

RENAISSANCE ENTERTAINMENT CORP  
Form 10QSB  
November 14, 2003

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-QSB**

**ý Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.**

**For the quarterly period ended September 30, 2003**

**or**

**o Transition Report Pursuance to Section 13 or 15(d) of the Securities Exchange act of 1934.**

**For the transition period from            to**

**Commission File Number 0-23782**

**RENAISSANCE ENTERTAINMENT CORPORATION**

(Exact name of registrant as specified in its charter)

**Colorado**

(State or other jurisdiction of  
incorporation or organization)

**84-1094630**

(I.R.S. Employer  
Identification No.)

**275 Century Circle, Suite 102, Louisville, Colorado**

(Address of principal executive offices)

**80027**

(Zip Code)

**(303) 664-0300**

(Registrant s telephone number, including area code)

(Former Address)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

APPLICABLE ONLY TO CORPORATE ISSUERS:

As of November 14, 2003, Registrant had 2,144,889 shares of common stock, \$.03 Par Value, outstanding.

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This report contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended, and is subject to the safe harbors created by those sections. These forward-looking statements are subject to significant risks and uncertainties, including those identified in the section of this Form 10-QSB entitled "Factors That May Affect Future Operating Results," which may cause actual results to differ materially from those discussed in such forward-looking statements. The forward-looking statements within this Form 10-QSB are identified by words such as "believes," "anticipates," "expects," "intends," "may," "will" and other similar expressions. However, these words are not the exclusive means of identifying such statements. In addition, any statements which refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements. The Company undertakes no obligation to publicly release the results of any revisions to these forward-looking statements which may be made to reflect events or circumstances occurring subsequent to the filing of this Form 10-QSB with the Securities and Exchange Commission ("SEC"). Readers are urged to carefully review and consider the various disclosures made by the Company in this report and in the Company's other reports filed with the SEC that attempt to advise interested parties of the risks and factors that may affect the Company's business.

## Part I

## Financial Information

Item 1 RENAISSANCE ENTERTAINMENT CORPORATION  
BALANCE SHEETS

|   | September 30,<br>2003<br>(Unaudited) | December 31,<br>2002 |
|---|--------------------------------------|----------------------|
| <b>ASSETS</b>   |                                      |                      |
| Current Assets:   |                                      |                      |
| Cash and equivalents  | \$ 1,595,676                         | \$ 642,061           |
| Accounts receivable (net)   | 179,915                              | 23,530               |
| Inventory   | 173,575                              | 160,500              |
| Note receivable, current portion  | 0                                    | 90,862               |
| Prepaid expenses and other  | 774,313                              | 275,520              |
| Total Current Assets  | 2,723,479                            | 1,192,473            |
| Property and equipment, net of accumulated depreciation   | 2,835,342                            | 2,874,954            |
| Investments   | 32,171                               | 0                    |
| Other assets  | 386,831                              | 382,617              |
| <b>TOTAL ASSETS</b>   | <b>\$ 5,977,823</b>                  | <b>\$ 4,450,044</b>  |
| <b>LIABILITIES AND STOCKHOLDERS (DEFICIT)</b>   |                                      |                      |
| Current Liabilities:  |                                      |                      |
| Accounts payable and accrued expenses   | \$ 1,010,772                         | \$ 369,466           |
| Notes payable, current portion  | 404,942                              | 414,738              |
| Lease obligation payable, current portion   | 45,067                               | 9,220                |
| Unearned income   | 719,586                              | 447,746              |
| Total Current Liabilities   | 2,180,367                            | 1,241,170            |
| Lease obligation payable  | 3,932,983                            | 3,969,582            |
| Notes payable, net of current portion   | 3,940                                | 13,055               |
| Other   | 194,172                              | 166,844              |
| Total Liabilities   | 6,311,462                            | 5,390,651            |
| Stockholders (Deficit):   |                                      |                      |
| Preferred stock, \$1.00 par value, 1,000,000 shares authorized, none issued and outstanding           |                                      |                      |
| Common stock, \$.03 par value, 50,000,000 shares authorized, 2,144,889 shares issued and outstanding. | 64,346                               | 64,346               |
| Additional paid-in capital  | 9,435,827                            | 9,435,827            |
| Accumulated (deficit)   | (9,833,812)                          | (10,440,780)         |
| Total Stockholders (Deficit)  | (333,639)                            | (940,607)            |

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|  |    |           |    |           |
|--|----|-----------|----|-----------|
| TOTAL LIABILITIES AND STOCKHOLDERS (DEFICIT) | \$ | 5,977,823 | \$ | 4,450,044 |
|--|----|-----------|----|-----------|

The accompanying notes are an integral part of the financial statements.

