Maribeth Hite, Costume Director at the Guthrie Theater Foundation (GTF), sat in her office in the summer of 2003 preparing for the next advisory board meeting of CostumeRentals (CR). A joint venture between two Minneapolis/St. Paul area professional theaters, GTF and the Children’s Theatre Company (CTC), CR drew on the combined costume inventories of the two companies to allow for a nationwide rental business.

A year after the partnership was established, rental volume was growing steadily, but the venture was still running a deficit. Hite knew that the directors of the two partnering theaters were concerned about continuing to fund the venture’s losses, and that they would have to review the benefits that the theaters stood to gain after making it through the startup phase. Hite was proud of the high quality product and personalized service that CR was offering its customers, but was concerned that the deficit was a sign of a flaw in their operations that might be magnified as CR grew. In addition, tight staffing and aging inventory were nagging worries.

The September meeting would be dedicated to discussing CR’s overall strategy going forward. Rolfe Larson, a new board member and seasoned nonprofit consultant, was helping the CR team to define their options for growth, and Hite was confident that he would help CR’s board weigh the pros and cons of all their options. Hite mentally reviewed the recent progress CR had made. Over the past three months, CR’s team had re-evaluated its staffing requirements, created a marketing plan, implemented an inventory control system, and was in the process of setting a new pricing structure. The analysis they conducted for these efforts would help the advisory board plan its strategy to pull CR into the black and increase the benefits flowing back to the parent organizations.

A phone ring interrupted Hite’s musings. It was Nancy Jackson, Costume Director at the Pioneer Shakespeare Theater, an out-of-state company that Hite knew to have high quality costumes. Jackson was searching for a new storage space, and was interested in exploring the option of joining forces with CR. Hite immediately recognized that adding Pioneer’s costumes to CR’s inventory would help CR fill gaps in its selection of popular Elizabethan costumes. Unfortunately, there was very little time to analyze this opportunity as Pioneer needed a warehouse within the next three months. After she got off the phone, Hite turned back to her preparations with renewed urgency. CR’s board would have to make some big decisions at the September meeting.
Formation of CostumeRentals

Hite and Pam Wallize, Costume Director of CTC, hatched the idea for a partnership over lunch in 2000. Although they had differing immediate goals, the idea of combining costumes to create a nationwide rental business appealed to them both.

For Hite, the joint venture promised to expand GTF’s 12-year old costume rental business and generate a larger contribution for her company. GTF had undertaken a huge capital project and Hite knew that the operating budget for her department would be tight. By generating increased revenue, she hoped to augment her resources.

Wallize had a more pressing need. CTC’s storage facility was crumbling and finding new space was increasingly critical. She too faced a tightening budget, and needed to store existing stock for possible future use by the theater. Just saving CTC the cost of storage would be a great benefit, but she was also excited by the prospect of generating a cash contribution for her theater.

Hite and Wallize agreed that, in concept, a partnership between the two theaters would enable both to cover storage costs and generate additional revenue. But, in order to bring about the joint venture, they needed the support of Tom Proehl, Managing Director at GTF, and Teresa Eyring, Managing Director, at CTC. They had to convince each director that an initial investment in the partnership would quickly return quantifiable benefits for each theater.

After the initial meeting, Proehl was skeptical and sent the CostumeRentals team back to the drawing board. After several revisions over six months, a partnership agreement between the two companies was signed in September 2002 and each theater agreed to invest $25,000 in the venture. The agreement created an equal partnership between GTF and CTC and CostumeRentals, LLC emerged as an entity separate from, but in support of, GTF and CTC.

The theaters agreed that the purpose of the partnership was to generate additional revenue from the existing costume inventory and to eliminate storage costs for the partners. The partnership agreement contained provisions for equally sharing profits, funding deficits and providing support for CR (see Exhibit 1). As the growth of CR continued, the partners projected reinvesting 10% of CR’s profits in the new venture with the remaining 90% of profits split equally between the two parent organizations. CR was projected to break even in 2004.

The long-term vision was for CR to be a completely autonomous for-profit entity. However, the short-term realities of starting a business dictated that CR find the most efficient and cost effective means of executing its business plan. The partners agreed that initially CR would receive accounting, human resources and information/technology support through GTF’s administrative offices. GTF would charge CR approximately $3,500 per year for the accounting help but would not charge for the other services. Because CR was subject to the GTF union contract, the team felt that HR issues would be most efficiently solved by GTF’s HR department. In order to set up phone service quickly, CR became part of GTF’s phone system and GTF charged CR about $50 per month for three lines. Both theaters would provide marketing assistance at no additional cost, but the website would be maintained by GTF.

As the business evolved, the players adopted various roles within the group. Hite became the detail person developing the financial reports and monitoring expenses. Wallize maintained the overall vision and kept the group from stalling on short-term problems. Deb Murphy, GTF rentals manager since May 2000 and current CR manager, brought operations and staffing expertise.

