



Notes from the General Director

I would like to share with you excerpts from remarks I made at a full Company meeting several weeks ago. They accurately reflect the precarious state of San Francisco Opera and set forth the steps we must take to deal with our circumstances.

Although this meeting is about celebrating our collective successes, it is also about making sure that you are informed as to the state of the Company and the challenges that we, as a group, are facing. We are now at a point where a collective spirit is essential if we're to maintain this company as a great artistic institution—not just for the future, but for now! The economy has plunged the arts into a state of turmoil. Every week there is news of a company facing bankruptcy, laying off employees, cutting programming, or reorganizing. Some simply have no choice but to cease operations. Slashed endowments to cover deficits, behavioral changes in donors and ticket buyers, ever sky-rocketing healthcare, and workers compensation costs, among other factors, are taking a gut-wrenching toll on our industry. I don't believe that we've seen anything like the end of the road yet as the industry works to reconceive itself in a new economic reality.

This reality has pushed most companies towards a precipice, forcing incredibly hard decisions. San Francisco Opera is, however, already there. Exacerbating the general economic pain facing all companies are a unique set of factors that this company has languished under for many years, if not decades.

- We operate in a beautiful but woefully inadequate facility that does not afford the technological efficiency of newer stages.
- Our archipelago existence, split over some eight locations in the city, comes at a huge cost, not only financially but also in how we view ourselves as a family.
- We have a donor model that keeps me up at night—we rely on 12 families for 50% of our contributed income, and the majority of these donors are over 70 years old!
- We are close to maxing out our ticket sales potential—we have a fixed number of nights in the theater, and our top ticket price has already doubled over the last ten years.
- Decades of squeezing every penny into annual operations has left the company severely under-capitalized, with an inadequate endowment and facilities that don't reflect the scope and sophistication of our work.

- Our cost obligations are so fixed from year to year that it's almost impossible to nimbly navigate challenges. It can take years to change the structure, culture and mindset of a behemoth like San Francisco Opera, and by that time it can be too late.

We have a major cash problem. During our last audit, our auditors started talking to us about a “going concern” possibility. “Going concern” is an accounting designation that a company may not have the resources to meet its obligations, and is typically an indication that insolvency is just around the corner. Consequently, we have done the equivalent of borrowing against our equity in the Indiana Street scene shop and warehouse to give us another 18 months of cash. This is serious. This is now.

We have been discussing with a number of our groups over the last year that the “business as usual” model will cripple San Francisco Opera in the next two years if there is not major change. And I mean major. I don't just mean trimming a rehearsal here or there or squeezing line-item budgets. I mean a major re-conceptualization of the company, how we do business, and what our seasons look like. How many productions do we do? Is a summer season viable? What kind of productions can we afford to put on stage? Can we remain an international level company?

As many of you have heard, we have been thinking of solutions to this problem in terms of the so-called “Five Levers” — five major efforts that must all be undertaken *together* if we are to stand a chance of survival. It's not clear whether even these will be enough, but they will all be a part of what we must collectively do over the next few years if San Francisco is to maintain an opera company of stature.

The five levers are:

1. Recapitalization—by borrowing against the equity of our Indiana Street property.
2. Season schedule—we must reduce the season to eight productions beginning in 2012–13.
3. Structural imbalance—this is a broad category, but it cuts to the core of re-conceptualizing the company. We must *all* be prepared to re-envision how this company operates and with what resources. Already we have undertaken cost cutting and efficiency improvement to the tune of at least \$5 million, but there is still much that must be done.
4. Facilities—we must redevelop space offered to us by the War Memorial in the adjacent Veterans Building to bring on campus all functions other than set construction and storage.

