date as may be fixed by the Bankruptcy Court, whether fixed before or after the date specified in clauses (a) and (b) above.

“Class” means each class, subclass or category of Claims or Interests as classified in Article II of the Plan.

“Collective Bargaining Agreement” means the collective bargaining agreement between POA and the American Federation of Musicians, Local 77 effective as of September 17, 2007, and as amended by the Union Settlement (defined below).

“Committee” means the official committee of unsecured creditors appointed in the Chapter 11 Cases of POA and AOM pursuant to section 1102(a) of the Bankruptcy Code by the United States Trustee, as the membership of such committee is from time to time constituted and reconstituted.

“Committee Members” means the members of the Committee.

“Confirmation” means the entry by the Bankruptcy Court of the Confirmation Order.

“Confirmation Date” means the date on which the Clerk of the Bankruptcy Court enters the Confirmation Order on the docket of the Bankruptcy Court with respect to the Chapter 11 Cases within the meaning of Bankruptcy Rules 5003 and 9021.

“Confirmation Hearing” means the hearing held before the Bankruptcy Court to consider Confirmation of the Plan pursuant to sections 1128 and 1129 of the Bankruptcy Code.

“Confirmation Order” means the order entered by the Bankruptcy Court confirming the Plan pursuant to section 1129 of the Bankruptcy Code.

“Creditor” means any Person that is the Holder of any Claim against any of the Debtors.

“Customer Program” means the Debtors’ customer programs and practices as to which the Debtors were authorized to honor pre-petition obligations and to otherwise continue in

the ordinary course of business by the Order Pursuant to Sections 105(a), 363(b), 363(c), 365(a), 1107(a) and 1108 of the Bankruptcy Code and Rule 6006 of the Federal Rules of Bankruptcy Procedure Authorizing the Debtors to Maintain and Administer Customer Programs and Honor Prepetition Obligations Related Thereto, entered by the Bankruptcy Court on April 21, 2011 [Docket No. 44].

“Cure” means a distribution made in the ordinary course of business following the Effective Date pursuant to an executory contract or unexpired lease assumed under section 365 or 1123 of the Bankruptcy Code (i) in an amount equal to the Proposed Cure (including if such Proposed Cure is zero dollars) or (ii) if a Treatment Objection is filed with respect to the applicable Proposed Cure, then in an amount equal to the unpaid monetary obligations owing by the Debtors and required to be paid pursuant to section 365(b) of the Bankruptcy Code, as may be (x) determined by Final Order or (y) otherwise agreed upon by the parties.

“Day(s)” means, unless expressly otherwise provided, calendar day(s).

“Debtors” shall have the meaning set forth in the Introduction.

“DIP Financing Facility” means the post-petition financing facility provided to the Debtor, The Philadelphia Orchestra Association, by the DIP Lender pursuant to the DIP Financing Order and related documents.

“DIP Financing Order” means the Final Order, as in effect from time-to-time, entered by the Bankruptcy Court authorizing the Debtor, The Philadelphia Orchestra Association to enter into the DIP Financing Facility pursuant to section 364 of the Bankruptcy Code, and any extensions or amendments thereof.

“DIP Lender” means Sun Federal Credit Union.

“Disallowed” means, with respect to any Claim or Interest or portion thereof, any Claim against or Interest in the Debtors which: (a) has been withdrawn, in whole or in part, by agreement of the Debtors and the Holder thereof; (b) has been withdrawn, in whole or in part, by the Holder thereof; or (c) has been disallowed, in whole or part, by Final Order of a court of competent jurisdiction. In each case a Disallowed Claim or a Disallowed Interest is disallowed only to the extent of disallowance or withdrawal.

“Disclosure Statement” means the Debtors’ Disclosure Statement with Respect to the First Amended Joint Chapter 11 Plan filed on June 11, 2012, including all exhibits, appendices, schedules and annexes, if any, attached thereto, as submitted by the Debtors, as the same may be altered, amended, supplemented or modified from time to time, and which was prepared and distributed in accordance with sections 1125 and 1126(b) of the Bankruptcy Code and Bankruptcy Rule 3018.

“Disputed” means any Claim or Interest that has been neither Allowed nor Disallowed.

“Disputed Claim” means a Claim, or any portion thereof, that is Disputed. For purposes of the Plan, a Claim that has been neither Allowed nor Disallowed shall be considered a Disputed Claim.

“Distributable Cash” means the amount of operating cash of POA or AOM, as the case may be, including gifts and other donations solicited to fund distributions provided in the Plan, to be deposited into one or more Distribution Accounts.

“Distribution Account” means an account or accounts, as applicable, maintained by the Distribution Agent (defined below) into which Distributable Cash will be delivered, and the proceeds therefrom will be distributed in accordance with the Plan.

“Distribution Account Claims” shall have the meaning set forth in Section 5.03 herein.

“Distribution Agent” means such Entity or Entities, including the Debtors, that may be designated, in accordance with Rule 3016-1(e) of the Local Rules of the United States Bankruptcy Court for the Eastern District of Pennsylvania, by the Debtors to make distributions in accordance with the Plan.

“Effective Date” means the first Business Day following the date on which all conditions to consummation set forth in Article IX of the Plan have been satisfied or waived (if capable of being duly and expressly waived), provided that no stay of the Confirmation Order is then in effect.

“Entity” means any individual, corporation, limited or general partnership, joint venture, association, joint stock company, limited liability company, estate, trustee, United States Trustee, unincorporated organization, government, governmental unit (as defined in the Bankruptcy Code), agency or political subdivision thereof.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the regulations promulgated and rules issued thereunder.

“Escrow” means the funds derived from the sale of subscriptions and single tickets to any Orchestra performance yet to be held, which funds are currently in the possession of Ticket Philadelphia or its agent.

“ESI” means Encore Series Inc., which operates PNPP (defined below).

“ESI Settlement” means that settlement agreement approved by the Bankruptcy Court on September 28, 2011 [Docket No. 422].

“Estates” means the estates created in the Chapter 11 Cases pursuant to section 541 of the Bankruptcy Code upon commencement of the Chapter 11 Cases.

“Exculpated Persons” means to the maximum extent permitted by the Bankruptcy Code and applicable law: (a) the Debtors; (b) the Committee; (c) the DIP Lender; and (d) as to the parties listed in (a) through (c), any of their respective members, officers, directors,

shareholders, employees, advisors, attorneys or agents acting in such capacity on or after the Petition Date.

“Federal Governmental Unit” means the United States and/or any department, agency or instrumentality of the United States (but not a United States trustee while serving as a trustee in a case under title 11 of the United States Code).

“Final Decree” means the final decree entered by the Bankruptcy Court after the Effective Date and pursuant to section 350(a) of the Bankruptcy Code and Bankruptcy Rule 3022.

“Final Order” means an order or judgment of the Bankruptcy Court, or other court of competent jurisdiction, as entered on the docket of such court, the operation or effect of which has not been stayed, reversed, vacated, modified or amended, and as to which order or judgment (or any revision, modification, or amendment thereof) of the time to appeal, petition for certiorari, or seek review or rehearing has expired and as to which no appeal, petition for certiorari, or petition for review or rehearing was filed or, if filed, remains pending; provided, however, that the possibility that a motion may be filed pursuant to Rules 9023 or 9024 of the Bankruptcy Rules or Rules 59 or 60(b) of the Federal Rules of Civil Procedure shall not mean that an order or judgment is not a Final Order.

“General Unsecured Claims” means all Claims, including Rejection Claims, that are not Administrative Claims, Priority Tax Claims, Secured Claims, Priority Claims, Interests, Class 3 Claims, Class 4 Claims, Class 5 Claims, Class 6 Claims, Class 8 Claims, or Class 9 Claims.

“Holder” means an Entity holding a beneficial interest in a Claim or Interest and, when used in conjunction with a Class or type of Claim or Interest, means a holder of a beneficial interest in a Claim or Interest in such Class or of such type.

“Impaired” means, when used with reference to a Claim or Interest, a Claim or Interest that is impaired within the meaning of section 1124 of the Bankruptcy Code.

“Impaired Claim” means a Claim which is Impaired.

“Independent Artist Contract” means any contract or other agreement with independent contractor artists, performers, and educational collaborators who are engaged by the Debtors from time to time in the ordinary course of business to, among other things, handle stage management and concert logistics, perform with the ensemble for limited series or single concert events, and/or promote the Debtors’ education initiatives through teaching engagements in local schools.

“Insider” shall have the meaning set forth in section 101(31) of the Bankruptcy Code.

“Insurance Plans” means the Debtors’ insurance policies and any agreements, documents or instruments relating thereto entered into prior to the Petition Date.

“Interests” means any and all equity interests, ownership interests or shares in the Debtors issued by the Debtors prior to the Petition Date.

“KCI” means Kimmel Center, Inc.

“KCI Lease” means, collectively, the Master Lease between Academy of Music of Philadelphia, Inc. and Regional Performing Arts Center, Inc., and the Sublease dated as of February 11, 2001, between Regional Performing Arts Center, Inc. and The Philadelphia Orchestra Association.

“KCI Settlement” means the settlement between POA and AOM with respect to the KCI Lease, attached hereto as Exhibit A.

“License Agreement” means any contract or other agreement, whether current or on account of past performances, authorizing the Debtors to use certain artists’ or performers’ likenesses, artistic materials, and/or recorded materials in the ordinary course of the Debtors’ business operations, and including but not limited to guest artist contracts and music director contracts that have been fully performed but pursuant to which the Debtors may have ongoing broadcast, recording, and/or royalty rights.

“Liens” means, with respect to any asset or Property (or the rents, revenues, income, profits or proceeds therefrom), and in each case, whether the same is consensual or nonconsensual or arises by contract, operation of law, legal process or otherwise: (a) any and all mortgages, liens, pledges, attachments, charges, leases evidencing a capitalizable lease obligation, conditional sale or other title retention agreement, or other security interest or encumbrance or other legally cognizable security devices of any kind in respect of any asset or Property, or upon the rents, revenues, income, profits or proceeds therefrom; or (b) any arrangement, express or implied, under which any Property is transferred, sequestered or otherwise identified for the purpose of subjecting or making available the same for the payment of debt or performance of any other obligation in priority to the payment of General Unsecured Creditors.

“Notice of Intent to Assume or Reject” means a notice delivered by the Debtors pursuant to Article VI of the Plan stating an intent to assume or reject an executory contract or unexpired lease and including a proposed Assumption Effective Date or Rejection Effective Date, as applicable, and, if applicable, a Proposed Cure and/or a proposed amendment.

“Objection” means any objection, application, motion, complaint or any other legal proceeding seeking, in whole or in part, to Disallow, determine, liquidate, classify, reclassify or establish the priority, expunge, subordinate or estimate any Claim (including the resolution of any request for payment of any Administrative Claim) or Interest other than a Claim or an Interest that is Allowed.

“PBGC” means the Pension Benefit Guaranty Corporation.

“PBGC Claims” means any and all claims held by PBGC, which claims have been asserted against both Debtors in these Chapter 11 Cases in connection with the termination

of the Pension Plans for unfunded benefit liabilities, unpaid minimum required contributions, flat-rate and variable-rate premiums, and administrative priority claims.

“Pension Plans” means the Philadelphia Orchestra Association Musicians’ Pension and Retirement Plan and the Staff Plan of the Philadelphia Orchestra Association, collectively.

“Person” means and includes a natural person, individual, partnership, corporation (as defined in section 101(a) of the Bankruptcy Code), or organization including, without limitation, corporations, limited partnerships, limited liability companies, general partnerships, joint ventures, joint stock companies, trusts, land trusts, business trusts, unincorporated organizations or associations, or other organizations, irrespective of whether they are legal entities, governmental bodies (or any agency, instrumentality or political subdivision thereof), or any other form of legal entities; provided, however, “Person” does not include governmental units, except a governmental unit that (a) acquires an asset from a Person (i) as a result of the operation of a loan guarantee agreement or (ii) as receiver or liquidating agent of a Person; (b) is a guarantor of a pension benefit payable by or on behalf of a Debtor or an Affiliate of a Debtor of; or (c) is the legal or beneficial owner of an asset of (i) an employee pension benefit plan that is a governmental plan, as defined in section 414(d) of the Internal Revenue Code of 1986 or (ii) an eligible deferred compensation plan, as defined in section 457(b) of the Internal Revenue Code of 1986, shall be considered for purposes of section 1102 of the Bankruptcy Code to be a Person with respect to such asset or such benefit.

“Petition Date” means April 16, 2011.

“Plan” means this First Amended Joint Chapter 11 Plan dated as of June 11, 2012, including all exhibits, appendices, schedules and annexes, if any, attached hereto, as submitted by the Plan Proponents, as such Plan may be altered, amended, supplemented or modified from time to time in accordance with the provisions of the Bankruptcy Code, the Bankruptcy Rules, the Confirmation Order and the terms and conditions of the Plan.

“Plan Documents” means, collectively, the Disclosure Statement, the Plan, the Confirmation Order, any exhibit to the Plan or any other Plan document (including any provision that purports to be preemptory or supervening).

“Plan Proponents” shall have the meaning set forth in the Introduction.

“POA” shall have the meaning set forth in the Introduction.

“PNPP” means “Peter Nero and the Philly Pops.”

“Priority Claims” means any Claim against the Debtors entitled to priority pursuant to section 507(a) of the Bankruptcy Code, other than a Priority Tax Claim or an Administrative Claim.

“Priority Tax Claim” means any and all Claims accorded priority in payment pursuant to section 507(a)(8) of the Bankruptcy Code.

“Professional Fee Claim” means an Allowed Claim for compensation and/or reimbursement of expenses pursuant to sections 327, 328, 330, 331 or 503(b) of the Bankruptcy Code relating to services incurred on and after the Petition Date and prior to and including the Effective Date in connection with an application by the Professionals in the Chapter 11 Cases made to and approved by the Bankruptcy Court.

“Professionals” means any professional employed in these Chapter 11 Cases pursuant to sections 327 or 1103 of the Bankruptcy Code or any Professional entitled to compensation pursuant to sections 327, 328, 330, 331, 503(b)(2) or (4), or 1103 of the Bankruptcy Code.

“Proof of Claim” means a proof of claim filed against any of the Debtors in the Chapter 11 Cases.

“Property” means all assets or property of the Debtors’ respective Estates of any nature whatsoever, real or personal, tangible or intangible, including contract rights, accounts and Causes of Action, previously or now owned by the Debtors, or acquired by the Debtors’ respective Estates, as defined in section 541 of the Bankruptcy Code.

“Proposed Cure” means, with respect to a particular executory contract or unexpired lease, the consideration that the Debtors propose (which may be zero or some amount greater than zero) (i) on the notices sent to Assumption Parties listed on Schedule 6.02(a) or (ii) on a Notice of Intent to Assume or Reject, in each case as full satisfaction of the Debtors’ obligations with respect to such executory contract or unexpired lease pursuant to section 365(b) of the Bankruptcy Code.

“Rehearsal Hall” means the rehearsal hall, adjoining hallways, storage area, and accessory office space located in the Academy of Music portion of the Academy House condominium complex at 1420 Locust Street, Philadelphia, PA 19102, which was delineated and conveyed to AOM pursuant to a Tri-Party Agreement (Declaration of Easements and Obligations) dated April 19, 1976, setting forth the parameters of the Academy House condominium development with its four lower floors of commercial condominium units and residential units above.

“Reinstated or Reinstatement” means: (a) leaving unaltered the legal, equitable, and contractual rights to which a Claim entitles the Holder of such Claim so as to leave such Claim Unimpaired in accordance with section 1124 of the Bankruptcy Code; or (b) notwithstanding any contractual provision or applicable law that entitles the Holder of such Claim to demand or receive accelerated payment of such Claim after the occurrence of a default (i) curing any such default that occurred before or after the Petition Date, other than a default of a kind specified in section 365(b)(2) of the Bankruptcy Code; (ii) reinstating the maturity of such Claim as such maturity existed before such default; (iii) compensating the Holder of such Claim for any damages incurred as a result of any reasonable reliance by such Holder on such contractual provision or such applicable law; and (iv) not otherwise altering the legal, equitable, or contractual rights to which such Claim entitled the Holder of such Claim; provided, however, that any contractual right that does not pertain to the payment when due of principal and interest on the obligation on which such Claim is based, including, but not limited to, financial covenant

ratios, negative pledge covenants, covenants or restrictions on merger or consolidation, and affirmative covenants regarding corporate existence or which prohibit certain transactions or actions contemplated by the Plan, or conditioning such transactions or action on certain factors, shall not be required to be reinstated in order to accomplish Reinstatement.

“Rejection Bar Date” means the earlier of (a) the date set by the Bankruptcy Court for the filing of a Rejection Claim or (b) thirty days from the date on which the relevant executory contract or unexpired lease is effectively rejected by the Debtors.

“Rejection Claims” means: (a) Claims of any non-Debtor counterparty to any unexpired lease of nonresidential real property or any executory contract arising on account of the rejection of such lease or contract during the administration of these Chapter 11 Cases under section 365 of the Bankruptcy Code or pursuant to the Plan; and (b) any Claims arising from the termination of or withdrawal from any pension plan of the Debtors qualified under ERISA.

“Rejection Effective Date” means (a) the date on which an final order is entered with respect to the rejection of an executory contract or unexpired lease during the administration of these Chapter 11 Cases under section 365 of the Bankruptcy Code, or (b) the date upon which the rejection of an executory contract or unexpired lease under this Plan is deemed effective, which shall not be later than 60 calendar days after the Effective Date unless otherwise agreed by the relevant Rejection Party.

“Rejection Party” means a counterparty to an executory contract or unexpired lease to be rejected by the Debtors under this Plan or during the administration of the Debtors’ Chapter 11 Cases.

“Releasees” means each of: (a) the DIP Lender; (b) the Committee and the members thereof in their capacity as such; (c) the Debtors; and (d) with respect to each of the foregoing entities in clauses (a) through (c), such entities’ subsidiaries, affiliates, managed accounts or funds, endowments, officers, directors, members, current and former members of any advisory boards, current and former holders of member interests or other units of equity in Parent, principals, Insiders (as defined in the Bankruptcy Code), employees, agents, financial advisors, attorneys, accountants, investment bankers, consultants, representatives, and other Professionals, solely in their respective capacities as representatives of any of the foregoing.

“Restructuring Transactions” means the transactions described in Article VII of the Plan, which are necessary to fund the distributions on account of Claims and Interests as set forth in the Plan.

“Schedules” means the schedules of assets and liabilities and statements of financial affairs Filed by any of the Debtors in the Chapter 11 Cases, as required by section 521 of the Bankruptcy Code, as the same may have been or may be amended, modified or supplemented.

“Secured Claim” means any Claim arising before the Petition Date that is: (a) secured in whole or part, as of the Petition Date, by a Lien which is valid, perfected and enforceable under applicable law on Property in which the Debtors’ respective Estates has an interest and is not subject to avoidance under the Bankruptcy Code or applicable non-bankruptcy

law; or (b) subject to setoff under section 553 of the Bankruptcy Code, but, with respect to both case (a) and (b), only to the extent of the value of the assets or Property securing any such Claim or the amount subject to setoff, as the case may be.

“Securities Act” means the Securities Act of 1933, as amended.

“SpectiCast” means MediaCast Holdings, LLC d/b/a SpectiCast.

“SpectiCast Agreement” means the agreement dated January 27, 2009, between MediaCast Holdings, LLC (SpectiCast) and POA, which shall be deemed rejected pursuant to the Plan.

“Subscribers” means any person or entity that has purchased a single ticket or subscription for any Orchestra performance yet to be held.

“Tax” means any tax, charge, fee, levy, impost or other assessment by any federal, state, local or foreign governmental authority, including, without limitation, income, excise, property, sales, transfer, employment, payroll, franchise, profits, license, use, ad valorem, estimated, severance, stamp, occupation and withholding tax, together with any interest, penalties, fines or additions attributable to, imposed on, or collected by any such federal, state, local or foreign governmental authority.

“Termination Premiums” means POA’s post-Confirmation liability to PBGC under 29 U.S.C. § 1306(a)(7) resulting from the termination of the Pension Plans.

“Ticket Philadelphia” shall refer to the joint venture between POA and KCI known as Ticket Philadelphia.

“Transferred Avoidance Actions” means all Avoidance Actions of the Debtors other than Avoidance Actions against any of the Releasees.

“Treatment Objection” means an objection to the Debtors’ proposed assumption or rejection of an executory contract or unexpired lease pursuant to the provisions of this Plan (including an objection to the proposed Assumption Effective Date or Rejection Effective Date, the Proposed Cure and/or any proposed assignment, but not including an objection to any Rejection Claim) that is properly filed with the Bankruptcy Court and served in accordance with the Case Management Order by the Applicable Treatment Objection Deadline.

“Treatment Objection Deadline” means the deadline for filing and serving a Treatment Objection, which deadline shall be 4:00 p.m. (prevailing Eastern Time) on, (i) with respect to an executory contract or unexpired lease listed on Schedule 6.02(a) or 6.02(b), the 15th calendar day after the relevant Schedule is filed and notice thereof is mailed, (ii) with respect to an executory contract or unexpired lease the proposed treatment of which has been altered by an amended or supplemental Schedule 6.02(a) or 6.02(b), the 15th calendar day after such amended or supplemental schedule is filed and notice thereof is mailed, (iii) with respect to an executory contract or unexpired lease for which a Notice of Intent to Assume or Reject is filed, the 15th calendar day after such notice is filed and notice thereof is mailed and (iv) with respect to any other executory contract or unexpired lease, including any to be assumed or rejected by category

pursuant to Sections 6.01, 6.03 or 6.04 of the Plan (without being listed on Schedule 6.02(a) or 6.02(b)), the deadline for objections to confirmation of the Plan established pursuant to the Approval Order or other order of the Bankruptcy Court.

“Trust Agreement” means the agreement between POA and The Annenberg Foundation providing for the transfer of the Annenberg Foundation POA endowment funds to The Northern Trust Company, as trustee, for the continued use and benefit of POA on the terms and conditions set forth in the Trust Agreement, attached hereto as Exhibit B, and as conditionally approved by the Office of the Attorney General of the Commonwealth of Pennsylvania in the correspondence attached hereto as Exhibit C.

“Unclaimed Property” means any distribution of Cash or any other Property made to the Holder of an Allowed Claim pursuant to the Plan that is returned to the Debtors or the Distribution Agent as undeliverable and no appropriate forwarding address is received prior to the date on which the Final Decree is entered in the Chapter 11 Cases, in the case of a distribution made in the form of a check, is not negotiated and no request for reissuance is made as provided for in Section 5.07 of the Plan.

“Unimpaired” means any Claim that is not Impaired within the meaning of section 1124 of the Bankruptcy Code.

“Union” means the American Federation of Musicians, Local 77.

“Union Settlement” means the settlement between Debtor, Philadelphia Orchestra Association and the Union approved by the Bankruptcy Court on October 27, 2011 [Docket No. 519].

“United States Trustee” means the United States Trustee appointed under section 581(a)(3) of title 28 of the United States Code to serve in the Eastern District of Pennsylvania.

“U.S. Trustee’s Fee Claims” means any fees assessed against the Debtors’ Estates pursuant to section 1930(a)(6) of title 28 of the United States Code.

“Voting Agent” means The Garden City Group, Inc.

“Voting Deadline” means the date and time that shall be set by the Bankruptcy Court for the submission of ballots voting in favor of or against the Plan, notice of which shall be mailed to Holders of Claims in Classes entitled to vote on the Plan.

Section 1.02. Rules of Interpretation

All references to “the Plan” herein shall be construed, where applicable, to include references to this document and all its exhibits, appendices, schedules and annexes, if any (and any amendments thereto made in accordance with the Bankruptcy Code). Whenever from the context it appears appropriate, each term stated in either the singular or the plural shall include the singular and the plural, and pronouns stated in the masculine, feminine or neuter gender shall include the masculine, feminine and the neuter. The words “herein,” “hereof,” “hereto,” “hereunder,” and other words of similar import refer to the Plan as a whole and not to

any particular paragraph, subparagraph, or clause contained in the Plan. The words “includes” and “including” are not limiting and mean that the things specifically identified are set forth for purposes of illustration, clarity or specificity and do not in any respect qualify, characterize or limit the generality of the class within which such things are included. The captions and headings in the Plan are for convenience of reference only and shall not limit or otherwise affect

the provisions hereof. Any term used in the Plan that is not defined in the Plan, either in Article I hereof or elsewhere, but that is used in the Bankruptcy Code or the Bankruptcy Rules shall have the meaning assigned to that term in (and shall be construed in accordance with the rules of construction under) the Bankruptcy Code or the Bankruptcy Rules (with the Bankruptcy Code controlling in the case of a conflict or ambiguity). Without limiting the preceding sentence, the rules of construction set forth in section 102 of the Bankruptcy Code shall apply to the Plan, unless superseded herein. In computing any period of time prescribed or allowed by the Plan, the provisions of Bankruptcy Rule 9006(a) and Section 12.15 hereof shall apply, but Bankruptcy Rule 9006(a) shall govern.

Section 1.03. Exhibits

All Exhibits to the Plan are incorporated into and are a part of the Plan as if set forth in full herein, regardless of when filed.

ARTICLE II.
CLASSIFICATION OF CLAIMS AND INTERESTS

Section 2.01. Generally

Pursuant to section 1122 of the Bankruptcy Code, set forth below is a designation of Classes of Claims and Interests. A Claim or an Interest is classified in a particular Class only to the extent that the Claim or Interest qualifies within the description of the Class and is classified in a different Class to the extent the Claim or Interest qualifies within the description of that different Class. A Claim or Interest is placed in a particular Class for the purpose of receiving distributions pursuant to the Plan only to the extent that such Claim or Interest is an Allowed Claim or an Allowed Interest in that Class and such Claim or Interest has not been paid, released, settled or otherwise satisfied prior to the Effective Date. Any and all interdebtor Claims filed by POA against AOM or by AOM against POA are not classified and, on the Effective Date, shall be deemed waived and discharged.

Section 2.02. Unclassified Claims

In accordance with section 1123(a)(1) of the Bankruptcy Code, Administrative Claims (including Claims of the DIP Lender in connection with the DIP Financing Facility) and Priority Tax Claims are not classified and are excluded from the Classes designated in this Article II of the Plan. The treatment accorded Administrative Claims and Priority Tax Claims is set forth in Article III of the Plan.

Section 2.03. Unimpaired Classes

The Plan classifies the following Unimpaired Claims and Unimpaired Interests that are not entitled to vote on the Plan. Pursuant to section 1126(f) of the Bankruptcy Code, each Holder of a Claim or Interest in the following Classes is conclusively presumed to have

accepted the Plan in respect of such Claims or Interests and is not entitled to vote to accept or reject the Plan:

Class 1 shall consist of all Secured Claims.

Class 2 shall consist of all Priority Claims.

Class 10 shall consist of the Interests of POA in AOM, as well as the membership interests of the Boards in each of the Debtors.

Section 2.04. Impaired Classes Entitled to Vote

The Plan classifies the following Classes as the only Impaired Classes that may receive a distribution under the Plan and that are entitled to vote to accept or reject the Plan:

Class 3 shall consist of the claims of ESI, PNPP and Peter Nero against POA.

Class 4 shall consist of the claims of KCI.

Class 5 shall consist of the claims of AFM-EPF.

Class 6 shall consist of the PBGC Claims and Termination Premiums.

Class 7a shall consist of the General Unsecured Claims against POA other than claims in Classes 3, 4, 5, 6, 7b, 8, and 9. Class 7b shall consist of the General Unsecured Claims against AOM other than claims in Classes 3, 4, 5, 6, 7a, 8, and 9.

Class 8 shall consist of the Convenience Class Claims against POA.

Class 9 shall consist of the claims of SpectiCast against POA.

**ARTICLE III.
PROVISIONS FOR TREATMENT OF CLASSES OF
CLAIMS AND INTERESTS**

Section 3.01. Satisfaction of Claims and Interests

The treatment of and consideration to be received by Holders of Allowed Claims or Allowed Interests pursuant to this Article III and the Plan shall be in full satisfaction, settlement, release, extinguishment and discharge of their respective Claims against or Interests in the Debtors and the Debtors' respective Estates, except as otherwise provided in the Plan or the Confirmation Order.

Section 3.02. Unclassified Claims, Classified Unimpaired and Impaired Claims and Classified Interests

Administrative Claims and Priority Tax Claims of each Debtor are treated by each Debtor in accordance with section 1129(a)(9)(A) and section 1129(a)(9)(C) of the Bankruptcy Code, respectively. Such Claims are Unimpaired under the Plan and, in accordance with section 1123(a)(1) of the Bankruptcy Code, are not designated as Classes of Claims for purposes of this Plan and for purposes of sections 1123, 1124, 1126 and 1129 of the Bankruptcy Code. In addition, Class 1 Claims, Class 2 Claims, and Class 10 Interests are classified as Classes of Claims and Interests that are Unimpaired. In accordance with section 1126(f) of the Bankruptcy Code, the Holders of Claims or Interests in such Classes are conclusively presumed to have accepted the Plan and are not entitled to vote to accept or reject the Plan. Claims in Classes 3 through 9 are Impaired and the Holders thereof are entitled to vote to accept or reject the Plan on account of such Allowed Claims. Because Holders of Claims in Class 9 are Insiders, the votes of Class 9 will not be counted toward the requisite votes required for the Debtors to confirm the Plan.

Section 3.03. Administrative Claims

Administrative Claims are Unimpaired. Unless otherwise provided for herein, each Holder of an Allowed Administrative Claim shall receive, from the Debtor against whom such Claim has been Allowed, in full satisfaction, settlement, release, extinguishment and discharge of such Claim: (a) the amount of such unpaid Allowed Claim in Cash on or as soon as reasonably practicable after the later of (i) the Effective Date, (ii) the date on which such Administrative Claim becomes Allowed, or (iii) a date agreed to in writing by the Debtor and the Holder of such Administrative Claim; or (b) such other treatment on such other terms and conditions as may be agreed upon in writing by the Holder of such Claim and the Debtor, or as the Bankruptcy Court may order.

Section 3.04. Priority Tax Claims

Priority Tax Claims are Unimpaired. Each Holder of an Allowed Priority Tax Claim shall receive, from and at the option of the Debtor against whom such Claim is allowed, in full satisfaction, settlement, release, extinguishment and discharge of such Priority Tax Claim: (a) the amount of such unpaid Allowed Priority Tax Claim in Cash on or as soon as reasonably practicable after the later of (i) the Effective Date, (ii) the date on which such Priority Tax Claim becomes Allowed, and (iii) a date agreed to by the Debtor and the Holder of such Priority Tax Claim; or (b) such other treatment on such other terms and conditions as may be agreed upon in writing by the Holder of such Priority Tax Claim and the Debtor or as the Bankruptcy Court may order. Prior to the Effective Date, the Plan Proponents, by mutual agreement, shall have the right to prepay at any time, in whole or in part, any Allowed Priority Tax Claim without premium or penalty of any sort or nature.

Section 3.05. Class 1: Secured Claims

Class 1 Secured Claims are Unimpaired. Each Holder of an Allowed Class 1 Secured Claim shall receive, in the discretion of the Plan Proponents, by mutual agreement as the case may be, in full satisfaction, settlement, release, extinguishment and discharge of such Claim: (a) Cash equal to the amount of such Allowed Secured Claim, plus any interest due through the date of payment, on or as soon as practicable after the later of (i) the Effective Date, (ii) the date that such Secured Claim becomes Allowed, and (iii) a date agreed to by the Plan Proponents, by mutual agreement, or the Distribution Agent, as the case may be, and the Holder

of such Class 1 Secured Claim; (b) Reinstatement of such Allowed Secured Claim; (c) the Property securing such Secured Claim; or (d) such other treatment on such other terms and conditions as may be agreed upon in writing by the Holder of such Claim and the Plan Proponents or by mutual agreement, as the case may be.

Section 3.06. Class 2: Priority Claims

Class 2 Priority Claims are Unimpaired. Each Holder of an Allowed Class 2 Priority Claim shall receive, in the discretion of the Plan Proponents, in full satisfaction, settlement, release, extinguishment and discharge of such Claim: (a) the amount of such unpaid Allowed Claim in Cash on or as soon as reasonably practicable after the later of (i) the Effective Date, (ii) the date on which such Class 2 Claim becomes Allowed, and (iii) a date agreed to by the Plan Proponents or by mutual agreement, as the case may be, and the Holder of such Class 2 Priority Claim; or (b) such other treatment on such other terms and conditions as may be agreed upon in writing by the Holder of such Claim and the Debtors. This Class includes Subscriber Claims. Subscriber Claims shall receive in full satisfaction, settlement, release, extinguishment and discharge of such Claim: (a) performance of the Orchestra concert(s) for which such Holder purchased a ticket or which is included in such Holder's purchased subscription as scheduled by POA, or (b) in the event that the performance of any Orchestra concert(s) for which such Holder purchased a ticket or which is included in such Holder's purchased subscription is cancelled or not performed, a refund from the Escrow of the full amount, less fees, paid by such Holder with respect to such cancelled performance.

Section 3.07. Class 3: ESI, PNPP, and Peter Nero Claims against POA

Class 3 ESI, PNPP, and Peter Nero Claims against POA are Impaired. These Claims include all Claims held by ESI, PNPP, and Peter Nero (as himself or Finger Prince, Inc.), each of which was resolved pursuant to the ESI Settlement, approved by the Bankruptcy Court on September 28, 2011. ESI and PNPP Unsecured Claims against POA shall receive payment in accordance with the terms of the ESI Settlement. All contracts and other agreements between ESI, PNPP, Finger Prince, Inc. and/or Peter Nero, on the one hand, and POA, on the other, are terminated pursuant to the Plan and replaced with the ESI Settlement.

Section 3.08. Class 4: KCI Claims.

Class 4 KCI Claims against the Debtors are Impaired. KCI Claims include all Claims held by KCI pursuant to the KCI Lease. KCI Claims shall be paid as set forth in the KCI Settlement in full satisfaction, settlement, release, extinguishment, and discharge of such Claims. All KCI Claims asserted in these Chapter 11 Cases shall be fully resolved upon the Effective Date upon the payment of the amount set forth in the KCI Settlement. Upon the Effective Date, the KCI Lease shall be assumed as modified by the KCI Settlement.

Section 3.09. Class 5: AFM-EPF Claims.

Class 5 AFM-EPF Claims against POA are Impaired. AFM-EPF Claims include all Claims held by AFM-EPF against the Debtors in connection with POA's withdrawal as a participating employer in the AFM-EPF. AFM-EPF Claims shall be paid in accordance with the AFM-EPF Settlement, such that upon the Effective Date, AFM-EPF shall receive from POA \$1,750,000 in full satisfaction, settlement, release, extinguishment, and discharge of such

Claims. All AFM-EPF Claims asserted in these Chapter 11 Cases shall be fully resolved upon the Effective Date upon the payment of the amount of the AFM-EPF Settlement.

Section 3.10. Class 6: PBGC Claims and Termination Premiums.

Class 6 PBGC Claims and Termination Premiums are Impaired. In settlement of the liabilities of the POA as well as any liability of AOM and/or ESI pertaining to POA's liabilities relating to the Pension Plans and Termination Premiums, POA will pay to PBGC the sum of \$1,317,387 as follows. Upon the Effective Date, POA shall pay to PBGC a payment of \$522,387 in full satisfaction of the PBGC Claims. In addition, POA shall pay the Termination Premiums to PBGC in an amount totaling \$1,192,500 to be paid in three payments pursuant to 29 U.S.C. § 1306(a)(7): the initial payment of \$397,500 shall be paid upon the Effective Date; the second payment of \$397,500 shall be paid not later than twelve months following the Effective Date; and the final payment of \$387,500 shall be paid not later than twenty-four months following the Effective Date. Notwithstanding anything in the Plan, the Disclosure Statement, or the Confirmation Order to the contrary, PBGC's rights to collect the Termination Premiums as provided in this section 3.10 and in 29 U.S.C. § 1307 will not be limited in any way. All PBGC Claims and the Termination Premiums arising prior to or after the Effective Date shall be fully resolved upon the final payment to PBGC in accordance with this section.