In August 2002, CR entered a competition for non-profit ventures sponsored by the Yale School of Management and The Goldman Sachs Foundation. The competition, open to nonprofits seeking to start
or expand successful profit-making ventures, offered the finalists substantial cash prizes and technical assistance. Through each of the three rounds of competition, the CR team honed their business plan, reworked their financials and expanded their vision for the future. When they won the grand prize in May 2003, they received not only a monetary award and the additional help of a consultant, but also feedback about their venture. The most often repeated opinion was that CR was thinking too small. The competition judges felt that with thousands of theaters across the country, the opportunities to expand this business and extend benefits beyond GTF and CTC were tremendous.

Also in August, CR formed an advisory board consisting of Hite, Wallize, Proehl, Eyring and Larson to which Murphy would report. Regular oversight meetings were scheduled and those day-to-day operations, such as billing, that Hite had controlled, passed to Murphy. Each member of the team was confident that CR was poised and ready for expansion, but they had not reached consensus on how to achieve this goal.

Business Analysis: Sales, Inventory, Pricing

The CR team knew they would have to examine both the quantity of costumes that were rented and the prices that they charged for each piece. Murphy collected data for all of the rental transactions from FY 2001 to 2003, and prepared the following analysis of sales, inventory, and pricing. (See Exhibits 4-7.)

Sales

Rental volume from group customers was steadily increasing and had reached approximately 10,500 pieces through 575 transactions in FY 2003. (See Exhibit 5.) For FY 2004, CR was on track to rent out 13,650 pieces. Individual rental revenues were holding steady at approximately $27,000 but the number of pieces had increased to 984 for fiscal year 2003. (See Exhibit 6.) Murphy estimated that approximately 25% of the pieces rented were accessories that had an average rental of $8 per piece. Although individual rentals were important at Halloween, CR did not actively market to individuals during the rest of the year.

Inventory

CR’s inventory of approximately 17,500 costumes was a combination of costumes created by either GTF (65%) or CTC (35%). These costumes were designed for specific productions and built to the measurements of specific actors. The two theaters combined were expected to add about 200 costumes a year to the inventory. In the recent past, only a few costumes had actually been discarded although several per year had been reclassified as “distressed.” With very few exceptions, all of the costumes created by the theaters were stored by CR and available for rent. However, CR did not actually own the inventory; the individual theaters retained official ownership of their costumes.

Because of its lack of control of the inventory, CR managers had to defer to the partner theaters’ costume needs. When GTF or CTC decided to mount a production, the costume designer would tour the CR stock and put a hold on costumes that might be used. This meant that some costumes might be out of rental circulation for several months, posing a problem particularly for high-demand items such as Elizabethan costumes and eighteenth-century dresses.

In addition, wear and tear on these high rental items was taking its toll. Unless the theaters mounted another Elizabethan or eighteenth-century production within the next three years, CR would lose its most popular product. Under the current structure, CR had no way to replace these items and had no influence over the types of costumes produced by the theaters. At costs ranging from $300 for a simple dress to $2,000 for an animal “pod,” replacing CR stock was beyond the scope of the partnership’s current budget.
One option would be to raise prices so that CR could either commission new costumes from the theaters’ costume shops or hire its own stitchers to fill gaps in the inventory.

**Pricing**

Prices for each costume and accessory were assigned by Murphy at the time of rental. Customers were separated into segments each of which had a different price schedule (see below and Exhibit 7). Murphy would use the price schedule for the segment and her knowledge of an individual costume’s construction and quality to determine the final rental price. The price ranges did not include prices for accessories such as hats and shoes which generally rented for $5-$15, but averaged $8 per piece. Prices tended to be in the bottom half of any given range, rarely exceeding the mid-point.

Using the recently collected rental data, Murphy was developing a new pricing structure. Her perception was that even a 50% price increase would not slow the CR’s growth.

**Business Analysis: Customers and Competition**

**Customer Segments**

CR separated its customers into six segments and determined pricing and rental term based on the characteristics of each segment:

| **Educational Institutions** | Schools were CR’s largest customer segment renting 46% of the costumes and generating 35% of CR’s revenue. Clients in this group generally put on two plays per year, one in the fall and one in the spring. Consequently, this segment was a major driver in the spikes in demand for costumes in October and March. Productions generally ran for two to three weeks. Generally, educational institutions did not have the capability to make all the costumes for a given production. |
| **Community Theaters** | Like schools, community theaters showed plays for two to three weeks. However, community theater productions were more evenly spread throughout the year. Like schools, they rarely had the capacity to create all of the costumes they needed, but had tighter costume rental budgets than schools. |
| **Waiver Theaters** | This segment was the poorest and consequently the most price conscious of all the segments. They were also the least demanding of quality. Like community theaters, their shows were spread throughout the year. |
| **Professional Theaters** | Professional theaters demanded the highest quality and also were the hardest on the costumes they rented. Shows tended to run for six or seven weeks and designers were prone to make last minute changes. Generally, customers in this segment gathered costumes from many different sources including their own costume shops and several different rental houses. Professional theaters rarely rented all of the costumes for a production from a single rental house other than Dodger. More typically, the professional theater rented four or five pieces to supplement their own designs. Professional theaters ran almost continuously having up to six shows each year, and spend substantially more on costumes than any of the other theater segments. |
Industrial

This segment referred to various event-related rentals. These customers ranged from those renting for a photo shoot to those wanting costumes for a corporate presentation. The renting institutions were for-profit entities and generally did not need the costumes for longer than a day or two. Because this segment was less price sensitive than the others, CR had been investigating ways to increase the volume from these customers.