## RENAISSANCE ENTERTAINMENT CORPORATION

## STATEMENTS OF OPERATIONS

(Unaudited)

|  | Three Months Ended<br>September 30 |              |
|--|------------------------------------|--------------|
|  | 2003                               | 2002         |
| <b>REVENUE:</b>                                      |                                    |              |
| Sales  | \$ 6,141,642                       | \$ 6,096,924 |
| Faire operating costs                                | 1,729,192                          | 1,816,718    |
| Gross Profit   | 4,412,450                          | 4,280,206    |
| <b>OPERATING EXPENSES:</b>                           |                                    |              |
| Salaries   | 1,285,459                          | 1,255,548    |
| Depreciation and amortization                        | 92,408                             | 85,326       |
| Advertising  | 873,050                            | 840,622      |
| Other operating expenses                             | 1,175,130                          | 1,105,885    |
| Total Operating Expenses                             | 3,426,047                          | 3,287,381    |
| Net Operating Income                                 | 986,403                            | 992,825      |
| <b>Other Income (Expenses):</b>                      |                                    |              |
| Interest income                                      | 4,036                              | 9,712        |
| Interest (expense)                                   | (137,261)                          | (130,296)    |
| Other income   | 13,988                             | 7,462        |
| Total Other Income (Expenses)                        | (119,237)                          | (113,122)    |
| Net Income before (Provision)                        |                                    |              |
| Credit for Income Taxes                              | 867,166                            | 879,703      |
| (Provision) Credit for Income Taxes                  |                                    |              |
| Net Income to Common Stockholders                    | \$ 867,166                         | \$ 879,703   |
| Net Income per Common Share                          | \$ 0.40                            | \$ 0.41      |
| Weighted Average Number of Common Shares Outstanding | 2,144,889                          | 2,144,889    |

The accompanying notes are an integral part of the financial statements.

## RENAISSANCE ENTERTAINMENT CORPORATION

## STATEMENTS OF OPERATIONS

|  | Nine Months Ended<br>September 30 |            |
|--|-----------------------------------|------------|
|  | 2003                              | 2002       |
| <b>REVENUE:</b>                                      |                                   |            |
| Sales  | 10,827,868                        | 9,884,722  |
| Faire operating costs                                | 2,661,408                         | 2,697,997  |
| Gross Profit   | 8,166,460                         | 7,186,725  |
| <b>OPERATING EXPENSES:</b>                           |                                   |            |
| Salaries   | 2,940,242                         | 2,597,308  |
| Depreciation and amortization                        | 264,835                           | 230,047    |
| Advertising  | 1,323,779                         | 1,313,214  |
| Other operating expenses                             | 2,724,395                         | 2,315,255  |
| Total Operating Expenses                             | 7,253,251                         | 6,455,824  |
| Net Operating Income                                 | 913,209                           | 730,901    |
| <b>Other Income (Expenses):</b>                      |                                   |            |
| Interest income                                      | 20,199                            | 28,428     |
| Interest (expense)                                   | (402,423)                         | (392,914)  |
| Other income   | 75,983                            | 47,760     |
| Total Other Income (Expenses)                        | (306,241)                         | (316,726)  |
| Net Income before (Provision)                        |                                   |            |
| Credit for Income Taxes                              | \$ 606,968                        | 414,175    |
| (Provision) Credit for Income Taxes                  |                                   |            |
| Net Income to Common Stockholders                    | \$ 606,968                        | \$ 414,175 |
| Net Income per Common Share                          | \$ 0.28                           | \$ 0.19    |
| Weighted Average Number of Common Shares Outstanding | 2,144,889                         | 2,144,889  |