Section 3.11. Class 7A: General Unsecured Claims Against POA

Class 7A General Unsecured Claims against POA are Impaired. Class 7A General Unsecured Claims include all Claims, including Rejection Claims, that are not: Administrative Claims, Priority Tax Claims, Secured Claims, Priority Claims, ESI, PNPP and Peter Nero Claims against POA, KCI Claims, AFM-EPF Claims, PBGC Claims and Termination Premiums, Class 7B General Unsecured Claims Against AOM, Class 8 Convenience Class Claims, SpectiCast Claims, or Class 10 Interests. Each Holder of a Class 7A Allowed General Unsecured Claim shall receive, in full satisfaction, settlement, release, extinguishment and discharge of such Claim an amount of Distributable Cash equal to 53% of the aggregate amount in U.S. dollars of such Holder's Class 7A Allowed General Unsecured Claim, without payment of interest, paid on the later of the Effective Date or the date that the Claim becomes Allowed.

Section 3.12. Class 7B: General Unsecured Claims Against AOM.

Class 7B General Unsecured Claims against AOM are Impaired. Class 7B General Unsecured Claims include all Claims, including Rejection Claims, that are not: Administrative Claims, Priority Tax Claims, Secured Claims, Priority Claims, ESI, KCI Claims, AFM-EPF Claims, PBGC Claims and Termination Premiums, Class 7A General Unsecured Claims Against POA, Class 8 Convenience Class Claims, SpectiCast Claims, or Class 10 Interests. Each Holder of a Class 7B Allowed General Unsecured Claim shall receive, in full satisfaction, settlement, release, extinguishment and discharge of such Claim an amount of Distributable Cash equal to 100% of the aggregate amount in U.S. dollars of such Holder's Class 7B Allowed General Unsecured Claim, without payment of interest, paid on the later of the Effective Date or the date that the Claim becomes Allowed.

Section 3.13. Class 8: Convenience Class Claims Against POA.

Class 8 Convenience Class Claims against POA are Impaired. Convenience Class Claims include all Claims that are Allowed in the amount of \$1,000 or less, and Allowed Claims that exceed \$1,000, but as to which the Holder has elected to reduce such claim to \$1,000. Each Holder of an Allowed Convenience Class Claim shall receive, in full satisfaction, settlement, release, extinguishment and discharge of such Claim, an amount of Distributable Cash equal to the lesser of the value of such Allowed Claim or \$1,000, without payment of interest, upon the Effective Date.

Section 3.14. Class 9: SpectiCast Claims Against POA.

SpectiCast Claims are Impaired. SpectiCast Claims include all Claims asserted by SpectiCast, an Insider, pursuant to the SpectiCast Agreement, the contractual relationship between POA and SpectiCast governing certain media activities and broadcasts of POA. Upon the Effective Date, the SpectiCast Agreement shall be deemed rejected and terminated pursuant to the Plan. All SpectiCast Claims are Disputed. If any, Allowed SpectiCast Claims shall receive, in full satisfaction, settlement, release, extinguishment and discharge of such Claims, treatment in accordance with Class 7A of this Plan.

Section 3.15. Class 10: Interests

Class 10 Interests are Unimpaired. This Class consists of POA's ownership interest of AOM and the membership interests of the Boards in each of the Debtors. Each Holder of an Allowed Class 10 Interest shall retain its Interest and receive no Property or other distribution of value on account of its Interest.

ARTICLE IV.
ACCEPTANCE OR REJECTION OF THE PLAN; CRAMDOWN

Section 4.01. Acceptance by Impaired Classes of Claims and Interests

Pursuant to section 1126(c) of the Bankruptcy Code, an Impaired Class of Claims shall have accepted the Plan if: (a) the Holders of at least two-thirds (2/3) in dollar amount of the Allowed Claims actually voting in such Class (other than Claims held by any Holder designated pursuant to section 1126(e) of the Bankruptcy Code) have timely and properly voted to accept the Plan, and (b) more than one-half (1/2) in number of the Holders of such Allowed Claims actually voting in such Class (other than Claims held by any Holder designated pursuant to section 1126(e) of the Bankruptcy Code) have timely and properly voted to accept the Plan. No Class of Insiders is entitled to vote on the Plan pursuant to section 1126 of the Bankruptcy Code. Holders of Claims that are included in a Class that is entitled to vote but are unliquidated shall be entitled to vote and their claims shall be assigned the value of \$1.00 for voting purposes only.

Section 4.02. Voting Classes

Except as otherwise required by the Bankruptcy Code or the Bankruptcy Rules or as otherwise provided in this Section 4.02, the Holders of Claims in Classes 3, 4, 5, 6, 7, 8, and 9 shall be entitled to vote to accept or reject the Plan in accordance with Section 4.01 of the Plan; however, votes by members of Class 9 shall not be counted toward the votes required for approval of the Debtors' Plan because the members of Class 9 are Insiders. Classes of Claims Unimpaired under the Plan (Secured Claims (Class 1), Priority Claims (Class 2), and Interests

(Class 10)) shall not be entitled to vote to accept or reject the Plan, and shall be conclusively presumed to have accepted the Plan pursuant to section 1126(f) of the Bankruptcy Code. Administrative Claims and Priority Tax Claims are Unimpaired and not classified under the Plan

and hence are not entitled to vote to accept or reject the Plan pursuant to section 1126(g) of the Bankruptcy Code.

Section 4.03. Ballot Instructions

Each Holder of a Claim or Interest entitled to vote on the Plan will be asked to complete and return a Ballot to the Voting Agent, which will compile the votes so received. Any questions as to the validity, form, and eligibility (including time of receipt) of Ballots will be resolved by the Bankruptcy Court upon application or at the Confirmation Hearing.

Section 4.04. Cramdown

If all applicable requirements for Confirmation of the Plan are met as set forth in section 1129(a)(1) through (13) of the Bankruptcy Code as applied to nonprofit entities and the Bankruptcy Court determines that subsection (8) thereof applies to the Debtors under the facts and circumstances of these cases, the Plan Proponents may request that the Bankruptcy Court confirm the Plan in accordance with section 1129(b) of the Bankruptcy Code, notwithstanding the requirements of section 1129(a)(8) thereof, on the bases that the Plan is fair and equitable, and does not discriminate unfairly, with respect to each Class of Claims or Interests that is Impaired under, and has not accepted, the Plan.

ARTICLE V.

PROVISIONS GOVERNING DISTRIBUTIONS UNDER THE PLAN

Section 5.01. Timing of Distributions

Except as specifically set forth in the Plan, distributions of Property will be made to Holders of Allowed Claims in accordance with Article III of the Plan. If a Claim is not an Allowed Claim as of the applicable distribution date, distributions will be made only if and when the Claim is Allowed, and then in accordance with Article III of the Plan and, with respect to the cure of defaults for assumed executory contracts and unexpired leases, Section 6.02 of the Plan, and in each case, subject to Article VIII of the Plan. Distributions to be made as of the Effective Date on account of Claims that are Allowed as of the Effective Date and are entitled to receive distributions under the Plan shall be made on the Effective Date or as soon as reasonably practicable thereafter. Distributions to be made after the Effective Date shall be made on dates to be established by the Distribution Agent pursuant to the terms of this Plan, taking into account the resolution of Disputed Claims and the Distribution Agent's right to defer distributions if the amount of the Cash to be distributed on a particular date is insufficient to justify the costs of effectuating the distribution.

Section 5.02. Distributions to Holders of Allowed Claims

Except as otherwise provided herein, the Distribution Agent shall make all distributions required under the Plan in a manner consistent with the Plan. Distributions to Holders of Allowed Claims will be made in accordance with Article III of the Plan. On the

Effective Date, the Debtors shall deliver cash to the Distribution Agent, who will deposit such cash into the Distribution Account. From the Distribution Account, the Distribution Agent will make Cash distributions in accordance with the Plan. If any dispute arises as to the identity of a Holder of an Allowed Claim who is to receive any distribution, the Distribution Agent or the Debtors shall, as appropriate and in lieu of making such distribution to such Holder, delay such distribution until the disposition thereof shall be determined by Final Order of the Bankruptcy Court or by written agreement among the interested parties to such dispute.

Section 5.03. Distribution Account

One or more Distribution Accounts shall be established the Distribution Agent to receive the Distributable Cash necessary to fund the Plan. On, or as soon as reasonably practicable after, the Effective Date the Distribution Agent shall make Cash distributions from the Distribution Account in accordance with the Plan (collectively, the "Distribution Account Claims"). Each Distribution Account shall be extinguished following payment of all distributions made therefrom in accordance with the Plan.

Section 5.04. Delivery of Distributions

Distributions to Holders of Allowed Claims shall be made by the Distribution Agent: (a) at the last known addresses of such Holders or (b) at the addresses set forth in any written notices of address changes delivered to the Debtors or the Distribution Agent. If any Holder's distribution is returned as undeliverable, no further distributions to such Holder shall be made unless and until the Distribution Agent is notified of such Holder's then current address, at which time all missed distributions shall be made to such Holder without interest.

Section 5.05. Method of Cash Distributions

Any Cash payment to be made pursuant to the Plan may be made by Cash, draft, check, wire transfer, or as otherwise required or provided in any relevant agreement or applicable law at the option of the Distribution Agent.

Section 5.06. Failure to Negotiate Checks

Checks issued in respect of distributions under the Plan shall be null and void if not negotiated within ninety (90) days after the date of issuance. Any amounts returned to the Debtors in respect of such non-negotiated checks shall be forwarded to (if necessary) and held by the Distribution Agent. Requests for reissuance for any such check shall be made directly to the issuer of the check by the Holder of the Allowed Claim with respect to which such check originally was issued. All amounts represented by any voided check will be held until the earlier of: (a) one (1) month after date on which the check is voided, or (b) the date on which the Bankruptcy Court enters the Final Decree, and all requests for reissuance by the Holder of the Allowed Claim in respect of a voided check are required to be made prior to such date. Thereafter, all such amounts shall be deemed to be Unclaimed Property, in accordance with Section 5.07 of the Plan, and all Holders of Claims in respect of void checks shall be forever barred, estopped and enjoined from asserting a claim to such funds in any manner against the Debtors or their respective assets, or the Distribution Agent.

Section 5.07. Unclaimed Distributions

All Property distributed on account of Claims must be claimed prior to the date on which the Bankruptcy Court enters the Final Decree, or, in the case of a distribution made in the form of a check, must be negotiated and a request for reissuance be made as provided for in Section 5.07 of the Plan. All Unclaimed Property will be retained by and will revert to the Debtors. All full or partial payments made by the Debtors and received by the Holder of a Claim prior to the Effective Date will be deemed to be payments under the Plan for purposes of satisfying the obligations of the Debtors or the Distribution Agent pursuant to the Plan. Nothing contained in the Plan shall require the Debtors or the Distribution Agent to attempt to locate any Holder of an Allowed Claim other than by reviewing the records of the Debtors and any Claims Filed in the Chapter 11 Cases. Pursuant to section 1143 of the Bankruptcy Code, all Claims in respect of Unclaimed Property shall be deemed Disallowed and the Holder of any Claim Disallowed in accordance with this Section 5.07 will be forever barred, expunged, estopped and enjoined from asserting such Claim in any manner against the Debtors or the Distribution Agent, or their respective assets.

Section 5.08. Limitation on Distribution Rights

If a claimant holds more than one Claim in any one Class, all Claims of the claimant in that Class will be aggregated into one Claim and one distribution will be made with respect to the aggregated Claim.

Section 5.09. Fractional Dollars

Notwithstanding any other provision of the Plan, Cash distributions of fractions of dollars will not be made; rather, whenever any payment of a fraction of a dollar would be called for, the actual payment made shall reflect a rounding of such fraction to the nearest whole dollar (up or down), with half dollars being rounded down. To the extent that Cash remains undistributed as a result of the rounding of such fraction to the nearest whole dollar, such Cash shall be treated as Unclaimed Property pursuant to Section 5.07 of this Plan.

Section 5.10. Compliance With Tax Requirements

In connection with each distribution with respect to which the filing of an information return (such as an Internal Revenue Service Form 1099 or 1042) or withholding is required, the Debtors or the Distribution Agent, as appropriate, shall file such information return with the Internal Revenue Service and provide any required statements in connection therewith to the recipients of such distribution or effect any such withholding and deposit all moneys so withheld as required by law. With respect to any Person from whom a tax identification number, certified tax identification number or other tax information required by law to avoid withholding has not been received by the Debtors or the Distribution Agent within thirty (30) days from the date of such request, the Debtors or the Distribution Agent, at their or its option, may withhold the amount required and distribute the balance to such Person or decline to make such distribution until the information is received.

Section 5.11. De Minimis Distributions

No Cash payment of less than five (\$5.00) dollars shall be made to any Holder of an Allowed Claim on account of such Allowed Claim.

ARTICLE VI.
EXECUTORY CONTRACTS AND UNEXPIRED LEASES; INDEMNIFICATION
OBLIGATIONS; BENEFIT PROGRAMS

Section 6.01. Rejection of Executory Contracts and Unexpired Leases.

Pursuant to sections 365 and 1123 of the Bankruptcy Code, except as otherwise set forth in this Article VI, each executory contract and unexpired lease to which any Debtor is a party shall be deemed automatically rejected by the Debtors effective as of the Effective Date, except for any executory contract or unexpired lease (i) that has been assumed or rejected pursuant to an order of the Bankruptcy Court entered prior to the Effective Date, (ii) that is the subject of a motion to assume or reject pending on the Effective Date, (iii) that is assumed, rejected or otherwise treated pursuant to Section 6.03 or Section 6.04 of the Plan, (iv) that is listed on Schedule 6.02(a) or 6.02(b) of the Plan, or (v) as to which a Treatment Objection has been filed and properly served by the Treatment Objection Deadline. If an executory contract or unexpired lease either (x) has been assumed or rejected pursuant to an order of the Bankruptcy Court entered prior to the Effective Date or (y) is the subject of a motion to assume or reject pending on the Confirmation Date, then the listing of any such executory contract or unexpired lease on the aforementioned Schedules shall be of no effect.

Section 6.02. Schedules of Executory Contracts and Unexpired Leases.

(a) Schedules 6.02(a) and 6.02(b) of this Plan shall represent the Debtors' good faith belief regarding the intended treatment of all executory contracts and unexpired leases listed thereon. The Debtors reserve the right, on or prior to 3:00 p.m. (prevailing Eastern time) on the third Business Day immediately prior to the commencement of the Confirmation Hearing, (i) to amend Schedules 6.02(a) and 6.02(b) in order to add, delete or reclassify any executory contract or unexpired lease or amend a proposed assignment and (ii) to amend the Proposed Cure, in each case with respect to any executory contract or unexpired lease previously listed as to be assumed; provided, however, that if the Confirmation Hearing is adjourned for a period of more than two consecutive calendar days, such amendment right shall be extended to 3:00 p.m. on the Business Day immediately prior to the rescheduled or continued Confirmation Hearing, and this proviso shall apply in the case of any and all subsequent adjournments of the Confirmation Hearing. Pursuant to sections 365 and 1123 of the Bankruptcy Code, and except with respect to executory contracts and unexpired leases as to which a Treatment Objection is properly filed and served by the Treatment Objection Deadline, (i) each of the executory contracts and unexpired leases listed on Schedule 6.02(a) shall be deemed assumed (and, if applicable, assigned) effective as of the Assumption Effective Date specified thereon and the Proposed Cure specified in the notice mailed to each Assumption Party shall be the Cure and shall be deemed to satisfy fully any obligations the Debtors might have with respect to such executory contract or unexpired lease under section 365(b) of the Bankruptcy Code and (ii) each of the executory contracts and unexpired leases listed on Schedule 6.02(b) shall be deemed rejected effective as of the Rejection Effective Date specified thereon. The Debtors reserve the right to object to any Treatment Objection.

(b) The Debtors shall file initial versions of Schedules 6.02(a) and 6.02(b) and any amendments thereto with the Bankruptcy Court and shall serve all notices thereof only on the relevant Assumption Parties and Rejection Parties. With respect to any executory contract or unexpired lease first listed on Schedule 6.02(b) later than the date that is ten calendar days prior to the Voting Deadline, the Debtors shall use their best efforts to notify the applicable Rejection Party promptly of such proposed treatment via facsimile, email or telephone at any notice address or number included in the relevant executory contract or unexpired lease or as otherwise timely provided in writing to the Debtors by any such counterparty or its counsel.

(c) With respect to any executory contracts or unexpired leases first listed on Schedule 6.02(b) later than the date that is ten calendar days before the Voting Deadline, affected Rejection Parties shall have five calendar days from the date of such amendment to Schedule 6.02(b) to object to Confirmation of this Plan. With respect to any executory contracts or unexpired leases first listed on Schedule 6.02(b) later than the Voting Deadline, affected Rejection Parties shall have until the Confirmation Hearing to object to Confirmation of this Plan or amend any vote on the Confirmation of this Plan.

(d) The listing of any contract or lease on Schedule 6.02(a) or 6.02(b) is not an admission that such contract or lease is an executory contract or unexpired lease.

Section 6.03. Categories of Executory Contracts and Unexpired Leases to be Assumed.

Pursuant to sections 365 and 1123 of the Bankruptcy Code, each of the executory contracts and unexpired leases within the following categories shall be deemed assumed as of the Effective Date (and the Proposed Cure with respect to each shall be zero dollars), except for any executory contract or unexpired lease (i) that has been previously assumed or rejected pursuant to an order of the Bankruptcy Court, (ii) that is the subject of a motion to assume or reject pending on the Confirmation Date, (iii) that is listed on Schedule 6.02(a) or 6.02(b), (iv) that is otherwise expressly assumed or rejected pursuant to the terms of this Plan or (v) as to which a Treatment Objection has been filed and properly served by the Treatment Objection Deadline.

(a) Customer Programs, Insurance Plans and Workers' Compensation Plans. Subject to the terms of the first paragraph of this Section 6.03, each Customer Program, Insurance Plan and Workers' Compensation Plan shall be deemed assumed effective as of the Effective Date. Nothing contained in this Section 6.03(a) shall constitute or be deemed a waiver of any Cause of Action that the Debtors may hold against any entity, including, without limitation, the insurer under any of the Debtors' Insurance Plans. Except as provided in the previous sentence, all Proofs of Claim on account of or in respect of any agreement covered by this Section 6.03(a) shall be deemed withdrawn automatically and without any further notice to or action by the Bankruptcy Court.

(b) Certain Indemnification Obligations. Each Indemnification Obligation to a director, officer or employee that was employed by any of the Debtors in such capacity on or after the Petition Date shall be deemed assumed effective as of the Effective Date; provided, however, that any Indemnification Obligation contained in an Employee Agreement that is rejected pursuant to Section 6.04 shall also be deemed rejected. Each Indemnification

Obligation that is deemed assumed pursuant to the Plan shall (i) remain in full force and effect, (ii) not be modified, reduced, discharged, impaired or otherwise affected in any way, (iii) be

deemed and treated as an executory contract pursuant to sections 365 and 1123 of the Bankruptcy Code regardless of whether or not Proofs of Claim have been filed with respect to such obligation and (iv) survive Unimpaired and unaffected irrespective of whether such indemnification is owed for an act or event occurring before or after the Petition Date.

Notwithstanding anything contained in this Plan, the Debtors may in their sole discretion (but have no obligation to) honor each Indemnification Obligation to a director, officer or employee that was no longer employed by any of the Debtors in such capacity on or after the Petition Date, unless such obligation (i) shall have been previously rejected by the Debtors by Final Order of the Bankruptcy Court, (ii) is the subject of a motion to reject pending on or before the Confirmation Date, (iii) is listed on Schedule 6.02(b) or (iv) is otherwise expressly rejected pursuant to the terms of the Plan or any Notice of Intent to Assume or Reject.

(c) Collective Bargaining Agreements. Subject to the terms of the first paragraph of this Section 6.03, POA's Collective Bargaining Agreement with the Union, as amended (including, without limitation, by the Union Settlement), shall be deemed assumed effective as of the Effective Date; provided, however, that nothing in this Section or otherwise in the Plan shall be deemed to effect an assumption of any media agreement, pension plan, retirement plan, savings plan, health plan or other employee benefit or participation plan rejected, discontinued, withdrawn from, terminated or for which the authority to effectuate the foregoing was granted. The consideration, if any, set forth in the Union Settlement shall be the sole consideration for, and shall be deemed to satisfy, all Claims and Interests arising under POA's Collective Bargaining Agreement (including all predecessors thereto) held by the AFM and/or the AFM-EPF. With the exception of Claims treated under this Plan pursuant to the AFM-EPF Settlement, upon assumption of the Collective Bargaining Agreement, the following Proofs of Claim shall be deemed withdrawn, disallowed and forever barred from assertion automatically and without any further notice to or action, order or approval of the Bankruptcy Court: (i) all Proofs of Claim filed by the Union against the Debtors; (ii) all Proofs of Claim filed by the AFM against the Debtors; (iii) all Proofs of Claim filed by the AFM-EPF against the Debtors; and (iv) all Proofs of Claim filed against the Debtors by Union-represented employees, pertaining, in each case, to rights collectively bargained for or disposed of pursuant to POA's Collective Bargaining Agreement, including, without limitation, Claims on account of grievances, reinstatement and pension obligations; provided, however, that the Debtors reserve the right to seek adjudication of any Collective Bargaining Agreement-related dispute that concerns distributions, Claims, restructuring transactions or other aspects of the Plan between the Debtors and the Union and/or the AFM and/or the AFM-EPF in the Bankruptcy Court. Nothing contained in Section 6.03 of the Plan shall affect the treatment of any Claim to the extent previously Allowed by a Final Order of the Bankruptcy Court.

(d) Integrated Media Agreement. Subject to the terms of the first paragraph of this Section 6.03, the Integrated Media Agreement negotiated in the ordinary course of business between POA and the AFM that governs certain national and regional media broadcasts

as well as the side letter between POA and Local #77 recognizing the Integrated Media Agreement shall be deemed assumed effective as of the Effective Date.

(e) License Agreements. Subject to the terms of the first paragraph of this Section 6.03, each License Agreement, shall be deemed assumed effective as of the Effective Date. Nothing contained in this Section 6.03(e) shall constitute or be deemed a waiver of any defense or Cause of Action that the Debtors may hold against any individual or entity, including, without limitation, any counterparty to a License Agreement.

(f) Certain Lease Agreements. Subject to the terms of the first paragraph of this Section 6.03, any leases, subleases or other agreements with ITW Mortgage Investments III, Inc. ("ITW") or any successor in interest to ITW, governing the Debtors' use of office space at The Atlantic Building, 260 S. Broad Street, 16th Floor, Philadelphia shall be deemed assumed subject to mutual 120-day notice periods of termination. Nothing contained in this Section 6.03(e) shall constitute or be deemed a waiver of any defense or Cause of Action that the Debtors may hold against any individual or entity, including, without limitation, any counterparty to a lease or sublease agreement with respect to the POA office space located at 260 S. Broad Street, 16th Floor, Philadelphia.

(g) Independent Artist Contracts. Subject to the terms of the first paragraph of this Section 6.03, each Independent Artist Contract shall be deemed assumed effective as of the Effective Date. Nothing contained in this Section 6.03(g) shall constitute or be deemed a waiver of any defense or Cause of Action that the Debtors may hold against any individual or entity, including, without limitation, any counterparty to an Independent Artist Contract.

(h) Charitable Gift Annuities and Other Non-Endowment Annuities. Subject to the terms of the first paragraph of this Section 6.03, each charitable gift annuity and other non-endowment annuity shall be deemed assumed effective as of the Effective Date.

Section 6.04. Other Categories of Agreements and Policies.

(a) Employee Agreements. Pursuant to sections 365 and 1123 of the Bankruptcy Code, each Employee Agreement entered into prior to the Petition Date shall be deemed assumed effective as of the Effective Date, except for any Employee Agreement (i) that has been assumed or rejected pursuant to an order of the Bankruptcy Court entered prior to the Effective Date, (ii) that is the subject of a motion to assume or reject pending on the Confirmation Date, (iii) that is listed on Schedule 6.02(a) or 6.02(b) of the Plan, (iv) that is otherwise expressly assumed or rejected pursuant to the terms of the Plan, or (v) as to which a Treatment Objection has been filed and properly served by the Treatment Objection Deadline.

(b) Employee Benefits. As of the Effective Date, whether or not such employee benefits are provided for in an Employee Agreement that has been rejected in these Chapter 11 Cases (by operation of this Plan or otherwise), the Debtors, in their sole and absolute discretion, may honor, in the ordinary course of business, the Debtors' written contracts, agreements, policies, programs and plans for, among other things, compensation, health care benefits, disability benefits, severance benefits, retirement benefits, welfare benefits, relocation programs, life insurance and accidental death and dismemberment insurance, including written

contracts, agreements, policies, programs and plans for bonuses and other incentives or compensation for the directors, officers and employees of any of the Debtors who served in such capacity at any time; provided, however, that this provision does not address collective bargaining agreements or the terms of employment of employees represented by labor unions. To the extent that the above-listed contracts, agreements, policies, programs and plans are executory contracts, pursuant to sections 365 and 1123 of the Bankruptcy Code, unless a Treatment Objection is timely filed and properly served, each of them will be deemed assumed (as modified or terminated) as of the Effective Date with a Cure of zero dollars. However, notwithstanding anything else herein, at the discretion of the Debtors, the assumed plans shall be subject to modification in accordance with the terms thereof.

The Debtors may execute amended employment agreements with certain of their employees on or before the Confirmation Date subject to the approval of the Bankruptcy Court.

Section 6.05. Assumption and Rejection Procedures and Resolution of Treatment Objections.

(a) Proposed Assumptions.

(i) With respect to any executory contract or unexpired lease to be assumed pursuant to any provision of this Plan or any Notice of Intent to Assume or Reject, unless an Assumption Party files and properly serves a Treatment Objection by the Treatment Objection Deadline, such executory contract or unexpired lease shall be deemed assumed as of the Assumption Effective Date proposed by the Debtors, without any further notice to or action by the Bankruptcy Court, and any obligation the Debtors may have to such Assumption Party with respect to such executory contract or unexpired lease under section 365(b) of the Bankruptcy Code shall be deemed fully satisfied by the Proposed Cure, if any, which shall be the Cure.

(ii) Any objection to the assumption of an executory contract or unexpired lease that is not timely filed and properly served shall be denied automatically and with prejudice (without the need for any objection by the Debtors and without any further notice to or action, order or approval by the Bankruptcy Court), and any Claim relating to such assumption shall be forever barred from assertion and shall not be enforceable against any Debtor or its Estate or properties without the need for any objection by the Debtors and without any further notice to or action, order or approval by the Bankruptcy Court, and any obligation the Debtors may have under section 365(b) of the Bankruptcy Code (over and above any Proposed Cure) shall be deemed fully satisfied, released and discharged, notwithstanding any amount or information included in the Schedules or any Proof of Claim.

(b) Proposed Rejections.

(i) With respect to any executory contract or unexpired lease to be rejected pursuant to any provision of this Plan or any Notice of Intent to Assume or Reject, unless a Rejection Party files and properly serves a Treatment Objection by the Treatment Objection Deadline, such executory contract or unexpired lease shall be deemed rejected as of the Rejection Effective Date proposed by the Debtors without any further notice to or action by the Bankruptcy Court.

(ii) Any objection to the rejection of an executory contract or unexpired lease that is not timely filed and properly served shall be deemed denied automatically and with prejudice (without the need for any objection by the Debtors and without any further notice to or action, order or approval by the Bankruptcy Court).

(c) Resolution of Treatment Objections.

(i) Both on and after the Effective Date, the Debtors may, in their sole discretion, settle Treatment Objections without any further notice to or action by the Bankruptcy Court or any other party (including by paying any agreed Cure amounts).

(ii) With respect to each executory contract or unexpired lease as to which a Treatment Objection is timely filed and properly served and that is not otherwise resolved by the parties after a reasonable period of time, the Debtors, in consultation with the Bankruptcy Court, shall schedule a hearing on such Treatment Objection and provide at least 14 calendar days' notice of such hearing to the relevant Assumption Party or Rejection Party. Unless the Bankruptcy Court expressly orders or the parties agree otherwise, any assumption or rejection approved by the Bankruptcy Court notwithstanding a Treatment Objection shall be effective as of the Assumption Effective Date or Rejection Effective Date originally proposed by the Debtors or specified in the Plan.

(iii) Any Cure shall be paid as soon as reasonably practicable following the entry of a Final Order resolving an assumption dispute and/or approving an assumption, unless the Debtors file a Notice of Intent to Assume or Reject under Section 6.05(d).

(iv) No Cure shall be allowed for a penalty rate or default rate of interest, each to the extent not proper under the Bankruptcy Code or applicable law.

(d) Reservation of Rights. If a Treatment Objection is filed with respect to any executory contract or unexpired lease sought to be assumed or rejected by any of the Debtors, the Debtors reserve the right (i) to object to such Treatment Objection; (ii) to seek to assume or reject such agreement at any time before the assumption, rejection, assignment or Cure with respect to such agreement is determined by Final Order, and (iii) to the extent a Final Order is entered resolving a dispute as to Cure or the permissibility of assignment (but not approving the assumption of the executory contract or unexpired lease sought to be assumed), to seek to reject such agreement within 14 calendar days after the date of such Final Order, in each case by filing with the Bankruptcy Court and serving upon the applicable Assumption Party or Rejection Party, as the case may be, a Notice of Intent to Assume or Reject.

Section 6.06. Rejection Claims.

With respect to any executory contract or unexpired lease that is rejected by the Debtors pursuant to this Plan or during the administration of these Chapter 11 Cases, the Rejection Party shall file a Rejection Claim on or before the Rejection Bar Date. Any Rejection Claim for which a Rejection Claim is not properly filed and served by the Rejection Bar Date shall be forever barred and shall not be enforceable against the Debtors, or their respective Estates or properties. The Debtors reserve the right to contest any Rejection Claim, which

dispute shall be resolved by the Bankruptcy Court prior to the allowance of the disputed Rejection Claim.

Section 6.07. Assignment.

To the extent provided under the Bankruptcy Code or other applicable law, any executory contract or unexpired lease transferred and assigned pursuant to this Plan shall remain in full force and effect for the benefit of the transferee or assignee in accordance with its terms, notwithstanding any provision in such executory contract or unexpired lease (including those of the type described in section 365(b)(2) of the Bankruptcy Code) that prohibits, restricts or conditions such transfer or assignment. To the extent provided under the Bankruptcy Code or other applicable law, any provision that prohibits, restricts or conditions the assignment or transfer of any such executory contract or unexpired lease or that terminates or modifies such executory contract or unexpired lease or allows the counterparty to such executory contract or unexpired lease to terminate, modify, recapture, impose any penalty, condition renewal or extension, or modify any term or condition upon any such transfer and assignment constitutes an unenforceable anti-assignment provision and is void and of no force or effect.

Section 6.08. Approval of Assumption, Rejection, Retention or Assignment of Executory Contracts and Unexpired Leases.

(a) Entry of the Confirmation Order by the Bankruptcy Court shall, subject to the occurrence of the Effective Date, constitute approval of the rejections, retentions, assumptions and/or assignments contemplated by this Plan pursuant to sections 365 and 1123 of the Bankruptcy Code. Each executory contract and unexpired lease that is assumed (and/or assigned) pursuant to the Plan shall vest in and be fully enforceable by the applicable Debtor in accordance with its terms as of the applicable Assumption Effective Date, except as modified by the provisions of this Plan, any order of the Bankruptcy Court authorizing or providing for its assumption (and/or assignment), or applicable federal law.

(b) The provisions (if any) of each executory contract or unexpired lease assumed and/or assigned pursuant to the Plan that are or may be in default shall be deemed satisfied in full by the Cure, or by an agreed-upon waiver of the Cure. Upon payment in full of the Cure, any and all Proofs of Claim based upon an executory contract or unexpired lease that has been assumed in the Chapter 11 Cases or under the terms of the Plan shall be deemed disallowed and expunged with no further action required of any party or order of the Bankruptcy Court.

Section 6.09. Modifications, Amendments, Supplements, Restatements or Other Agreements.

Unless otherwise provided by this Plan or by separate order of the Bankruptcy Court, each executory contract and unexpired lease that is assumed, whether or not such executory contract or unexpired lease relates to the use, acquisition or occupancy of real property, shall include (i) all modifications, amendments, supplements, restatements or other agreements made directly or indirectly by any agreement, instrument or other document that in any manner affects such executory contract or unexpired lease and (ii) all executory contracts or unexpired leases appurtenant to the premises, if any, including all easements, licenses, permits,

rights, privileges, immunities, options, rights of first refusal, powers, uses, reciprocal easement agreements and any other interests in real estate or rights in remedy related to such premises, unless any of the foregoing agreements has been or is rejected pursuant to an order of the Bankruptcy Court or is otherwise rejected as part of the Plan.

Modifications, amendments, supplements and restatements to pre-petition executory contracts and unexpired leases that have been executed by the Debtors during the Chapter 11 Cases and actions taken in accordance therewith (i) do not alter in any way the pre-petition nature of the executory contracts and unexpired leases, or the validity, priority or amount of any Claims against the Debtors that may arise under the same, (ii) are not and do not create postpetition contracts or leases, (iii) do not elevate to administrative expense priority any Claims of the counterparties to the executory contracts and unexpired leases against any of the Debtors and (iv) do not entitle any entity to a Claim under any section of the Bankruptcy Code on account of the difference between the terms of any pre-petition executory contracts or unexpired leases and subsequent modifications, amendments, supplements or restatements.

ARTICLE VII. MEANS FOR IMPLEMENTATION OF THE PLAN

Section 7.01. Continued Existence.

Except as otherwise provided in the Plan, each Debtor shall, as a Reorganized Debtor, continue to exist after the Effective Date as a separate legal entity, each with all the powers of a nonprofit corporation under the laws of its respective jurisdiction of organization and without prejudice to any right to alter or terminate such existence (whether by merger or otherwise) under applicable state law.

Section 7.02. Restructuring Transactions.

On or as of the Effective Date, the distributions provided for under the Plan shall be effectuated pursuant to the following transactions described in this Article VII of the Plan (the “Restructuring Transactions”), all of which shall occur in seriatim, and the documentation for which shall be satisfactory to the Debtors:

(a) The DIP Facility shall be converted to Exit Financing with the agreement of the DIP Lender;

(b) The Debtors shall solicit gifts and other donations to achieve the amount designated as the Net Unsecured Creditors Fund and to fund any and all other distributions provided by the Plan;

(c) Upon the entry of the Confirmation Order, the Trust Agreement shall be deemed to have been authorized and approved by the Bankruptcy Court, and the Debtors shall be authorized to enter into and adopt the Trust Agreement. On or before the Effective Date, the Debtors and The Annenberg Foundation shall execute the Trust Agreement in full satisfaction, settlement, release, extinguishment, and discharge of any Claims of The Annenberg Foundation in these Chapter 11 Cases. Upon the Effective Date, which shall also serve as the effective date of the Trust Agreement, the Proofs of Claim filed by The Annenberg Foundation in these

Chapter 11 Cases shall be deemed withdrawn without any further notice to or action, order or approval of the Bankruptcy Court.

Section 7.03. Other Transactions.

In addition, except as otherwise set forth in the Plan, prior to or as of the Effective Date, any or all of the Debtors may engage in any other transactions deemed necessary or appropriate (including, without limitation, merging, dissolving or transferring assets among them).

Section 7.04. Organizational Action

The entry of the Confirmation Order shall constitute authorization for the Debtors to take or to cause to be taken all actions necessary or appropriate to consummate and implement the provisions of the Plan prior to, on and after the Effective Date, and all such actions taken or caused to be taken shall be deemed to have been authorized and approved by the Bankruptcy Court. On or (as applicable) before the Effective Date, the appropriate officers and managers of the Debtors are authorized and directed to execute and deliver the agreements, documents and instruments contemplated by the Plan (or necessary or desirable to effect the transactions contemplated by the Plan) in the name and on behalf of the Debtors.

ARTICLE VIII.
PRESERVATION OF CAUSES OF ACTION AND
RIGHT TO DEFEND AND CONTEST

Section 8.01. Preservation of Rights

Except to the extent that any Claim is Allowed during the Chapter 11 Cases or expressly by this Plan, the Confirmation Order, or other order of the Bankruptcy Court, nothing, including, but not limited to, the failure of the Debtors or the Distribution Agent to object to a Claim or Interest for any reason during the pendency of the Chapter 11 Cases, shall affect, prejudice, diminish or impair the rights and legal and equitable defenses of the Debtors or the Distribution Agent, with respect to any Claim or Interest, including, but not limited to, all rights of the Debtors or the Distribution Agent to contest or defend themselves against such Claims or Interests in any lawful manner or forum when and if such Claim or Interest is sought to be enforced by the Holder thereof.