Individual

Individual renters came to CR for a variety of reasons, but most could be categorized as: Halloween, school projects, and parties. Like the industrial category, this segment was less price sensitive than the theaters, and individual customers rarely needed the costumes for an extended period.

Competition

As part of the research for its business plan, the CR team studied its competition, but actual pricing information was very difficult to obtain. CR’s biggest competitors, Norcostco, Dodger and A.C.T. required firm indications of rentals before releasing prices. Fortunately, GTF had an upcoming production of Pride and Prejudice for which they were renting about 50% of the costumes. The pricing information that this rental generated indicated that for Regency-style costumes, CR’s pricing was at most half of the competitions’. Moreover, when Hite received the actual costumes, she realized that her perceptions of CR’s superior quality were accurate.

Characteristics of the major competitors were as follows:

<table>
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<tr>
<th>Company</th>
<th>Description</th>
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<tbody>
<tr>
<td>Norcostco</td>
<td>This national chain served two markets – Halloween and school plays. Norcostco had large inventories of mainstream costumes (such as pirates, Spiderman and princesses) and seasonal costumes (such as Santa Claus and the Easter Bunny). Customers were not allowed to browse the racks the way they could at CR. The primary advantage that Norcostco had over CR was the ability to supply an entire production. This was especially useful for customers putting on large productions such as musicals.</td>
</tr>
<tr>
<td>Dodger</td>
<td>Dodger was the largest rental house in New York, often owning the costumes from the original Broadway production of a show. The advantage of this collection to customers was that they could rent costumes designed to work together. Professional theaters were Dodger’s primary market. CR considered Dodger to be its primary national competitor.</td>
</tr>
<tr>
<td>Western Costume</td>
<td>Western provided costumes to the movie and television industries, creating new costumes for its customer’s projects. It occasionally rented to theaters and educational institutions. Western was the most expensive costume provider.</td>
</tr>
<tr>
<td>Local costume houses</td>
<td>Most local costume shops supplied popular costumes like Norcostco and often also supplied makeup, wigs, tights and other accessories. Customers of these shops were generally looking for prepackaged Halloween costumes.</td>
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</table>

Because CR’s reputation was growing in theater circles, as well as in the Minneapolis/St Paul area, Murphy frequently received calls for products CR did not offer. For example, individual renters were interested in such costumes as superheroes, pirates, and fairy godmothers. CR also did not carry accessories such as wigs or tights, which many theater requested. When customers asked for these items...
or mainstream Halloween costumes, Murphy would redirect these requests to a competitor such as Norcostco or Dodger. In addition, she would invite customers to visit CR's warehouse if the customer thought they might be interested in a specific period or genre.

Business Analysis: Operations and Staffing

Because of the diversity of customer needs and the range of customers' willingness to pay, CR faced challenges as it set its marketing approach, its pricing plan and its rental terms. The existing process had evolved from the Guthrie's small rental business and had been adopted to handle CR's recently expanded scope.

Rental Process

Customers, either group or individual, could rent through one of three processes:

<table>
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<tr>
<th>Process</th>
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<tr>
<td><strong>By Fax or Email</strong></td>
<td>Customers could fax or email CR a list of costumes needed, color palettes and measurements of the intended wearers. Then Sarah Bissonette, the Rental Assistant, or Murphy would pull the costumes, pack them for shipping and send them to the customer. This process generally involved conversations back and forth with the customer or sending pictures of possible costumes by email. Occasionally, CR would send several alternative costumes from which the customer could choose. CR passed the full shipping charge along to the customer when the order was invoiced. Customers could choose to have the costumes sent FedEx, UPS or USPS, and where possible, customers were encouraged to charge the shipping directly to their own vendor accounts. Bissonette or Murphy might pull an order on any day, but CR was closed to the public on Mondays to allow them to catch up on outstanding orders. In fiscal 2003, approximately 2800 rented pieces were pulled by either Murphy or Bissonette for shipment to customers. An additional 1650 were pulled, shipped and returned unused. Customers were not charged a rental fee for these costumes “out on approval.” For extraordinarily large orders, Murphy charged a pulling fee of 10% of the total rental cost.</td>
</tr>
<tr>
<td><strong>Browsing with Assistance</strong></td>
<td>Customers could make an appointment to visit CR and receive assistance from Bissonette or Murphy. In these instances, customers relied on Bissonette and Murphy’s styling expertise to create combinations of costumes that were period and palette appropriate for their show. By requiring each customer to make an appointment, CR ensured that either Bissonette or Murphy would be available. Appointments were scheduled Tuesday through Friday from 10:00 am to 4:00 pm with no more than two customers scheduled in any given time slot.</td>
</tr>
<tr>
<td><strong>Browsing without Assistance</strong></td>
<td>Customers, such as costume designers, who knew what they were looking for could make an appointment and browse the warehouse on their own. Bissonette or Murphy would give these customers a brief tour of the facility to help them locate the period or type of costume they needed. Then, they would leave the customers on their own. Periodically, a CR staff member would check in with the customer, but otherwise, the customer would pull all his own costumes.</td>
</tr>
</tbody>
</table>
Although there were different procedures for pulling the costumes depending on whether the customer was long distance, local needing assistance or local not needing assistance, parts of the rental process were the same for all customers. Each rental also included the following:

