

**Rating Update: MOODY'S AFFIRMS LYRIC OPERA OF CHICAGO'S (IL) A1 ISSUER RATING;
OUTLOOK IS STABLE**

Global Credit Research - 24 Aug 2010

NOT-FOR-PROFIT ORGANIZATION HAS NO RATED DEBT BASED ON UNDERLYING RATING

Not-for-Profit Organization
IL

Opinion

NEW YORK, Aug 24, 2010 -- Moody's Investors Service has affirmed Lyric Opera of Chicago's (IL) A1 issuer rating and stable outlook. The A1 rating is based on Lyric Opera of Chicago's (Lyric's) status as a prominent Chicago cultural institution, favorable operating support despite pressures on ticket sales and cost pressures from union contracts, good fundraising support and good resources and liquidity. The stable outlook reflects expectations for balanced operations from careful budgeting practices, continued growth in financial resources from fundraising success and investment performance, strong investment liquidity providing a good cushion to its variable rate debt and to fund operations, and no additional debt issuance during the next few years.

Lyric has no rated debt based on the underlying rating.

DEBT STRUCTURE AND DEBT-RELATED DERIVATIVES: Currently 94% of the Lyric's debt is variable rate, comprised of the Series 1994 Revenue Bonds issued through the Illinois Development Finance Authority with \$62.2 million outstanding. The bonds are backed by a letter of credit (LOC) from a bank group comprised of Northern Trust Company (rated Aa3/P-1), Harris N.A. (A1/P-1), and JPMorgan Chase Bank, N.A. (rated Aa1/P-1). The terms of the LOC's reimbursement agreement are discussed in "Challenges". To partially hedge the Series 1994 bonds, Lyric entered into an interest rate swap with \$40.0 million notional with Bank of New York Mellon (rated Aaa/P-1). In the swap, Lyric pays 3.804% fixed rate and receives 67% of one month LIBOR. The swap terminates in 2028, the final maturity of the Series 1994 bonds. At 4/30/2010, the swap had a market value of \$6.1 million against Lyric. Lyric is not required to post collateral. We believe that the A1 issuer rating encompasses the exposure to liquidity risk with the variable rate debt and the swap.

STRENGTHS

*Prominent Chicago cultural institution, with favorable trends for attendance and subscription revenues and renewals. Founded in 1954, Lyric is one of the nation's leading opera companies, drawing internationally renowned singers and productions. Lyric's board of directors' membership is comprised of prominent individuals from the region who have shown very strong philanthropic support of the organization.

*Active fundraising reflected in three-year average gift revenues of \$30.8 million for fiscal year (FY) 2008 through 2010, including strong support from high profile board members. Since the 1990s, Lyric has conducted three campaigns, all with strong Board support. In the 1990's, the first campaign successfully raised over \$100 million to fund the renovations of the Opera House. The second campaign ran from 2002-2007 and raised nearly \$54 million, largely in planned gifts to build a future endowment for the company. The "Campaign for Excellence" (CFE) ran from FY 2006 to 2008 to build a reserve for operating support. It raised \$36 million in total, with the intent to permit a controlled annual draw to support operations until the gifts from the second campaign are received.

*Strong governance and management, with good practices of disclosure, financial reporting and a commitment to maintain at least balanced operations through the establishment of reserves to fund future operations. The Board of Directors provides active oversight of Lyric's operations, financial performance, and fundraising activities, including requiring a reduction in budgeted operating expenses for the current FY 2011 (starting 5/1/2010) to meet an expected downturn in revenues from lower subscription and ticket sales and is examining other types of performances that could be provided to enhance revenues. Additionally, the Board of Trustees has conducted major fundraising campaigns to grow endowment funds to provide a strong base to ensure a financially healthy organization over the longer-term.

*Sizeable financial resource base that we expect will continue to grow from good philanthropic support and investment returns. For FY 2010, total financial resources were \$163 million, up from \$126 million in FY 2009 largely due to positive investment performance. Expendable resources were \$140 million and cushion debt by 2.1 times, representing good coverage. \$101 million or 62% of total resources are unrestricted, providing the Lyric considerable flexibility in dealing with fluctuations in its subscription and ticket sales as well as in supporting debt service from reserves. Lyric's investment portfolio is well diversified. At 6/30/10, the portfolio was held in 21% domestic equities, 21% international equities, 12% hedge funds, 25% in absolute return strategies, 6% in other alternatives, 14% in fixed income securities and 2% in cash. Further, the portfolio holds good liquidity; \$101 million of monthly liquidity at 4/30/2010, translating to 162% of variable rate debt (largely all of Lyric's outstanding debt) and 634 monthly days cash on hand (21 months of operations).

*Generally favorable operating performance as calculated by Moody's, assuming a 5% endowment spend rate for the three year average of cash and investments, with a three-year operating margin of 9.6% and annual operating cash flow of 21.7% for FY 2010. Operating performance increased in FY 2010 due to increased contributions including a significant unrestricted bequest, bringing the FY 2010 operating margin to 15.1% compared to 6.8% in FY 2009. Lyric has good budgeting processes, with strong management and board oversight committed to maintain at least balanced operating performance as measured by the organization. The budget is set for a four year period for the established performance seasons, with the schedule of productions changed as necessary to balance anticipated ticket sales and production expenses. Additionally, with its high percentage of tickets sold through subscription, Lyric experiences both good upfront cash flow at the beginning of its season as well as helping the budget planning process. We expect Lyric to continue to produce at least balanced operations and adequate cash flow to meet any debt service needs.