Section 8.02. Rights of Action

Except as otherwise provided in the Plan or the Confirmation Order, all Transferred Avoidance Actions shall automatically revert to and become the property of the Reorganized Debtors. The Reorganized Debtors will waive the right to enforce and prosecute such Transferred Avoidance Actions against any Person or Entity, that arose before the Effective Date, other than those expressly preserved or retained as part of or pursuant to the Plan or Confirmation Order. Nothing herein shall constitute the Debtors' waiver or release of claims, Causes of Action, or defenses not arising under chapter 5 of the Bankruptcy Code.

Section 8.03. Setoffs

Except to the extent that any Claim is Allowed, the Debtors or the Distribution Agent, as applicable, may, but shall not be required to, set off against any Claims and the payments or distributions to be made pursuant to the Plan in respect of such Claims, any and all debts, liabilities, Causes of Action and Claims of every type and nature whatsoever which the Estates, the Debtors or the Distribution Agent may have against such Creditors, but neither the failure to do so nor the allowance of any such Claims, whether pursuant to the Plan or otherwise, shall constitute a waiver or release by the Debtors or the Distribution Agent of any such Claims or Causes of Action the Debtors or the Distribution Agent may have against such Creditors.

Section 8.04. No Payment or Distribution Pending Allowance

All references to Claims and amounts of Claims refer to the amount of the Claim Allowed by agreement of the Debtors or the Distribution Agent and the Holder of such Claim, by operation of law, by Final Order, or by this Plan. Notwithstanding any other provision in the Plan, no payment or distribution shall be made on account of or with respect to any Claim to the extent it is a Disputed Claim unless and until the Disputed Claim becomes an Allowed Claim.

Section 8.05. Resolution of Disputed Claims

Unless otherwise ordered by the Court after notice and a hearing, the Debtors or the Distribution Agent, as applicable, shall have the right, on and after the Effective Date, to File Objections to Claims (except those specifically Allowed by this Plan) and shall serve a copy of each such objection upon the Holder of the Claim to which the Objection is made as soon as practicable, but in no event later than the applicable Claims Objection Deadline. The foregoing deadlines may be extended by order of the Court. An Objection to any Claim shall be deemed properly served on the Holder thereof if the Debtors or Distribution Agent effects service in any of the following manners: (a) in accordance with Rule 4 of the Federal Rules of Civil Procedure, as modified and made applicable by Federal Rule of Bankruptcy Procedure 7004; (b) by first class mail, postage prepaid, on the signatory on the Proof of Claim or other representative identified in the Proof of Claim or any attachment thereto; or (c) by first class mail, postage prepaid, on any counsel that has appeared on the Holder's behalf in the Chapter 11 Cases.

**ARTICLE IX.
CONDITIONS TO CONSUMMATION OF THE PLAN**

Section 9.01. Conditions to Confirmation.

The following are conditions precedent to Confirmation of the Plan that must be satisfied or waived in accordance with Section 9.03 of the Plan:

(a) The Bankruptcy Court shall have entered a Confirmation Order in form and substance acceptable to the Debtors.

Section 9.02. Conditions to Effectiveness.

The following are conditions precedent to the occurrence of the Effective Date, each of which must be satisfied or waived in accordance with Section 12.03 of the Plan:

(a) The Confirmation Order, in form and substance acceptable to the Debtors, shall have been entered and become a Final Order;

(b) All actions, documents and agreements necessary to implement the Plan shall have been effected or executed as determined by the Debtors in their sole and absolute discretion;

(c) The Debtors shall have received any authorizations, consents, regulatory approvals, rulings, letters, no-action letters, opinions or documents that are necessary to implement the Plan and that are required by law, regulation or order, in each case as determined by the Debtors in their sole and absolute discretion; and

(d) The Plan Documents shall have been executed and delivered by all of the parties thereto.

Section 9.03. Waiver of Conditions to Confirmation or Effectiveness.

Upon written notice to the Committee, the Debtors may waive any of the conditions set forth in Section 9.01 and Section 9.02 hereof at any time, without any notice to other parties-in-interest or the Bankruptcy Court and without any formal action other than proceeding to confirm and/or consummate the Plan. The failure to satisfy any condition prior to the Confirmation Date or the Effective Date may be asserted by the Debtors, in their sole and absolute discretion (with written notice to the Committee), as a reason not to seek Confirmation or declare an Effective Date, regardless of the circumstances giving rise to the failure of such condition to be satisfied (including any action or inaction by the Debtors, in their sole discretion). The failure of the Debtors, in their sole discretion, to exercise any of the foregoing rights shall not be deemed a waiver of any other rights and each such right shall be deemed an ongoing right, which may be asserted at any time.

**ARTICLE X.
EFFECTS OF CONFIRMATION**

Section 10.01. Vesting of Assets.

Upon the Effective Date, pursuant to sections 1141(b) and (c) of the Bankruptcy Code, all property of each of the Debtors, including perpetual rights of AOM to Rehearsal Hall and of POA to the Academy House Office Spaces, shall vest in each of the respective Reorganized Debtors free and clear of all Claims, Liens, encumbrances, charges and other interests, except as otherwise specifically provided in the Plan. All Liens, Claims, encumbrances, charges and other interests shall be deemed fully released and discharged as of the Effective Date, except as otherwise provided in the Plan. As of the Effective Date, the Reorganized Debtors may operate their organizations and may use, acquire and dispose of property and settle and compromise Claims and Interests without supervision or approval by the Bankruptcy Court and free of any restrictions of the Bankruptcy Code or the Bankruptcy Rules and in all respects as if there were no pending cases under any chapter or provision of the Bankruptcy Code.

Section 10.02. Injunction

(a) Discharged Claims and Terminated Interests. Pursuant to section 1141(d) the Bankruptcy Code, Confirmation will discharge Claims against the Debtors. No Holder of a Claim against any Debtor may, on account of such Claim, seek or receive any payment or other distribution from, or seek recourse against, any of the Debtors' respective successors or their respective property, except as expressly provided herein. Accordingly, except as otherwise provided herein, the Confirmation Order shall provide, among other things, that no Holder of a Claim against any Debtor may, on account of such Claim, seek or receive any payment or other distribution from, or seek recourse against, any of the Debtors' respective successors or their respective property, except that from and after the Confirmation Date, all Persons who have held, hold, or may hold Claims against or Interests in the Debtors are permanently enjoined from taking any of the following actions against the Debtors, or any of their property on account of such Claims or Interests: (i) commencing or continuing, in any manner or in any place, any action or other proceeding; (ii) enforcing, attaching, collecting, or recovering in any manner any judgment, award, decree, or order; (iii) creating, perfecting, or enforcing any Lien or encumbrance; and (iv) commencing or continuing, in any manner or in any place, any action that does not comply with or is inconsistent with the provisions of the Plan; provided, however, that nothing contained herein shall preclude such Persons from exercising their rights pursuant to and consistent with the terms of the Plan. Notwithstanding anything to the contrary in the Plan, creditors' rights of setoff and recoupment are preserved, and the injunctions referenced in this section or Section 10.03 of the Plan shall not enjoin the valid exercise of such rights of setoff and recoupment. By accepting distributions pursuant to the Plan, each Holder of an Allowed Claim or Allowed Interest shall be deemed to have specifically consented to the injunctions set forth in this Section 10.02.

(b) Exculpation and Limitation of Liability. Except as otherwise specifically provided in the Plan, to the maximum extent permitted by the Bankruptcy Code and applicable law, neither the Distribution Agent, the Debtors, nor any Exculpated Person shall have or incur any liability to any Person, including, without limitation, any Holder of a Claim or Interest or any other party in interest, or any of their respective agents, employees, representatives, financial advisors, attorneys or affiliates or any of their successors or assigns, for any act taken or omission made in connection with, relating to, or arising out of, the Chapter 11 Cases, filing, negotiating, prosecuting, administering, formulating, implementing, soliciting support or acceptance of, confirming or consummating this Plan or the Property to be distributed under this Plan, including all activities leading to the promulgation and Confirmation of the Plan, the Disclosure Statement (including any information provided or statement made in the Disclosure Statement or omitted therefrom), or any contract, instrument, release or other agreement or document created in connection with or related to the Plan or the administration of the Debtors or these Chapter 11 Cases, provided, however, that the foregoing exculpation shall not apply to any act of gross negligence or willful misconduct. Nothing in the Plan or the Confirmation Order shall release any Person, other than the Debtors, from any environmental liability towards a Federal Governmental Unit incurred as a result of said Person's ownership or operation of real property after Confirmation. Nothing in the Plan or the Confirmation Order shall release any Person, other than the Debtors and ESI, from any liability to PBGC or the Pension Plans for breach of fiduciary duty.

Section 10.03. Releases

(a) Releases by Debtors. Effective as of the Effective Date, and except as otherwise provided in the Plan or the Confirmation Order, for good and valuable consideration, the adequacy of which is hereby confirmed, the Debtors, in their individual capacities and as debtors in possession, will be deemed to have forever released, waived and discharged the Releasees from any and all Claims, obligations, suits, judgments, damages, demands, debts, rights, Causes of Action and liabilities (other than the rights of the Debtors or the Distribution Agent to enforce the Plan and the contracts, instruments, releases, indentures and other agreements or documents delivered thereunder), whether for tort, contract, violations of federal or state securities laws, or otherwise, whether liquidated or unliquidated, fixed or contingent, matured or unmatured, known or unknown, foreseen or unforeseen, then existing or thereafter arising, in law, equity or otherwise that are based in whole or part on any act, omission, transaction, event or other occurrence, including actions in connection with indebtedness for money borrowed by the Debtors, taking place on or prior to the Effective Date in any way relating to the Debtors, the Chapter 11 Cases, or the Plan.

(b) Releases by Holders of Claims and Interests. Effective as of the Effective Date, and except as otherwise provided in the Plan or the Confirmation Order, in consideration for the obligations of the Debtors under the Plan and the payments, contracts, instruments, releases, agreements or documents to be entered into or delivered in connection with the Plan, each Person (excluding any of the Debtors) that has held, currently holds or may hold a Claim or Interest, and any Affiliate of any such Person (as well as any trustee or agent on behalf of each such Person), shall be deemed to have forever waived, released and discharged the Releasees from any and all Claims, obligations, suits, judgments, damages, rights, Causes of Action and liabilities whatsoever (other than the right to enforce the performance of their respective obligations, if any, to the Debtors or the Distribution Agent under the Plan, and the contracts, instruments releases and other agreements delivered under the Plan), whether liquidated or unliquidated, fixed or contingent, matured or unmatured, known or unknown, foreseen or unforeseen, then existing or thereafter arising, in law, equity or otherwise that are based in whole or in part on any act or omission, transaction, event or other occurrence taking place on or prior to the Effective Date in any way relating to the Debtors, the Chapter 11 Cases, the Plan or the Disclosure Statement other than Claims or liabilities arising out of or relating to any act or omission that constitutes a failure to perform the duty to act in good faith and where such failure to perform constitutes willful misconduct, gross negligence, or fraud; provided, that this Section 10.03(b) shall not release any Person from any Claim or Cause of Action existing as of the Effective Date, based on (x) the Internal Revenue Code or any other domestic state, city or municipal tax code, (y) any liability that the Person may have as an owner or operator of real property after Confirmation under the environmental laws of the United States or any domestic state, city or municipality or (z) any criminal laws of the United States or any domestic state, city or municipality. Nothing in the Plan or the Confirmation Order shall constitute a release by PBGC of claims against any Person, other than the Debtors and ESI, for liability to PBGC or the Pension Plans for breach of fiduciary duty.

(c) Injunction. Except as otherwise specifically provided herein, on the Effective Date, the Confirmation Order shall constitute an injunction permanently enjoining any Person (excluding any of the Debtors) that has held, currently holds or may hold a Claim,

demand, debt, right, Cause of Action or liability that is released pursuant to this Section 10.03 of the Plan from enforcing or attempting to enforce any such Claim, demand, debt, right, Cause of Action or liability against any Releasee or any of their respective Property.

Section 10.04. Other Documents and Actions

The Debtors are authorized to execute such documents and take such other action as is necessary to effectuate the transactions provided for in the Plan.

Section 10.05. Term of Injunctions or Stays

Unless otherwise provided herein or in the Confirmation Order, all injunctions or stays provided for in the Chapter 11 Cases under sections 105(a) or 362 of the Bankruptcy Code, or otherwise, and in existence on the Confirmation Date, shall remain in full force and effect until the Effective Date.

Section 10.06. Preservation of Insurance

Except as necessary to be consistent with the Plan, the Plan and the discharge provided herein shall not diminish or impair: (a) the enforceability of insurance policies that may cover Claims against the Debtors or any other Person or Entity; or (b) the continuation of workers' compensation programs in effect, including self-insurance programs.

Section 10.07. Guaranties

Notwithstanding the existence of guaranties by the Debtors of obligations of any Entity or Entities, and the Debtors' joint obligations with another Entity or Entities with respect to the same obligations, all Claims against the Debtors based upon any such guaranties shall be satisfied, discharged and released in the manner provided in this Plan and the Holders of Claims shall be entitled to only one distribution with respect to any given obligation of the Debtors. .

Section 10.08. No Successor Liability

Except as otherwise expressly provided in the Plan, the Debtors and the Distribution Agent do not, pursuant to the Plan or otherwise, assume, agree to perform, pay, or indemnify or otherwise have any responsibilities for any liabilities or obligations of the Debtors or any other party relating to or arising out of the operations of or assets of the Debtors, whether arising prior to, on, or after the Effective Date. The Distribution Agent is not, and shall not be, successors to the Debtors by reason of any theory of law or equity, and shall not have any successor or transferee liability of any kind or character.

**ARTICLE XI.
RETENTION OF JURISDICTION**

Section 11.01. Exclusive Jurisdiction of Bankruptcy Court

Notwithstanding the entry of the Confirmation Order and the occurrence of the Effective Date, the Bankruptcy Court shall retain after the Effective Date exclusive jurisdiction

of all matters arising out of, arising in or related to the Chapter 11 Cases to the fullest extent permitted by applicable law, including, without limitation, jurisdiction to:

(a) classify or establish the priority or secured or unsecured status of any Claim (whether Filed before or after the Effective Date and whether or not contingent, Disputed or unliquidated) or resolve any dispute as to the treatment of any Claim pursuant to the Plan;

(b) grant or deny any applications for allowance of compensation or reimbursement of expenses pursuant to sections 330, 331 or 503(b) of the Bankruptcy Code or otherwise provided for in the Plan, for periods ending on or before the Effective Date;

(c) determine and resolve any matters related to the assumption, assumption and assignment or rejection of any executory contract or unexpired lease to which any Debtor is a party or with respect to which any Debtor may be liable, and to hear, determine and, if necessary, liquidate any Claims arising therefrom;

(d) ensure that all payments due under the Plan and performance of the provisions of the Plan are accomplished as provided herein and resolve any issues relating to distributions to Holders of Allowed Claims pursuant to the provisions of the Plan;

(e) construe, take any action and issue such orders, prior to and following the Confirmation Date and consistent with section 1142 of the Bankruptcy Code, as may be necessary for the enforcement, implementation, execution and consummation of the Plan and all contracts, instruments, releases, indentures and other agreements or documents created in connection with the Plan, including, without limitation, the Disclosure Statement and the Confirmation Order, for the maintenance of the integrity of the Plan and protection of the Distribution Agent in accordance with sections 524 and 1141 of the Bankruptcy Code following consummation;

(f) determine and resolve any cases, controversies, suits or disputes that may arise in connection with the consummation, interpretation, implementation or enforcement of the Plan (and all Exhibits to the Plan) or the Confirmation Order, including the indemnification and injunction provisions set forth in and contemplated by the Plan or the Confirmation Order, or any Entity's rights arising under or obligations incurred in connection therewith;

(g) hear any application of the Distribution Agent or the Debtors to modify the Plan after the Effective Date pursuant to section 1127 of the Bankruptcy Code and Section 12.04 hereof or modify the Disclosure Statement, the Confirmation Order or any contract, instrument, release, indenture or other agreement or document created in connection with the Plan, the Disclosure Statement or the Confirmation Order, or remedy any defect or omission or reconcile any inconsistency in any Bankruptcy Court order, the Plan, the Disclosure Statement, the Confirmation Order or any contract, instrument, release, indenture or other agreement or document created in connection with the Plan, the Disclosure Statement or the Confirmation Order, in such manner as may be necessary or appropriate to consummate the Plan, to the extent authorized by the Bankruptcy Code and the Plan;

(h) issue injunctions, enter and implement other orders or take such other actions as may be necessary or appropriate to restrain interference by any Entity with consummation, implementation or enforcement of the Plan or the Confirmation Order;

(i) enter and implement such orders as are necessary or appropriate if the Confirmation Order is for any reason modified, stayed, reversed, revoked or vacated;

(j) determine any other matters that may arise in connection with or relating to the Plan, the Disclosure Statement, the Confirmation Order or any contract, instrument, release, indenture or other agreement or document created in connection with the Plan, the Disclosure Statement or the Confirmation Order, except as otherwise provided in the Plan;

(k) determine such other matters and for such other purposes as may be provided in the Confirmation Order;

(l) hear and determine any other matters related hereto and not inconsistent with chapter 11 of the Bankruptcy Code;

(m) hear and determine disputes arising in connection with the interpretation, implementation or enforcement of the Plan;

(n) enter one or more Final Decrees closing each of the Chapter 11 Cases;

(o) determine and resolve any and all controversies relating to the rights and obligations of the Distribution Agent in connection with the Chapter 11 Cases;

(p) allow, disallow, determine, liquidate or estimate any Claim, including the compromise, settlement and resolution of any request for payment of any Claim, the resolution of any Objections to the allowance of Claims and to hear and determine any other issue presented hereby or arising hereunder, including during the pendency of any appeal relating to any Objection to such Claim (to the extent permitted under applicable law);

(q) permit the Debtors or the Distribution Agent, to the extent provided for in the Plan, to recover all assets of the Debtors and Property of their respective Estates, wherever located;

(r) hear and determine any motions or contested matters involving taxes, tax refunds, tax attributes and tax benefits and similar or related matters with respect to the Debtors or the Debtors' respective Estates arising prior to the Effective Date or relating to the period of administration of the Chapter 11 Cases, including, without limitation, matters concerning federal, state and local taxes in accordance with sections 346, 505 and 1146 of the Bankruptcy Code; and

(s) hear and determine any motions, applications, adversary proceedings, contested matters and other litigated matters pending on, Filed or commenced after the Effective Date that may be commenced by the Debtors or the Distribution Agent thereafter, including Transferred Avoidance Actions, proceedings with respect to the rights of the Debtors or the Distribution Agent to recover Property under sections 502, 510, 541, 542, 543, 544, 545, 547,

548, 550, 551 or 553 of the Bankruptcy Code, or proceedings to otherwise collect to recover on account of any Claim or Cause of Action that the Debtors may have had.

Section 11.02. Failure of Bankruptcy Court to Exercise Jurisdiction

If the Bankruptcy Court abstains from exercising or declines to exercise jurisdiction over any matter arising under, arising in or related to the Debtors, including with respect to the matters set forth above in Section 11.01 hereof, this Article XI shall not prohibit or limit the exercise of jurisdiction by any other court having competent jurisdiction with respect to such subject matter.

ARTICLE XII.
MISCELLANEOUS PROVISIONS

Section 12.01. Binding Effect of Plan

The provisions of the Plan shall be binding upon and inure to the benefit of the Debtors, the Estates, the Distribution Agent, any Holder of any Claim or Interest treated herein or any Person named or referred to in the Plan, and each of their respective heirs, executors, administrators, representatives, predecessors, successors, assigns, agents, officers and directors, and, to the fullest extent permitted under the Bankruptcy Code and other applicable law, each other Person affected by the Plan.

Section 12.02. Withdrawal of the Plan

The Debtors reserve the right, at any time prior to Confirmation of the Plan, to withdraw the Plan. If the Plan is withdrawn, the Plan shall be null and void and have no force and effect. In such event, nothing contained herein shall be deemed to constitute a waiver or release of any Claims by or against the Debtors or any other Person or to prejudice in any manner the rights of the Debtors or any Person in any further proceedings involving the Debtors.

Section 12.03. Final Order

Except as otherwise expressly provided in the Plan, any requirement in the Plan for a Final Order may be waived by the Debtors, in their sole discretion, provided, however, that in the event the Debtors determine in good faith that any such waiver would constitute a breach of the Debtors' fiduciary duties, the Debtors may seek to prevent any such waiver by seeking an order of the Bankruptcy Court on an expedited basis upon written notice to the Bankruptcy Court. No such waiver shall prejudice the right of any party in interest to seek a stay pending appeal of any order that is not a Final Order.

Section 12.04. Modification of the Plan

The Debtors may amend or modify the Plan in accordance with section 1127 of the Bankruptcy Code or as otherwise permitted at any time prior to the Confirmation Date. After the Confirmation Date and prior to the substantial consummation of the Plan, and in accordance with the provisions of section 1127(b) of the Bankruptcy Code and the Bankruptcy Rules, the Debtors may, so long as the treatment of Holders of Claims or Interests under the Plan is not

adversely affected, institute proceedings in the Bankruptcy Court to remedy any defect or omission or to reconcile any inconsistencies in the Plan, the Disclosure Statement or the Confirmation Order and any other matters as may be necessary to carry out the purposes and effects of the Plan; provided, however, prior notice of such proceedings shall be served in accordance with Bankruptcy Rules 2002 and 9014.

Section 12.05. Business Days

If any payment or act under the Plan is required to be made or performed on a date that is not a Business Day, then the making of such payment or the performance of such act may be completed on the next succeeding Business Day, but shall be deemed to have been completed as of the required date.

Section 12.06. Severability

Should the Bankruptcy Court determine, prior to the Confirmation Date, that any provision of the Plan is either illegal on its face or illegal as applied to any Claim or Interest, such provision shall be unenforceable as to all Holders of Claims or Interests or to the specific Holder of such Claim or Interest, as the case may be, as to which such provision is illegal. Unless otherwise determined by the Bankruptcy Court, such a determination of unenforceability shall in no way limit or affect the enforceability and operative effect of any other provision of the Plan.

Section 12.07. Governing Law

EXCEPT TO THE EXTENT THAT THE BANKRUPTCY CODE OR BANKRUPTCY RULES OR OTHER FEDERAL LAWS ARE APPLICABLE, AND SUBJECT TO THE PROVISIONS OF ANY CONTRACT, INSTRUMENT, RELEASE, INDENTURE OR OTHER AGREEMENT OR DOCUMENT ENTERED INTO IN CONNECTION WITH THE PLAN, THE CONSTRUCTION, IMPLEMENTATION AND ENFORCEMENT OF THE PLAN AND ALL RIGHTS AND OBLIGATIONS ARISING UNDER THE PLAN SHALL BE GOVERNED BY, AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE COMMONWEALTH OF PENNSYLVANIA, WITHOUT GIVING EFFECT TO CONFLICTS-OF-LAW PRINCIPLES WHICH WOULD APPLY THE LAW OF A JURISDICTION OTHER THAN THE COMMONWEALTH OF PENNSYLVANIA.

Section 12.08. Post-Effective Date Status of the Committee

The Committee shall continue in existence until the Effective Date, with the Debtors to pay the reasonable fees and expenses of the Committee and its professionals through the Effective Date. The Committee shall have standing to participate in proceedings brought by its respective professionals or, if applicable, members, for allowance of fees and/or reimbursement of expenses as permitted by law. Except as provided in this Section 12.08 or above, the Committee shall be dissolved on the Effective Date, and the members, attorneys, accountants, and other professionals thereof shall be released and discharged of and from all further authority, duties, responsibilities, liabilities, and obligations related to, or arising from, the Chapter 11 Cases, the Plan, or its implementation.

Section 12.09. Payment of Statutory Fees

All U.S. Trustee's Fee Claims, as determined, if necessary, by the Bankruptcy Court at the hearing pursuant to section 1128 of the Bankruptcy Code, shall be paid on or before the Effective Date by the Debtors.

Section 12.10. Post-Confirmation Operating Reports

To the extent required, the Debtors shall File quarterly operating reports as required by the United States Trustee until such time as a Final Decree or other order is entered under section 350(a) of the Bankruptcy Code closing the Debtors' bankruptcy cases.

Section 12.11. Notices

Any notice required or permitted to be provided under this Plan to the Debtors, or any request for information with respect to the Plan, shall be in writing and served by either (a) certified mail, return receipt requested, postage prepaid, (b) hand delivery or (c) reputable overnight delivery service, freight prepaid, to be addressed as follows:

The Philadelphia Orchestra Association
260 S. Broad Street, 16th Floor
Philadelphia, PA 19102
Attn: Mario Mestichelli
Email: mmestichelli@philorch.org

With copies to:

Dilworth Paxson LLP
1500 Market Street
Suite 3500E
Philadelphia, PA 19102
Attn.: Lawrence G. McMichael
Email: lmcmichael@dilworthlaw.com

Section 12.12. Filing of Additional Documents

Draft forms of certain Plan Documents and certain other documents, agreements, instruments, schedules and exhibits specified in the Plan shall, where expressly so provided for in this Plan, be contained in Plan supplements filed from time to time, all of which shall be filed with the Bankruptcy Court no later than 10 calendar days prior to the Voting Deadline. Unless otherwise expressly provided in the Plan, the Debtors shall remain free to modify or amend any such documents after such date. Upon filing with the Bankruptcy Court, the Plan supplements may be inspected in the office of the clerk of the Bankruptcy Court during normal court hours. Holders of Claims or Interests may also obtain a copy of the Plan supplements on the Debtors' Case Information Website (located at www.gcginco.com/cases/poa) or the Bankruptcy Court's Website (located at www.paed.uscourts.gov).

Section 12.13. Section 1125 of the Bankruptcy Code

(a) The Plan Proponents have, and upon Confirmation of the Plan shall be deemed to have, solicited acceptances of the Plan in good faith and in compliance with the applicable provisions of the Bankruptcy Code and (b) the Plan Proponents (and each of their respective Affiliates, officers, directors, employees, consultants, agents, advisors, members, attorneys, accountants, financial advisors, other representatives and Professionals), have participated in good faith and in compliance with the applicable provisions of the Bankruptcy Code in the offer, issuance, sale, and purchase of the securities offered and sold under the Plan, and are not, and on account of such offer, issuance, sale, solicitation, and/or purchase will not be, liable at any time for the violation of any applicable law, rule, or regulation governing the solicitation of acceptances or rejections of the Plan or the offer, issuance, sale, or purchase of the securities offered and sold under the Plan.

Section 12.14. Section 1146 Exemption

To the fullest extent permitted under section 1146(a) of the Bankruptcy Code, the issuance, transfer or exchange of any security under the Plan, if any, or the execution, delivery or recording of an instrument of transfer under the Plan, or the revesting, transfer or sale of any real or other Property of or to the Debtors or the Distribution Agent, shall not be taxed under any state or local law imposing a stamp tax, transfer tax or similar tax or fee. Consistent with the foregoing, each recorder of deeds or similar official for any county, city or governmental unit in which any instrument hereunder is to be recorded shall, pursuant to the Confirmation Order, accept such instrument, without requiring the payment of any documentary stamp tax, deed stamps, stamp tax, transfer tax, mortgage recording tax, intangible tax or similar tax.

Section 12.15. Time

Unless otherwise specified herein, in computing any period of time prescribed or allowed by the Plan, the Day of the act or event from which the designated period begins to run shall not be included. The last Day of the period so computed shall be included, unless it is not a Business Day, in which event the period runs until the end of next succeeding Day that is a Business Day. Otherwise, the provisions of Bankruptcy Rule 9006 shall apply.

Section 12.16. No Attorneys' Fees

No attorneys' fees will be paid by the Debtors with respect to any Claim or Interest except as expressly specified herein or by order of the Bankruptcy Court (including the DIP Financing Order).

Section 12.17. Continued Confidentiality Obligations

Pursuant to the terms thereof, members of and advisors to any Committee, any other Holder of a Claim or Interest, and their respective predecessors, successors and assigns shall continue to be obligated and bound by the terms of any confidentiality agreement executed by them in connection with these Chapter 11 Cases or the Debtors, to the extent that such agreement, by its terms, may continue in effect after the Confirmation Date.

Section 12.18. No Waivers

Notwithstanding anything herein to the contrary, nothing contained in the Plan shall be deemed a waiver by the Debtors with respect to any matter set forth herein, including,

without limitation, liability on any Claim or Interest or the propriety of any classification of any Claim or Interest.

Section 12.19. Entire Agreement

The Plan (and all Exhibits to the Plan and any Plan supplements that may be filed) sets forth the entire agreement and undertakings relating to the subject matter hereof and supersedes all prior discussions and documents. The Debtors shall not be bound by any terms, conditions, definitions, warranties, understandings, or representations with respect to the subject matter hereof, other than as expressly provided for herein or as may hereafter be agreed to by the parties in writing.

Section 12.20. Waiver

The Debtors, reserve the right to waive any provision of this Plan to the extent such provision is for the sole benefit of the Debtors and/or their officers or directors.

Section 12.21. Bar Date for Professionals

Applications for compensation for services rendered and reimbursement of expenses incurred by Professionals from the Petition Date through the Effective Date shall be Filed no later than forty-five (45) days after the Effective Date. Such applications shall be served on: (a) the Debtors; (b) Lawrence G. McMichael, Dilworth Paxson LLP, 1500 Market Street, Suite 3500E, Philadelphia, PA 19102, counsel to the Debtors; (c) the Office of the United States Trustee; and (d) Claudia Springer, Reed Smith LLP, 1650 Market Street, Philadelphia, PA 19103, counsel to the Committee. Applications that are not timely Filed will not be considered by the Court. The Debtors or the Distribution Agent may pay any Professional fees and expenses incurred after the Effective Date without any application to the Bankruptcy Court.

The Plan Proponents hereby request Confirmation of the Plan pursuant to section 1129(a) or section 1129(b) of the Bankruptcy Code.

Dated: June 11, 2012

**THE PHILADELPHIA ORCHESTRA
ASSOCIATION and
ACADEMY OF MUSIC OF PHILADELPHIA,
INC.**

By: /s/ Mario Mestichelli

Name: Mario Mestichelli

Title: Chief Financial Officer,

The Philadelphia Orchestra Association and
Treasurer, Academy of Music of Philadelphia, Inc.

Appendix B

[Financial Projections]

POA FINANCIAL PROJECTIONS

FINANCIAL PROJECTIONS

(Financial figures in \$000's)

These financial projections (the “Projections”) present, to the best knowledge and belief of the Philadelphia Orchestra Association (the “Debtor”), the expected financial position, results of operations and cash flows for the projection period. The assumptions disclosed herein are those that the Debtor believes are significant to the Projections. Because events and circumstances frequently do not occur as expected, there will be differences between the projected and actual results. These differences may be material to the Projections herein.

A. PROJECTION ASSUMPTIONS

The Debtor, with the assistance of its professionals, prepared a forecast for FY 2012, FY 2013 and FY 2014. The Projections are based on a number of assumptions, and while the Debtor has prepared the Projections in good faith and believes the assumptions to be reasonable, it is important to note that the Debtor can provide no assurance that such assumptions will ultimately be realized. The Projections should be read in conjunction with the assumptions, qualifications and notes contained herein, the risk factors described in the Disclosure Statement and the historical financial statements filed by the Debtor as Monthly Operating Reports.

The Projections have been prepared in good faith based upon assumptions believed to be reasonable. The Projections include assumptions to various financial accounts of the Company, which are based upon the Debtor’s estimates and market conditions.

The Projections are based on the assumption that the Plan will be confirmed as stated in the Disclosure Statement and Plan of Reorganization and will become effective on or about July 31, 2012. The Projections reflect unrestricted and temporarily restricted activity only and exclude any profit and loss activity or balance sheet values related to the permanently restricted endowment.

The following summarizes the underlying key assumptions upon which the Projections were based.

B. PROJECTED INCOME STATEMENT ASSUMPTIONS

Orchestra Revenues: For FY 2012, the Debtor assumes total Orchestra Revenue of \$11,315 (up 15.26% year over year). For FY 2013, the Debtor assumes total Orchestra Revenue of \$12,363 (up 9.26% year over year). For FY 2014, the Debtor assumes total Orchestra Revenue of \$13,902 (up 12.45% year over year). Orchestra revenue includes the Philadelphia main subscription series, Other Philadelphia Concerts, Education Series, Summer Series and other regional concerts and residencies. Orchestra Revenue projections are based on trends and

drivers influenced by the number of concerts, the availability of venues and special programming for each season. In addition to that, a new music director begins in the 2013 season which is expected to have a positive effect on earned revenue. Projections were adjusted for the historical relationship between marketing expenditures and ticket sales.

Media Income: Primarily represents royalties from past recordings in addition to CD income from recent recordings as well as internet sales. The Debtor projects media income to be \$180, \$113 and \$115, in FY 2012, FY 2013 and FY 2014, respectively.

Other Income: Primarily represents Shared IT Service Reimbursement Income as well as anticipated reimbursements from the Marian Anderson Award and Academy Ball events. In addition, this line item reflects the equity earnings from joint venture (Ticket Philadelphia). The Debtor projects other income to be \$1,826, \$1,916 and \$1,952, in FY 2012, FY 2013 and FY 2014, respectively.

Orchestra and Concert Production Expenses: For FY 2012, the Debtor assumes total Orchestra and Concert Production Expenses of \$28,025 (down 8.50% year over year). For FY 2013, the Debtor assumes total Orchestra and Concert Production Expenses of \$28,044 (up 0.07% year over year). For FY 2014, the Debtor assumes total Orchestra and Concert Production Expenses of \$28,914 (up 3.10% year over year). Orchestra and Concert Production Expenses include Musicians Salary and Benefits, Artistic Expenses, Hall Rental and Production Expenses. These expense projections are based on the terms and conditions of a new collective bargaining agreement and other agreements with artistic and venue partners.

Administrative Expenses: For FY 2012, the Debtor assumes total Administrative Expenses of \$12,904 (up 12.84% year over year). For FY 2013, the Debtor assumes total Administrative Expenses of \$14,054 (up 8.91% year over year). For FY 2014, the Debtor assumes total Administrative Expenses of \$14,996 (up 6.70% year over year). Increases in Marketing and Fundraising expense are designed to support the increases in earned and contributed revenue goals in the Plan respectively. Administrative Expenses include administrative staff salaries and benefits, administration and marketing expenses.

Interest and Miscellaneous Expense: Represents DIP and replacement facility interest as well as associated fees and expenses.

Endowment Income: The Association determines its spending policy on an annual basis. As approved by the Investment and Endowment Committee and in accordance with Commonwealth of Pennsylvania Act 141 (PA Act 141), the amount is calculated based on the average of the preceding thirteen quarter unit values for each endowment pool multiplied by the average number of units for the preceding twelve months. The approved spending percentage is applied to each pool and shall not be less than 2.00% or more than 7.00%. For FY 2013 and FY 2014, the Debtor has assumed an annualized 7.75% investment rate of return and 5.5% spending rate, resulting in spending amounts of \$6,192 (14.29% of operating expenses) and \$6,511 (14.04% of operating expenses), respectively. The endowment spending rate for FY 2012 is \$6,242 (15.63% of operating expenses).

Annual Operating Support: For FY 2012, the Debtor assumes total Annual Operating Support of \$8,353 (down 9.49% year over year). For FY 2013, the Debtor assumes total Annual Operating Support of \$9,137 (up 9.39% year over year). For FY 2014, the Debtor assumes total Annual Operating Support of \$10,336 (up 13.12% year over year). Annual Operating Support includes contributions from Board, Individuals, Corporate, Foundation and Government sources. Annual Operating support projections are based upon research provided by independent consultants as well as management's estimates regarding philanthropic capacity in the region. The increase in Annual Support growth is expected to result from planned increased fundraising solicitations, enhanced initiatives and additional staff resources.

Tour, Net: The Debtor assumes net revenue of \$571 in FY 2012 primarily associated with a pilot program in China that includes residency week concerts and adjunct educational activities. The Debtor assumes net revenue of \$1,567 and \$1,614 in 2013, and 2014, respectively, associated primarily with a more robust and expanded set of activities in China. In addition to fee revenue from presenters, the net revenue also includes anticipated sponsorship and contributed revenue.