**Approval period**

It was not unusual for an artistic director and a costume designer for a theatrical production to make changes to the costumes up until opening night. Consequently, CR allowed its customers an “approval period” that started with the date the costumes were sent out and ending on the date of the show’s opening. Customers were allowed to return costumes up until the opening night of the show. Costumes kept beyond opening night were presumed to have been used and customers were charged a fee for those rentals. Costumes that were returned prior to opening night, and consequently not used in the production, did not incur a rental fee.

For very large orders where the majority of the costumes were returned, CR charged an approval fee equal to 25% of the full rental cost. This charge was at the discretion of the manager and was rarely applied unless Murphy perceived that the customer was taking advantage of the system. (Numbers of costumes returned are included in Exhibit 3 as Total Returned.) The advisory board felt that the ability for theaters to have costumes out on approval was a competitive advantage that distinguished CR’s service from that of its competitors.

**Dry cleaning**

Customers were required by the rental agreement to return clean costumes. In some cases, dry cleaning was not possible (for example, foam faced animal costumes must be hand cleaned). In these cases, CR would clean the costumes and charge the customer. For customers who preferred that CR take care of the cleaning, CR charged $15 per costume for the first five costumes and 25% of the total rental fee for more than five costumes. In 2002, CR paid $21,716 for dry cleaning and received $17,344 from group customers and $5,016 from individual customers.

CR contracted with a local dry cleaner to pick up the dirty costumes every Thursday morning and return them the following week when the next batch was collected. Dirty costumes were separated from the returns, placed in bins or on rolling racks and left for pickup.

**Time limit**

The rental period was based on customer segment (see Exhibit 7). Individual renters, businesses and industrial/film customers had the shortest rental period at three days. In practice, this period usually extended to a week. Professional theaters had the longest term at eight weeks because CR wanted to accommodate the longer runs of these theaters’ shows. Educational/Community and Waiver/Showcase theaters generally had shorter runs and were given four-week rental terms. In all cases, customers could negotiate longer rentals if needed. The fee for the longer rentals would be a percentage of the original rental and was determined by Murphy when she granted the extension. Often overdue rentals were not charged a penalty.

**Billing**

Because of the approval period, group customers were not billed until after their opening night. Individuals were charged when they confirmed their order. Over the past year and a half, Murphy had seen a trend, among both group and individual customers, of paying by credit card. She encouraged this method because the revenue could be booked immediately, without her waiting for the customer to respond to an invoice or for a check to clear.
All invoices included the cost of the costumes actually rented, shipping costs, dry cleaning costs and any other extraordinary charges such as damage reimbursements. Payments were recorded as gross sales on Murphy’s monthly accounting statements. The amounts of separate charges were not individually recorded other than on the invoices.

**Staffing**

As of September 2003, CR had two full time staff members, Murphy and Bissonette. Both had experience in costuming and knew the CR stock very well. However, the volume of pulls and restocks strained their capacity. In addition, operations would be severely effected if either staff member were ill or on vacation. To address this strain on the personnel, CR’s board had approved one part-time warehouse assistant for 20 hours per week at $10 per hour and one part-time administrative assistant for 20 hours per week also at $10 per hour. The union contract required that the warehouse assistant would be eligible for benefits, and CR agreed to offer benefits to the administrative assistant (not covered by the union contract) as well. (See Exhibit 8 for payroll estimates.)

GTF’s bargaining unit and its negotiated contract covered all non-management employees of CostumeRentals who touched costumes as part of their regular duties. This connection to GTF limited the flexibility that CR had with regard to hiring and firing employees. As a consequence, CR had to gain union approval before offering the new warehouse assistant position.

Halloween clerks were temporary help added to assist during peak periods. Although the title suggests otherwise, Halloween clerks might be hired at any time during the year to assist with backlogs. The peak periods of October/November and March/April generated the highest expense for temporary help.