Continued on page 11

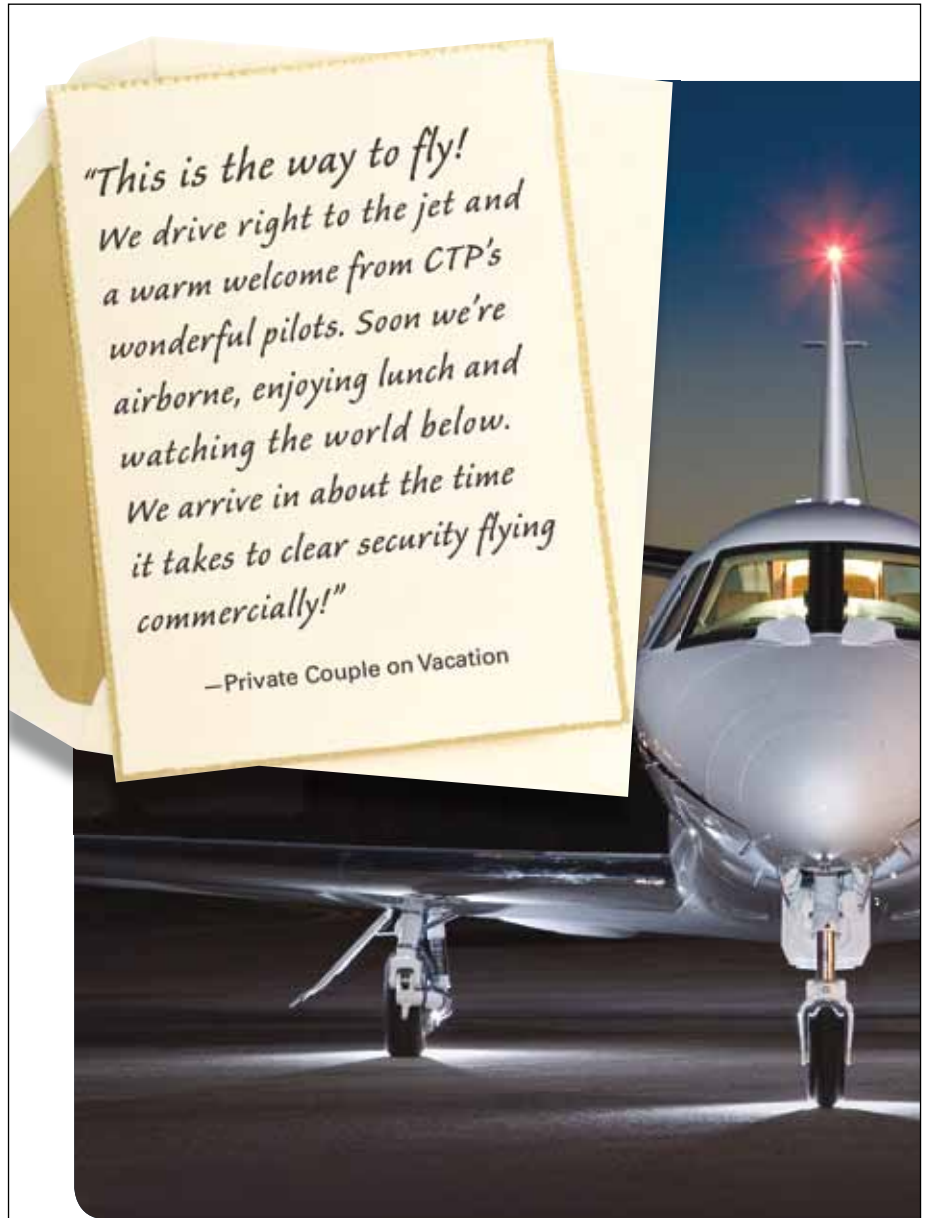
NOTES FROM THE GENERAL DIRECTOR

Continued from page 8

5. Grow the endowment—to four times our operating budget to provide an income stream from investment earnings equal to 20% of our annual budget.

San Francisco Opera has no pre-ordained right to exist. We exist based on the taste and disposition of our audience and donors. Not only is that taste and disposition changing, but it's becoming increasingly expensive to meet. This company has for too long found band aids to keep going—we're like an athlete taking pain medication to mask a pulled muscle. The muscle keeps getting used, and the strain becomes greater and greater, with more and more pain medication necessary. Eventually the medication just can't mask the strain, and the muscle tears.

I don't want to be anything but honest with you, and I want you to know the extent of our challenge right now. But I also want you to know that we're not sitting back applying band aid after band aid. You have a management team committed to finding lasting, meaningful, real solutions, in which the long-term health of this organization and the provision of rewarding jobs are paramount. We can do this, and we can do it maintaining world-class opera in San Francisco, but it is not just a change to be effected by management. It will require each person in this theater to participate and recognize their part in re-thinking San Francisco Opera. It may mean personal sacrifice, it may mean a re-thinking of traditional norms and expectations, it may mean a different kind of company. But ultimately it will mean a future existence for a company that we have all come to rely on, not only for our paychecks, but also our sense of life's purpose. We come together each night the curtain goes up with a collaborative spirit unlike no other imaginable. We have the tools to do this: let's do it, and set the Company up for the future it deserves. 🌟



For many pleasure or personal trips, jet charter is more comfortable, convenient, and efficient than flying commercially. Contact CTP Aviation today for a charter quote on our Citation Encore, Citation XLS+ or Hawker 800XP.



(877) 287-2359
www.ctpaviation.com
Hayward Executive Airport



Reid W. Dennis is President and CEO of CTP Aviation.

© 2010 CTP Aviation, LLC. All rights reserved.