Strategic Initiative, Net: Reflects Artistic, Media and Marketing initiatives to support the strategic goals of the organization. In FY 2012, a portion of the cost of the website initiative is capitalized and is reflected on the balance sheet. The Debtor has assumed that all strategic initiative expenses in FY 2013 and FY 2014 will be offset by contributed revenue and is therefore net neutral.

Transfer of Orchestra Portion of Academy Ball Proceeds: Represents net proceeds of the annual Academy Ball fundraising event whose purpose is to support the Academy of Music and the Philadelphia Orchestra. Net proceeds are expected to be \$167, \$732 and \$732 for FY 2012, FY 2013 and FY 2014, respectively.

Fundraising Estates / Unrestricted bequests: For FY 2012, the Debtor has projected \$57. Although the Debtor has a history of receiving unrestricted bequests, for FY 2013 and FY 2014, the Debtor has assumed no revenue derived from this source because of the unpredictable and uncontrollable nature of this type of contributed revenue.

Non-Operating Expenses: Represents the depreciation of fixed assets.

Direct Restructuring Costs: Represents bankruptcy related professional fees and expenses directly associated with the administration and ultimate resolution of the bankruptcy proceedings. This line item includes actual expenditures and projections based upon estimates from service providers in anticipation of emergence in FY 2012. There are no restructuring expenses anticipated in FY 2013 and FY 2014.

Debt Discharge, Net of Settlement with Creditors: The amount, \$11,330 in FY 2012, represents revenue associated with the discharge of debt net of settlement with creditors. Total Liabilities Subject to of Compromise which that are anticipated to be discharged amount to \$15,195. The difference represents settlements with Peter Nero and the Philly Pops, PBGC

termination premiums and other settlements with creditors in the amounts of \$1,250, \$398 and \$2,217, respectively.

Other Non-Recurring Items: Represents additional payments made over the life of the current collective bargaining agreement to certain active musicians, one time incentive payments to administrative staff and a portion of professional fees associated with labor negotiations.

Transformation / Recovery Revenue: The long term strategic plan calls for the restoration of structural balance. This balance cannot be achieved immediately. Transformation Fund revenue will be required during the implementation of the strategic plan. The organization anticipates that the cumulative Transformation Fund revenue needed for the four years ending FY 2014 is approximately \$49 million. As of the date of this filing, the organization has received cash and commitments totaling approximately \$36 million towards the aforementioned goal.

Adjustments for Temporarily Restricted Assets: Net assets whose use by the Debtor is subject to donor imposed restrictions that can be fulfilled by actions of the Debtor pursuant to those restrictions, or that expire by the passage of time result in a reclassification of net assets from temporarily restricted to unrestricted. The financial projections are based on the assumption that all revenue is either unrestricted or that the restrictions are imposed and satisfied in the same period.

C. PROJECTED BALANCE SHEET ASSUMPTIONS

Accounts Receivable: Primarily reflects receivables related to current and next season ticket purchases that are held by third-party credit card merchant providers and are released to the POA as concerts are performed. It also includes receivables related to the POA's IT shared services arrangement with other Philadelphia performing arts organizations, receivables related to regional concerts, residencies and tour activities, medical insurance receivables and other.

Prepaid Expenses: Includes prepaid advertising costs related to next season activity, prepaid payroll expenses based on the timing of payroll each month, other prepaid activity related to next season and other various miscellaneous prepaid expenses.

Pledges Receivable: Reflects unrestricted and temporarily restricted outstanding pledges related to the annual operating support, government and tour sponsorships, and to the Transformation Fund. Timing of Annual Operating Support receipts are projected based on historical DSO run rates. Receipts specifically related to government funding and tour sponsorships are projected based on the Debtor's latest expectation of timing, which is difficult to predict beyond FY 2012. Transformation Fund receipts are projected based on the Debtor's latest expectations for FY 2012 and as cash is needed to support operations for FY 2013 and FY 2014.

Other Assets: Primarily reflects gifts-in-kind and is held flat with the latest actual results.

Due From / (To) Accounts: Reflects a net intercompany receivable balance from AOM and the POA permanently restricted endowment.

Fixed Assets, Net: Reflects the book value of POA property and equipment, adjusted for projected capital expenditures of \$869 in FY 2012 and \$100 thereafter, and depreciation of \$485 per year. Capital Expenditures in FY 2012 include a base amount to support operations of \$100 and \$769 related to strategic initiative expense which is expected to be treated as capital on the Debtor's financial statements. In FY 2012 and FY 2013, all strategic initiative expenses are assumed to be current expenses for purposes of this Projection.

Accounts Payable: The Projection is based on the Debtor's latest expectation of disbursement timing during FY 2012 and on a DPO of 22 days for FY 2013 and FY 2014. The DPO assumptions used in the Projection are based on all expense line items which are processed through accounts payable.

Accrued Expenses: Includes accruals for professional fees, payroll expenses, employee vacation benefits, rent payable to the Kimmel Center, Inc. ("KCI"), and other general expenses. Projected professional fee accruals are based on the latest estimates provided by case professionals, or extrapolated based on recent run-rates, where no estimates were provided. The payroll accrual is based on the timing of payroll in a given period. The rent accrual is based on the timing of projected rent expense and rent payments paid in accordance with the Debtor's agreement with KCI. All other accruals are assumed to be held flat.

Deferred Revenues: Reflects current and next season tickets sold for which the concerts have not yet occurred. The deferred revenue balance increases as tickets are sold and decreases as concerts are performed. The outstanding deferred revenue balance at each fiscal year end relates primarily to projected advanced subscription sales for the following year.

Notes Payable: Reflects a fully drawn, \$3.1 million credit facility with Sun Federal Credit Union ("Sun Federal"). The Projection reflects an agreement between the POA and Sun Federal to convert the current Debtor-in-Possession credit facility ("DIP Facility") into a long-term credit facility upon exit from Chapter 11. The Projection also reflects the current DIP interest rate of 7.25%.

Unfunded Pension & Post-Retirement Obligations: Beginning in FY 2012 and thereafter, the projection includes only postretirement obligations associated primarily with health benefits for retired employees. Other unfunded obligations associated with employee retirement benefits have either been discharged or settled pursuant to this plan. The Projection assumes the postretirement obligations remain flat.

Liabilities Subject to Compromise: Represents the book value of liabilities, as reflected on the Debtor's balance sheet, assumed to be discharged as part of the Plan.

POA Income Statement				
(\$'s in 000's)				
	FY11 Actual	FY12 Forecast	FY13 Forecast	FY14 Forecast
Orchestra Revenues	\$ 11,662	\$ 11,315	\$ 12,363	\$ 13,902
Media Income	447	180	113	115
Other Income	1,157	1,826	1,916	1,952
Total Operating Revenue	13,266	13,322	14,391	15,970
Orchestra and Concert Production Expenses	32,147	28,025	28,044	28,914
Administrative Expenses	11,436	12,904	14,054	14,996
Interest and Miscellaneous Expense	51	143	225	225
Total Operating Expenses	43,635	41,072	42,322	44,135
Operating Surplus/Deficit	(30,369)	(27,751)	(27,931)	(28,165)
Endowment Income	7,595	6,242	6,192	6,511
Annual Operating Support	9,229	8,353	9,137	10,336
Total Contributed Revenue	16,824	14,595	15,329	16,848
Change in Net Assets from Operations before Other Items	(13,545)	(13,155)	(12,602)	(11,318)
Tour, Net	577	571	1,567	1,614
Strategic Initiative, Net	-	575	-	-
Transfer of Orchestra Portion of Academy Ball Proceeds	324	167	732	732
Fundraising Estates / Unrestricted bequests	195	57	-	-
Change in Net Assets from Operations	(12,449)	(11,786)	(10,302)	(8,971)
Non-Operating Revenues	-	-	-	-
Non-Operating Expenses	(672)	(485)	(485)	(485)
NET SURPLUS/(DEFICIT) Before Non-Recurring Items	(13,122)	(12,271)	(10,787)	(9,456)
Direct Restructuring Costs	(3,568)	(5,252)	-	-
Debt Discharge, Net of Settlement with Creditors	-	11,330	(398)	(398)
Other Non-Recurring Items	(347)	(1,671)	(750)	(750)
Fundraising - Transformation	9,233	27,700	1,900	10,200
Fundraising - Recovery	5,402	-	-	-
Net Surplus / (Deficit) Before Temp Restricted Assets	(2,402)	19,837	(10,035)	(403)
Adjustments for Temporarily Restricted Assets	-	(485)	-	-
Net Surplus / (Deficit)	\$ (2,402)	\$ 19,352	\$ (10,035)	\$ (403)

POA Balance Sheet				
(\$'s in 000's)				
	FY11 Actual	FY12 Forecast	FY13 Forecast	FY14 Forecast
ASSETS				
<u>Current Assets</u>				
Cash and Equivalents	\$ 2,787	\$ 4,153	\$ 1,000	\$ 1,000
Accounts Receivable, net	6,422	4,939	6,923	7,423
Prepaid Expenses	1,667	1,290	1,205	1,205
Pledges Receivable, net	1,440	7,702	522	655
Notes Receivable	215	165	128	97
Other Assets	59	177	177	177
Due From (To) Other Funds	21	23	23	23
Total Current Assets	12,611	18,449	9,978	10,581
Operating Fund Investments	39	39	39	39
Investment in Joint Venture	575	575	575	575
Fixed Assets, net	3,955	4,338	3,953	3,568
Total Long-Term Assets	4,569	4,953	4,568	4,183
Total Assets	\$ 17,180	\$ 23,402	\$ 14,546	\$ 14,764
LIABILITIES & EQUITY				
<u>Current Liabilities</u>				
Accounts Payable	1,958	817	1,533	1,662
Accrued Expenses	2,271	1,414	1,177	1,169
Deferred Revenues	2,461	5,884	6,584	7,084
Notes Payable	-	3,100	3,100	3,100
Total Current Liabilities	6,690	11,215	12,394	13,015
<u>Long-Term Liabilities</u>				
Unfunded Pension and Postretirement Obligations	-	6,108	6,108	6,108
Liabilities Subject to Compromise	3,518	-	-	-
Unfunded Pension and Postretirement Obligations - LSTC	20,245	-	-	-
Liabilities Subject to Compromise	23,763	-	-	-
Total Long-Term Liabilities	23,763	6,108	6,108	6,108
Total Liabilities	\$ 30,453	\$ 17,323	\$ 18,502	\$ 19,123
Fund Balance	(13,273)	6,079	(3,956)	(4,360)
Total Liabilities & Net Assets	\$ 17,180	\$ 23,402	\$ 14,546	\$ 14,764

POA Cash Flow Statement			
(\$'s in 000's)			
	FY12 Forecast	FY13 Forecast	FY14 Forecast
<u>Cash Flow From Operating Activities</u>			
Net Surplus / (Deficit)	\$ 19,352	\$ (10,035)	\$ (403)
Add: Depreciation	485	485	485
(Increase) / Decrease in A/R	1,483	(1,984)	(500)
(Increase) / Decrease in Prepaid Expenses	377	85	-
(Increase) / Decrease in Pledges Receivable	(6,263)	7,180	(133)
Increase / (Decrease) in A/P	(1,140)	716	128
Increase / (Decrease) in Accrued Expenses	(857)	(237)	(7)
(Increase) / Decrease in Other Current Assets	(70)	37	31
Increase / (Decrease) in Deferred Revenues	3,423	700	500
Increase / (Decrease) in LSTC and Other Liabilities	(17,655)	-	-
Total Cash Flow From Operating Activities	(865)	(3,053)	100
<u>Investing Activities</u>			
Capex	(869)	(100)	(100)
(Increase) / Decrease in Operating Fund Investments	-	-	-
(Increase) / Decrease in Investment in Joint Venture	-	-	-
Total Cash Flow From Investing Activities	(869)	(100)	(100)
<u>Cash Flow From Financing Activities</u>			
Increase / (Decrease) in Notes Payable	3,100	-	-
Total Cash Flow From Financing Activities	3,100	-	-
Net Cash Flow	\$ 1,366	\$ (3,153)	\$ 0
Beginning Cash	\$ 2,787	\$ 4,153	\$ 1,000
Net Cash Flow	1,366	(3,153)	0
Ending Cash	\$ 4,153	\$ 1,000	\$ 1,000

AOM FINANCIAL PROJECTIONS

FINANCIAL PROJECTIONS

(Financial figures in \$000's)

These financial projections (the “Projections”) present, to the best knowledge and belief of the Academy of Music (the “Debtor”), the expected financial position, results of operations and cash flows for the projection period. The assumptions disclosed herein are those that the Debtor believes are significant to the Projections. Because events and circumstances frequently do not occur as expected, there will be differences between the projected and actual results. These differences may be material to the Projections herein.

A. PROJECTION ASSUMPTIONS

The Debtor, with the assistance of its professionals, prepared a forecast for FY 2012, FY 2013 and FY 2014. The Projections are based on a number of assumptions, and while the Debtor has prepared the Projections in good faith and believes the assumptions to be reasonable, it is important to note that the Debtor can provide no assurance that such assumptions will ultimately be realized. The Projections should be read in conjunction with the assumptions, qualifications and notes contained herein, the risk factors described in the Disclosure Statement and the historical financial statements filed by the Debtor as Monthly Operating Reports.

The Projections have been prepared in good faith based upon assumptions believed to be reasonable. The Projections include assumptions to various financial accounts of the Debtor, which are based upon the Debtor’s estimates and market conditions.

The Projections are based on the assumption that the Debtor’s Plan of Reorganization (the “Plan”) will be confirmed as stated in the Disclosure Statement and that the Plan will become effective on or about July 31, 2012. The Projections reflect unrestricted and temporarily restricted activity only and exclude any profit and loss activity or balance sheet values related to the permanently restricted endowment.

The following summarizes the underlying key assumptions upon which the Projections were based.

B. PROJECTED INCOME STATEMENT ASSUMPTIONS

Annual Public Support: For FY 2012, the Debtor assumes annual fund income of \$625, plus additional one-time financial support of \$175 specifically designated for payment of consultant fees for interim restoration fund staff to support AOM during the reorganization process. Annual fund income is expected to grow from \$625 to \$800 between FY 2012 and FY 2014 (13% CAGR). The increase in annual fund growth is expected to result from planned

increased fundraising solicitations and the addition of staff focused on restoration office fundraising.

Other Special Projects / Support: Reflects \$1,000 Redevelopment Assistance Capital Program (RACP) grant contribution paid over a two-year period (\$671 in 2012 and \$329 in 2013).

Interest & Other Income: Reflects miscellaneous income and interest income

Endowment Draw: The Association determines its spending policy on an annual basis. As approved by the Investment and Endowment Committee and in accordance with Commonwealth of Pennsylvania Act 141 (PA Act 141), the amount is calculated based on the average of the preceding thirteen quarter unit values for each endowment pool multiplied by the average number of units for the preceding twelve months. The approved spending percentage is applied to each pool and shall not be less than 2.00% or more than 7.00%. For FY 2013 and FY 2014, the Debtor has assumed an annualized 7.75% investment rate of return and 5.5% spending.

Administrative Expenses: Reflects annual charge by the POA for support services, annual legal fees of approximately \$50 and other miscellaneous expenses.

Fundraising Expense: Includes 25% of AOM payroll costs, costs for interim staff to support the reorganization during FY 2012 and other miscellaneous expenses.

Academy Ball Revenue: FY 2012 is based on anticipated results. FY 2013 and FY 2014 revenue is projected based on a 3-year historical average. FY 2012 Ball revenue was lower than amounts projected for FY 2013 and FY 2014, largely due to the timing of the Ball underwriting campaign being concurrent with major POA fundraising efforts during that year.

Academy Ball Expense: FY 2012 is based on actual results. FY 2013 and FY 2014 expenses projected based on a 3-year historical average.

Transfer to POA: Represents net proceeds of the annual Academy Ball fundraising event whose purpose is to support the Academy of Music and the Philadelphia Orchestra. Net proceeds are expected to be \$167, and \$732 and \$732 for FY 2012, FY 2013 and FY 2014 respectively.

Gain / (Loss) from Debt Discharge: Reflects income from discharge of liabilities subject to compromise net of distributions to creditors as part of a Plan.

Depreciation Expense: Represents the depreciation of fixed assets

C. PROJECTED BALANCE SHEET ASSUMPTIONS

Accounts Receivable: Primarily reflects receivables related to the Ball program book. The Projection is based on a historical DSO average related to next season program revenue.

Prepaid Expenses: Includes prepaid ball expenses, payroll, benefits and payroll taxes. The Projection is based on a percentage of next year expenses which reflects a 3-year historical average of the relevant expense line items.

Pledges Receivable: Reflects outstanding pledges related to annual fund revenue and Ball underwriting revenue, net of an allowance for doubtful accounts. The Projection is based on a historical DSO average related to annual fund revenue and Ball underwriting revenue.

Other Assets: Primarily reflects gifts-in-kind and is held flat with the latest actual results.

Due From / (To) Accounts: Reflects a net intercompany payable balance.

Fixed Assets, Net: Reflects the book value of AOM property adjusted for projected capital expenditures of \$1,500 per year and reduced by projected depreciation.

Accounts Payable: The Projection is based on a DPO of 30 days applied to operating expenses and Ball expenses.

Accrued Expenses: Reflects primarily invoices received in the fiscal year related to capital assets that were paid in the subsequent fiscal year. The Projection is held flat with the latest actual results.

Liabilities Subject to Compromise: Represents book value of pre-petition liabilities assumed to be discharged as part of the Plan.

Unfunded Pension & Post-Retirement Obligations: Represents an allocation of POA postretirement expense for prior Academy of Music Employees. The Projection assumes any accruals offset any payments in a given year.

Income Statement				
<i>(\$'s in 000's)</i>				
	FY11 Actual	FY12 Forecast	FY13 Forecast	FY14 Forecast
<u>Operating Revenue</u>				
Annual Public Support	\$ 851	\$ 800	\$ 700	\$ 800
Other Support/Special Projects	-	671	329	-
Interest and Other Income	2	18	2	2
Endowment Draw	862	796	761	773
Total Operating Revenue	1,715	2,285	1,791	1,574
<u>Operating Expenses</u>				
Administrative Expense	463	331	333	334
Fundraising Expense	117	239	93	86
Bad Debt Expense	30	-	-	-
Total Operating Expenses	609	570	426	420
Operating Net	1,106	1,714	1,365	1,155
<u>Academy Ball</u>				
Academy Ball Revenue	2,436	1,874	2,500	2,500
Academy Ball Expense	1,775	1,707	1,768	1,768
Academy Ball Net	661	167	732	732
Net Assets Released from Restrictions	(751)	-	-	-
Transfer to POA	(324)	(167)	(732)	(732)
Gain / (Loss) from Debt Discharge	-	(69)	-	-
Net Surplus before Depreciation Expense	692	1,646	1,365	1,155
Depreciation Expense	2,365	2,384	2,435	2,502
Net Surplus (Deficit)	\$ (1,673)	\$ (738)	\$ (1,070)	\$ (1,347)

Balance Sheet				
<i>(\$'s in 000's)</i>				
	FY11	FY12	FY13	FY14
	Actual	Forecast	Forecast	Forecast
<u>ASSETS</u>				
Cash & Equivalents	\$ 1,385	\$ 2,012	\$ 2,450	\$ 2,582
Accounts Receivable	20	98	98	98
Prepaid Expenses	237	499	499	499
Pledges Receivable, Net	-	317	237	259
Other Assets	5	5	5	5
Due From / (To) Accounts	(49)	(49)	(49)	(49)
Total Current Assets	1,598	2,881	3,240	3,394
Fixed Assets, Net	42,301	40,467	39,032	37,530
Total Assets	\$ 43,899	\$ 43,349	\$ 42,272	\$ 40,924
<u>LIABILITIES</u>				
Accounts Payable	\$ 118	\$ 187	\$ 180	\$ 180
Accrued Expenses	286	286	286	286
Deferred Revenues	77	213	213	213
Notes Payable	-	-	-	-
Total Current Liabilities	482	687	680	679
Liabilities Subject to Compromise	17	-	-	-
Unfunded Pension & Post-Retirement Obligations	167	167	167	167
Total Liabilities	667	854	847	847
Net Assets	43,232	42,495	41,425	40,077
Total Liabilities & Net Assets	\$ 43,899	\$ 43,349	\$ 42,272	\$ 40,924

Cash Flow Statement			
<i>(\$'s in 000's)</i>	FY12	FY13	FY14
	Forecast	Projected	Projected
Net Income	\$ (738)	\$ (1,070)	\$ (1,347)
Depreciation	2,384	2,435	2,502
<u>Changes in Working Capital</u>			
<i>Change in Accounts Receivable</i>	(78)	-	-
<i>Change in Prepaid Expenses</i>	(262)	-	-
<i>Change in Pledges Receivable, Net</i>	(317)	80	(22)
<i>Change in Other Assets</i>	-	-	-
<i>Change in Due From / (To) Accounts</i>	-	-	-
<i>Change in Intercompany Accounts</i>	-	-	-
<i>Change in Accounts Payable</i>	69	(7)	(0)
<i>Change in Accrued Expenses</i>	-	-	-
<i>Change in Deferred Revenues</i>	136	-	-
<i>Change in Unfunded Pension & Post-Retirement O</i>	-	-	-
Changes in Working Capital Accounts	(452)	73	(23)
Change in Liabilities Subject to Compromise	(17)	-	-
Capital Expenditures	(550)	(1,000)	(1,000)
Increase / (Decrease) in Notes Payable	-	-	-
Net Cash Flow	\$ 627	\$ 439	\$ 132
Beginning Cash Balance	\$ 1,385	\$ 2,012	\$ 2,450
Net Cash Flow	627	439	132
Ending Cash Balance	\$ 2,012	\$ 2,450	\$ 2,582

Appendix C

[Claim Summary]

Claims Summary - for Disclosure Statement

POR Class	POR Category	Filed Claims	Total Estimated Recovery ⁽¹⁾	
S3.03	Other Administrative Claims	\$ 19,524	\$ 19,524	100.0%
Class 1	Secured Claims	7,124	7,124	100.0%
Class 2	Priority Claims	232,019	-	n/a
Class 3	ESI, PNPP and Peter Nero Claims against POA	n/a	1,250,000	n/a
Class 4	KCI Unsecured Claim	1,156,520	-	0.0%
Class 4	KCI Administrative Claim	n/a	748,000	100.0%
Class 5	AFM-EPF Unsecured Claims	32,414,610	-	0.0%
Class 5	AFM-EPF Administrative Claims	3,141,991	1,750,000	55.7%
Class 6	PBGC Unsecured Claims	61,775,349	-	0.0%
Class 6	PBGC Administrative and Priority Claims	-	1,317,387	n/a
Class 7a	General Unsecured Claims Against POA	553,711	276,855	50.0%
Class 7b	General Unsecured Claims Against AOM	85,892	85,892	100.0%
Class 8	Convenience Class Claims Against POA	51,681	38,616	74.7%
Class 9	Specticast Claims	314,737	-	0.0%
Class 10	Interests	-	-	
	Total POR Claims	99,753,156	5,493,399	
	Claims Excluded from Classification			
	IRS Claim (Dept of the Treasury)	1,766,758		
	Annenberg Claims	109,043,229		
	Duplicative PBGC Claims	61,775,249		
	Intercompany Claim	330,346		
	Duplicate City Paper Claim	1,626		
	Jacobson Pension Claim	100,000		
	Total Claims Excluded from Classification	173,017,208		
	Total Claims Filed	\$ 272,770,364		

Notes:

(1) Reflects total recovery by class, regardless of timing of payment.

Appendix D

[Liquidation Analysis]

The Philadelphia Orchestra Association

Liquidation Analysis **(Chapter 7 scenario)**

The Philadelphia Orchestra Association

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May 23, 2012

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(Financial figures in \$000's)

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The Philadelphia Orchestra Association*Privileged and Confidential****May 23, 2012***

Overview

The following document is the Best Interests Analysis (the “Liquidation Analysis”) of the Philadelphia Orchestra Association (the “Debtor” or “POA”). The Debtor, with the assistance of its financial advisors, has prepared this Liquidation Analysis for the purpose of evaluating whether the Plan meets the so-called best interests test under section 1129(a)(7) of the Bankruptcy Code.

The Debtor has prepared this Liquidation Analysis based on a hypothetical liquidation under Chapter 7 of the Bankruptcy Code. It is assumed, among other things, that the hypothetical liquidation under Chapter 7 would commence under the direction of a Court-appointed trustee and would continue for a period of time, during which time the Debtor’s major assets would be sold or surrendered to the respective lien holders, and the cash proceeds, net of liquidation related costs, would then be distributed to creditors in accordance with relevant law.

The determination of the costs of, and proceeds from, the hypothetical liquidation of the Debtor’s assets in a Chapter 7 case is an uncertain process involving the extensive use of estimates and assumptions that, although considered reasonable by the Debtor, are inherently subject to significant business, economic, and competitive uncertainties and contingencies beyond the control of the Debtor, their management, and their legal advisors. Inevitably, some assumptions in the Liquidation Analysis might not materialize in an actual Chapter 7 liquidation, and unanticipated events and circumstances could affect the ultimate results in an actual Chapter 7 liquidation.

THE LIQUIDATION ANALYSIS IS NOT INTENDED AND SHOULD NOT BE USED FOR ANY OTHER PURPOSE. THE LIQUIDATION ANALYSIS DOES NOT PURPORT TO BE A VALUATION OF THE DEBTOR’S ASSETS AS A GOING CONCERN, AND THERE MAY BE A SIGNIFICANT DIFFERENCE BETWEEN THE LIQUIDATION ANALYSIS AND THE VALUES THAT MAY BE REALIZED IN AN ACTUAL LIQUIDATION. THIS ANALYSIS ASSUMES “LIQUIDATION VALUES” BASED ON APPRAISALS, WHERE AVAILABLE, AND THE DEBTOR’S BUSINESS JUDGMENT, WHERE APPRAISALS ARE NOT AVAILABLE.

THE UNDERLYING FINANCIAL INFORMATION IN THE LIQUIDATION ANALYSIS WAS NOT COMPILED OR EXAMINED BY ANY INDEPENDENT ACCOUNTANTS. NEITHER THE DEBTOR NOR ITS ADVISORS MAKE ANY REPRESENTATION OR WARRANTY THAT THE ACTUAL RESULTS WOULD OR WOULD NOT APPROXIMATE THE ESTIMATES AND ASSUMPTIONS REPRESENTED IN THE LIQUIDATION ANALYSIS. ACTUAL RESULTS COULD VARY MATERIALLY.

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The Liquidation Analysis should be read in conjunction with the following notes and assumptions:

Summary Notes to Liquidation Analysis:

1. *Dependence on assumptions:* The Liquidation Analysis depends on estimates and assumptions. The Liquidation Analysis is based on a number of estimates and assumptions that, although developed and considered reasonable by the management and the advisors of the Debtor, are inherently subject to significant economic, business, regulatory and competitive uncertainties and contingencies beyond the control of the Debtor or its management. The Liquidation Analysis is also based on the Debtor's best judgment of how numerous decisions in the liquidation process would be resolved. Accordingly, there can be no assurance that the values reflected in this Liquidation Analysis would be realized if the Debtor was, in fact, to undergo such a liquidation and actual results could vary materially and adversely from those contained herein.
2. *Asset Restrictions:* Assets are assumed to be restricted for specific purposes if designated by a donor. The major categories of restrictions are (i) assets available for all creditors, (ii) assets available for post-petition claims and (iii) permanently restricted assets. The Analysis does not reflect the impact of temporarily restricted assets currently held by the Debtor. To the extent any such assets have not been used for their designated purposes by the conversion date, the recoveries may be lower than reflected herein.
3. *Application of Restricted Proceeds:* The Analysis assumes that a Trustee would generally distribute recoverable asset proceeds in a manner which would maximize recoveries to unsecured creditors without violating restrictions set by donors.
4. *Permanently Restricted Assets:* Any permanently restricted assets, including the Debtor's endowment principal, are not considered assets of the Estate that are available for distribution to creditors.
5. *Dependence on unaudited financial statements:* This Liquidation Analysis contains numerous estimates that are still under review and it remains subject to further legal and accounting analysis. Recoveries reflected assume conversion to a Chapter 7 on July 31, 2012, but are measured against the Debtor's balance sheet as of March 31, 2012.
6. *Preference or fraudulent transfers:* No recovery or related litigation costs attributed to any potential avoidance actions under the Bankruptcy Code, including potential preference or fraudulent transfer actions are assumed within this analysis due to, among other issues, the inherent uncertainty about litigation results, the difficulty of assessing defenses to such actions, the inability to predict costs and fees associated with litigation and the risks of collection.
7. *Chapter 7 liquidation costs and length of liquidation process:* The Debtor has assumed that a Chapter 7 liquidation would take approximately four months to complete. All assets are forecast to be liquidated within three months, with one month to complete distributions and close the Bankruptcy

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cases. The liquidation would involve no ongoing operations, and a limited group of personnel would be retained in order to pursue orderly sales of substantially all of the remaining assets, arrange distributions and otherwise administer and close the estate. Thus, this Liquidation Analysis assumes the liquidation would be substantially completed within 3 to 4 months. In an actual liquidation, the wind down process and time period(s) could vary thereby impacting recoveries. For example, the potential for priority, contingent and other claims, litigation, rejection costs, and the final determination of allowed claims could substantially impact both the timing and amount of the distribution of the asset proceeds to the creditors. Accordingly, there can be no assurance that the values reflected in this Liquidation Analysis would be realized if the Debtor was, in fact, to undergo such a liquidation.

Pursuant to section 726 of the Bankruptcy Code, the allowed administrative expenses incurred by a Chapter 7 Trustee, including, but not limited to, expenses affiliated with selling the Debtor's assets, will be entitled to payment in full prior to any distribution to Chapter 11 administrative and other priority claims. The estimate used in the Liquidation Analysis for these expenses includes estimates for certain legal, accounting, and other professionals, payroll to retain key employees to facilitate the liquidation, rent and utility costs for office space until the assets are sold and a 3% fee based upon liquidated assets payable to a Chapter 7 trustee.

8. Claims Estimates: Claims are estimated based upon: (i) actual claims filed, (ii) the latest expectations of the Debtor with regards to amount and priority, and (iii) claims that are expected to result from a conversion to Chapter 7. Additional claims may arise that were not estimated as of the date of this liquidation analysis. Note that the PBGC claims reflected are based on filed claims, with the exception of certain filed priority claims that are reflected as unsecured claims based on a preliminary review by the Debtor. The Debtor makes no admission to the validity of the amount and priority of the PBGC's filed claims pending further review if necessary.

The Philadelphia Orchestra Association

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May 23, 2012**Summary of Liquidation Analysis:**

(\$'s in 000's)

		Notes	Balance As of 3/31/12	Projected Recovery as of July 31, 2012					
				Low		Medium		High	
				\$	%	\$	%	\$	%
Assets Available for All Claims									
Cash & Equivalents	(A)	\$	271	\$	111	41.1%	\$	111	41.1%
Accounts Receivable	(B)		4,634		106	2.3%		116	2.5%
Pledges Receivable	(C)		2,377		-	0.0%		-	0.0%
Fixed Assets	(D)		2,859	3,336	116.7%	3,679	128.7%	4,021	140.6%
Intercompany Assets, Net	(E)		111	3	2.6%	3	2.6%	3	2.6%
Other Assets	(F)		2,049	1,121	54.7%	1,210	59.1%	1,299	63.4%
Endowment & Related Assets	(G)		76	76	100.0%	76	100.0%	76	100.0%
Total Assets Available for All Claims			12,377	4,754		5,190		5,626	
Assets Restricted for Post-Petition Claims									
Cash & Equivalents	(A)		3,048	350	11.5%	350	11.5%	350	11.5%
Total Assets Restricted for Post-Petition Claims			3,048	350		350		350	
Permanently Restricted Assets									
Fixed Assets	(D)		1,150	-	0.0%	-	0.0%	-	0.0%
Endowment & Related Assets	(G)		121,659	-	0.0%	-	0.0%	-	0.0%
Total Permanently Restricted Assets			122,809	-		-		-	
Total Gross Proceeds				\$ 5,104		\$ 5,540		\$ 5,976	
Gross Proceeds Available for All Claims				4,754		5,190		5,626	
Gross Proceeds Available for Post-Petition Claims Only				350		350		350	
Chapter 7 Wind-Down Costs	(H)			(1,003)		(1,016)		(1,029)	
Net Proceeds After Chapter 7 Wind-Down Costs				\$ 4,101		\$ 4,524		\$ 4,948	
Net Proceeds Available for All Claims				3,751		4,174		4,598	
Net Proceeds Available for Post-Petition Claims Only				350		350		350	
DIP Facility	(I)		3,100	3,100	100.0%	3,100	100.0%	3,100	100.0%
Net Proceeds After DIP Facility				\$ 1,001		\$ 1,424		\$ 1,848	
Net Proceeds Available for All Claims				1,001		1,424		1,848	
Net Proceeds Available for Post-Petition Claims Only				-		-		-	
Chapter 11 Administrative Claims	(J)		10,079	1,001	9.9%	1,424	14.1%	1,848	18.3%
Net Proceeds After Chapter 11 Administrative Claims				\$ -		\$ -		\$ -	
Net Proceeds Available for All Claims				-		-		-	
Net Proceeds Available for Post-Petition Claims Only				-		-		-	
Secured/Priority/Other Claims	(K)		575	-	0.0%	-	0.0%	-	0.0%
Net Proceeds After Secured/Priority/Other Claims				\$ -		\$ -		\$ -	
Net Proceeds Available for All Claims				-		-		-	
Net Proceeds Available for Post-Petition Claims Only				-		-		-	
Unsecured Claims	(L)		72,576	-	0.0%	-	0.0%	-	0.0%
Net Proceeds After Unsecured Claims				\$ -		\$ -		\$ -	
Net Proceeds Available for All Claims				-		-		-	
Net Proceeds Available for Post-Petition Claims Only				-		-		-	

Note: Projected recoveries are based on projected balances as of the hypothetical Conversion Date. The recovery %'s vary by asset class.

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Detailed Assumptions**Asset Recovery Estimates**

Asset recovery estimates presented in this liquidation analysis assume conversion to Chapter 7 on or about July 31, 2012 (the "Conversion Date"), but are measured against the Debtor's actual balance sheet values as of March 31, 2012.

- (a) Cash & Equivalents: The Liquidation Analysis assumes that the only available cash at the date of conversion to Chapter 7 includes cash collateral held on deposit with the Debtor's DIP lender of \$350 and approximately \$111 of cash held by POA volunteer committees. All remaining cash on-hand as of March 31, 2012 is assumed to be utilized for operations through the Conversion Date.
- (b) Accounts Receivable: Accounts Receivable as of March 31, 2012 is mainly comprised of current and next season ticket revenue held in escrow or by third-party ticketing agents (Ticket Philadelphia and First Data) until the completion of each scheduled concert. Any recovery related to current and next season ticket revenue is estimated to be \$0 as either (i) concerts are expected to be performed and the related revenue is expected to be used for operations prior to the conversion date or (ii) any outstanding receivables relating to concerts not performed will be returned to the customer or subject to a customer charge-back. Accounts Receivable recovery primarily relates to receipt of royalty income, shared service income and medical reimbursements after the Conversion Date.
- (c) Pledges Receivable: Any outstanding pledges are assumed to not be recoverable since the Debtor will no longer exist to fulfill the purposes for which the pledges were solicited. Furthermore, outstanding pledges are generally assumed to not be enforceable.
- (d) Fixed Assets: Fixed asset recoveries include (i) the Debtor's inventory of fine instruments (\$2,222 to \$2,784), (ii) Academy House condominiums (\$956 to \$1,000), (iii) and the Debtor's media, office and IT related equipment (\$158 to \$237). The Debtor's also own a residential condominium, for which any sale proceeds are designated by the donor to be placed into the permanently restricted endowment and, therefore, not available for distribution to creditors.
- (e) Intercompany Receivables: The intercompany receivable balance consists of, generally, either AOM or the endowment funds. Recoveries related to the endowment funds are assumed to be 100% and recoveries related to AOM are based on a calculated amount assuming intercompany claims are treated as pari passu with other claims of the same priority.
- (f) Other Assets: Other asset recoveries include (i) proceeds from a hypothetical unwind of the Debtor's interest in Ticket Philadelphia (\$526), (ii) the sale of the POA's royalty income stream (\$437 to \$525), (iii) collection on outstanding instrument loans (\$81 to \$163), and (iv) the sale of other assets including the Debtor's music library and unrestricted equity investments (\$77 to \$85).