**Differing Viewpoints Concerning Expansion**

Prior to the board meeting, Hite informed the board of the opportunity presented by Pioneer’s proposal to store Pioneer’s stock in CR’s warehouse and rent from an integrated inventory. Rolfe Larson outlined CR’s options for growth:

1) Take over control of another theater’s costumes and incorporate them into the CR stock;

2) Bring in another partner or partners as either equal or junior partners;

3) Broker costumes through a database that includes CR’s costumes and the costumes of one or more other theaters;

4) Continue to operate without involvement from additional theaters; and

5) Create a central administrative office that would service several rental operations including the GTF/CTC partnership.

The possibility of expansion elicited a number of differing opinions from each of the board members:

**Hite**

Hite was concerned that the quality of any costumes incorporated into the CR business be up to par of those produced by GTF and CTC. She strongly believed that the value proposition to the customer was high quality costumes at a reasonable price. If CR chose to incorporate inferior costumes, she felt that the brand would erode and CR’s growth would slow. She was fairly certain of the high quality of Pioneer’s costumes, and felt that they would greatly enhance CR’s stock in the popular Elizabethan category.
Murphy

As the manager in charge of the day-to-day operations, Murphy was keenly aware of the logistical and operational challenges of expanding the business to incorporate Pioneer’s stock. The first issue she saw was a lack of space in the warehouse. The current rack system could be expanded but that would involve hanging costumes 20 feet in the air. Although the costumes would be fine, retrieving them would be difficult and in some cases dangerous for the employees.

Another issue was how to integrate the costumes. If they were bar-coded, the costumes could be merged into the existing stock and electronic records would be kept of which ones went out on rental. If Pioneer insisted on keeping their costumes separate, employees and customers would have to look in multiple places to find the costumes they needed.

With the current inventory, Murphy and Bissonette made the call to decommission a costume or to label it distressed. They also pulled costumes for GTF and CTC’s productions. Murphy wasn’t sure how these processes would work with an out-of-town theater. She was also concerned that Pioneer did not understand the amount of wear and tear the costumes would incur from the rental activity.

From her knowledge of Pioneer, Murphy guessed that it would contribute an additional 7,500 costumes. Given that she and Bissonette were already stretched to capacity, she was unclear on how they would manage 30% more costumes and the growth that would potentially go with this expansion.

The major positive that Murphy found in expanding the inventory was that she would have additional, popular costumes to rent. Because the type of costumes Pioneer had were the most popular, she predicted that the new costumes would go out on rental up to six times per year, and her fears of losing customers from stockouts would be lessened.

In addition to the logistical issues, Murphy was excited by the increase in revenues she predicted would arise from her updated pricing structure, and was reluctant to share profits with another entity.

Wallize

As the big picture person, Wallize was particularly aware of the profit picture and its affect on CR’s sustainability. She struggled with two different courses of action.

On one hand, she remembered the point that Professor Nalebuff from the Yale School of Management had made at the competition: a smaller piece of a bigger pie might be better than a larger piece of a smaller pie. By cooperating with Pioneer or partnering with them in some way, the combined effort might generate higher revenues for everybody. She thought that a full integration might not be necessary and that a shared database might help both organizations improve their rental opportunities. Perhaps a compromise between full integration and staying completely separate might work.

On the other hand, she was fully aware that CR was running a deficit. If integrating Pioneer’s costumes required CR to expand into the adjoining warehouse, CR would incur an additional $2,000 per month fee. Even with a new pricing structure and continued growth, she was worried that CR was not on course to break-even. Much as she was excited to expand CR, she did not believe the current economic structure would support the move.

Proehl

Thinking from Pioneer’s point of view, Proehl questioned what kind of benefit another theater would get by joining CR. He could clearly see that CR benefited by having access to additional costumes, marketing channels and customers. He wondered why another theater would want to give up control of their
costumes, move their costumes away from their theater and share potential rental revenue. He suspected that the financial arrangement would not have enticed GTF to rent its costumes through another theater.

Eyring

Eyring agreed whole-heartedly with Proehl but was intrigued by having an additional partner to help share any deficit. She too was concerned about the lack of profit and thought that sharing the risk with a third entity might lessen the negative impact on GTF and CTC.

**Agenda for the Board Meeting**

At the September meeting, the board members would review the data on pricing, inventory and staffing to make recommendations as to new policies for CR. In particular, the board would focus on how the policies affected CR’s eventual profitability. Then, the board would try to reach consensus on their differing views concerning expansion. It promised to be a long meeting.

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1. Dean and Frederic D. Wolfe Professor of Management and Entrepreneurship, Yale School of Management
2. Deputy Dean & Professor in the Practice of Management, Yale School of Management
3. Research Associate, Yale School of Management
4. The theater and staff names have been changed.
Exhibit 1

Excerpts from the Operating Agreement

The Guthrie and CTC desire to establish a relationship to be known as CostumeRentals.

Financial Terms and Conditions:

Initial Set-Up Costs: All set up expenses for the establishment of CostumeRentals and any capital improvements or acquisitions for the property under lease will be approved by the Executive Team. All such costs will be divided equally between the Guthrie and CTC.

The cost of the physical move for each party will be the sole responsibility of said party.