The accompanying notes are an integral part of the financial statements



## RENAISSANCE ENTERTAINMENT CORPORATION

## STATEMENTS OF CASH FLOWS (Unaudited)

|   | Nine Months ended<br>September 30 |              |
|---|-----------------------------------|--------------|
|   | 2003                              | 2002         |
| <b>Cash Flows from Operating Activities:</b>                                      |                                   |              |
| Net income  | \$ 606,968                        | \$ 414,175   |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                   |              |
| Depreciation and amortization   | 264,835                           | 230,047      |
| (Increase) decrease in:   |                                   |              |
| Accounts Receivable   | (156,385)                         | (30,602)     |
| Notes Receivable  | 90,862                            | 28,194       |
| Inventory   | (13,075)                          | (79,903)     |
| Prepaid expenses and other  | (503,007)                         | (520,247)    |
| Increase (decrease) in:   |                                   |              |
| Accounts payable and accrued expenses   | 641,306                           | 232,207      |
| Unearned revenue and other  | 299,168                           | 646,451      |
| Total adjustments   | 623,704                           | 506,147      |
| Net Cash Provided by Operating Activities   | 1,230,672                         | 920,322      |
| <b>Cash Flows from Investing Activities:</b>                                      |                                   |              |
| (Increase) in cash value of life insurance  | (32,171)                          | 0            |
| Acquisition of property and equipment   | (225,222)                         | (484,471)    |
| Net Cash (Used in) Investing Activities   | (257,393)                         | (484,471)    |
| <b>Cash Flows from Financing Activities:</b>                                      |                                   |              |
| Proceeds from notes payable   | 270,000                           | 101,250      |
| Principal payments on notes payable   | (289,664)                         | (19,148)     |
| Net Cash Provided by (Used in) Financing Activities                               | (19,664)                          | 82,102       |
| Net Increase in Cash  | 953,615                           | 517,953      |
| Cash, beginning of period   | 642,061                           | 834,257      |
| Cash, end of period   | \$ 1,595,676                      | \$ 1,352,210 |
| Interest paid   | \$ (402,423)                      | \$ (392,914) |

The accompanying notes are an integral part of the financial statements.

RENAISSANCE ENTERTAINMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

September 30, 2003 (Unaudited)

1. Unaudited Statements

The balance sheet as of September 30, 2003, the statements of operations and the statements of cash flows for the nine month periods ended September 30, 2003 and 2002, have been prepared by Renaissance Entertainment Corporation (Company) without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures, normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted as allowed by such rules and regulations, and the Company believes that the disclosures are adequate to make the information presented not misleading. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to fairly present the financial position, results of operations and changes in financial position at September 30, 2003 and for all periods presented, have been made.

It is suggested that these statements be read in conjunction with the December 31, 2002 audited financial statements and the accompanying notes included in the Company's Annual Report on Form 10-KSB, filed with the Securities and Exchange Commission.

2. Calculation of Earnings (Loss) Per Share

The earnings (loss) per share is calculated by dividing the net income (loss) to common stockholders by the weighted average number of common shares outstanding.

3. Basis of Presentation - Going Concern

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles, which contemplates continuation of the Company as a going concern. Since 1998, the Company's financial statements have contained a going concern clause. The Company has suffered recurring losses from operations, has a negative stockholders' equity and a working capital deficit that raise substantial doubts about its ability to continue as a going concern. Management is attempting to raise additional capital.

In view of these matters, realization of certain assets in the accompanying balance sheet is dependent upon continued operations of the Company which, in turn, is dependent upon the Company's ability to meet its financial requirements, raise additional capital as needed, and the success of its future operations.

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Management believes that its ability to raise additional capital provides an opportunity for the Company to continue as a going concern. Refer to Note 4, Subsequent Event .

### 4. Subsequent Event

October 22, 2003, the Company issued a press release disclosing the permanent closure of its Northern California Renaissance Faire in Gilroy, California. The Company cites a decline in attendance and resulting revenue as the reason for closing this event that has been held in the San Francisco Bay area for the past 36 years.