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- (g) *Endowment & Related Assets:* Includes both board-designated and permanently restricted assets. Board-designated assets include \$76 of pooled income fund investments which are available for distribution to creditors. All permanently restricted endowment assets are not considered assets of the Estate that are available for distribution to creditors.

Liquidation Expenses & Claims

- (h) *Liquidation Expenses:* The wind-down is assumed to take approximately four months. It is assumed that the Chapter 7 Trustee would arrange for the Debtor to focus efforts to sell substantially all assets in an expedient manner. Liquidation expenses include: (i) Trustee Fees equal to 3% of assets (excluding cash), (ii) payroll costs to retain key employees to assist with the liquidation of \$173, (iii) professional fees of \$400, representing approximately \$100 per month, (iv) rent and utility costs of \$216 and (v) accrued interest under the DIP facility, calculated at 7.25% per the DIP agreement, for the period from the Conversion Date until the date of repayment of \$75. In an actual liquidation, the wind down process and time period(s) could vary thereby changing recoveries.
- (i) *DIP Lender's Claims:* Represents a \$3,100 DIP loan balance (excluding accrued, but unpaid interest which is captured separately). The DIP loan is secured by \$350 of cash collateral held on deposit with the DIP lender and a super-priority lien on all unrestricted assets of the Estate.
- (j) *Administrative Claims:* Includes PBGC claims as filed and for potential termination premiums (\$1,535), a claim by the AFM EPF based on the settlement amount outlined in the Plan¹ (\$1,750), post-petition lease amounts owed to the Kimmel Center (\$748), claims by guest artists and conductors that would result from a conversion to Chapter 7 (\$2,279), employee and retiree related claims for severance, accrued vacation (\$213) and CBA related payments that would result from a conversion to Chapter 7 (\$2,310), post-petition accounts payable and accrued expenses incurred, but not paid upon conversion to a Chapter 7, including professional fees and other related costs (\$1,234) and other filed administrative claims of \$10.
- (k) *Priority and Other Claims:* Includes PBGC claims as filed (\$159), other priority, 503(b)(9) and secured claims filed against the Debtor for which review is pending (\$31) and employee related claims for severance and accrued vacation that would result from a conversion to Chapter 7 (\$385).
- (l) *Unsecured Claims:* Includes PBGC claims as filed but adjusted for priority levels of certain claims (\$61,274) with, other general trade and pension related claims (\$866), contract and lease rejection claims that would result from a conversion to Chapter 7 (\$9,550), employee related claims for severance and accrued vacation that would result from a conversion to Chapter 7 (\$844) and other

¹ Pursuant to a settlement agreement reached with the AFM EPF, at the time POA successfully emerges from Chapter 11 as a reorganized entity, the POA will make a distribution of \$1,750 to the AFM EPF to satisfy all outstanding claims filed by the AFM EPF. For purposes of the Analysis, it is assumed that a Trustee would reach the same conclusion as the Debtor by reaching a similar settlement with the AFM EPF as part of a Chapter 7 liquidation. The Debtor makes **no admission** to the validity of the AFM EPF's administrative claim.

The Philadelphia Orchestra Association

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May 23, 2012

filed unsecured claims of \$42. Other claims may arise from the discontinuation of the business, which have not been factored into this analysis.

The Academy of Music of Philadelphia, Inc.

Liquidation Analysis **(Chapter 7 scenario)**

The Academy of Music of Philadelphia, Inc.

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May 23, 2012

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(Financial figures in \$000's)

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The Academy of Music of Philadelphia, Inc.*Privileged and Confidential****May 23, 2012***

Overview

The following document is the Best Interests Analysis (the “Liquidation Analysis”) of the Academy of Music of Philadelphia, Inc. (the “Debtor” or “AOM”). The Debtor, with the assistance of its financial advisors, has prepared this Liquidation Analysis for the purpose of evaluating whether the Plan meets the so-called best interests test under section 1129(a)(7) of the Bankruptcy Code.

The Debtor has prepared this Liquidation Analysis based on a hypothetical liquidation under Chapter 7 of the Bankruptcy Code. It is assumed, among other things, that the hypothetical liquidation under Chapter 7 would commence under the direction of a Court-appointed trustee and would continue for a period of time, during which time the Debtor’s major assets would be sold or surrendered to the respective lien holders, and the cash proceeds, net of liquidation related costs, would then be distributed to creditors in accordance with relevant law.

The determination of the costs of, and proceeds from, the hypothetical liquidation of the Debtor’s assets in a Chapter 7 case is an uncertain process involving the extensive use of estimates and assumptions that, although considered reasonable by the Debtor, are inherently subject to significant business, economic, and competitive uncertainties and contingencies beyond the control of the Debtor, their management, and their legal advisors. Inevitably, some assumptions in the Liquidation Analysis might not materialize in an actual Chapter 7 liquidation, and unanticipated events and circumstances could affect the ultimate results in an actual Chapter 7 liquidation.

THE LIQUIDATION ANALYSIS IS NOT INTENDED AND SHOULD NOT BE USED FOR ANY OTHER PURPOSE. THE LIQUIDATION ANALYSIS DOES NOT PURPORT TO BE A VALUATION OF THE DEBTOR’S ASSETS AS A GOING CONCERN, AND THERE MAY BE A SIGNIFICANT DIFFERENCE BETWEEN THE LIQUIDATION ANALYSIS AND THE VALUES THAT MAY BE REALIZED IN AN ACTUAL LIQUIDATION. THIS ANALYSIS ASSUMES “LIQUIDATION VALUES” BASED ON APPRAISALS, WHERE AVAILABLE, AND THE DEBTOR’S BUSINESS JUDGMENT, WHERE APPRAISALS ARE NOT AVAILABLE.

THE UNDERLYING FINANCIAL INFORMATION IN THE LIQUIDATION ANALYSIS WAS NOT COMPILED OR EXAMINED BY ANY INDEPENDENT ACCOUNTANTS. NEITHER THE DEBTOR NOR ITS ADVISORS MAKE ANY REPRESENTATION OR WARRANTY THAT THE ACTUAL RESULTS WOULD OR WOULD NOT APPROXIMATE THE ESTIMATES AND ASSUMPTIONS REPRESENTED IN THE LIQUIDATION ANALYSIS. ACTUAL RESULTS COULD VARY MATERIALLY.

The Academy of Music of Philadelphia, Inc.*Privileged and Confidential****May 23, 2012***

The Liquidation Analysis should be read in conjunction with the following notes and assumptions:

Summary Notes to Liquidation Analysis:

1. *Dependence on assumptions:* The Liquidation Analysis depends on estimates and assumptions. The Liquidation Analysis is based on a number of estimates and assumptions that, although developed and considered reasonable by the management and the advisors of the Debtor, are inherently subject to significant economic, business, regulatory and competitive uncertainties and contingencies beyond the control of the Debtor or its management. The Liquidation Analysis is also based on the Debtor's best judgment of how numerous decisions in the liquidation process would be resolved. Accordingly, there can be no assurance that the values reflected in this Liquidation Analysis would be realized if the Debtor was, in fact, to undergo such a liquidation and actual results could vary materially and adversely from those contained herein.
2. *Asset Restrictions:* Assets are assumed to be restricted for specific purposes if designated by a donor. The major categories of restrictions are (i) assets available for all creditors, (ii) assets available for restoration and preservation of the Academy of Music building (the "AOM Building") and (iii) permanently restricted assets. The Analysis does not reflect the impact of temporarily restricted assets currently held by the Debtor. To the extent any such assets have not been used for their designated purposes by the conversion date, the recoveries may be lower than reflected herein.
3. *Application of Restricted Proceeds:* The Analysis assumes that a Trustee would generally distribute recoverable asset proceeds in a manner which would maximize recoveries to unsecured creditors without violating restrictions set by donors.
4. *Permanently Restricted Assets:* Any permanently restricted assets, including the Debtor's endowment principal, are not considered assets of the Estate that are available for distribution to creditors.
5. *Dependence on unaudited financial statements:* This Liquidation Analysis contains numerous estimates that are still under review and it remains subject to further legal and accounting analysis. Recoveries reflected assume conversion to a Chapter 7 on July 31, 2012, but are measured against the Debtor's balance sheet as of March 31, 2012.
6. *Preference or fraudulent transfers:* No recovery or related litigation costs attributed to any potential avoidance actions under the Bankruptcy Code, including potential preference or fraudulent transfer actions are assumed within this analysis due to, among other issues, the inherent uncertainty about litigation results, the difficulty of assessing defenses to such actions, the inability to predict costs and fees associated with litigation and the risks of collection.
7. *Chapter 7 liquidation costs and length of liquidation process:* The Debtor has assumed that a Chapter 7 liquidation would take approximately four months to complete. A Chapter 7 Trustee would be appointed to evaluate and pursue an appropriate means to sell or transition the Debtor's

The Academy of Music of Philadelphia, Inc.*Privileged and Confidential****May 23, 2012***

assets in a manner that maximizes recoveries to creditors, arrange distributions and otherwise administer and close the estate. Thus, this Liquidation Analysis assumes the liquidation would be substantially completed within 3 to 4 months. In an actual liquidation, the wind down process and time period(s) could vary thereby impacting recoveries. For example, the potential for priority, contingent and other claims, litigation, rejection costs, and the final determination of allowed claims could substantially impact both the timing and amount of the distribution of the asset proceeds to the creditors. Accordingly, there can be no assurance that the values reflected in this Liquidation Analysis would be realized if the Debtor was, in fact, to undergo such a liquidation.

Pursuant to section 726 of the Bankruptcy Code, the allowed administrative expenses incurred by a Chapter 7 Trustee will be entitled to payment in full prior to any distribution to Chapter 11 administrative and other priority claims. The estimate used in the Liquidation Analysis for these expenses includes estimates for certain legal, accounting, and other professionals and a 3% fee based upon liquidated assets, excluding cash-on-hand, payable to a Chapter 7 trustee. Given the minimal asset recoveries expected in a liquidation, it is largely assumed that a Chapter 7 Trustee charged with the liquidation of the POA may also oversee the liquidation of the AOM.

8. *Claims Estimates:* Claims are estimated based upon: (i) actual claims filed, (ii) the latest expectations of the Debtor with regards to amount and priority, and (iii) claims that are expected to result from a conversion to Chapter 7. Additional claims may arise that were not estimated as of the date of this liquidation analysis. Note that the PBGC claims reflected are based on filed claims, with the exception of certain filed priority claims that are reflected as unsecured claims based on a preliminary review by the Debtor. The Debtor makes no admission to the validity of the amount and priority of the PBGC's filed claims pending further review if necessary.

The Academy of Music of Philadelphia, Inc.

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May 23, 2012**Summary of Liquidation Analysis:**

(\$'s in 000's)

	Notes	Balance As of 3/31/12	Projected Recovery as of July 31, 2012					
			Low		Medium		High	
			\$	%	\$	%	\$	%
Assets Available for All Claims								
Cash & Equivalents	(A)	\$ -	\$ -	NA	\$ -	NA	\$ -	NA
Accounts Receivable	(B)	2	0	0.2%	0	0.2%	0	0.2%
Pledges Receivable	(C)	6	-	0.0%	-	0.0%	-	0.0%
Fixed Assets	(D)	42,651	-	0.0%	-	0.0%	-	0.0%
Intercompany Assets, Net	(E)	(98)	10	-10.5%	10	-10.5%	10	-10.5%
Other Assets	(F)	27	-	0.0%	-	0.0%	-	0.0%
Total Assets Available for All Claims		42,588	10		10		10	
Assets Restricted for Restoration								
Cash & Equivalents	(A)	1,715	1,768	103.1%	1,768	103.1%	1,768	103.1%
Endowment & Related Assets		2,780	-	0.0%	-	0.0%	-	0.0%
Total Assets Restricted for Restoration		4,494	1,768		1,768		1,768	
Permanently Restricted Assets								
Endowment & Related Assets	(G)	17,008	-	0.0%	-	0.0%	-	0.0%
Total Permanently Restricted Assets		17,008	-		-		-	
Total Gross Proceeds			\$ 1,778		\$ 1,778		\$ 1,778	
Gross Proceeds Available for All Claims			10		10		10	
Gross Proceeds Available for Restoration			1,768		1,768		1,768	
Chapter 7 Wind-Down Costs	(H)		(40)		(40)		(40)	
Net Proceeds After Chapter 7 Wind-Down Costs			\$ 1,738		\$ 1,738		\$ 1,738	
Net Proceeds Available for All Claims			-		-		-	
Net Proceeds Available for Restoration			1,738		1,738		1,738	
Chapter 11 Administrative Claims	(I)	418	75	18.1%	75	18.1%	75	18.1%
Net Proceeds After Chapter 11 Administrative Claims			\$ 1,662		\$ 1,662		\$ 1,662	
Net Proceeds Available for All Claims			-		-		-	
Net Proceeds Available for Restoration			1,662		1,662		1,662	
Secured/Priority/Other Claims	(J)	159	-	0.0%	-	0.0%	-	0.0%
Net Proceeds After Secured/Priority/Other Claims			\$ 1,662		\$ 1,662		\$ 1,662	
Net Proceeds Available for All Claims			-		-		-	
Net Proceeds Available for Restoration			1,662		1,662		1,662	
Unsecured Claims	(K)	61,360	86	0.1%	86	0.1%	86	0.1%
Net Proceeds After Unsecured Claims			\$ 1,576		\$ 1,576		\$ 1,576	
Net Proceeds Available for All Claims			-		-		-	
Net Proceeds Available for Restoration			1,576		1,576		1,576	

Note: Projected recoveries are based on projected balances as of the hypothetical Conversion Date. The recovery %'s vary by asset class.

The Academy of Music of Philadelphia, Inc.*Privileged and Confidential****May 23, 2012***

Detailed Assumptions**Asset Recovery Estimates**

Asset recovery estimates presented in this liquidation analysis assume conversion to Chapter 7 on or about July 31, 2012 (the “Conversion Date”), but are measured against the Debtor’s actual balance sheet values as of March 31, 2012.

- (a) Cash & Equivalents: All cash-on-hand is temporarily restricted for purposes of restoration and preservation of the AOM building. All sources of income are specifically designated for purposes of restoration either by agreement with donors or due to the nature of the solicitation. The sole existence of the AOM is for purposes of restoring and preserving the building.
- (b) Accounts Receivable: Primarily reflects receivables related to credit card donations and AOM Ball activities. Due to the timing of the Academy Ball, any recoveries are expected to be received prior to a conversion to Chapter 7 and reflected in Cash & Equivalents.
- (c) Pledges Receivable: Any outstanding pledges are assumed to not be recoverable given the entity will no longer exist to fulfill the purposes for which the pledges were solicited. Furthermore, outstanding pledges are generally assumed to not be enforceable and would only be available for purposes of building maintenance.
- (d) Fixed Assets: The fixed asset balance as of March 31, 2012 primarily reflects the book value of the AOM building and any capitalized building improvements. No economic recovery is expected from a potential sale or monetization of the AOM building as part of a Chapter 7 liquidation based on an independent appraisal, primarily due to the nature of the long-term tri-party lease agreement among the POA and the Kimmel Center, Inc.
- (e) Intercompany Receivables: The intercompany receivable balance consists of generally either POA or the endowment funds. Recoveries related to the endowment funds are assumed to be 100% and recoveries related to AOM are based on a calculated amount assuming intercompany claims are treated as pari passu with other claims of the same priority.
- (f) Other Assets: Reflects gifts-in-kind.
- (g) Endowment & Related Assets: Includes both board-designated and permanently restricted assets. All board-designated endowment assets are assumed to be restricted solely for purposes of restoration and preservation of the AOM building. All permanently restricted endowment assets are not considered assets of the Estate available for distribution to creditors.

The Academy of Music of Philadelphia, Inc.*Privileged and Confidential****May 23, 2012***

Liquidation Expenses & Claims

- (h) Liquidation Expenses: The wind-down is assumed to take approximately four months. It is assumed that the Chapter 7 Trustee would focus efforts on the sale or transition of substantially all assets in an expedient manner. Liquidation expenses include professional fees of \$40, representing approximately \$10 per month, and Trustee fees equal to 3% of assets (excluding cash). Given the minimal asset recoveries expected in a liquidation, it is assumed that a Chapter 7 Trustee charged with the liquidation of the POA may also oversee the liquidation of the AOM. In an actual liquidation, the wind down process and time period(s) could vary thereby changing recoveries.
- (i) Administrative Claims: Includes PBGC claims as filed (\$342) and an estimate of post-petition accounts payable and accrued expenses incurred, but not paid, upon conversion to a Chapter 7 (\$75). Claims related to post-petition payables and accrued expenses are estimated to be paid 100%. No recovery is expected for PBGC claims as all gross proceeds are restricted solely for purposes of restoration and preservation.
- (j) Priority and Other Claims: Includes PBGC claims as filed (\$159). No recovery is expected as all gross proceeds are restricted solely for purposes of restoration and preservation.
- (k) Unsecured Claims: Includes PBGC claims as filed but adjusted for priority levels of certain claims (\$61,274) and pre-petition trade claims (\$86). Pre-petition trade claims are estimated to be paid 100%. No recovery is expected for PBGC claims as all gross proceeds are restricted solely for purposes of restoration and preservation.

Appendix E

[Audited Financials for Fiscal Year Ended August 31, 2011]

Consolidated Financial Statements and Report of
Independent Certified Public Accountants

The Philadelphia Orchestra Association

August 31, 2011 and 2010

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Report of Independent Certified Public Accountants

To the Board of Directors of
The Philadelphia Orchestra Association:

We have audited the accompanying consolidated statements of financial position of The Philadelphia Orchestra Association and its wholly-owned subsidiary (collectively, the "Association") as of August 31, 2011 and 2010, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Philadelphia Orchestra Association and its wholly-owned subsidiary as of August 31, 2011 and 2010, and their changes in net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Association will continue as a going concern. As discussed in Notes B and C to the consolidated financial statements, the Association filed a voluntary position to reorganize under Chapter 11 of Title 11 of the United States Code in the United States Bankruptcy Court for the Eastern District of Pennsylvania. This filing is a result of continued performance deficits and significant declines in changes in net assets from operating activities, as well as significant pension and lease commitments.

These factors, among others, as discussed in Notes B and C to the consolidated financial statements, raise substantial doubt about the Association's ability to continue as a going concern. Management's plans in regard to these matters are also described in Notes B and C. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Grant Thornton LLP

Philadelphia, Pennsylvania

March 26, 2012

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

August 31,

(Dollars in thousands)

ASSETS	2011	2010
Cash and cash equivalents	\$ 4,366	\$ 8,815
Trade accounts receivable, net of allowance of \$543 and \$373, respectively	6,442	1,569
Prepaid expenses and other assets	2,037	1,445
Pledges receivable, net	6,085	9,981
Notes receivable	215	229
Investments	130,966	123,624
Investment in joint venture	575	575
Property and equipment, net	46,256	48,209
Beneficial interest in trusts	4,313	4,032
Total assets	<u>\$ 201,255</u>	<u>\$ 198,479</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
<u>Liabilities not subject to compromise</u>		
Accounts payable	\$ 2,078	\$ 833
Accrued expenses and other liabilities	2,559	1,518
Deferred revenue	2,539	6,614
Annuities payable	1,147	1,166
Accrued benefit obligation	-	22,895
	<u>8,323</u>	<u>33,026</u>
<u>Liabilities subject to compromise</u>		
Accounts payable	506	-
Accrued expenses	349	-
Deferred revenue	2,697	-
Accrued benefit obligation	20,411	-
	<u>23,963</u>	<u>-</u>
Total liabilities	32,286	33,026
NET ASSETS		
Unrestricted	30,095	30,034
Temporarily restricted	4,096	6,215
Permanently restricted	<u>134,778</u>	<u>129,204</u>
Total net assets	<u>168,969</u>	<u>165,453</u>
Total liabilities and net assets	<u>\$ 201,255</u>	<u>\$ 198,479</u>

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended August 31, 2011

	Unrestricted	Temporarily restricted	Permanently restricted	2011 total
	(Dollars in thousands)			
PERFORMANCE REVENUE				
Philadelphia concerts	\$ 9,276	\$ -	\$ -	\$ 9,276
Summer concerts	1,427	-	-	1,427
Other concerts	959	-	-	959
Tours	1,294	-	-	1,294
Recording, radio and television	447	-	-	447
	<u>13,403</u>	<u>-</u>	<u>-</u>	<u>13,403</u>
PERFORMANCE EXPENSE				
Orchestra and concert production	33,084	-	-	33,084
Recording, radio and television	541	-	-	541
	<u>33,625</u>	<u>-</u>	<u>-</u>	<u>33,625</u>
PERFORMANCE DEFICIT	(20,222)	-	-	(20,222)
OTHER OPERATING REVENUE (LOSS)				
Annual public support	8,174	560	-	8,734
Campaign contributions - special funding	13,723	-	-	13,723
Volunteer project revenue	469	176	-	645
Spending policy draw, designated for current operations	7,388	-	-	7,388
Income from beneficial interests in trusts	205	-	-	205
Other revenues	1,666	-	-	1,666
Gifts in kind	3	-	-	3
Equity earnings in joint venture	118	-	-	118
Loss from Encore Series, Inc.	(625)	-	-	(625)
Special events revenue	324	-	-	324
Net assets released from restrictions	2,991	(2,991)	-	-
TOTAL OTHER OPERATING REVENUE (LOSS)	<u>34,436</u>	<u>(2,255)</u>	<u>-</u>	<u>32,181</u>
OTHER OPERATING EXPENSE				
Fundraising expenses				
Annual fundraising	1,620	-	-	1,620
Volunteer project	309	-	-	309
	<u>1,929</u>	<u>-</u>	<u>-</u>	<u>1,929</u>
Management and general				
Administrative expense	10,013	-	-	10,013
Bad debt	618	-	468	1,086
Depreciation	486	-	-	486
TOTAL OTHER OPERATING EXPENSE	<u>13,046</u>	<u>-</u>	<u>468</u>	<u>13,514</u>
CHANGES IN NET ASSETS FROM OPERATING ACTIVITIES BEFORE REORGANIZATION EXPENSES	<u>1,168</u>	<u>(2,255)</u>	<u>(468)</u>	<u>(1,555)</u>
Reorganization expenses	<u>3,568</u>	<u>-</u>	<u>-</u>	<u>3,568</u>
CHANGES IN NET ASSETS FROM OPERATING ACTIVITIES	<u>(2,400)</u>	<u>(2,255)</u>	<u>(468)</u>	<u>(5,123)</u>
NONOPERATING REVENUE (EXPENSE)				
Endowment contributions	-	-	2,155	2,155
Endowment fundraising expenses	(181)	-	-	(181)
Investment gain, net of spending policy	261	4,540	186	4,987
Spending policy draw, designated for Academy of Music	862	-	-	862
Academy of Music revenue	2,489	48	-	2,537
Academy of Music expense	(5,092)	-	-	(5,092)
Funds with deficiencies	-	(3,701)	3,701	-
Net assets released from restrictions	751	(751)	-	-
Change in pension benefit obligation	3,371	-	-	3,371
TOTAL NONOPERATING EXPENSE	<u>2,461</u>	<u>136</u>	<u>6,042</u>	<u>8,639</u>
CHANGES IN NET ASSETS	<u>61</u>	<u>(2,119)</u>	<u>5,574</u>	<u>3,516</u>
NET ASSETS, BEGINNING	<u>30,034</u>	<u>6,215</u>	<u>129,204</u>	<u>165,453</u>
NET ASSETS, ENDING	<u>\$ 30,095</u>	<u>\$ 4,096</u>	<u>\$ 134,778</u>	<u>\$ 168,969</u>

The accompanying notes are an integral part of this consolidated financial statement.

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended August 31, 2010

	Unrestricted	Temporarily restricted	Permanently restricted	2010 total
	(Dollars in thousands)			
PERFORMANCE REVENUE				
Philadelphia concerts	\$ 9,123	\$ -	\$ -	\$ 9,123
Summer concerts	1,673	-	-	1,673
Other concerts	592	-	-	592
Tours	2,047	-	-	2,047
Recording, radio and television	443	-	-	443
	<u>13,878</u>	<u>-</u>	<u>-</u>	<u>13,878</u>
PERFORMANCE EXPENSE				
Orchestra and concert production	32,548	-	-	32,548
Recording, radio and television	363	-	-	363
	<u>32,911</u>	<u>-</u>	<u>-</u>	<u>32,911</u>
PERFORMANCE DEFICIT	(19,033)	-	-	(19,033)
OTHER OPERATING REVENUE (LOSS)				
Annual public support	8,077	1,481	-	9,558
Campaign contributions - bridge funding	9,258	912	-	10,170
Volunteer project revenue	410	476	-	886
Spending policy draw, designated for current operations	10,390	-	-	10,390
Income from beneficial interests in trusts	192	-	-	192
Other revenues	1,473	-	-	1,473
Gifts in kind	143	60	-	203
Equity earnings in joint venture	264	-	-	264
Loss from Encore Series, Inc.	(467)	-	-	(467)
Special events revenue	415	-	-	415
Net assets released from restrictions	<u>2,277</u>	<u>(2,277)</u>	<u>-</u>	<u>-</u>
TOTAL OTHER OPERATING REVENUE	32,432	652	-	33,084
OTHER OPERATING EXPENSE				
Fundraising expenses				
Annual fundraising	1,384	-	-	1,384
Volunteer project	227	-	-	227
	<u>1,611</u>	<u>-</u>	<u>-</u>	<u>1,611</u>
Management and general				
Administrative expense	9,147	-	-	9,147
Bad debt	631	-	150	781
Depreciation	535	-	-	535
	<u>11,924</u>	<u>-</u>	<u>150</u>	<u>12,074</u>
TOTAL OTHER OPERATING EXPENSE	11,924	-	150	12,074
CHANGES IN NET ASSETS FROM OPERATING ACTIVITIES	1,475	652	(150)	1,977
NONOPERATING REVENUE (EXPENSE)				
Endowment contributions	-	-	477	477
Endowment fundraising expenses	(358)	-	-	(358)
Investment loss, net of spending policy	(636)	(245)	(193)	(1,074)
Spending policy draw, designated for Academy of Music	3,140	-	-	3,140
Academy of Music revenue	3,167	704	-	3,871
Academy of Music expense	(5,491)	-	-	(5,491)
Funds with deficiencies	-	571	(571)	-
Net assets released from restrictions	1,547	(1,547)	-	-
Change in pension benefit obligation	<u>(3,437)</u>	<u>-</u>	<u>-</u>	<u>(3,437)</u>
TOTAL NONOPERATING EXPENSE	(2,068)	(517)	(287)	(2,872)
CHANGES IN NET ASSETS	(593)	135	(437)	(895)
NET ASSETS, BEGINNING	<u>30,627</u>	<u>6,080</u>	<u>129,641</u>	<u>166,348</u>
NET ASSETS, ENDING	<u>\$ 30,034</u>	<u>\$ 6,215</u>	<u>\$ 129,204</u>	<u>\$ 165,453</u>

The accompanying notes are an integral part of this consolidated financial statement.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended August 31,

(Dollars in thousands)

	2011	2010
Cash flows from operating activities		
Changes in net assets	\$ 3,770	\$ (895)
Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities		
Depreciation	2,851	2,870
Provision for bad debt expense	832	637
Permanently restricted contributions received	(806)	(718)
Change in investment in joint venture	-	60
Net realized and unrealized (gain) loss on investments	(7,411)	4,136
Unrealized appreciation in beneficial interest in trust	(486)	(133)
Distribution from beneficial interest in trust	205	192
(Gain) loss on pension benefit obligation	(3,371)	3,437
Changes in assets and liabilities		
Trade accounts receivable	(4,873)	270
Pledges receivable	2,810	(1,056)
Prepaid expenses and other assets	(592)	406
Accounts payable and accrued expenses	3,141	(1,946)
Deferred revenues	(1,378)	(69)
Annuities payable	(19)	19
Accrued benefit obligations	887	474
Net cash (used in) provided by operating activities	(4,440)	7,684
Cash flows from investing activities		
Purchases of investments	(46,985)	(123,446)
Proceeds from sales of investments	47,054	129,903
Purchase of property, plant and equipment	(898)	(1,136)
Loan disbursements to employees	(43)	(15)
Repayments of employee loans	57	57
Net cash (used in) provided by investing activities	(815)	5,363
Cash flows from financing activities		
Payments of bonds payable	-	(2,900)
Permanently restricted contributions received	806	718
Proceeds from line of credit	-	953
Repayment on line of credit	-	(10,242)
Net cash provided by (used in) financing activities	806	(11,471)
Net (decrease) increase in cash and cash equivalents	(4,449)	1,576
Cash and cash equivalents		
Beginning of year	8,815	7,239
End of year	\$ 4,366	\$ 8,815
Interest paid	\$ -	\$ 28
Accrued construction expenses	\$ 278	\$ 275
Reorganization expenses paid	\$ 2,304	\$ -

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2011 and 2010

NOTE A - NATURE OF OPERATIONS

1. Organization

These consolidated financial statements include the accounts of The Philadelphia Orchestra Association (the "Orchestra") and its wholly-owned subordinate entity, The Academy of Music of Philadelphia, Inc. (the "Academy") (collectively, the "Association"). All significant intercompany balances and transactions have been eliminated. The Academy was organized to operate, manage and maintain the Academy of Music, a concert hall. The Association has contracted the Kimmel Center, Inc. ("KCI"), an unaffiliated organization, to manage the operations of the Academy. In addition, the Association has invested in a nonprofit joint venture which provides ticket sales and servicing operations for events held in the Academy of Music, Kimmel Center and other venues ("Ticket Philadelphia"). This venture is accounted for as an equity investment. As more fully discussed in Note O, the Association also has an administrative relationship with Encore Series, Inc.

2. Definition of Operating Activities

The operations of the Orchestra, including all concert, recording, and touring activities, are presented in the operating activities section of the consolidated statements of activities. Also included with operating activities are all Orchestra annual fundraising activities and investment income designated for operations.

Included in nonoperating revenue and expense are endowment contributions, endowment fundraising expenses, investment income, net of spending policy and changes in pension benefit obligation. In addition, all activities of the Academy are included in nonoperating. Reorganization expenses are also included in nonoperating expenses and consist primarily of legal and financial consultant fees.

Operating results for activities such as concerts and other events that take place at the Academy of Music building under the auspices of KCI are not included in these statements as they are part of KCI's operations. KCI leases the property of the Academy for a dollar per year through 2031. The lease contains various options to extend at current market rates through 2090.

NOTE B - GOING CONCERN AND MANAGEMENT'S PLANS

Based on the matters discussed in Note C below, management has no reason to believe that the anticipated plan of reorganization will not be confirmed by the United States Bankruptcy Court for the Eastern District of Pennsylvania (the "Bankruptcy Court"), enabling the Association to emerge from Chapter 11, but until such confirmation has occurred, the status of the two organizations as going business concerns is not assured.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2011 and 2010

NOTE C - CHAPTER 11 REORGANIZATION

On April 16, 2011 (the "Petition Date"), the Orchestra and its wholly-owned subordinate entity, the Academy, along with Encore Series, Inc. ("ESI"), each filed a voluntary petition to reorganize under Chapter 11 of Title 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the Eastern District of Pennsylvania. By order of the Bankruptcy Court dated April 20, 2011, the Debtors' Chapter 11 cases were consolidated for procedural purposes only and are being jointly administered under the caption "In re THE PHILADELPHIA ORCHESTRA ASSOCIATION ACADEMY OF MUSIC OF PHILADELPHIA, INC. ENCORE SERIES, INC." Bky. No. 11-13098 ("ELF"). No trustee or examiner was appointed in the Debtors' Chapter 11 cases. On May 4, 2011, the United States Trustee for the Eastern District of Pennsylvania (the "U.S. Trustee") appointed an official committee of unsecured creditors (the "Creditors Committee").

Subsequently, the order dated April 20, 2011, providing for the joint administration of the bankruptcy cases of The Philadelphia Orchestra Association, The Academy of Music of Philadelphia, Inc. and Encore Series, Inc. under Bky. No. 11-10398 was terminated as to Encore Series, Inc. only, effective May 2, 2011. All further pleadings and other papers related to the Chapter 11 case of Encore Series, Inc. have been filed, and all further docket entries with respect thereto are made in Case No. 11-13100. All further pleadings and other papers related to the Chapter 11 cases of The Philadelphia Orchestra Association and The Academy of Music of Philadelphia, Inc. continued to be filed and docketed under Bky. No. 11-10398.

The Philadelphia Orchestra Association and The Academy of Music of Philadelphia, Inc. expect to file a plan of reorganization (the "Plan") and related disclosure statement before the end of fiscal year 2012. The Plan will reflect steps that the Board has already taken and plans to take to strengthen governance practices and capitalize on the highly experienced management team and dynamic new artistic leadership. Some steps that have been taken are as follows:

1. Collective Bargaining Agreement

Pursuant to a Bankruptcy Court order dated October 27, 2011, the Orchestra agreed to continue the terms of the Trade Agreement with The Philadelphia Musicians' Union, Local 77, American Federation of Musicians ("Local 77") dated September 15, 2007, as modified by Memoranda of Understanding dated May 22, 2009, February 21, 2010 and further modified by the terms contained in an Agreement executed October 31, 2011.

The term of the October 31, 2011 Agreement is November 1, 2011 through September 16, 2015. It is the product of a Bankruptcy Court guided mediation and memorializes significant changes in work rules, compensation, medical and pension benefits that will allow the Association to achieve its mission in a sustainable fashion for the future.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2011 and 2010

NOTE C - CHAPTER 11 REORGANIZATION - Continued

2. Encore Series, Inc. Settlement

A Settlement Stipulation (the "ESI Settlement") among the Association, Encore Series, Inc., Finger Prince, Inc. and Peter Nero (the "Parties") was entered into as of September 15, 2011 and subsequently approved by order of the Bankruptcy Court on September 28, 2011.

The ESI Settlement requires that the Association make five (5) payments to ESI totaling \$1,250,000 by June 30, 2012 to be used by ESI in the ordinary course of its business as ESI, in its sole discretion, deems appropriate. In addition, the Association will provide certain, limited administrative support to ESI through June 30, 2012.

The terms of the ESI Settlement are intended by the Parties to be incorporated into a joint plan or plans of reorganization of the Association and ESI, and that any plan filed by any of the Parties shall provide that all claims of the Association against ESI and Peter Nero, and of ESI and Peter Nero against the Association, except as to obligations set forth in the ESI Settlement, and any plan filed by the Parties, shall be waived and released by the Parties.

3. Pension Plans

On November 29, 2011, the Bankruptcy Court entered an order determining that the Association meets the requirements for a distress termination of certain defined benefit pension plans and approving termination of those plans.

At the Petition Date, the Orchestra maintained separate noncontributory defined benefit plans (the "Pension Plans") covering members of the Orchestra and administrative employees (see Note J "Pensions and Other Postretirement Benefits"). Pursuant to the terms and conditions contained in the October 31, 2011 Agreement and as authorized by the November 29, 2011 Bankruptcy Court order, the Orchestra provided notification to the Pension Benefit Guarantee Corporation (the "PBGC") on October 25, 2011 of its intention to terminate the Pension Plans, having satisfied the requirements for a distress termination of the Pension Plans pursuant to section 4041(c)(2)(B) of ERISA, 29 U.S.C. § 1341(c)(2)(B). As part of a distressed termination, the Association is required to pay an administrative fee based upon the number of participants over a three-year period. The total fee is approximately \$1.2 million.

Separately, as part of the Orchestra's Trade Agreement with Local 77 that was in effect until September 16, 2007, Local 77 agreed to a freeze/curtailment of the defined benefit pension plan which covers all full-time musicians. The effective date of the curtailment was September 19, 2004. All credit for future service was earned under the American Federation of Musicians-Employers' Pension Fund (the "AFM Plan"). The Orchestra contributed a specific percentage of minimum weekly salary for each full-time musician to the AFM Plan.