*Manageable outstanding debt with no material identified debt plans for the foreseeable future.

CHALLENGES

*Declining national attendance of opera, coupled with high competition with area cultural institutions and entertainment venues for audience supported ticket sales and philanthropic support. Lyric draws generally from a fifty mile region and has seen a decline in its subscriptions and ticket sales in FY 2010. Generally showing strong attendance trends, the Lyric saw total ticket sales amounting to only 78% of dollar capacity for FY 2010. Based on early projections, fiscal year 2011 sales are projected to improve to 90% of dollar capacity. Subscriptions have remained strong, accounting for about 70% of tickets in FY 2010 and 2011 and with strong renewals at about 80% of subscriptions renewing. Both subscriptions and renewals are significantly higher than national averages for other major U.S. opera companies. However, we note that opera attendees are demographically older than those of other cultural institutions and are aging and that the percentage of the population attending opera performances has consistently declined since 1992. Although Lyric develops its annual programs and refines its pricing strategy in an effort to improve demand for its performances and associated revenue streams, we believe that it faces significant challenges to attendance and ticket sales as the potential audience base declines. Strategies to provide other musical offering can help mitigate this challenge, opening to a younger, interested audience base.

*Unionized employees expose Lyric to frequent contract negotiation issues, including the potential for a strike shutting down all or part of an entire season, resulting in a "dark" performance season and lost revenue. Lyric has only been affected by one "dark" season due to a strike in the late 1960's. Lyric successfully negotiated many of its contracts in recent years.

*Significant variable rate debt exposure, comprised largely of \$62.2 million of Series 1994 variable rate bonds backed by a letter of credit (LOC) from a bank group comprised of Northern Trust Company (rated Aa3/P-1), Harris N.A. (A1/P-1), and JPMorgan Chase Bank, N.A. (rated Aa1/P-1). The LOC terminates on 3/1/2012. The reimbursement agreement contains several covenants or restrictions. Lyric cannot have more than 50% of its investments in alternatives, as defined in the agreement. At 4/30/2010, Lyric held 36% of its investments in alternatives. The second covenant is that Lyric will not have an operating deficit that exceeds 2% of total operating revenues. For FY 2010, Lyric met the covenant with no operating deficit. The third covenant is that Lyric will maintain at least 1.25:1.00 times unrestricted cash and investments to long-term debt, as defined in the Reimbursement Agreement. For FY 2010, Lyric well exceeded the covenant by 2.11 times. The bonds do not amortize but have a bullet maturity in 2028. Lyric intends to use its available investments to pay the bonds at maturities, building resources through investment performance and gifts to provide the resources at the bonds' maturity.

*High reliance on unrestricted operating gifts - 49% of FY 2010 operating revenues as calculated by Moody's - requiring continued strong fundraising momentum and philanthropic support from the board and those with high affinity to opera or Lyric.

Outlook

The stable outlook reflects our expectation that Lyric will continue to produce at least balanced operating performance from careful budgeting practices, continued fundraising success that, with investment performance, will build financial resources. We also expect continued strong investment liquidity that provides a good cushion to its variable rate debt and to fund operations, as well as little additional debt issuance during the next few years.

What Could Change the Rating - UP

Not likely in the near-term given expected attendance challenges that could impact ticket sales and revenues. A major driver for an upgrade would be substantial growth in unrestricted financial resources to deepen the unrestricted resource cushion supporting debt and operations.

What Could Change the Rating - DOWN

Additional borrowing without compensating growth of financial resources; deterioration in operating performance driven by a sustained decline in ticket or subscription sales without commensurate expense reductions.

KEY DATA AND RATIOS (FY 2010 financial results, with 4/30 fiscal year-end)

Unrestricted Financial Resources: \$100.9 million

Expendable Financial Resources: \$140.0 million

Total Financial Resources: \$162.7 million

Total Cash and Investments: \$173.8 million

Total Direct Debt: \$65.7 million

Expendable Resources to Debt: 2.1 times

Expendable Resources to Operations: 2.3 times (years)

Monthly Liquidity: \$100.8 million

Monthly Days Cash on Hand (unrestricted funds available within 1 month divided by operating expenses excluding depreciation, divided by 365 days): 634 days (21 months)

Three Year Average Operating Margin: 9.6%

Operating Cash Flow Margin: 21.7%

CONTACTS

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METHODOLOGY AND LAST RATING ACTION:

The principal methodology used in rating Lyric Opera of Chicago was Moody's Rating Approach for Not for Profit Cultural Institutions published in November, 2004 and available on www.moody.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other

methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

The last rating action for Lyric Opera of Chicago was on September 25, 2007 when an initial A1 issuer rating and stable outlook were assigned. The rating was subsequently recalibrated to A1 on May 7, 2010.

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