The fiscal year for CostumeRentals will be April 1 through March 31.

Annual Operating Costs and Revenues: All annual operating costs and revenues and any resulting net profits or losses will be divided equally between the Guthrie and CTC for the term of this Agreement. The Executive Team will approve the anticipated budget on an annual basis.

The Guthrie will be responsible for all accounting and billing procedures through the Guthrie’s accounting department. The Executive team will approve an amount billable to CostumeRentals as an operating expense for accounting services provided by the Guthrie.

CTC will pay quarterly operating costs for CostumeRentals to the Guthrie. Expenses will be reconciled between both parties on a quarterly basis (July, October, January, and April). The Guthrie will provide a quarterly detailed statement for CostumeRentals activities to CTC.

Revenue and any net profit or net loss will be reconciled on an annual basis between both parties.

Operations:

All CostumeRentals policies and procedures will be determined by the Rental Team with the approval of the Executive Team. All personnel policies will follow the guidelines of the Guthrie Theater, as the employees of CostumeRentals will, in fact, be employees of the Guthrie Theater.

The initial bar coding of the CostumeRentals stock will be an initial setup cost of CostumeRentals. Additional bar-coding and related supplies will be an expense for and the responsibility of the individual partner.

Marketing, Promotion and Advertising

Signage – Any signage identifying the CostumeRentals facility will include each of the partners’ name and logo in an approved format.

Program Advertising – Each partner will provide ad space for CostumeRentals in their respective performance programs. CostumeRentals will offer a discount rental rate as a benefit to subscribers and/or donors of either organization.

Web Site – The Guthrie and CTC agree that an independent web site will be created for CostumeRentals and each organization will provide a link on their primary website to the CostumeRentals website.

All advertising copy shall be created by the Guthrie marketing department. Approval of a format for standard advertising will be approved in advance by the Guthrie and CTC. All advertising costs will be considered an operating expense of CostumeRentals.
All promotional or press materials for CostumeRentals will include reference to both the Guthrie and CTC when referring to CostumeRentals.

In all aspects of the operations of CostumeRentals by the Guthrie and CTC, cooperation is essential. Accordingly, each party hereto shall use its best effort to coordinate all aspects of the CostumeRentals operations. However, in the event questions as to the interpretation of this agreement arise or problems not covered by this Agreement are encountered, such matters shall be considered and determined by a group of three persons consisting of one each representing or designated by the Boards of Directors of the Guthrie and CTC and the third to be selected jointly by such Guthrie and CTC representatives.
### Exhibit 2 Profit and Loss Statement

**Revenues**

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<th>Apr '02</th>
<th>May '02</th>
<th>Jun '02</th>
<th>Jul '02</th>
<th>Aug '02</th>
<th>Sep '02</th>
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**Expenses**

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<td>$4,467.00</td>
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<td>$4,467.00</td>
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<td>$2,600.00</td>
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<td>Drycleaning</td>
<td>$2,064.38</td>
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<td>$2,064.38</td>
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<td>$471.79</td>
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<td>Postage &amp; Delivery</td>
<td>$2,031.00</td>
<td>$2,031.00</td>
<td>$2,031.00</td>
<td>$2,031.00</td>
<td>$2,031.00</td>
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<td>$2,031.00</td>
<td>$2,031.00</td>
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<td>$2,031.00</td>
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<tr>
<td>Total Expenses</td>
<td>$12,382.70</td>
<td>$15,382.70</td>
<td>$11,698.53</td>
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<td>$17,846.56</td>
<td>$16,749.77</td>
<td>$15,541.49</td>
<td>$21,730.21</td>
<td>$16,564.31</td>
<td>$21,978.58</td>
<td>$20,450.66</td>
<td>$26,176.76</td>
<td>$219,808.63</td>
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</table>

**Profit (Loss)**

<table>
<thead>
<tr>
<th></th>
<th>Apr '02</th>
<th>May '02</th>
<th>Jun '02</th>
<th>Jul '02</th>
<th>Aug '02</th>
<th>Sep '02</th>
<th>Oct '02</th>
<th>Nov '02</th>
<th>Dec '02</th>
<th>Jan '03</th>
<th>Feb '03</th>
<th>Mar '03</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>$3,674.80</td>
<td>$8,704.31</td>
<td>$6,105.48</td>
<td>$(2,853.88)</td>
<td>$(5,671.56)</td>
<td>$(3,422.77)</td>
<td>$791.51</td>
<td>$(11,528.21)</td>
<td>$6,664.69</td>
<td>$(5,259.58)</td>
<td>$(9,840.66)</td>
<td>$(9,785.76)</td>
<td>$(20,493.63)</td>
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</tr>
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</table>

* March '03 payroll includes an incurred expense for vacation and sick time that were earned in FY '03 but carried over to FY '04.
** Utilities fluctuate in part due to the extremes in weather experienced in Minnesota and in part because of anomalies in the billing/posting of these expenses. These expenses are expected to follow a more predictable curve in the future with a peak in November through February. The total listed above is a reasonable prediction of future expense barring any increase in fuel prices.
*** Taxes refers to benefits and unemployment tax.
Exhibit 4  Total Rentals

- **Rental $**
  - Graph showing rental dollars from Apr '01 to Jan '03.
  - Peaks and troughs indicate fluctuations in rental income.