Pursuant to the terms and conditions contained in the October 31, 2011 Agreement, the Orchestra provided notification to the American Federation of Musicians that it was withdrawing from the AFM Plan effective November 1, 2011. This withdrawal triggered a withdraw liability in an amount to be finalized that will be addressed as part of the bankruptcy claims process and final distribution to creditors consistent with the plan of reorganization.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2011 and 2010

NOTE C - CHAPTER 11 REORGANIZATION - Continued

The Pension Plans and the AFM Plan will be replaced with a defined contribution plan that will be effective November 1, 2011.

Short-term steps have been implemented to reduce program costs, institute dynamic pricing and find operating efficiencies. The Plan will incorporate the functional elements of a 5-year plan developed by management to address both earned and contributed revenue. Embedded in the Plan will be the following operational strategies:

- Invest in the art, staging and technology necessary to bring new experiences and ways of enjoying the music, all of which translates to better financial outcomes.
- Changes to the expense structure to ensure that each dollar yields the highest artistic and financial return.
- Balance sheet and capitalization requirements to fund the transition while steps are taken to rebuild audiences and grow the endowment.

Management believes that these factors will contribute to the ability of the Orchestra to achieve structural balance by the end of the plan period.

There can be no assurance that the Plan will be approved or that the Association will be able to meet all of the goals of the Plan. The Association believes that, given current circumstances, it will emerge from Chapter 11 before the end of fiscal 2012 with sufficient liquidity to continue operating as a going concern, but cannot give assurances that it will do so, due to uncertainties inherent in the bankruptcy process. Accordingly, the Association may not be able to continue as a going concern.

NOTE D - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Basis of Presentation

The consolidated financial statements of the Association have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). U.S. GAAP requires that net assets and revenues, gains, expenses and losses be classified as unrestricted, temporarily restricted or permanently restricted based on the existence or absence of donor-imposed restrictions as follows:

- Unrestricted - Net assets that are not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors. Approximately \$2,852,000 of the Association's unrestricted net assets as of August 31, 2011, have been designated by the Board of Directors to function as endowment.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2011 and 2010

NOTE D - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- Temporarily Restricted - Net assets whose use by the Association is subject to donor-imposed restrictions that can be fulfilled by actions of the Association pursuant to those restrictions or that expire by the passage of time. Temporarily restricted net assets consist primarily of contributions receivable and accumulated endowment gains which can be expended, but for which restrictions have not yet been met.
- Permanently Restricted - Net assets subject to donor-imposed restrictions that they be maintained permanently by the Association or are permanently maintained in the control of third-party trustees or administrators. Permanently restricted net assets are primarily comprised of original endowment gifts given to the Association by donors. Generally, the donors of these assets permit the Association to use all or part of the income on these assets.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are generally reported as decreases in unrestricted net assets. Expirations of donor-imposed restrictions that simultaneously increase one class of net assets and decrease another are reported as releases between the applicable classes of net assets.

2. Cash and Cash Equivalents

Cash and cash equivalents include short-term investments with original maturities of three months or less. The Association maintains cash accounts which, at times, may exceed federally insured limits. The Association has not experienced any losses from maintaining cash accounts in excess of federally insured limits. Management believes that it is not exposed to any significant credit risk on its cash accounts.

3. Trade Accounts Receivable

Trade accounts receivable are reported at their net realizable value and consist of performance-related receivables, royalties, Academy Ball program receivables and other amounts.

4. Investments

The Association records its investments at fair value. Debt securities, equity securities and mutual funds are valued at quoted market prices, except for certain alternative investments for which quoted market prices are not available. The estimated fair value of alternative investments is based upon net asset values as a practical expedient, which is provided by external investment managers as of August 31, 2011 and 2010. Because such investments are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed. The Association, in conjunction with an investment consultant engaged by the Association, reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining the fair value of alternative investments.

Gains and losses on investments are determined using an average cost method for securities and the specific identification method for other investments. Gains and losses are based on the trade date for investments.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2011 and 2010

NOTE D - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The principal objective of the Association's alternative investment selection is to enhance the risk-adjusted returns of the Association's total asset portfolio. The Association manages this investment exposure through a process of careful selection of experienced external fund managers, detailed initial due diligence, continuing periodic diligence and monitoring (including on-site visitations by an investment consultant engaged by the Association), limitation of exposure to any investment strategy or manager, and the employment of outside experts. At August 31, 2011, the largest alternative investment exposure to any product and/or manager was 2% of total long-term investments, which reflected a fund-of-funds allocation.

Within the asset allocation category classified as alternative investments, a majority of the underlying investments were publicly traded stocks, debt instruments, preferred securities, and other instruments for which a ready market quote exists. The investments have been classified as alternative investments because the investment managers engaged by the Association to manage said investments may not be registered pursuant to the Investment Company Act of 1940 and because the investment instruments are limited partnerships.

5. Fair Value Measurements

The Association has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the hierarchy are described below:

- Level 1 Financial assets and liabilities whose values are based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2 Financial assets and liabilities whose values are based on one or more of the following:
1. Quoted prices for similar assets or liabilities in active markets;
 2. Quoted prices for identical or similar assets or liabilities in non-active markets;
 3. Pricing models whose inputs are observable for substantially the full term of the asset or liability; or
 4. Pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability.
- Level 3 Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Association's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2011 and 2010

NOTE D - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Both observable and unobservable inputs may be used to determine the fair value of positions that the Association has classified within the Level 3 category. As a result, the unrealized gains and losses for assets and liabilities within the Level 3 category presented in the tables below may include changes in fair value that were attributable to both observable (e.g., changes in market interest rates) and unobservable (e.g., changes in unobservable long-dated volatilities) inputs.

A review of the fair value hierarchy classifications is conducted on an annual basis. Changes in the type of inputs may result in a reclassification for certain financial assets or liabilities. Reclassifications impacting Level 3 of the fair value hierarchy are reported as transfers in/out of the Level 3 category as of the beginning of the year in which reclassifications occur.

6. Allowance for Doubtful Accounts

The allowance for doubtful accounts is provided based upon management's judgment, including such factors as prior collection history and type of receivable. The Association writes-off receivables when they become uncollectible, and payments subsequently received on such receivables, if any, are credited to the allowance for doubtful accounts.

7. Pledges Receivable

Contributions received, including unconditional promises to give, are recognized as revenues when the donor's commitment has been received. Unconditional promises to give are recognized at the established present value of the future cash flows, net of allowances. Contributions, which are received subject to restrictions imposed by donors, are reported as either permanently restricted or temporarily restricted net assets in the accompanying consolidated financial statements. Contributions for which the restrictions expire with the passage of time or occurrence of specific events are classified as temporarily restricted. When the restriction expires with the passage of time or upon occurrence of the specified event, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions. Temporarily restricted funds expended in the fiscal year in which received are recorded as unrestricted.

8. Notes Receivable

The Association makes loans to members of the Orchestra for the purpose of acquiring instruments to be used when performing with the Orchestra. The Association makes individual loans for amounts up to \$15,000, which are non-interest-bearing for a maximum term of 5 years. The total outstanding amount of these loans must not exceed \$125,000. The Association also makes individual loans, which bear interest at the ten-year Treasury note rate plus 1% for amounts up to \$125,000 with a maximum term of 10 years. The ten-year Treasury note rate was 2.23% and 2.47% at August 31, 2011 and 2010, respectively. The total outstanding amount of these loans must not exceed \$500,000.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2011 and 2010

NOTE D - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

9. Property and Equipment, net

Property and equipment, net is recorded at cost as of the date of acquisition or fair value as of the date of receipt in the case of gifts. Depreciation is recorded as an expense using the straight-line method over the estimated useful lives of the respective assets. The useful lives are as follows:

Office condominium, building and building improvements	30 years
Equipment and other	5-10 years
Office equipment	3-10 years

The cost and accumulated depreciation of property sold or retired is removed from the related asset and accumulated depreciation amounts, and any resulting gain or loss is recorded in the period of disposal.

Renewals and improvements, which extend the useful lives of assets, are capitalized at cost. Maintenance and repairs are included as expenses in the consolidated statements of activities.

Fine instruments have been recognized at their estimated fair value based upon appraisals or similar valuations at the date of acquisition or donation. Fine instruments are not depreciated. The aggregate carrying value of such assets at both August 31, 2011 and 2010 was \$295,000.

10. Annuities Payable

Liabilities related to charitable gift annuities received by the Association are recorded at the present value of the future interest payments based on the donor's life expectancy. Amounts donated in excess of the liability are recorded as restricted donations in the consolidated statements of activities. The present value of the annuities, discounted at the respective rate under IRC Section 7520(a), is calculated at the time of the donation.

11. Revenue Recognition

Revenues from concert, recording, touring and rental activities are recognized as earned using the accrual method of accounting. Revenue from sales of subscriptions and single tickets for the upcoming concert season is deferred until the performance of the related concerts. Revenues related to advertising for the annual Academy Ball fundraising event are deferred until earned.

12. Tax Status

Under provisions of the Internal Revenue Code, Section 501(c)(3), and the applicable income tax regulations of Pennsylvania, the Association is exempt from taxes on income other than unrelated business income.

The Association recognizes or derecognizes a tax position based on a "more likely than not" threshold. This applies to positions taken or expected to be taken in a tax return. The Association does not believe its consolidated financial statements include any material uncertain tax positions.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2011 and 2010

NOTE D - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

13. Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and utilize assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. The most significant management estimates and assumptions relate to the determination of allowances for doubtful trade accounts, pledges and notes receivable, discounts on pledges receivable and annuities, alternative investment values, useful lives of fixed assets, assumptions related to the accrued benefit obligation, assumptions related to the annuities payable, and the reported fair values of certain of the Association's assets and liabilities. Actual results could differ from those estimates.

14. New Accounting Pronouncement

In January 2010, the Financial Accounting Standards Board ("FASB") issued accounting guidance to enhance fair value measurement disclosures by requiring the reporting entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reason for the transfers. Furthermore, activity in Level 3 fair value measurements should separately provide information about purchases, sales, issues and settlements rather than providing that information as one net number. This guidance is effective for financial statements issued for periods beginning after December 15, 2009, with the exception of the enhanced Level 3 disclosures, which are effective for reporting periods beginning after December 15, 2010. The adoption of this guidance, with the exception of the enhanced Level 3 disclosures which will be adopted the fiscal year ending June 30, 2012, did not have a material impact on the consolidated financial statements.

NOTE E - PLEDGES RECEIVABLE

Pledges receivable at August 31, 2011 and 2010 were expected to be collected as follows (in thousands):

	2011			
	Operating Fund	Academy of Music	Endowment Fund	Total
Due within				
One year	\$ 1,382	\$ -	\$ 1,672	\$ 3,054
Two to five years	437	-	3,107	3,544
After five years	-	-	464	464
Total pledges receivable	1,819	-	5,243	7,062
Less allowance for uncollectible pledges	(361)	-	(254)	(615)
Subtotal	1,458	-	4,989	6,447
Less unamortized discount	(18)	-	(344)	(362)
Net present value of pledges receivable	\$ 1,440	\$ -	\$ 4,645	\$ 6,085

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2011 and 2010

NOTE E - PLEDGES RECEIVABLE - Continued

	2011			
	Operating Fund	Academy of Music	Endowment Fund	Total
Activity during year				
Balance, beginning of year	\$ 3,948	\$ 531	\$ 5,502	\$ 9,981
Cash received	(8,106)	(1,239)	(806)	(10,151)
New pledges received	6,047	739	200	6,986
Bad debt expense	(431)	(31)	(420)	(882)
Change in discount	<u>(18)</u>	<u>-</u>	<u>169</u>	<u>151</u>
Balance, end of year	<u>\$ 1,440</u>	<u>\$ -</u>	<u>\$ 4,645</u>	<u>\$ 6,085</u>
2010				
	Operating Fund	Academy of Music	Endowment Fund	Total
Due within				
One year	\$ 3,593	\$ 567	\$ 1,344	\$ 5,504
Two to five years	481	-	3,929	4,410
After five years	<u>-</u>	<u>-</u>	<u>743</u>	<u>743</u>
Total pledges receivable	4,074	567	6,016	10,657
Less allowance for uncollectible pledges	<u>(97)</u>	<u>(36)</u>	<u>-</u>	<u>(133)</u>
Subtotal	3,977	531	6,016	10,524
Less unamortized discount	<u>(29)</u>	<u>-</u>	<u>(514)</u>	<u>(543)</u>
Net present value of pledges receivable	<u>\$ 3,948</u>	<u>\$ 531</u>	<u>\$ 5,502</u>	<u>\$ 9,981</u>
Activity during year				
Balance, beginning of year	\$ 2,612	\$ 563	\$ 6,387	\$ 9,562
Cash received	(6,962)	(1,690)	(718)	(9,370)
New pledges received	8,724	1,702	-	10,426
Bad debt expense	(421)	(44)	(150)	(615)
Change in discount	<u>(5)</u>	<u>-</u>	<u>(17)</u>	<u>(22)</u>
Balance, end of year	<u>\$ 3,948</u>	<u>\$ 531</u>	<u>\$ 5,502</u>	<u>\$ 9,981</u>

The Association used rates ranging from 1% - 5% to discount pledges receivable for the years ended August 31, 2011 and 2010. Rates were based on an estimated borrowing rate of the Association.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2011 and 2010

NOTE F - INVESTMENTS

At August 31, 2011 and 2010, the fair value of investments was as follows (in thousands):

	2011		2010	
	Fair value	Cost	Fair value	Cost
Cash and cash equivalents	\$ 328	\$ 328	\$ 709	\$ 709
Corporate bonds	-	-	2,067	1,899
Government bonds	-	-	2,407	2,305
Mortgage securities	-	-	475	396
Corporate equities	39	21	13,707	13,286
Mutual funds				
Fixed income	4,170	4,112	11,398	11,241
Real assets	4	4	-	-
Equities	<u>123,284</u>	<u>121,357</u>	<u>79,033</u>	<u>81,217</u>
Total mutual funds	<u>127,458</u>	<u>125,473</u>	<u>90,431</u>	<u>92,458</u>
Alternative investments				
Limited partnerships	1,970	1,925	7,929	7,008
Long/short international	-	-	3	3
Multi-strategy/absolute return	<u>1,171</u>	<u>376</u>	<u>5,896</u>	<u>558</u>
Total alternative investments	<u>3,141</u>	<u>2,301</u>	<u>13,828</u>	<u>7,569</u>
Total fair value of investments	<u>\$ 130,966</u>	<u>\$ 128,123</u>	<u>\$ 123,624</u>	<u>\$ 118,622</u>

The above amounts include \$19,545,000 and \$18,556,000 of endowment funds for the benefit of the Academy of Music at August 31, 2011 and 2010, respectively. Also included above are operating investments of \$39,000 and \$36,000 for the years ended August 31, 2011 and 2010.

The accompanying consolidated financial statements also include assets held in trust that are under the control of outside trustees. The fair value of the investments held in the trusts was \$4,313,000 and \$4,032,000 on August 31, 2011 and 2010, respectively.

The Association has entered into limited partnership agreements with certain investment managers. At August 31, 2011, total unpaid future capital commitments outstanding per those limited partnership agreements were \$1,550,000. At August 31, 2010, total unpaid future capital commitments outstanding per those limited partnership agreements were approximately \$2,492,000.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2011 and 2010

NOTE F - INVESTMENTS - Continued

Components of investment (loss) return for the year ended August 31, 2011 were as follows (in thousands):

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Net realized gains	\$ 268	\$ 7,960	\$ -	\$ 8,228
Change in unrealized gains and losses	<u>(67)</u>	<u>(575)</u>	<u>281</u>	<u>(361)</u>
	201	7,385	281	7,867
Change in charitable gift annuity	-	-	(95)	(95)
Dividend and interest received	<u>132</u>	<u>5,333</u>	<u>-</u>	<u>5,465</u>
Total	<u>\$ 333</u>	<u>\$ 12,718</u>	<u>\$ 186</u>	<u>\$ 13,237</u>

Change in unrealized gains and losses is net of investment expenses of \$351,000.

Components of investment (loss) return for the year ended August 31, 2010 were as follows (in thousands):

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Net realized losses	\$ (235)	\$ (3,369)	\$ -	\$ (3,604)
Change in unrealized gains and losses	<u>852</u>	<u>12,666</u>	<u>(58)</u>	<u>13,460</u>
	617	9,297	(58)	9,856
Change in charitable gift annuity	-	-	(135)	(135)
Dividend and interest received	<u>158</u>	<u>2,577</u>	<u>-</u>	<u>2,735</u>
Total	<u>\$ 775</u>	<u>\$ 11,874</u>	<u>\$ (193)</u>	<u>\$ 12,456</u>

Change in unrealized gains and losses is net of investment expenses of \$737,000.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2011 and 2010

NOTE F - INVESTMENTS - Continued

The following tables present information about the Association's assets measured at fair value on a recurring basis, as described in Note D.5, as of August 31, 2011 and 2010 and indicate the fair value hierarchy of the valuation techniques utilized by the Association to determine such fair value (in thousands):

<u>2011</u>				
<u>Description</u>	<u>Quoted prices in active markets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>	<u>Total</u>
Cash surrender value of life insurance	\$ -	\$ 68	\$ -	\$ 68
Investments				
Cash and cash equivalents	328	-	-	328
Corporate equities	39	-	-	39
Mutual funds - fixed income	813	3,357	-	4,170
Mutual funds - equities	808	122,476	-	123,284
Mutual funds - real assets	4	-	-	4
Limited partnerships	-	-	1,970	1,970
Multi-strategy/absolute return	-	-	1,171	1,171
Total investments	1,992	125,833	3,141	130,966
Beneficial interest in trusts	-	-	4,313	4,313
Total recurring financial assets	<u>\$ 1,992</u>	<u>\$ 125,901</u>	<u>\$ 7,454</u>	<u>\$ 135,347</u>

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2011 and 2010

NOTE F - INVESTMENTS - Continued

<u>2010</u>				
	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Description				
Cash surrender value of life insurance	\$ -	\$ 48	\$ -	\$ 48
Investments				
Cash and cash equivalents	709	-	-	709
Corporate bonds	-	2,067	-	2,067
Government bonds	-	2,407	-	2,407
Mortgage securities	-	475	-	475
Corporate equities	13,707	-	-	13,707
Mutual funds - fixed income	2,339	9,059	-	11,398
Mutual funds - equities	5,603	73,430	-	79,033
Limited partnerships	-	-	7,929	7,929
Long/short international	-	-	3	3
Multi-strategy/absolute return	-	-	5,896	5,896
Total investments	22,358	87,438	13,828	123,624
Beneficial interest in trusts	-	-	4,032	4,032
Total recurring financial assets	<u>\$ 22,358</u>	<u>\$ 87,486</u>	<u>\$ 17,860</u>	<u>\$ 127,704</u>

The following table presents additional information about assets measured at fair value on a recurring basis and for which the Association has utilized Level 3 inputs to determine fair value for the years ended August 31, 2011 and 2010 (in thousands):

	Fair value measurements (Level 3)	
	2011	2010
Balance, beginning of fiscal year	\$ 17,860	\$ 18,472
Purchases	917	378
Sales	(12,774)	(1,593)
Unrealized gains	<u>1,451</u>	<u>603</u>
Balance, end of fiscal year	<u>\$ 7,454</u>	<u>\$ 17,860</u>

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2011 and 2010

NOTE F - INVESTMENTS - Continued

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

In reference to the investments and other financial instruments held by the Association, the following provides a brief description of the types of financial instruments, the methodology for estimating fair value, and the level within the hierarchy of the estimate.

The following are financial assets that are valued on a recurring basis:

1. Cash Surrender Value of Life Insurance

The cash surrender value of life insurance policy is valued at the cash value quoted by the insurance carrier, which is generally a function of policy premiums paid and dividends declared. The Association considers this a market approach.

2. Investments

Cash and Cash Equivalents: Cash and cash equivalents include short-term, highly liquid investments with a maturity of three months or less at the time of purchase. Cash and cash equivalents are reported using a market approach.

Corporate and Government Bonds: U.S. dollar denominated, investment grade fixed income securities with quoted prices in active markets. Corporate and government bonds are valued using a market approach.

Mortgage Securities: Investments in asset-backed securities, and debt obligations issued by the Federal Home Loan Mortgage Corp. and the Federal National Mortgage Association due at various rates with various maturities. These are valued using a market approach.

Corporate Equities: Domestic and/or foreign equity securities with quoted prices in active markets. Corporate equities stocks are valued using a market approach.

Mutual Funds - Fixed Income: Mutual funds (open to the general public with quoted prices in active markets) investing in high yielding, non-investment grade publicly traded fixed income securities with quoted prices in active markets. Fixed income mutual funds are valued using a market approach.

Mutual Funds - Equities: Mutual funds (open to the general public with quoted prices in active markets) investing in domestic and/or foreign equity securities with quoted prices in active markets. Equity mutual funds are valued using a market approach.

Mutual Funds - Real Assets: Mutual funds (open to the general public with quoted prices in active markets) investing in real estate related securities, inflation-protected debt securities, and commodity/natural resource related securities that are publicly traded with quoted prices in active markets. Real estate mutual funds are valued using a market approach.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2011 and 2010

NOTE F - INVESTMENTS - Continued

Limited Partnerships: As a "fund-of-funds," the partnership's investments consist of underlying funds that invest in office, apartment, retail, industrial or other commercial real estate, or in real estate-related securities within the U.S., Europe, and Asia. A second partnership invests in a variety of vehicles, which include: private equity securities, long/short equities - both domestic and international - and fixed income securities. These partnerships are valued using an income approach.

Long/Short International: These funds invest in a variety of vehicles, which include: private equity securities, private investment companies, and other investment vehicles. The investment is valued using a market approach.

Multi-Strategy/Absolute Return: These funds invest in a variety of vehicles, which include: equity securities, private equity funds, common stocks, limited partnerships, derivatives, and fixed income securities. The investment is valued using a market approach.

3. Beneficial Interest in Trusts

The underlying investments of the trust include: money market funds, equity securities, fixed income securities, and mortgage securities. The interest in the trust is valued using a market approach.

Fair Value Measurements of Investments That Calculate Net Asset Value Per Share

Fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent) as of August 31, 2011 are as follows:

	<u>Fair value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Limited Partnerships (a)	\$ 1,970	\$ 1,550	Various	Various
Multi-Strategy/Absolute Return (b)	1,171	-	Various	Various
Short-Term Fixed Income (c)	3,357	-	Various	Various
Multi-Asset (d)	<u>122,476</u>	<u>-</u>	Various	Various
	<u>\$ 128,974</u>	<u>\$ 1,550</u>		

- (a) Limited Partnerships - Metropolitan Real Estate Partners Global II ("MREP II") was formed on November 19, 2007. MREP II will invest 60% of its capital commitments in Metropolitan Real Estate Partners VI, L.P. ("MREP VI") and 40% of its capital commitments in Metropolitan Real Estate Partners International III, L.P. ("MREP International III"). MREP VI is a Delaware limited partnership that invests in certain private real estate funds; these funds invest primarily in office, apartment, industrial or other commercial real estate, or in real estate securities, primarily within the United States. MREP International III is a Delaware limited partnership that invests in certain private real estate funds; these funds invest primarily in office, apartment,

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2011 and 2010

NOTE F - INVESTMENTS - Continued

industrial or other commercial real estate, or in real estate securities, primarily within Europe and secondarily within Asia. The fair values have been estimated using the net asset value ("NAV") per share of the investments. The investment period for MREP VI ended on September 30, 2009 and for MREP International III on June 30, 2011. The partnership will terminate upon the earlier of 1) June 30, 2015, or 2) the time it takes to reasonably wind down the affairs of the partnership after the partnership assets have been liquidated.

- (b) Angelo Gordon L.P. - This limited partnership invests in various investment strategies, including special situations, financially distressed issuers, convertible hedging, and real estate, including securities which may not be readily marketable or may be subject to restrictions. The portfolio consists of cash equivalent instruments, equity securities, fixed income securities, derivative instruments, and partnerships/companies. The Association redeemed in full its investment in Angelo Gordon L.P. on December 31, 2010. At August 31, 2011, there is a remaining balance of \$522,000, which is pending liquidation.

SC Fundamental Value Fund L.P. - This limited partnership's investment objective is to achieve capital appreciation through investments in undervalued securities and other similar instruments. It may invest up to 15% of its capital in illiquid securities and loans. The partnership's investments include cash and cash equivalents, common stocks, preferred stocks, common stocks sold short, and a limited partnership which invests in long and short equity positions. The fair values have been estimated using the NAV per share of the investments. The Association redeemed in full its investment in SC Fundamental Value L.P. At August 31, 2011, there is a remaining balance of \$43,000, which is pending liquidation.

Quellos Alpha Engine Fund L.P. - This limited partnership's investment strategies include relative value (investing to profit from the mispricing of related financial instruments) and event-driven (investing in securities of companies that are subject to extraordinary corporate events such as restructurings, takeovers, mergers, liquidations, bankruptcies). The Quellos Alpha Engine Fund L.P. was terminated by the investment manager effective March 31, 2009. The Association has a remaining investment of \$605,971 pending liquidation.

- (c) The Short-Term Fund of The Investment Fund for Foundations ("TIFF") - The Short-Term Fund is a registered mutual fund; the fund's investment objective is to attain as high a rate of current income as is consistent with ensuring that the fund's risk of principal loss does not exceed that of a portfolio invested in U.S. 6-month Treasury bills. The fund invests principally in securities issued by the U.S. Government, its agencies, or its instrumentalities. The investment advisor, TIFF Advisory Services, Inc. ("TAS"), focuses on duration, maturity, relative valuations, and security selection. The fund typically maintains an overall quality rating of AAA by Standard & Poor's Corporation (or deemed equivalent). The Association is able to redeem full and fractional shares in TIFF's Short-Term Fund on any business day.
- (d) The Multi-Asset Fund of TIFF - The Multi-Asset Fund is a registered mutual fund. Its investment objective is to achieve a total return (price appreciation plus dividends) that, over a majority of market cycles, exceeds inflation, as measured by the Consumer Price Index ("CPI") plus 5% per annum. The fund's strategy is to invest in a comprehensive asset allocation that includes cash, global stocks, fixed income securities and high yield bonds, inflation hedges, including commodities and REITs, and all-purpose hedges, including inflation-linked bonds. The Association is able to redeem full and fractional shares of the fund on any business day.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2011 and 2010

NOTE G - ENDOWMENTS

As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Association's endowment consists of a portfolio of actively managed funds established to provide both a source of operating funds as well as long-term financial stability. The endowment includes donor-restricted endowment funds and endowment funds designated by the Board of Trustees to function as quasi-endowments, held in investments, plus the following where the assets have been designated for endowment: pledges receivable, split-interest agreements, accounts payable related to endowment and other net assets.

1. Interpretation of Relevant Law

The Board of Trustees of the Association follows the interpretation of Commonwealth of Pennsylvania Act 141 as requiring the preservation of the original gift as a fund of permanent duration as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary, except as described in Note G.2 below. As a result of this interpretation, the Association classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets and is regarded as "net appreciation" is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Association in a manner consistent with the Association's spending policy.

2. Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the "historic dollar value." Deficiencies of this nature are reported by a charge to permanently restricted net assets and a corresponding increase to temporarily restricted net assets. On a cumulative basis, these charges totaled approximately \$8,097,000 and \$11,797,000 as of August 31, 2011 and 2010, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions. Over time, these may reverse due to appreciation of the underlying investments.

3. Endowment Investment Guidelines

The Association's Investment Guidelines are to invest the Association's endowment assets in a generally accepted prudential manner and produce an average annual total return on investments over a five-year period of at least the sum of the spending formula distribution rate plus the direct cost of investing these funds (investment advisor, brokerage, investment manager, custodial fees, etc.) plus the current rate of inflation as measured by the U.S. Department of Labor's Consumer Price Index. The Investment and Endowment Committee of the Board of Trustees is responsible for the oversight of the Association's endowment and pension assets.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2011 and 2010

NOTE G - ENDOWMENTS - Continued

The intent of the guidelines is to provide a predictable stream of funding to the Association's programs from its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Association must hold in perpetuity, board-designated funds, plus the following assets which have been designated for endowment: pledges receivable, split-interest agreements and other assets.

4. Endowment Spending Policy

The Association determines its spending policy on an annual basis. As approved by the Investment and Endowment Committee and in accordance with Commonwealth of Pennsylvania Act 141 (PA Act 141), the amount is calculated based on the average of the preceding thirteen quarter unit values for each endowment pool multiplied by the average number of units for the preceding twelve months. The approved spending percentage is applied to each pool and shall not be less than 2.00% or more than 7.00%. The Board has approved a spending percentage of 6.95% for both 2011 and 2010. This policy is applied to all endowments absent donor stipulations to the contrary.

The Association has an endowment agreement with the Annenberg Foundation for capital improvements to the Academy of Music and limits the spending rate to 5.5% annually.

The Association has another endowment agreement with the Annenberg Foundation for Orchestra activities and limits the spending rate not to exceed 5.5% after June 30, 2008. The Association applied a 5.5% spending rate in fiscal year 2011 and obtained a waiver from this requirement in fiscal year 2010 and applied a rate of 6.95%.

Under the Annenberg Foundation endowment, agreements are certain provisions whereby the donor may request return of these funds in the event of a bankruptcy filing. Management has informed the donor of its reorganization plan and continues to have an open dialogue; however, a determination as to the outcome of such discussions has not yet been reached. Accordingly, no provision has been made to the accompanying consolidated financial statements relating to this uncertainty.

5. Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Association relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Management of the investments is provided on a fully discretionary basis by competent external money management firms selected by the Investment and Endowment Committee with the guidance of third-party investment advisors. Different investment managers have been employed over the years and have included a wide range of investments, including alternative strategies. The rationale for including alternative strategy managers for the Association's portfolio is to reduce some volatility, consistent with a goal of generating absolute return.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2011 and 2010

NOTE G - ENDOWMENTS - Continued

The Association has adopted an endowment spending policy which designates a portion of the cumulative investment return for support of current operations. The remainder is retained to support operations of future years and to offset potential market declines and is classified within temporarily restricted net assets. This policy provides for spending a percentage of the average market value of the funds (as of August 31) for the prior thirteen quarters immediately preceding the fiscal year. Commonwealth of Pennsylvania law permits organizations to allocate to income each year a portion of permanently restricted investment net gains under a total return spending rate policy. The Association authorized a spending rate of 6.95% in each of the fiscal years 2011 and 2010 for both its unrestricted and permanently restricted endowment investments unless the donor agreement differs.

The spending amount calculated on the Academy's endowment that is transferred to the Orchestra is capped at 12.4% of the value of the rent agreement with KCI, which amounted to \$149,000 and \$268,000 at August 31, 2011 and 2010, respectively.

To the extent that actual income from permanently restricted investments is less than the predetermined amount, accumulated gains are made available for operations to fund the difference. For financial statement purposes, any excess accumulated gains or accumulated losses are recorded as temporarily restricted net assets. When accumulated gains are less than the calculated spending rate, funds are made available from permanently restricted net assets. Investment return in excess of or less than the spending distribution is reported as a component of nonoperating revenue.

For unrestricted endowment, investment return in excess of or less than the spending distribution is reported as a component of nonoperating revenue.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2011 and 2010

NOTE G - ENDOWMENTS - Continued

6. Endowment Fund Activity

	(in thousands)			
<u>September 1, 2010</u>	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Net assets, beginning of year	\$ -	\$ 213	\$ 129,204	\$ 129,417
Investment return				
Investment income	132	5,333	-	5,465
Net realized gains	268	7,960	-	8,228
Net unrealized (losses) gains	<u>(67)</u>	<u>(575)</u>	<u>281</u>	<u>(361)</u>
Net investment gains	333	12,718	281	13,332
Contributions	-	-	2,155	2,155
Appropriation of endowment assets for operations (draw)	(75)	(8,180)	-	(8,255)
Transfer of net assets released from restrictions - income purpose satisfied	-	(181)	-	(181)
Other changes				
Deficiencies in historical values	-	(3,701)	3,701	-
Change in estimate for annuities payable	-	-	(95)	(95)
Provision for bad debt on contributions receivable	-	-	(468)	(468)
Operating transfers and other changes	<u>2,594</u>	<u>-</u>	<u>-</u>	<u>2,594</u>
Total other changes	<u>2,594</u>	<u>(3,701)</u>	<u>3,138</u>	<u>2,031</u>
Net assets, end of year	<u>\$ 2,852</u>	<u>\$ 869</u>	<u>\$ 134,778</u>	<u>\$ 138,499</u>
<u>August 31, 2011</u>				
Donor-restricted endowment funds	\$ -	\$ 869	\$ 134,778	\$ 135,647
Board-designated funds	<u>2,852</u>	<u>-</u>	<u>-</u>	<u>2,852</u>
	<u>\$ 2,852</u>	<u>\$ 869</u>	<u>\$ 134,778</u>	<u>\$ 138,499</u>

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2011 and 2010

NOTE G - ENDOWMENTS - Continued

	(in thousands)			
<u>September 1, 2009</u>	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Net assets, beginning of year	\$ 13,695	\$ 244	\$ 129,641	\$ 143,580
Investment return				
Investment income	158	2,577	-	2,735
Net realized losses	(235)	(3,369)	-	(3,604)
Net unrealized gains (losses)	<u>852</u>	<u>12,666</u>	<u>(58)</u>	<u>13,460</u>
Net investment gains (losses)	775	11,874	(58)	12,591
Contributions	-	-	477	477
Appropriation of endowment assets for operations (draw)	(1,412)	(12,118)	-	(13,530)
Transfer of net assets released from restrictions - income purpose satisfied	-	(358)	-	(358)
Other changes				
Deficiencies in historical values	-	571	(571)	-
Change in estimate for annuities payable	-	-	(135)	(135)
Provision for bad debt on contributions receivable	-	-	(150)	(150)
Operating transfers and other changes	<u>(13,058)</u>	<u>-</u>	<u>-</u>	<u>(13,058)</u>
Total other changes	<u>(13,058)</u>	<u>571</u>	<u>(856)</u>	<u>(13,343)</u>
Net assets, end of year	<u>\$ -</u>	<u>\$ 213</u>	<u>\$ 129,204</u>	<u>\$ 129,417</u>
<u>August 31, 2010</u>				
Donor-restricted endowment funds	\$ -	\$ 213	\$ 129,204	\$ 129,417
Board-designated funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ 213</u>	<u>\$ 129,204</u>	<u>\$ 129,417</u>

NOTE H - ENDOWMENT ASSETS HELD BY OTHERS

The Association is the beneficiary of a number of irrevocable perpetual trusts held by third parties. The Association records the fair value of its interest in these trusts at approximately \$4,313,000 at August 31, 2011 and \$4,032,000 at August 31, 2010 in the accompanying consolidated statements of financial position. Distributions received from these trusts (approximately \$205,000 in 2011 and \$192,000 in 2010) are reported in the consolidated statements of activities. Changes in fair value of the trusts are reported as increases or decreases in permanently restricted net assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2011 and 2010

NOTE I - PROPERTY AND EQUIPMENT

The components of property and equipment at August 31 were as follows (in thousands):

	<u>2011</u>	<u>2010</u>
Philadelphia Orchestra		
Office condominium	\$ 2,358	\$ 1,982
Building improvements	457	832
Equipment and other	4,981	4,950
Fine instruments	<u>295</u>	<u>295</u>
Total	8,091	8,059
Less accumulated depreciation	<u>(4,137)</u>	<u>(3,651)</u>
Total Philadelphia Orchestra	<u>3,954</u>	<u>4,408</u>
Academy of Music		
Land	630	630
Building and building improvements	75,447	74,675
Office equipment	877	856
Construction in progress	<u>367</u>	<u>295</u>
Total	77,321	76,456
Less accumulated depreciation	<u>(35,019)</u>	<u>(32,655)</u>
Total Academy of Music	<u>42,302</u>	<u>43,801</u>
Total property and equipment	<u>\$ 46,256</u>	<u>\$ 48,209</u>

Depreciation expense related to the Philadelphia Orchestra was \$486,000 and \$535,000 for the years ended August 31, 2011 and 2010, respectively. Depreciation expense related to the Academy of Music is reflected in the Academy of Music expense on the consolidated statements of activities in the amount of \$2,365,000 and \$2,335,000 for the years ended August 31, 2011 and 2010, respectively.

NOTE J - PENSIONS AND OTHER POSTRETIREMENT BENEFITS

The Association maintains separate noncontributory defined benefit plans covering members of the Orchestra and administrative employees. The Association makes annual contributions to the plans in consultation with the plan actuaries. Benefits for these plans are based on years of service and, for the plan for administrative employees ("Administrative Plan"), most recent salary levels in the years preceding retirement.

The Association provides its employees with postretirement health care and, for former employees of the Academy who were union members, severance pay based on the number of years of employment.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2011 and 2010

NOTE J - PENSIONS AND OTHER POSTRETIREMENT BENEFITS - Continued

Postretirement health insurance is provided to Association employees who retire generally with 10 years of service after age 50 for musicians and age 55 for staff. Postretirement health insurance is provided to former Academy employees who are members of the International Association of Theatrical Stage Employees Union, generally for employees who retire after age 62 and with 30 years of service. Premiums to be paid by the Association for these benefits are generally limited to \$2,000 per year for musicians and \$1,600 per year for all others.

The Academy also provides a severance benefit based on years of employment to retiring unionized box office employees, ranging up to 15 or 20 years of service or amount of severance. At August 31, 2011 and 2010, the total severance pay benefit obligation was \$71,000 and \$68,000, respectively.

As part of the Association's Trade Agreement (the "Agreement") with the Philadelphia Musical Society, Local 77, American Federation of Musicians ("Local 77") that was in effect until September 16, 2007, Local 77 agreed to a freeze/curtailment of the defined benefit pension plan which covers all full-time musicians (the "Orchestra Plan"). The effective date of the curtailment was September 19, 2004. All credit for future service will be earned under the American Federation of Musicians' and Employers' Pension Plan (the "AFM Plan"). The Association contributes a specified percentage of minimum weekly salary for each full-time musician to the AFM Plan. A new trade agreement was signed on September 15, 2008 and covers three contract years ending on September 19, 2010. The interpretation of this agreement followed to date is that the percentage of minimum weekly salary to be contributed for all years is 7.5%. In 2008, the AFM Plan's benefit multiplier decreased and, as a result, the effective contribution rate in 2008 was 8.08%. The Association contributed \$1,092,000 and \$1,043,000 in 2011 and 2010, respectively.

On May 26, 2009, a Memorandum of Understanding ("May MoU") between Local 77 and The Philadelphia Orchestra Association was signed that extended the 2007-2010 Trade Agreement one year until September 18, 2011. The terms of the May MoU also temporarily modified certain terms of the 2007-2010 Trade Agreement through the extension period.

Subsequently, on February 24, 2010, a separate Tentative Agreement ("February Agreement") between Local 77 and The Philadelphia Orchestra Association was signed that further modified the May MoU and required the parties to initiate negotiations and enter into a new Trade Agreement by March 21, 2011. The terms of the February Agreement were extended until a new Trade Agreement was entered into on October 31, 2011. See Note C.

In connection with the Agreement, a Voluntary Retirement Incentive Program (the "VRIP") was offered to certain full-time musicians who would reach age 60 by June 30, 2005 with 30 years of service with the Orchestra. A total of 10 musicians agreed to accept the terms of the VRIP and retired at various dates prior to September 30, 2005. In connection with the VRIP, the annual pension benefit payment under the Orchestra Plan for these individuals was increased from \$55,000 to \$65,000. Additionally, these individuals will receive an annual bonus payment of \$5,000 for a period of not more than 6 years and, in some cases, the Association will pay the retiree's portion of any medical premium cost sharing.

In September 2006, the Association and the Members' Committee of Local 77 agreed to extend a Voluntary Retirement Incentive Program ("VRIP2") to certain full-time musicians who would reach age 60 by September 16, 2007 with 30 years of service with the Orchestra. A total of 3 musicians agreed to accept the terms of the VRIP2 and all retired as of September 16, 2007. In connection with the VRIP2, the total annual pension benefit payment was guaranteed to be \$65,000 from the combination of payments due under the Orchestra Plan and payments due under the AFM Plan for contributions made related to the members' minimum weekly salary payments.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2011 and 2010

NOTE J - PENSIONS AND OTHER POSTRETIREMENT BENEFITS - Continued

The pension and other postretirement benefit plans' actuary performed the computations required for financial statement disclosure as of August 31, 2011 and 2010. Employee data as of July 1, 2011 and 2010 were projected forward to the August 31, 2011 and 2010 measurement dates, respectively.

The Association uses August 31, 2011 and 2010 as the measurement dates for the following information (in thousands):

	2011					
	Pension Plans		Other Postretirement Plans			Total
	Orchestra	Admin	Orchestra	Admin	Academy	
Accumulated benefit obligation	\$ 36,845	\$ 7,720	\$ 5,179	\$ 711	\$ 155	\$ 50,610
Change in benefit obligation						
Benefit obligation at beginning of year	\$ 37,784	\$ 7,578	\$ 4,921	\$ 721	\$ 155	\$ 51,159
Service cost	216	326	179	59	-	780
Interest cost	1,943	417	265	35	8	2,668
Plan amendments	-	-	-	-	-	-
Actuarial (gain) loss	(440)	(157)	(19)	(79)	2	(693)
Benefits paid	(2,375)	(292)	(168)	(25)	(10)	(2,870)
Expected expenses	(284)	(152)	-	-	-	(436)
Benefit obligation at end of year	36,844	7,720	5,178	711	155	50,608
Change in plan assets						
Fair value of plan assets at beginning of year	24,147	4,117	-	-	-	28,264
Actual return on plan assets	3,347	602	-	-	-	3,949
Contributions by the Association	747	341	168	25	10	1,291
Benefits paid	(2,376)	(292)	(168)	(25)	(10)	(2,871)
Administrative expenses	(284)	(152)	-	-	-	(436)
Fair value of plan assets at end of year	25,581	4,616	-	-	-	30,197
Funded status at year-end	\$ (11,263)	\$ (3,104)	\$ (5,178)	\$ (711)	\$ (155)	\$ (20,411)
Net amounts recognized in the statements of financial position consist of						
Current liabilities	\$ -	\$ -	\$ (240)	\$ (30)	\$ (10)	\$ (280)
Non-current liabilities	(11,263)	(3,104)	(4,938)	(681)	(145)	(20,131)
Accrued retirement benefits	\$ (11,263)	\$ (3,104)	\$ (5,178)	\$ (711)	\$ (155)	\$ (20,411)

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2011 and 2010

NOTE J - PENSIONS AND OTHER POSTRETIREMENT BENEFITS - Continued

	2011					
	Pension Plans		Other Postretirement Plans			Total
	Orchestra	Admin	Orchestra	Admin	Academy	
Amounts recognized in net assets but not yet recognized in net periodic benefit costs consist of						
Accumulated loss	\$ (13,994)	\$ (1,577)	\$ (1,467)	\$ (48)	\$ (50)	\$ (17,136)
Initial net asset	-	7	-	-	-	7
Prior service cost	(1,288)	(128)	-	-	-	(1,416)
Cumulative employer contributions in excess of net periodic benefit cost	4,019	(1,406)	(3,711)	(663)	(105)	(1,866)
	<u>\$ (11,263)</u>	<u>\$ (3,104)</u>	<u>\$ (5,178)</u>	<u>\$ (711)</u>	<u>\$ (155)</u>	<u>\$ (20,411)</u>
Components of net periodic pension cost						
Service cost	\$ 216	\$ 326	\$ 179	\$ 59	\$ -	\$ 780
Interest cost	1,944	418	266	35	8	2,671
Expected return on plan assets	(1,924)	(325)	-	-	-	(2,249)
Amortization of prior service cost	81	11	-	-	-	92
Amortization of actuarial loss	682	101	109	-	4	896
Amortization of transitional obligation	-	(10)	-	-	-	(10)
Net periodic pension cost	<u>\$ 999</u>	<u>\$ 521</u>	<u>\$ 554</u>	<u>\$ 94</u>	<u>\$ 12</u>	<u>\$ 2,180</u>
Other changes recognized in other comprehensive income						
Prior service cost	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net loss (gain) arising during period	(1,862)	(434)	(19)	(79)	2	(2,392)
Amortization of actuarial loss	(683)	(101)	(109)	-	(3)	(896)
Amortization of transitional asset	-	10	-	-	-	10
Amortization of prior service cost	(81)	(11)	-	-	-	(92)
Recognition of amortization due to change in measurement date	-	-	-	-	-	-
Total recognized in other comprehensive income	<u>\$ (2,626)</u>	<u>\$ (536)</u>	<u>\$ (128)</u>	<u>\$ (79)</u>	<u>\$ (1)</u>	<u>\$ (3,370)</u>

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2011 and 2010

NOTE J - PENSIONS AND OTHER POSTRETIREMENT BENEFITS - Continued

	2010					
	Pension Plans		Other Postretirement Plans			Total
	Orchestra	Admin	Orchestra	Admin	Academy	
Accumulated benefit obligation	\$ 37,784	\$ 7,578	\$ 4,921	\$ 721	\$ 155	\$ 51,159
Change in benefit obligation						
Benefit obligation at beginning of year	\$ 35,067	\$ 6,694	\$ 3,901	\$ 584	\$ 134	\$ 46,380
Service cost	164	275	184	65	-	688
Interest cost	2,049	404	259	36	9	2,757
Plan amendments	616	-	-	-	-	616
Actuarial loss	2,364	577	730	59	21	3,751
Benefits paid	(2,312)	(272)	(153)	(23)	(9)	(2,769)
Expected expenses	(164)	(100)	-	-	-	(264)
Benefit obligation at end of year	37,784	7,578	4,921	721	155	51,159
Change in plan assets						
Fair value of plan assets at beginning of year	23,414	3,982	-	-	-	27,396
Actual return on plan assets	2,473	322	-	-	-	2,795
Contributions by the Association	788	205	153	23	9	1,178
Benefits paid	(2,312)	(272)	(153)	(23)	(9)	(2,769)
Administrative expenses	(216)	(120)	-	-	-	(336)
Fair value of plan assets at end of year	24,147	4,117	-	-	-	28,264
Funded status at year-end	\$ (13,637)	\$ (3,461)	\$ (4,921)	\$ (721)	\$ (155)	\$ (22,895)
Net amounts recognized in the statements of financial position consist of						
Current liabilities	\$ -	\$ -	\$ (220)	\$ (20)	\$ (10)	\$ (250)
Non-current liabilities	(13,637)	(3,461)	(4,701)	(701)	(145)	(22,645)
Accrued retirement benefits	\$ (13,637)	\$ (3,461)	\$ (4,921)	\$ (721)	\$ (155)	\$ (22,895)

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2011 and 2010

NOTE J - PENSIONS AND OTHER POSTRETIREMENT BENEFITS - Continued

	2010					
	Pension Plans		Other Postretirement Plans			Total
	Orchestra	Admin	Orchestra	Admin	Academy	
Amounts recognized in net assets but not yet recognized in net periodic benefit costs consist of						
Transition asset	\$ -	\$ 17	\$ -	\$ -	\$ -	\$ 17
Net actuarial loss	(16,539)	(2,112)	(1,596)	(127)	(51)	(20,425)
Prior service cost	(1,369)	(139)	-	-	-	(1,508)
	<u>\$ (17,908)</u>	<u>\$ (2,234)</u>	<u>\$ (1,596)</u>	<u>\$ (127)</u>	<u>\$ (51)</u>	<u>\$ (21,216)</u>
Components of net periodic pension cost						
Service cost	\$ 164	\$ 275	\$ 184	\$ 65	\$ -	\$ 688
Interest cost	2,049	404	259	36	9	2,757
Expected return on plan assets	(2,107)	(307)	-	-	-	(2,414)
Amortization of prior service cost	81	11	(34)	(5)	(2)	51
Amortization of actuarial loss	411	67	86	2	3	569
Amortization of transitional obligation	-	(10)	-	-	-	(10)
Net periodic pension cost	<u>\$ 598</u>	<u>\$ 440</u>	<u>\$ 495</u>	<u>\$ 98</u>	<u>\$ 10</u>	<u>\$ 1,641</u>
Other changes recognized in other comprehensive income						
Prior service cost	\$ 616	\$ -	\$ -	\$ -	\$ -	\$ 616
Net loss arising during period	2,049	582	730	59	21	3,441
Amortization of actuarial loss	(411)	(67)	(86)	(2)	(3)	(569)
Amortization of transitional obligation	-	10	-	-	-	10
Amortization of prior service cost	(81)	(11)	34	6	2	(50)
Recognition of amortization due to change in measurement date	-	-	-	-	-	-
Total recognized in other comprehensive income	<u>\$ 2,173</u>	<u>\$ 514</u>	<u>\$ 678</u>	<u>\$ 63</u>	<u>\$ 20</u>	<u>\$ 3,448</u>

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2011 and 2010

NOTE J - PENSIONS AND OTHER POSTRETIREMENT BENEFITS - Continued

	2011				
	Pension Plans		Other Postretirement Plans		
	<u>Orchestra</u>	<u>Admin</u>	<u>Orchestra</u>	<u>Admin</u>	<u>Academy</u>
Weighted-average assumptions used to determine net periodic benefit cost were:					
Discount rate	5.33%	5.61%	5.56%	5.56%	5.56%
Expected return on plan assets	8.00%	8.00%	N/A	N/A	N/A
Rate of compensation Increase	N/A	3.50%	N/A	N/A	N/A
Weighted-average assumptions used to determine benefit obligations were:					
Discount rate	5.56%	5.88%	5.78%	5.78%	5.78%
Rate of compensation Increase	N/A	3.50%	N/A	N/A	N/A
Measurement date	8/31/11	8/31/11	8/31/11	8/31/11	8/31/11
	2010				
	Pension Plans		Other Postretirement Plans		
	<u>Orchestra</u>	<u>Admin</u>	<u>Orchestra</u>	<u>Admin</u>	<u>Academy</u>
Weighted-average assumptions used to determine net periodic benefit cost were:					
Discount rate	5.96%	6.17%	6.20%	6.20%	6.20%
Expected return on plan assets	8.00%	8.00%	N/A	N/A	N/A
Rate of compensation Increase	N/A	3.50%	N/A	N/A	N/A
Weighted-average assumptions used to determine benefit obligations were:					
Discount rate	5.33%	5.61%	5.56%	5.56%	5.56%
Rate of compensation Increase	N/A	3.50%	N/A	N/A	N/A
Measurement date	8/31/10	8/31/10	8/31/10	8/31/10	8/31/10

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2011 and 2010

NOTE J - PENSIONS AND OTHER POSTRETIREMENT BENEFITS - Continued

The following amounts will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year:

	Pension Plans	Other Postretirement Plans
Estimated transition asset	\$ (10,000)	\$ -
Actuarial loss	783,000	113,000
Prior service cost	92,000	-

In determining the expected rate of return on plan assets, consideration was given to historical performance of the pension portfolios and allocation of the plans' assets. For the period ended June 30, 2011, the five-year return on the Orchestra and Administrative plans' assets was 6.55% and 5.23%, respectively. Based on this historical return performance and the outlook for higher future returns, management believes that no adjustment to the assumption on the expected rate of return on plan assets is warranted.

For measurement purposes, a 7.87% and 8.05% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2011 and 2010, respectively. The rate was assumed to decrease to a rate of 4.50% (in 2029) by various percentage points annually.

The Association's weighted-average asset allocation for the Orchestra and Administrative pension plans as of August 31, 2011 and 2010 by asset category are as follows:

	2011		2010	
	Pension Plans		Pension Plans	
<u>Asset category</u>	<u>Orchestra</u>	<u>Administrative</u>	<u>Orchestra</u>	<u>Administrative</u>
Equity Securities	60%	79%	59%	75%
Debt Securities	38	19	39	24
Cash	<u>2</u>	<u>2</u>	<u>2</u>	<u>1</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

The Association maintains an investment policy for its plan assets. The long-term total return objective is to meet annual inflation plus 5% per year. During fiscal year 2007, the Association revised the asset allocation for the Orchestra Pension Plan due to the frozen nature of the plan to provide a better match to the liabilities of the plan. The target asset allocation for the Orchestra Plan was revised to 40% Domestic Long-duration Fixed-Income, 37% U.S. Large Cap Equity, 9% U.S. Small Cap Equity and 14% International Equity. The target asset allocation for the

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2011 and 2010

NOTE J - PENSIONS AND OTHER POSTRETIREMENT BENEFITS - Continued

Administrative Pension Plan is 47% U.S. Large Cap Equity, 25% Core Domestic Fixed-Income, 18% International Equity and 10% U.S. Small Cap Equity. Each class may be invested in mutual funds, commingled funds, or individually managed accounts. Funds may not be invested in real estate, partnerships, currency hedging, individual businesses, direct investments, or start-up funds. Performance of asset managers is evaluated quarterly by management and the Investment Committee of the Association's Board to test progress toward long-term goals.

The plans' financial assets are measured at fair value, on a recurring basis, using the market approach valuation technique. Plan asset values are based on quoted market prices in active markets. The Association considers these Level 1 inputs in the fair value hierarchy.

Estimated future benefit payments for years ending after August 31, 2011 are as follows (in thousands):

Pension:

<u>Years ending August 31,</u>	<u>Orchestra</u>	<u>Administrative</u>
2012	\$ 2,620,000	\$ 290,000
2013	2,690,000	330,000
2014	2,650,000	340,000
2015	2,630,000	350,000
2016	2,570,000	380,000
Next 5 years	12,570,000	2,250,000

Postretirement:

<u>Years ending August 31,</u>	<u>Orchestra</u>	<u>Administrative</u>	<u>Academy</u>
2012	\$ 240,000	\$ 30,000	\$ 10,000
2013	270,000	30,000	10,000
2014	280,000	30,000	10,000
2015	290,000	30,000	10,000
2016	290,000	30,000	10,000
Next 5 years	1,810,000	200,000	80,000

Contributions

The Association expects to contribute at least the minimum amount required by law to its pension plans. For postretirement plans, the contributions for the next fiscal year are as follows:

<u>Orchestra</u>	<u>Administrative</u>	<u>Academy</u>
\$ 240,000	\$ 30,000	\$ 10,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2011 and 2010

NOTE K - BONDS PAYABLE AND LINE OF CREDIT

Bonds Payable

On September 1, 1998, the Academy entered into a loan agreement with the Philadelphia Authority for Industrial Development ("PAID") for the financing of various capital improvements and renovations of the Academy of Music building and paying a portion of the costs associated with the bond issuance. Pursuant to the terms of the loan agreement, PAID issued \$6,500,000 Variable Rate Revenue Bonds (The Academy of Music of Philadelphia Project) - Series 1998 due September 1, 2018. The bonds bore interest at a variable rate (determined based on the current weekly rate), which was 0.29% as of August 31, 2009.

The bonds were principally secured by a letter of credit between a bank and the trustee. The trustee was requested to draw upon the letter of credit to (a) make timely payment of principal and interest on the bonds; (b) make timely payment of bonds called for optional redemption; and (c) make timely payments of bonds required to be purchased as a result of a permitted or required tender. In connection with the letter of credit agreement, the Academy entered into a reimbursement agreement with a bank under which the Academy would reimburse the bank for each drawing under the letter of credit. During the year ended August 31, 2010, the letter of credit was not renewed, and the bondholders were notified of a mandatory tender of the bonds, thereby retiring all of the outstanding bonds.

Line of Credit

The Association had available a \$10,000,000 revolving credit facility. This line of credit expired June 1, 2009, and the Association was granted an extension to October 27, 2009. The line of credit was not renewed, and the Association repaid the outstanding balance in November 2009.

NOTE L - NET ASSETS

Temporarily restricted net assets consisted of the following at August 31, (in thousands):

	<u>2011</u>	<u>2010</u>
Time and purpose restricted contributions	\$ 3,045	\$ 6,002
Cumulative unspent investment gains, net	<u>1,051</u>	<u>213</u>
	<u>\$ 4,096</u>	<u>\$ 6,215</u>

Permanently restricted net assets consisted of the following at August 31, (in thousands):

	<u>2011</u>	<u>2010</u>
Third-party trust assets	\$ 4,313	\$ 4,032
Pledges related to the endowment	4,645	5,502
Investments restricted in perpetuity	<u>125,820</u>	<u>119,670</u>
	<u>\$ 134,778</u>	<u>\$ 129,204</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2011 and 2010

NOTE M - JOINT VENTURE

On July 1, 2001, the Association invested \$70,000 in a nonprofit joint venture. The joint venture ("Ticket Philadelphia") was entered into along with KCI to handle all aspects of the ticketing function for all events held at the Academy of Music, Kimmel Center, and other venues in the Philadelphia area. This venture replaced the Association's ticketing operations. Operating results are to be shared in accordance with a formula agreed to by the parties. The Association is using the equity method of accounting to account for its share of the joint venture's activity. At August 31, 2011 and 2010, the Association's interest in the net assets of the joint venture was \$575,000. During the years ended August 31, 2011 and 2010, the Association recorded revenue of \$118,000 and \$264,000, respectively, from Ticket Philadelphia for its share of profits from Ticket Philadelphia's fiscal year 2011 and 2010 operations.

NOTE N - ANNENBERG FOUNDATION PLEDGES

The Annenberg Foundation (the "Foundation") and the Orchestra entered into an agreement dated September 15, 2003, under which the Foundation agreed to make a grant to the Orchestra's endowment in the amount of \$50,000,000. This grant was restricted to establish funds for Education, Touring, Media & Technology and Artistic Endeavors. The final payment of the grant was received in October 2006. In conjunction with the grant agreement, the Orchestra agreed to reduce its annual spending rate of endowment earnings allocated to operations to not more than 5.5% for fiscal years ending after June 30, 2008. For fiscal year 2011, a 5.5% spending rate was applied. For fiscal year 2010, the Orchestra received a waiver from the spending rate cap and calculated the endowment spending using the overall endowment rate of 6.95%.

NOTE O - ENCORE SERIES, INC.

On August 24, 2005, the Association entered into an agreement (the "Agreement") with Encore Series, Inc. ("ESI") and Peter Nero ("Nero") to combine their efforts to produce and promote concerts by Peter Nero and the Philly Pops (the "Pops"), in order to leverage artistic and administrative economies of scale for their mutual organizational and financial benefit. The Agreement provided that until at least June 30, 2010, ESI was to remain a separate 501(c)(3) organization, with a separate board of directors. The Agreement further provided that, on July 1, 2010, at the sole discretion of the Association, ESI may have caused its board of directors to consist of only those persons designated by the Association. The Association has not exercised this option, but retains its right to do so. The Agreement also provided that management of the Association was to serve as management of ESI. The Association would continue to assume financial responsibility and benefit for operation of ESI until it exercised the aforementioned option. The Association did not exercise control over ESI for the years ended August 31, 2011 and 2010, which would require consolidation of financial statements.

Effective August 31, 2005, ESI is required to pay the Association for the cost of the services rendered by employees of the Association to ESI and any direct expenses of ESI paid by the Association. For fiscal years 2011 and 2010, these payments totaled \$187,000 and \$360,000, respectively, and are recorded as expenses on ESI's financial statements for the years ended June 30, 2011 and 2010.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2011 and 2010

NOTE O - ENCORE SERIES, INC. - Continued

Under the Agreement, ESI is required to pay the Association any surplus earnings. The Association is required to fund any deficit in operations. The Association advanced ESI cash totaling \$400,000 for the year ended August 31, 2011. Additionally, the Association loaned \$225,000 to ESI in May 2011, and under a settlement agreement reached between the Association and ESI dated September 28, 2011, the Association released ESI of all further obligations. See Note C.

The Association agreed to guarantee all of ESI's obligations under the existing contracts between ESI and Finger Prince, Inc. ("FPI") and Peter Nero. Those obligations include trade mark names, a recording contract and a contract for the services of Peter Nero as Music Director. The Association has never been required to make a payment under these obligations.

The following information represents a condensed statement of financial position and statement of activities information for ESI as of and for the years ended June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Total assets	\$ <u>297</u>	\$ <u>989</u>
Total liabilities	\$ <u>590</u>	\$ <u>1,122</u>
Net deficit	\$ <u>(293)</u>	\$ <u>(133)</u>
Total revenues	\$ <u>2,780</u>	\$ <u>3,068</u>
Total expenses	\$ <u>3,564</u>	\$ <u>3,535</u>
Decrease in net assets before net deficit transfer	\$ <u>(784)</u>	\$ <u>(467)</u>

NOTE P - CONTINGENCIES

The Association is subject to various claims and legal proceedings arising out of the ordinary course of business. Management believes the resolution of claims and pending litigation will not have a material effect, individually or in the aggregate, on the consolidated financial position of the Association. The accompanying consolidated financial statements do not include any adjustments that might be necessary if the Association is unable to continue as a going concern (Note B).

NOTE Q - COMMITMENTS

The Association has several commitments under contract for renovations of the Academy of Music. Portions of these contracts not completed at year-end are not reflected in the consolidated financial statements. This unrecorded commitment was approximately \$213,000 at August 31, 2011.

The Orchestra leases office space on the 16th floor at 260 S. Broad Street in Philadelphia, PA under an operating lease beginning September 1, 1999 and continuing for 12 years, with the last monthly payment being August 31, 2011. The non-cancelable operating lease has a remaining term of one year from August 31, 2010. Beginning September 1, 2011, the lease term is month to month.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2011 and 2010

NOTE R - RELATED PARTIES

The Orchestra and the Kimmel Center, in an effort to leverage economies of scale to capitalize on the strength inherent in a larger information technology service model, have entered into an agreement whereby a single, information technology staff provides technology services to each organization according to their respective business needs. Allocable costs are charged to the Kimmel Center by the Orchestra pursuant to the aforementioned agreement.

For fiscal years 2011 and 2010, the Orchestra received payments from the Kimmel Center and Ticket Philadelphia totaling \$981,000 and \$792,000, respectively, for these services, which are recorded in the consolidated statements of activities.

The Orchestra purchases services from organizations that members of the Board of Directors have an ownership interest in or are employed by. Total services purchased from organizations that Board members have an ownership interest in for the years ended August 31, 2011 and 2010 were \$281,000 and \$206,000, respectively.

Contribution revenue recorded from members of the Association's Board of Directors was approximately \$8,356,000 and \$11,978,000 in fiscal years 2011 and 2010, respectively.

NOTE S - SUBSEQUENT EVENTS

The Orchestra evaluated its August 31, 2011 consolidated financial statements for subsequent events through March 26, 2012 the date the consolidated financial statements were available to be issued. The Orchestra is not aware of any subsequent events which would require recognition or disclosure in the accompanying consolidated financial statements, except as noted below and in Note C.

Debtor-in-Possession Credit Facility

On October 31, 2011, the Bankruptcy Court entered an order (I) authorizing the Orchestra to obtain post-petition financing pursuant to Sections 363 and 364 of the Bankruptcy Code, (II) authorizing it to enter into the debtor-in-possession credit and security agreement, (III) authorizing use of cash collateral pursuant to Section 363 of the Bankruptcy Code, (IV) granting liens and super-priority claims to debtor-in-possession lender pursuant to Section 364 of the Bankruptcy Code, and modifying the automatic stay to implement the terms of the order.

The Orchestra obtained a loan (the "DIP Loan") in the aggregate principal amount of \$3,100,000, which is structured as two separate advances, one for \$2,000,000 and another for \$1,100,000. The Orchestra entered into the Debtor-in-Possession Credit and Security Agreement (the "DIP Credit Agreement") on December 14, 2011, and the first advance for \$2,000,000 was executed concurrently.

Use of the DIP Loan by the Orchestra will be limited to (a) fund working capital requirements of the Orchestra; (b) fund fees and expenses of professionals of the Orchestra, which have been allowed by the Bankruptcy Court; and (c) pay fees and expenses of the DIP Lender related to the DIP Loan and the chapter 11 cases, including reasonable attorneys' fees.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2011 and 2010

NOTE S - SUBSEQUENT EVENTS - Continued

Interest on the DIP Loan accrues at a rate of 7.25% and is paid in accordance with the terms and provisions of the DIP Credit Agreement.

The Orchestra is required, among other financial covenants, to maintain an account (the "Deposit Account") with the DIP Lender and at all times have an aggregate amount of cash and cash equivalents of not less than \$250,000 in such Deposit Account. If the Orchestra elects to draw the second advance, the minimum amount of cash and cash equivalents in the Deposit Account shall increase to \$350,000.

Certain assets of the Orchestra that are not otherwise temporarily or permanently restricted have been pledged as collateral pursuant to the terms and conditions of the DIP Credit Agreement.

The DIP Credit Agreement is coterminous with the confirmation of the Orchestra's plan of reorganization.

Financial Statements and Report of Independent
Certified Public Accountants

The Academy of Music of Philadelphia, Inc.

August 31, 2011 and 2010

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Grant Thornton

Report of Independent Certified Public Accountants

To the Board of Directors of
The Academy of Music of Philadelphia, Inc.

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We have audited the accompanying statements of financial position of The Academy of Music of Philadelphia, Inc. (the "Academy") as of August 31, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Academy of Music of Philadelphia, Inc. as of August 31, 2011 and 2010, and the results of its activities and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Academy will continue as a going concern. As discussed in Notes B and C to the financial statements, the Academy is part of a control group whose sole member is the Philadelphia Orchestra Association ("POA"), which is experiencing financial difficulties such that there is substantial doubt about its ability to continue as a going concern. As discussed in Note C, POA, as well as the Academy, filed for protection under federal bankruptcy laws. Under certain circumstances, that situation could allow certain creditors to attempt to establish a claim against the Academy's assets. This matter raises substantial doubt about the Academy's ability to continue as a going concern. Management's plans are described in Notes B and C. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Grant Thornton LLP

Philadelphia, Pennsylvania

March 15, 2012

STATEMENTS OF FINANCIAL POSITION

August 31,

(Dollars in thousands)

	<u>2011</u>	<u>2010</u>
Assets		
Cash and cash equivalents	\$ 1,385	\$ 1,011
Trade accounts receivable, net	20	70
Pledges receivable, net	-	530
Prepaid expenses	237	413
Other assets	5	7
Property and equipment, net	42,301	43,801
Investments	<u>19,545</u>	<u>18,556</u>
 Total assets	 <u>\$ 63,493</u>	 <u>\$ 64,388</u>
 Liabilities		
Liabilities not subject to compromise		
Accounts payable	\$ 119	\$ 233
Accrued expenses	286	300
Due to Philadelphia Orchestra Association	27	56
Deferred revenue	77	187
Accrued benefits	<u>-</u>	<u>155</u>
	509	931
 Liabilities subject to compromise		
Accounts payable	17	-
Accrued benefits	<u>167</u>	<u>-</u>
	184	-
 Total liabilities	 693	 931
 Net assets		
Unrestricted	46,027	46,745
Temporarily restricted	628	673
Permanently restricted	<u>16,145</u>	<u>16,039</u>
 Total net assets	 <u>62,800</u>	 <u>63,457</u>
 Total liabilities and net assets	 <u>\$ 63,493</u>	 <u>\$ 64,388</u>

The accompanying notes are an integral part of these financial statements.

STATEMENT OF ACTIVITIES

For the year ended August 31, 2011

(Dollars in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
REVENUE				
Academy Concert and Ball revenue	\$ 1,863	\$ 13	\$ -	\$ 1,876
Academy Concert and Ball expense	(1,775)	-	-	(1,775)
Transfer of Academy Concert and Ball proceeds to Philadelphia Orchestra Association	(324)	-	-	(324)
Net assets released for the Academy Concert and Ball	560	(560)	-	-
Academy Concert and Ball revenue, net	324	(547)	-	(223)
Annual public support	625	35	-	660
Spending policy draw	1,011	-	-	1,011
Interest and other income	2	-	-	2
Net assets released from restrictions	191	(191)	-	-
Total revenue	1,829	(156)	-	1,673
EXPENSES				
Administrative expenses	444	-	-	444
Fundraising expenses	154	-	-	154
Bad debt expense	30	-	-	30
Total expenses	628	-	-	628
CHANGE IN NET ASSETS FROM OPERATIONS	1,525	(703)	-	822
NONOPERATING REVENUE (EXPENSE)				
Depreciation	(2,365)	-	-	(2,365)
Investment gain, net of spending policy	272	764	-	1,036
Transfer of endowment earnings to Philadelphia Orchestra Association for Academy of Music based rent	(149)	-	-	(149)
Funds with deficiencies	-	(106)	106	-
Other benefit expense	(1)	-	-	(1)
	(2,243)	658	106	(1,479)
CHANGE IN NET ASSETS	(718)	(45)	106	(657)
NET ASSETS, BEGINNING OF YEAR	46,745	673	16,039	63,457
NET ASSETS, END OF YEAR	\$ 46,027	\$ 628	\$ 16,145	\$ 62,800

The accompanying notes are an integral part of this financial statement.

STATEMENT OF ACTIVITIES

For the year ended August 31, 2010

(Dollars in thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
REVENUE				
Academy Concert and Ball revenue	\$ 2,066	\$ 513	\$ -	\$ 2,579
Academy Concert and Ball expense	(2,082)	-	-	(2,082)
Transfer of Academy Concert and Ball proceeds to Philadelphia Orchestra Association	(415)	-	-	(415)
Net assets released for the Academy Concert and Ball	843	(843)	-	-
Academy Concert and Ball revenue, net	412	(330)	-	82
Annual public support	1,027	191	-	1,218
Other public support	69	-	-	69
Spending policy draw	1,181	-	-	1,181
Interest and other income	4	-	-	4
Net assets released from restrictions	343	(343)	-	-
Total revenue	2,624	(152)	-	2,472
EXPENSES				
Administrative expenses	255	-	-	255
Fundraising expenses	345	-	-	345
Bad debt expense	49	-	-	49
Total expenses	649	-	-	649
CHANGE IN NET ASSETS FROM OPERATIONS	2,387	(482)	-	1,905
NONOPERATING REVENUE (EXPENSE)				
Depreciation	(2,335)	-	-	(2,335)
Redesignation of net assets for prior years' spending policy	2,227	(2,227)	-	-
Redesignation of net assets	939	(939)	-	-
Investment gain, net of spending policy	239	928	-	1,167
Transfer of endowment earnings to Philadelphia Orchestra Association for Academy of Music based rent	(268)	-	-	(268)
Funds with deficiencies	-	106	(106)	-
Other benefit expense	(11)	-	-	(11)
	791	(2,132)	(106)	(1,447)
CHANGE IN NET ASSETS	3,178	(2,614)	(106)	458
NET ASSETS, BEGINNING OF YEAR	43,567	3,287	16,145	62,999
NET ASSETS, END OF YEAR	\$ 46,745	\$ 673	\$ 16,039	\$ 63,457

The accompanying notes are an integral part of this financial statement.

STATEMENTS OF CASH FLOWS

Year ended August 31,

(Dollars in thousands)

	2011	2010
Cash flows from operating activities		
Change in net assets	\$ (657)	\$ 458
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	2,365	2,335
Provision for bad debt expense	30	49
Net realized and unrealized gain on investments	(1,173)	(1,291)
Other benefit expense	1	11
Changes in assets and liabilities		
Trade accounts receivable	50	36
Pledges receivable	500	(16)
Prepaid expenses and other assets	178	285
Due to/due from affiliate	(29)	408
Accounts payable and accrued expenses	(111)	(1,058)
Deferred revenues	(110)	(31)
Accrued benefit obligations	11	10
Net cash provided by operating activities	<u>1,055</u>	<u>1,196</u>
Cash flows from investing activities		
Purchases of investments	(8,026)	(17,607)
Proceeds from sales of investments	8,210	19,538
Purchase of property, plant and equipment	<u>(865)</u>	<u>(1,017)</u>
Net cash (used in) provided by investing activities	<u>(681)</u>	<u>914</u>
Cash flows from financing activities		
Payments of bonds payable	<u>-</u>	<u>(2,900)</u>
Net cash used in financing activities	<u>-</u>	<u>(2,900)</u>
Net increase (decrease) in cash and cash equivalents	374	(790)
Cash and cash equivalents		
Beginning of year	<u>1,011</u>	<u>1,801</u>
End of year	<u>\$ 1,385</u>	<u>\$ 1,011</u>
Interest paid	<u>\$ -</u>	<u>\$ 3</u>
Accrued construction expenses	<u>\$ 278</u>	<u>\$ 275</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

August 31, 2011 and 2010

NOTE A - NATURE OF OPERATIONS

1. Organization

The Academy of Music of Philadelphia, Inc. (the "Academy") is a non-profit Delaware Corporation and a wholly owned subordinate entity of the Philadelphia Orchestra Association ("POA") and was originally organized to operate, manage and maintain the Academy of Music building. The operations of the Academy have been managed by the Kimmel Center, Inc. ("KCI"), an unaffiliated organization, since 2001. The Academy of Music building was built in 1857 and is designated a National Historic Landmark. The activities of the Academy are primarily to raise funds through the Restoration and Preservation Fund to restore and maintain the building, the oldest known continuously operating opera house in the United States.