- **# Pieces Rented**
  - Graph showing the number of pieces rented from Apr '01 to Jan '03.
  - Increases and decreases reflect changes in rental activity.

- **# Pieces Returned Unrented**
  - Graph showing the number of pieces returned unrented from Apr '01 to Jan '03.
  - Trends highlight the movement of rented items.

The graphs provide a visual representation of the rental activity and financial performance over the specified period.
### Exhibit 5  Group Rentals, All Segments – By Month

#### Rental $ Total

<table>
<thead>
<tr>
<th></th>
<th>FY 2001</th>
<th>FY 2002</th>
<th>FY 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apr</td>
<td>$2,491</td>
<td>$8,991</td>
<td>$14,165</td>
</tr>
<tr>
<td>May</td>
<td>$2,584</td>
<td>$3,030</td>
<td>$9,641</td>
</tr>
<tr>
<td>Jun</td>
<td>$4,523</td>
<td>$7,505</td>
<td>$8,263</td>
</tr>
<tr>
<td>Jul</td>
<td>$3,569</td>
<td>$3,106</td>
<td>$4,266</td>
</tr>
<tr>
<td>Aug</td>
<td>$5,467</td>
<td>$5,154</td>
<td>$7,023</td>
</tr>
<tr>
<td>Sep</td>
<td>$3,603</td>
<td>$6,582</td>
<td>$12,663</td>
</tr>
<tr>
<td>Oct</td>
<td>$8,010</td>
<td>$13,913</td>
<td>$16,458</td>
</tr>
<tr>
<td>Nov</td>
<td>$7,645</td>
<td>$9,191</td>
<td>$12,661</td>
</tr>
<tr>
<td>Dec</td>
<td>$3,413</td>
<td>$1,924</td>
<td>$8,570</td>
</tr>
<tr>
<td>Jan</td>
<td>$5,864</td>
<td>$5,932</td>
<td>$12,847</td>
</tr>
<tr>
<td>Feb</td>
<td>$7,822</td>
<td>$6,884</td>
<td>$14,737</td>
</tr>
<tr>
<td>Mar</td>
<td>$7,619</td>
<td>$11,352</td>
<td>$26,340</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$62,674</td>
<td>$83,342</td>
<td>$147,794</td>
</tr>
<tr>
<td><strong>Avg/Mo</strong></td>
<td>$5,223</td>
<td>$6,945</td>
<td>$12,316</td>
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</table>

#### # Pieces Rented

<table>
<thead>
<tr>
<th></th>
<th>FY 2001</th>
<th>FY 2002</th>
<th>FY 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apr</td>
<td>268</td>
<td>595</td>
<td>1018</td>
</tr>
<tr>
<td>May</td>
<td>221</td>
<td>230</td>
<td>632</td>
</tr>
<tr>
<td>Jun</td>
<td>277</td>
<td>435</td>
<td>565</td>
</tr>
<tr>
<td>Jul</td>
<td>188</td>
<td>330</td>
<td>324</td>
</tr>
<tr>
<td>Aug</td>
<td>288</td>
<td>307</td>
<td>543</td>
</tr>
<tr>
<td>Sep</td>
<td>256</td>
<td>452</td>
<td>895</td>
</tr>
<tr>
<td>Oct</td>
<td>303</td>
<td>1043</td>
<td>1272</td>
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<tr>
<td>Nov</td>
<td>322</td>
<td>736</td>
<td>867</td>
</tr>
<tr>
<td>Dec</td>
<td>95</td>
<td>190</td>
<td>520</td>
</tr>
<tr>
<td>Jan</td>
<td>371</td>
<td>464</td>
<td>974</td>
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<tr>
<td>Feb</td>
<td>572</td>
<td>595</td>
<td>956</td>
</tr>
<tr>
<td>Mar</td>
<td>521</td>
<td>886</td>
<td>1998</td>
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<tr>
<td><strong>Total</strong></td>
<td>4,098</td>
<td>6,292</td>
<td>10,526</td>
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<tr>
<td><strong>Avg/Mo</strong></td>
<td>342</td>
<td>524</td>
<td>877</td>
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</tbody>
</table>

#### # Pieces Returned Unrented

<table>
<thead>
<tr>
<th></th>
<th>FY 2001</th>
<th>FY 2002</th>
<th>FY 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apr</td>
<td>78</td>
<td>302</td>
<td>666</td>
</tr>
<tr>
<td>May</td>
<td>25</td>
<td>199</td>
<td>236</td>
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<tr>
<td>Jun</td>
<td>153</td>
<td>258</td>
<td>176</td>
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<tr>
<td>Jul</td>
<td>61</td>
<td>181</td>
<td>103</td>
</tr>
<tr>
<td>Aug</td>
<td>73</td>
<td>288</td>
<td>346</td>
</tr>
<tr>
<td>Sep</td>
<td>209</td>
<td>311</td>
<td>422</td>
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<tr>
<td>Oct</td>
<td>464</td>
<td>522</td>
<td>490</td>
</tr>
<tr>
<td>Nov</td>
<td>183</td>
<td>520</td>
<td>346</td>
</tr>
<tr>
<td>Dec</td>
<td>56</td>
<td>51</td>
<td>347</td>
</tr>
<tr>
<td>Jan</td>
<td>236</td>
<td>289</td>
<td>468</td>
</tr>
<tr>
<td>Feb</td>
<td>306</td>
<td>140</td>
<td>534</td>
</tr>
<tr>
<td>Mar</td>
<td>281</td>
<td>409</td>
<td>881</td>
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<tr>
<td><strong>Total</strong></td>
<td>1,904</td>
<td>3,480</td>
<td>4,944</td>
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<tr>
<td><strong>Avg/Mo</strong></td>
<td>159</td>
<td>291</td>
<td>412</td>
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Exhibit 6  Rentals to Individuals

<table>
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<tr>
<th>Summary</th>
<th>00</th>
<th>01</th>
<th>02</th>
<th>03</th>
</tr>
</thead>
<tbody>
<tr>
<td># Customers</td>
<td>58</td>
<td>395</td>
<td>373</td>
<td>398</td>
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<tr>
<td># Pieces</td>
<td>176</td>
<td>766</td>
<td>820</td>
<td>984</td>
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<tr>
<td>Rental $</td>
<td>$2,901</td>
<td>$31,324</td>
<td>$26,858</td>
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Rental $ - Individuals

# Pieces Rented - Individuals
### Exhibit 7  Current Pricing Structure

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<th>Category</th>
<th>Range Limits</th>
<th>Rental Term</th>
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<tr>
<td>Educational/Community</td>
<td>15 - 50</td>
<td>4 weeks</td>
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<tr>
<td>Waiver/Showcase</td>
<td>20 - 60</td>
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</tr>
<tr>
<td>Professional</td>
<td>50 - 150</td>
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<tr>
<td>Industrial/Film</td>
<td>60 - 200</td>
<td>3 days</td>
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<tr>
<td>Event/Business</td>
<td>40 - 225</td>
<td>3 days</td>
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<tr>
<td>Individual</td>
<td>40 - 225</td>
<td>3 days</td>
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</table>

### Exhibit 8  Projected Payroll Expenses

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<th></th>
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<th>Rental Ass't</th>
<th>Halloween Clerk</th>
<th>Warehouse Ass't</th>
<th>Admin Ass't</th>
<th>Total</th>
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</thead>
<tbody>
<tr>
<td>April '03</td>
<td>$3,643.50</td>
<td>$3,438.93</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
<td>$7,082.43</td>
</tr>
<tr>
<td>May '03</td>
<td>$3,643.50</td>
<td>$3,438.93</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
<td>$7,082.43</td>
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<tr>
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<td>$3,438.93</td>
<td>$752</td>
<td>$-</td>
<td>$-</td>
<td>$7,834.43</td>
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<td>$3,438.93</td>
<td>$221</td>
<td>$-</td>
<td>$-</td>
<td>$7,303.43</td>
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<td>$3,643.50</td>
<td>$3,438.93</td>
<td>$481</td>
<td>$-</td>
<td>$-</td>
<td>$7,563.43</td>
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<td>$9,801.10</td>
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<td>$12,801.10</td>
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<td>November '03</td>
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<td>$12,801.10</td>
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<td>$9,801.10</td>
</tr>
<tr>
<td>April '04</td>
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<td>$1,109.33</td>
<td>$1,109.33</td>
<td>$9,801.10</td>
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<tr>
<td>May '04</td>
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<td>$500.00</td>
<td>$1,109.33</td>
<td>$1,109.33</td>
<td>$9,801.10</td>
</tr>
<tr>
<td>June '04</td>
<td>$3,643.50</td>
<td>$3,438.93</td>
<td>$500.00</td>
<td>$1,109.33</td>
<td>$1,109.33</td>
<td>$9,801.10</td>
</tr>
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<td>July '04</td>
<td>$3,643.50</td>
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<td>$500.00</td>
<td>$1,109.33</td>
<td>$1,109.33</td>
<td>$9,801.10</td>
</tr>
<tr>
<td>August '04</td>
<td>$3,643.50</td>
<td>$3,438.93</td>
<td>$500.00</td>
<td>$1,109.33</td>
<td>$1,109.33</td>
<td>$9,801.10</td>
</tr>
<tr>
<td>FY 2003 Total</td>
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<td>$7,765.33</td>
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<tr>
<td>Total - 12 months out</td>
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<td>$9,900.00</td>
<td>$13,312.00</td>
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<td>$121,513.16</td>
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*Full time positions include a 28% benefits charge*