2. Measure of Operations

Operating activities of the Academy include special event revenue from the annual Academy Concert and Ball, proceeds of which go to the Restoration and Preservation Fund. Operating activities also include public support and investment income drawn according to the endowment spending policy. Operating expenses include costs related to the annual Academy Concert and Ball, as well as fundraising and administrative expenses.

Nonoperating activities include depreciation expense, investment gain or loss (net of spending policy), and transfer to POA for its share of the Academy Concert and Ball proceeds.

Operating results for concert activities that take place at the Academy of Music building are not included in these statements as they are part of KCI's operations. KCI leases the property of the Academy for a dollar per year through 2031. The lease contains various options to extend at current market rates through 2090. Renewals and improvements, which extend the useful lives of assets, are capitalized at cost. Maintenance and repairs expense are not included in the statements of activities as they are the responsibility of KCI pursuant to the aforementioned lease agreement.

NOTE B - GOING CONCERN STATUS

Based on the matters discussed in Note C, management has no reason to believe that the anticipated plan of reorganization will not be confirmed by the United States Bankruptcy Court for the Eastern District of Pennsylvania (the "Bankruptcy Court"), enabling the POA and the Academy to emerge from bankruptcy, but until such confirmation has occurred, the status of the two organizations as going business concerns is not assured.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

August 31, 2011 and 2010

NOTE C - CHAPTER 11 REORGANIZATION

On April 16, 2011 (the "Petition Date"), the POA and its wholly-owned subordinate entity, the Academy, along with Encore Series, Inc. ("ESI"), each filed a voluntary petition to reorganize under Chapter 11 of Title 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the Eastern District of Pennsylvania. By order of the Bankruptcy Court dated April 20, 2011, the Debtors' Chapter 11 cases were consolidated for procedural purposes only and are being jointly administered under the caption "In re THE PHILADELPHIA ORCHESTRA ASSOCIATION ACADEMY OF MUSIC OF PHILADELPHIA, INC. ENCORE SERIES, INC." Bky. No. 11-13098 ("ELF"). No trustee or examiner was appointed in the Debtors' Chapter 11 cases. On May 4, 2011, the United States Trustee for the Eastern District of Pennsylvania (the "U.S. Trustee") appointed an official committee of unsecured creditors (the "Creditors Committee").

Subsequently, the order dated April 20, 2011, providing for the joint administration of the bankruptcy cases of The Philadelphia Orchestra Association, The Academy of Music of Philadelphia, Inc. and Encore Series, Inc. under Bky. No. 11-10398 was terminated as to Encore Series, Inc. only, effective May 2, 2011. All further pleadings and other papers related to the Chapter 11 case of Encore Series, Inc. have been filed, and all further docket entries with respect thereto are made in Case No. 11-13100. All further pleadings and other papers related to the Chapter 11 cases of The Philadelphia Orchestra Association and The Academy of Music of Philadelphia, Inc. continued to be filed and docketed under Bky. No. 11-10398.

The Philadelphia Orchestra Association and The Academy of Music of Philadelphia, Inc. expect to file a plan of reorganization (the "Plan") and related disclosure statement before the end of fiscal year 2012. The Plan will reflect steps that the Board has already taken and plans to take to strengthen governance practices and capitalize on the highly experienced management team and dynamic new artistic leadership. Some of the significant actions, taken subsequent to year-end, are highlighted below:

1. Collective Bargaining Agreement

Pursuant to a Bankruptcy Court order dated October 27, 2011, POA agreed to continue the terms of the Trade Agreement with The Philadelphia Musicians' Union, Local 77, American Federation of Musicians ("Local 77") dated September 15, 2007, as modified by Memoranda of Understanding dated May 22, 2009, February 21, 2010 and further modified by the terms contained in an Agreement executed October 31, 2011.

The term of the October 31, 2011 Agreement is November 1, 2011 through September 16, 2015. It is the product of a Bankruptcy Court guided mediation and memorializes significant changes in work rules, compensation, and medical and pension benefits that will allow the POA to achieve its mission in a sustainable fashion for the future.

2. Encore Series, Inc. Settlement

A Settlement Stipulation (the "ESI Settlement") among the POA, Encore Series, Inc., Finger Prince, Inc. and Peter Nero (the "Parties") was entered into as of September 15, 2011 and subsequently approved by order of the Bankruptcy Court on September 28, 2011.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

August 31, 2011 and 2010

NOTE C - CHAPTER 11 REORGANIZATION - Continued

The ESI Settlement requires that the POA make five (5) payments to ESI totaling \$1,250,000 by June 30, 2012 to be used by ESI in the ordinary course of its business as ESI, in its sole discretion, deems appropriate. In addition, the POA will provide certain, limited administrative support to ESI through June 30, 2012.

The terms of the ESI Settlement are intended by the parties to be incorporated into a joint plan or plans of reorganization of the POA and ESI, and that any plan filed by any of the Parties shall provide that all claims of the POA against ESI and Peter Nero, and of ESI and Peter Nero against the POA, except as to obligations set forth in the ESI Settlement, and any plan filed by the Parties, shall be waived and released by the Parties.

3. Pension Plans

On November 29, 2011, the Bankruptcy Court entered an order determining that the POA meets the requirements for a distress termination of certain defined benefit pension plans and approving termination of those plans.

At the Petition Date, the POA maintained separate noncontributory defined benefit plans (the "Pension Plans") covering members of POA. Pursuant to the terms and conditions contained in the October 31, 2011 Agreement and as authorized by the November 29, 2011 Bankruptcy Court order, POA provided notification to the Pension Benefit Guarantee Corporation (the "PBGC") on October 25, 2011 of its intention to terminate the Pension Plans, having satisfied the requirements for a distress termination of the Pension Plans pursuant to section 4041(c)(2)(B) of ERISA, 29 U.S.C. § 1341(c)(2)(B). As part of a distressed termination, POA is required to pay an administrative fee based upon the number of participants over a three-year period. The total fee is approximately \$1.2 million.

Separately, as part of POA's Trade Agreement with Local 77 that was in effect until September 16, 2007, Local 77 agreed to a freeze/curtailment of the defined benefit pension plan which covers all full-time musicians. The effective date of the curtailment was September 19, 2004. All credit for future service was earned under the American Federation of Musicians-Employers' Pension Fund (the "AFM Plan"). The Orchestra contributed a specific percentage of minimum weekly salary for each full-time musician to the AFM Plan.

Pursuant to the terms and conditions contained in the October 31, 2011 Agreement, the Orchestra provided notification to the American Federation of Musicians that it was withdrawing from the AFM Plan effective November 1, 2011. This withdrawal triggered withdraw liability in an amount to be finalized that will be addressed as part of the bankruptcy claims process and final distribution to creditors consistent with the plan of reorganization.

The Pension Plans and the AFM Plan will be replaced with a defined contribution plan that will be effective November 1, 2011.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

August 31, 2011 and 2010

NOTE C - CHAPTER 11 REORGANIZATION - Continued

Other short-term steps have been implemented to reduce program costs, institute dynamic pricing and find operating efficiencies. The Plan will incorporate the functional elements of a 5-year plan developed by management to address both earned and contributed revenue. Embedded in the Plan will be the following operational strategies:

- Invest in the art, staging and technology necessary to bring new experiences and ways of enjoying the music, all of which translates to better financial outcomes.
- Changes to the expense structure to ensure that each dollar yields the highest artistic and financial return.
- Statement of financial position and capitalization requirements to fund the transition while steps are taken to rebuild audiences and grow the endowment.

Management believes that these factors will contribute to the ability of the POA and the Academy to achieve structural balance by the end of the plan period.

There can be no assurance that the Plan will be approved or that the Academy will be able to meet all of the goals of the Plan along with the POA. The Academy believes that, given current circumstances, it will emerge from Chapter 11 before the end of fiscal 2012 with sufficient liquidity to continue operating as a going concern, but cannot give assurances that it will do so, due to uncertainties inherent in the bankruptcy process. Accordingly, the Academy may not be able to continue as a going concern.

NOTE D - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**1. Basis of Presentation**

The financial statements of the Academy have been prepared in conformity with accounting principles generally accepted in the United States of America ("US GAAP"). The Academy presents net assets and revenues, gains, expenses and losses as unrestricted, temporarily restricted or permanently restricted based on the existence or absence of donor-imposed restrictions as follows:

- Unrestricted - Net assets that are not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors. Approximately \$2,789,000 and \$2,517,000 of the Academy's unrestricted net assets at August 31, 2011 and 2010, respectively, have been designated by the Board of Directors to function as endowment. The principal of these funds must not be used for any other purpose without further action by the Board of Directors.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

August 31, 2011 and 2010

NOTE D - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- Temporarily Restricted - Net assets whose use by the Academy is subject to donor-imposed restrictions that can be fulfilled by actions of the Academy pursuant to those restrictions or that expire by the passage of time. Temporarily restricted net assets consist primarily of contributions receivable and accumulated endowment gains which can be expended, but for which restrictions have not yet been met.
- Permanently Restricted - Net assets subject to donor-imposed restrictions that they be maintained permanently by the Academy. Permanently restricted net assets are primarily comprised of original endowment gifts given to the Academy by donors. Generally, the donors of these assets permit the Academy to use all or part of the income from these assets.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are generally reported as decreases in unrestricted net assets. Expirations of donor-imposed restrictions that simultaneously increase one class of net assets and decrease another are reported as releases between the applicable classes of net assets.

2. Cash and Cash Equivalents

Cash and cash equivalents include short-term investments with original maturities of three months or less. The Academy maintains cash accounts which, at times, may exceed federally insured limits. The Academy has not experienced any losses from maintaining cash accounts in excess of federally insured limits. Management believes that it is not exposed to any significant credit risk on its cash accounts.

3. Investments

The Academy records its investments at fair value. Debt securities, equity securities and mutual funds are valued at quoted market prices, except for certain alternative investments for which quoted market prices are not available. The estimated fair value of alternative investments is based upon net asset values as a practical expedient, which is provided by external investment managers as of August 31, 2011 and 2010. Because such investments are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed. These investments may contain elements of both credit risk and market risk. Such risks include, but are not limited to, limited liquidity, absence of oversight, dependence on key individuals, emphasis on speculative investments and nondisclosure of portfolio composition. The Academy reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining the fair value of alternative investments.

Gains and losses on investments are determined using an average cost method for securities and the specific identification method for other investments. Gains and losses are based on the trade date for investments.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

August 31, 2011 and 2010

NOTE D - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

4. Fair Value Measurements

The Academy has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the hierarchy are described below:

- Level 1 Financial assets and liabilities whose values are based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2 Financial assets and liabilities whose values are based on one or more of the following:
1. Quoted prices for similar assets or liabilities in active markets;
 2. Quoted prices for identical or similar assets or liabilities in non-active markets;
 3. Pricing models whose inputs are observable for substantially the full term of the asset or liability; or
 4. Pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability.
- Level 3 Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Academy's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

Both observable and unobservable inputs may be used to determine the fair value of positions that the Academy has classified within the Level 3 category. As a result, the unrealized gains and losses for assets and liabilities within the Level 3 category may include changes in fair value that were attributable to both observable (e.g., changes in market interest rates) and unobservable (e.g., changes in unobservable long-dated volatilities) inputs.

A review of the fair value hierarchy classifications is conducted on an annual basis. Changes in the type of inputs may result in a reclassification for certain financial assets or liabilities. Reclassifications impacting Level 3 of the fair value hierarchy are reported as transfers in/out of the Level 3 category as of the beginning of the year in which reclassifications occur.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

August 31, 2011 and 2010

NOTE D - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

5. Pledges Receivable

Contributions received, including unconditional promises to give, are recognized as revenues when the donor's commitment has been received. Unconditional promises to give are recognized at the established present value of the future cash flows, net of allowances. Contributions, which are received subject to restrictions imposed by donors, are reported as either permanently restricted or temporarily restricted net assets in the accompanying financial statements. Contributions for which the restrictions expire with the passage of time or occurrence of specific events are classified as temporarily restricted. When the restriction expires with the passage of time or upon occurrence of the specified event, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions. Temporarily restricted funds expended in the fiscal year in which received are recorded as unrestricted.

6. Allowance for Doubtful Pledges

The allowance for doubtful pledges receivable is provided based upon management's judgment, including such factors as prior collection history and type of receivable. The Academy writes-off receivables when they become uncollectible, and payments subsequently received on such receivables are credited to the account.

7. Property and Equipment, net

Property and equipment, net is recorded at cost as of the date of acquisition or fair value as of the date of receipt in the case of gifts. Depreciation is recorded as an expense using the straight-line method over the estimated useful lives of the respective assets. The useful lives are as follows:

Building and building improvements	30 years
Office equipment	3-10 years

The cost and accumulated depreciation of property sold or retired is removed from the related asset and accumulated depreciation amounts, and any resulting gain or loss is recorded in the period of disposal. Renewals and improvements, which extend the useful lives of assets, are capitalized at cost.

8. Tax Status

Under provisions of the Internal Revenue Code, Section 501(c)(3), and the applicable income tax regulations of Pennsylvania, the Academy is exempt from taxes on income other than unrelated business income.

The Academy recognizes or derecognizes a tax position based on a "more likely than not" threshold. This applies to positions taken or expected to be taken in a tax return. The Academy does not believe its financial statements include any material uncertain tax positions.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

August 31, 2011 and 2010

NOTE D - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

9. Accrued Employee Benefits

Certain former employees of the Academy participate in the POA's postretirement benefit plans. This amount represents an allocation of the liability for those employees' benefits. Expense is included in nonoperating activities.

10. Allocation of Expenses

Fundraising expenses include an allocation of employees' salary and benefits who work in the POA development department. Also included are costs related to special projects and other restoration fundraising activities other than the Academy Concert and Ball.

Administrative expenses include an allocation of employees' salary and benefits who work in POA support departments other than development. Also included are consultant expenses, bank charges and professional fees.

11. Redesignation of Net Assets to Temporarily Restricted or Permanently Restricted

Redesignations of net assets result from donors either imposing restrictions on previously unrestricted contributions or designating previously temporarily restricted contributions for permanently restricted endowment. Redesignation from prior years' spending policy is a result of reallocation of endowment earnings.

12. Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and utilize assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The most significant management estimates and assumptions relate to the determination of allowance for doubtful pledges receivable, discounts on pledges receivable, alternative investment values, useful lives of fixed assets and assumptions related to the reported fair values of certain of the Academy's assets and liabilities. Actual results could differ from those estimates.

13. Recently Adopted Accounting Pronouncement

In January 2010, the Financial Accounting Standards Board ("FASB") issued accounting guidance to enhance fair value measurement disclosures by requiring the reporting entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reason for the transfers. Furthermore, activity in Level 3 fair value measurements should separately provide information about purchases, sales, issues and settlements rather than providing that information as one net number. This guidance is effective for financial statements issued for periods beginning after December 15, 2009, with the exception of the enhanced Level 3 disclosures, which are effective for reporting periods beginning after December 15, 2010. The adoption of this guidance, with the exception of the enhanced Level 3 disclosures which will be adopted the fiscal year ending June 30, 2012, did not have a material impact on the financial statements.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

August 31, 2011 and 2010

NOTE E - PLEDGES RECEIVABLE, net

Pledges receivable, net at August 31, 2011 and 2010 were expected to be collected as follows (in thousands):

	<u>2011</u>	<u>2010</u>
Due within one year	\$ -	\$ 566
Less allowance for uncollectible pledges	<u>-</u>	<u>(36)</u>
Subtotal	<u>\$ -</u>	<u>\$ 530</u>
Activity during year		
Balance, beginning of year	\$ 530	\$ 563
Cash received	(1,239)	(1,685)
New pledges received	739	1,701
Bad debt expense	<u>(30)</u>	<u>(49)</u>
Balance, end of year	<u>\$ -</u>	<u>\$ 530</u>

NOTE F - INVESTMENTS

At August 31, 2011 and 2010, the fair value of investments was as follows (in thousands):

	<u>2011</u>		<u>2010</u>	
	<u>Fair value</u>	<u>Cost</u>	<u>Fair value</u>	<u>Cost</u>
Cash and cash equivalents	\$ 155	\$ 155	\$ 96	\$ 96
Corporate equities	-	-	2,357	2,279
Mutual funds				
Fixed income	294	294	2,451	2,374
Equities	<u>18,771</u>	<u>18,640</u>	<u>12,192</u>	<u>12,754</u>
Total mutual funds	19,065	18,934	14,643	15,128
Alternative investments				
Limited partnerships	218	209	1,272	1,108
Multi-strategy/absolute return	<u>107</u>	<u>54</u>	<u>188</u>	<u>141</u>
Total alternative investments	<u>325</u>	<u>263</u>	<u>1,460</u>	<u>1,249</u>
Total fair value of investments	<u>\$ 19,545</u>	<u>\$ 19,352</u>	<u>\$ 18,556</u>	<u>\$ 18,752</u>

The Academy has entered into limited partnership agreements with certain investment managers. At August 31, 2011 and 2010, total unpaid future capital commitments outstanding were estimated to be \$175,000 and \$279,000, respectively.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

August 31, 2011 and 2010

NOTE F - INVESTMENTS - Continued

Components of investment return for the years ended August 31, 2011 and 2010 are as follows (in thousands):

	2011			
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Net realized gains	\$ 267	\$ 548	\$ -	\$ 815
Change in unrealized (losses) gains	<u>(53)</u>	<u>436</u>	<u>-</u>	<u>383</u>
	214	984	-	1,198
Dividend and interest received	<u>132</u>	<u>717</u>	<u>-</u>	<u>849</u>
Total	<u>\$ 346</u>	<u>\$ 1,701</u>	<u>\$ -</u>	<u>\$ 2,047</u>

Change in unrealized gains and losses is net of investment expenses of \$64,000.

	2010			
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Net realized gains (losses)	\$ 32	\$ (781)	\$ -	\$ (749)
Change in unrealized gains	<u>282</u>	<u>2,409</u>	<u>-</u>	<u>2,691</u>
	314	1,628	-	1,942
Dividend and interest received	<u>58</u>	<u>348</u>	<u>-</u>	<u>406</u>
Total	<u>\$ 372</u>	<u>\$ 1,976</u>	<u>\$ -</u>	<u>\$ 2,348</u>

Change in unrealized gains is net of investment expenses of \$118,000.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

August 31, 2011 and 2010

NOTE F - INVESTMENTS - Continued

The following table presents information about the Academy's assets measured at fair value on a recurring basis as of August 31, 2011 and 2010 and indicates the fair value hierarchy of the valuation techniques utilized by the Academy to determine such fair value.

<u>2011</u>	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Description				
Investments				
Cash and cash equivalents	\$ 155	\$ -	\$ -	\$ 155
Mutual funds - fixed income	-	294	-	294
Mutual funds - equities	-	18,771	-	18,771
Limited partnerships	-	-	218	218
Multi-strategy/absolute return	-	-	107	107
Total recurring financial assets	<u>\$ 155</u>	<u>\$ 19,065</u>	<u>\$ 325</u>	<u>\$ 19,545</u>
<u>2010</u>				
Investments				
Cash and cash equivalents	\$ 96	\$ -	\$ -	\$ 96
Corporate equities	2,357	-	-	2,357
Mutual funds - fixed income	1,309	1,142	-	2,451
Mutual funds - equities	1,329	10,863	-	12,192
Limited partnerships	-	-	1,272	1,272
Multi-strategy/absolute return	-	-	188	188
Total recurring financial assets	<u>\$ 5,091</u>	<u>\$ 12,005</u>	<u>\$ 1,460</u>	<u>\$ 18,556</u>

The following table presents additional information about assets measured at fair value on a recurring basis and for which the Academy has utilized Level 3 inputs to determine fair value for the years ended August 31, 2011 and 2010:

	Fair value measurements (Level 3)	
	2011	2010
Balance, beginning of year	\$ 1,460	\$ 1,711
Purchases	94	42
Sales	(1,357)	(282)
Unrealized gains (losses)	<u>128</u>	<u>(11)</u>
Balance, end of year	<u>\$ 325</u>	<u>\$ 1,460</u>

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

August 31, 2011 and 2010

NOTE F - INVESTMENTS - Continued

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

In reference to the investments and other financial instruments held by the Academy, the following provides a brief description of the types of financial instruments, the methodology for estimating fair value, and the level within the hierarchy of the estimate.

Investments

Cash and Cash Equivalents: Cash and cash equivalents include short-term, highly liquid investments with a maturity of three months or less at the time of purchase. Cash and cash equivalents are reported using a market approach.

Corporate Equities: Domestic and/or foreign equity securities with quoted prices in active markets. Corporate equities stocks are valued using a market approach.

Mutual Funds - Fixed Income: Mutual funds (open to the general public with quoted prices in active markets) investing in high yielding, non-investment grade publicly traded fixed income securities with quoted prices in active markets. Fixed income mutual funds are valued using a market approach.

Mutual Funds - Equities: Mutual funds (open to the general public with quoted prices in active markets) investing in domestic and/or foreign equity securities with quoted prices in active markets. These funds are valued using a market approach.

Limited Partnerships: As a "fund-of-funds," the partnership's investments consist of underlying funds that invest in office, apartment, retail, industrial or other commercial real estate, or in real estate-related securities within the U.S., Europe, and Asia. A second partnership invests in a variety of vehicles, which include: private equity securities, long/short equities - both domestic and international - and fixed income securities. These partnerships are valued using an income approach.

Multi-Strategy/Absolute Return: These funds invest in a variety of vehicles, which include: equity securities, private equity funds, common stocks, limited partnerships, derivatives and fixed income securities. This investment is valued using a market approach.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

August 31, 2011 and 2010

NOTE F - INVESTMENTS - Continued

Fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent) as of August 31, 2011 are as follows:

	<u>Fair value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Limited Partnerships (a)	\$ 218	\$ 175	Various	Various
Multi-Strategy/Absolute Return (b)	107	-	Various	Various
Fixed Income (c)	294	-	Various	Various
Multi-Asset (d)	<u>18,771</u>	<u>-</u>	Various	Various
	<u>\$ 19,390</u>	<u>\$ 175</u>		

- (a) Limited Partnerships - Metropolitan Real Estate Partners Global II ("MREP II-E") was formed on November 19, 2007. MREP II will invest 60% of its capital commitments in Metropolitan Real Estate Partners VI, LP ("MREP VI") and 40% of its capital commitments in MREP Real Estate Partners International III, LP ("MREP International III"). MREP VI is a Delaware Limited Partnership that invests in certain private real estate funds. These funds invest primarily in office, apartment, industrial or other commercial real estate, or in real estate securities, primarily within the United States. MREP International III is a Delaware Limited Partnership that invests in certain private real estate funds; these funds invest primarily in office, apartment, industrial or other commercial real estate, or in real estate securities, primarily within Europe and secondarily within Asia. The fair values have been estimated using the net asset value ("NAV") per share of the investments. The investment period for MREP VI ended on September 30, 2009, and for MREP International III on June 30, 2011. The partnership will terminate upon the earlier of 1) June 30, 2015, or 2) the time it takes to reasonably wind down the affairs of the partnership after the partnership assets have been liquidated.
- (b) Quellos Alpha Engine Fund L.P. - This limited partnership's investment strategies include relative value (investing to profit from the mispricing of related financial instruments) and event-driven (investing in securities of companies that are subject to extraordinary corporate events such as restructurings, takeovers, mergers, liquidations, bankruptcies). The Quellos Alpha Engine Fund L.P. was terminated by the investment manager effective March 31, 2009. At August 31, 2011, the remaining balance is pending liquidation.
- (c) The Short-Term Fund of The Investment Fund for Foundations ("TIFF") - The Short-Term Fund is a registered mutual fund; the fund's investment objective is to attain as high a rate of current income as is consistent with ensuring that the fund's risk of principal loss does not exceed that of a portfolio invested in U.S. 6-month Treasury bills. The fund invests principally in securities issued by the U.S. Government, its agencies, or its instrumentalities. The investment advisor, TIFF Advisory Services, Inc. ("TAS"), focuses on duration, maturity, relative valuations, and security selection. The fund typically maintains an overall quality rating of AAA by Standard & Poor's Corporation (or deemed equivalent). The Academy is able to redeem full and fractional shares in TIFF's Short-Term Fund on any business day.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

August 31, 2011 and 2010

NOTE F - INVESTMENTS - Continued

- (d) The Multi-Asset Fund of TIFF - The Multi-Asset Fund is a registered mutual fund. Its investment objective is to achieve a total return (price appreciation plus dividends) that, over a majority of market cycles, exceeds inflation, as measured by the Consumer Price Index ("CPI") plus 5% per annum. The fund's strategy is to invest in a comprehensive asset allocation that includes cash, global stocks, fixed income securities and high yield bonds, inflation hedges, including commodities and REITs, and all-purpose hedges, including inflation-linked bonds. The Academy is able to redeem full and fractional shares of the fund on any business day.

NOTE G - ENDOWMENTS

As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Academy's endowment consists of a portfolio of actively managed funds established to provide both a source of operating funds as well as long-term financial stability. The endowment includes donor-restricted endowment funds and endowment funds designated by the Board of Trustees to function as quasi-endowments, held in investments, plus pledges receivable where the assets have been designated for endowment.

1. Interpretation of Relevant Law

The Board of Trustees of the Academy follows the interpretation of Commonwealth of Pennsylvania Act 141 as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary, except as described below. As a result of this interpretation, the Academy classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets and is regarded as "net appreciation" is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Academy in a manner consistent with the Academy's spending policy.

2. Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the "historic dollar value." Deficiencies of this nature are reported by a charge to permanently restricted net assets and a corresponding increase to temporarily restricted net assets. As of August 31, 2010, on a cumulative basis, these charges totaled \$106,000. In the current year, there was sufficient appreciation of the underlying investments to reverse these charges; therefore, the cumulative charges as of August 31, 2011 totaled \$-0-.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

August 31, 2011 and 2010

NOTE G - ENDOWMENTS - Continued

3. Endowment Investment Guidelines

The Academy's Investment Guidelines are to invest the Academy's endowment assets in a generally accepted prudential manner and produce an average annual total return on investments over a five-year period of at least the sum of the spending formula distribution rate plus the direct cost of investing these funds (investment advisor, brokerage, investment manager, custodial fees, etc.) plus the current rate of inflation as measured by the U.S. Department of Labor's Consumer Price Index. The Investment and Endowment Committee of the Board of Trustees is responsible for the oversight of the Academy's endowment and pension assets.

The intent of the guidelines is to provide a predictable stream of funding to the Academy's programs from its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Academy must hold in perpetuity, board-designated funds, plus pledges receivable that have been designated for endowment.

4. Endowment Spending Policy

The Academy determines its spending policy on an annual basis. As approved by the Investment and Endowment Committee and in accordance with Commonwealth of Pennsylvania Act 141 ("PA Act 141"), the amount is calculated based on the average of the preceding thirteen quarter unit values for each endowment pool multiplied by the average number of units for the preceding twelve months. The approved spending percentage is applied to each pool and shall not be less than 2.00% or more than 7.00%. The Board approved a spending percentage of 5.50% for 2010. This policy is applied to all endowments absent donor stipulations to the contrary.

5. Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Academy relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Management of the investments is provided on a fully discretionary basis by competent external money management firms selected by the Investment and Endowment Committee with the guidance of third-party investment advisors. Different investment managers have been employed over the years and have included a wide range of investments, including alternative strategies. The rationale for including alternative strategy managers for the Academy's portfolio is to reduce some volatility consistent with a goal of generating absolute return.

The Academy has adopted an endowment spending policy which designates a portion of the cumulative investment return for support of current operations. The remainder is retained to support operations of future years and to offset potential market declines.

To the extent that actual income from permanently restricted investments is less than the predetermined amount, accumulated gains are made available for operations to fund the difference. For financial statement purposes, any excess accumulated gains or accumulated losses are recorded as temporarily restricted net assets. When accumulated gains are less than the calculated spending rate, funds are made available from permanently restricted net assets. Investment return in excess of or less than the spending distribution is reported as a component of nonoperating revenue.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

August 31, 2011 and 2010

NOTE G - ENDOWMENTS - Continued

The oversight of the Academy's investments has been delegated to the Trustees of the POA through the POA's Investment and Endowment Committee.

For unrestricted endowment, investment return in excess of or less than the spending distribution is reported as a component of nonoperating revenue.

6. Endowment Fund Activity

(in thousands)

<u>September 1, 2010</u>	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Net assets, beginning of year	\$ 2,517	\$ -	\$ 16,039	\$ 18,556
Investment return				
Investment income	132	717	-	849
Net realized gains (losses)	267	548	-	815
Change in unrealized gains	<u>(53)</u>	<u>436</u>	<u>-</u>	<u>383</u>
Net investment gain	346	1,701	-	2,047
Appropriation of endowment assets for operations (draw)	(74)	(937)	-	(1,011)
Funds with deficiencies	<u>-</u>	<u>(106)</u>	<u>106</u>	<u>-</u>
Net assets, end of year	<u>\$ 2,789</u>	<u>\$ 658</u>	<u>\$ 16,145</u>	<u>\$ 19,592</u>
<u>August 31, 2011</u>				
Donor-restricted endowment funds	\$ -	\$ 658	\$ 16,145	\$ 16,803
Board-designated funds	<u>2,789</u>	<u>-</u>	<u>-</u>	<u>2,789</u>
	<u>\$ 2,789</u>	<u>\$ 658</u>	<u>\$ 16,145</u>	<u>\$ 19,592</u>

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

August 31, 2011 and 2010

NOTE G - ENDOWMENTS - Continued

	(in thousands)			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
<u>September 1, 2009</u>				
Net assets, beginning of year	\$ 2,278	\$ 1,279	\$ 16,145	\$ 19,702
Investment return				
Investment income	58	348	-	406
Net realized gains (losses)	32	(781)	-	(749)
Change in unrealized gains	<u>282</u>	<u>2,409</u>	<u>-</u>	<u>2,691</u>
Net investment gain	372	1,976	-	2,348
Other changes				
Appropriation of endowment assets for operations (draw)	(133)	(3,275)	-	(3,408)
Operating transfers and other changes	-	(86)	-	(86)
Funds with deficiencies	<u>-</u>	<u>106</u>	<u>(106)</u>	<u>-</u>
Total other changes	<u>(133)</u>	<u>(3,255)</u>	<u>(106)</u>	<u>(3,494)</u>
Net assets, end of year	<u>\$ 2,517</u>	<u>\$ -</u>	<u>\$ 16,039</u>	<u>\$ 18,556</u>
<u>August 31, 2010</u>				
Donor-restricted endowment funds	\$ -	\$ -	\$ 16,039	\$ 16,039
Board-designated funds	<u>2,517</u>	<u>-</u>	<u>-</u>	<u>2,517</u>
	<u>\$ 2,517</u>	<u>\$ -</u>	<u>\$ 16,039</u>	<u>\$ 18,556</u>

Under an agreement dated January 30, 2004, the Academy received a \$15 million endowed contribution, which is included within permanently restricted net assets in the accompanying financial statements. Among the stipulations of this agreement are certain provisions whereby the donor may request return of these funds in the event of a bankruptcy filing. Management has informed the donor of its plan of reorganization and continues to have an open dialogue; however, a determination as to the outcome of such discussions has not yet been reached. Accordingly, no provision has been made to the accompanying financial statements relating to this uncertainty.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

August 31, 2011 and 2010

NOTE H - PROPERTY AND EQUIPMENT

The components of property and equipment at August 31, 2011 and 2010 were as follows (in thousands):

	<u>2011</u>	<u>2010</u>
Academy of Music		
Land	\$ 630	\$ 630
Building and building improvements	75,447	74,675
Office equipment	877	856
Construction in progress	<u>367</u>	<u>295</u>
Total	77,321	76,456
Less accumulated depreciation	<u>(35,020)</u>	<u>(32,655)</u>
Total property and equipment	<u>\$ 42,301</u>	<u>\$ 43,801</u>

Depreciation expense was \$2,365,000 and \$2,335,000 for the years ended August 31, 2011 and 2010, respectively.

NOTE I - NET ASSETS

Temporarily restricted net assets consisted of the following at August 31, 2011 and 2010 (in thousands):

	<u>2011</u>	<u>2010</u>
Time and purpose restricted contributions	\$ <u>628</u>	\$ <u>673</u>
	<u>\$ 628</u>	<u>\$ 673</u>

Permanently restricted net assets totaled approximately \$16,145,000 and \$16,039,000 at August 31, 2011 and 2010, respectively, and consisted of investment funds restricted in perpetuity by donor intent.

NOTE J - CONTINGENCIES

The Academy is subject to various claims and legal proceedings arising out of the ordinary course of business. Management believes the resolution of claims and pending litigation will not have a material effect, individually or in the aggregate, on the financial position of the Academy.

NOTE K - COMMITMENTS

The Academy has several commitments under contract for renovations of the Academy of Music building. Portions of these contracts not completed at year-end are not reflected in the financial statements. These unrecorded commitments were approximately \$213,000 and \$407,000 at August 31, 2011 and 2010, respectively.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

August 31, 2011 and 2010

NOTE L - RELATED PARTY

Contribution revenue recorded from members of the Academy's Board of Directors was approximately \$498,000 and \$521,000 in fiscal years 2011 and 2010, respectively.

NOTE M - SUBSEQUENT EVENTS

The Academy evaluated its August 31, 2011 financial statements for subsequent events through March 15, 2012, the date the financial statements were available to be issued. The Academy is not aware of any subsequent events which would require recognition or disclosure in the accompanying financial statements, except as noted in Notes B and C relating to the Academy's relationship with POA.

Appendix F

[Post-Confirmation Directors and Officers]

Officers of The Philadelphia Orchestra Association:

President and Chief Executive Officer: Allison Vulgamore

Chairman of the Board of Directors: Richard B. Worley

Vice President and Chief Financial Officer: Mario Mestichelli

Board of Directors of The Philadelphia Orchestra Association¹

John A. Affleck	Osagie O. Imasogie	Harold S. Rosenbluth*
Bernard E. Anderson	Patricia Harron Imbesi	John R. Saler
Peter Benoliel	Joseph Jacovini#	John F. Salveson#
Carl M. Buchholz	Ronald Kaiserman	Adele K. Schaeffer
Sally Bullard*#	Robert Kesselman*	David F. Simon#
Joseph Camarda#	David Kim*	Richard L. Smoot
Michael M. Cone	Richard Klein#	Constance S. Smukler
Sarah Miller Coulson#	Joanna McNeil Lewis*#	Harold A. Sorgenti
David Cramer*	Bennett Lomax	Bernard Spain
Gloria de Pasquale*	Sandra G. Marshall	Christine Nordstrom Stainton
Mark Dichter	Peter McCausland	Gary Steuer*
Elise du Pont	John H. McFadden#	Paul Thompson III
Stacy Maria Dutton#	Hilarie Morgan#	Charles K. Valutas
Joseph M. Field	Robert E. Mortensen	Archbold D. van Beuren#
Carole Haas Gravagno#	Ralph Muller#	Ramona A. Vosbikian
Harry R. Halloran, Jr.	The Hon. Michael Nutter*	Allison Vulgamore*#
Anne F. Hamilton	John Paone*	Marcia Wells
Beverly A. Harper	Derek Pew	Raymond H. Welsh
Martin Heckscher#	Robert Pollack	Diane Dalto Woosnam*
W. Anthony Hitschler	Lorraine Popowich	
David F. Hoffman	Robert Rechnitz	
James W. Hovey	Alan L. Reed	
	Harold Robinson*	
	Robert H. Rock	

* Ex-officio

Member, Executive Committee

¹ As of February 2012. List is subject to change.

Officers of Academy of Music of Philadelphia, Inc.:

President, Chief Executive Officer, and Chairperson of the Board of Directors: Joanna McNeil Lewis

Treasurer: Mario Mestichelli

Board of Trustees of Academy of Music of Philadelphia, Inc.

Anne F. Hamilton

James Hovey

R. Anderson Pew

Caroline B. Rogers

Mrs. Frank P. Slaterry, Jr.

Patricia D. Wellenbach

Allison Vulgamore, President and CEO, The Philadelphia Orchestra Association

Richard B. Worley, Chairman, The Philadelphia Orchestra Association

Harold A. Sorgenti, Chairman Laureate