October 23, 2003, the Company filed a Form 8-K with the SEC. The Company reported a significant revenue shortfall in 2003 as a result of a decrease in attendance at its Southern and Northern California and New York Faires. Further, the Company disclosed its concern that cash reserves would not be sufficient to meet its cash requirements for the balance of 2003, including \$337,500 in debt obligations due in November, 2003. The Company is

currently reviewing a number of options to satisfy the operating capital and debt requirements going forward.

5. Commitment

With the permanent closure of the Northern California Faire, management is attempting to negotiate with the landlord, final cash requirements to terminate this lease. The Company's lease has an exit clause at the end of 2004. As a result, the Company may be responsible for approximately \$150,000 in rental payments for calendar year 2004. In addition, the lease requires the Company to complete certain capital projects over its term. The Company estimates it could also be responsible for approximately \$175,000 in capital improvements as a result of the termination of this lease. A contingency exists with respect to this matter, the ultimate resolution of which cannot presently be determined.

6. Notes Payable

During the first four months of fiscal 2003, the Company raised short-term capital in the amount of \$220,000 through the issuance of 12% unsubordinated promissory notes. The funds were provided by the CEO and Chairman of the Board of Directors (\$70,000), Officer and Board Director (\$100,000), and another Board Director (\$50,000). Of the total outstanding, \$120,000 was retired in June and \$100,000 in July of 2003.

In July, 2003, the CEO and Chairman of the Board of Directors (Lender) extended the Company a line of credit in the amount of \$220,000 under the same terms and conditions of the Lender's loan agreement with the bank. Generally, the interest rate is indexed to the highest prime rate on the bank's first business day of the calendar week, with a 1% spread over index and the line matures annually on the anniversary date of the loan. As of September 30, 2003, the Company had drawn \$50,000 on this line of credit.

Item 2

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**General**

The following discussion should be read in conjunction with the Company's Consolidated Financial Statements, including the footnotes for the fiscal year ended December 31, 2002.

During the 2003 Faire season, the Company owned and produced four Renaissance Faires: the Bristol Renaissance Faire in Kenosha, Wisconsin, serving the Chicago/Milwaukee metropolitan region; the Northern California Renaissance Pleasure Faire, serving the San Francisco Bay and San Jose metropolitan areas; the Southern California Renaissance Pleasure Faire in Devore, California serving the greater Los Angeles metropolitan area; and the New York Renaissance Faire serving the New York City metropolitan area.

On May 3, 2002, the Company signed a long-term lease for the Northern California Faire. The new site for the Northern Faire is located at Casa de Fruta, near Gilroy, California. The lease is for 20 years, 5-years with a 15-year extension. Lease payments in the first year include \$1.00 per patron, with a \$150,000 minimum and increasing each year thereafter. On October 22, 2003, the Company issued a press release disclosing the permanent closure of its Northern California Renaissance Faire in Gilroy, California, due to a significant decline in attendance and resulting revenue.

The Renaissance Faire is a re-creation of a Renaissance village, a fantasy experience transporting the visitor back into sixteenth century England. This fantasy experience is created through authentic craft shops, food vendors and continuous live entertainment throughout the day, both on the street and the stage, including actors, jugglers, jousters, magicians, dancers and musicians.

On April 1, 2002, Faire Partners, Ltd., the Company's landlord for the Wisconsin site, purchased property in New York from Sterling Forest Corporation. The property has long been the home of the New York Renaissance Faire. In April 2002, Faire Partners Ltd. leased the property to the Company for a twenty-year term with rent payments of \$425,000 in years 1 through 5, \$435,000 for years 6 through 15 and \$450,000 for lease years 16 through 20. The lease allows Faire Partners to sell part of the leased property. Should Faire Partners sell any property, the lease provides that the Company's rent payments and the buyout provision would be decreased in an amount proportional to the selling price of the property.

The leased property in New York includes a site for a Ski Center that the Company chose to begin operating in 2002. The Company began operation of the Ski Center in April, 2002, incurring nine months operating expense during the 2002 fiscal year. The Ski Center opened its season in December, 2002, generating revenue into the month of March, 2003. The Company's nine-month income statement results for 2003 are not comparable to 2002 because the Company did not commence operation of the Ski Center until April, 2002. An explanation of the differences created by the partial operating season of the Ski Center in 2002 is disclosed in the accompanying section titled *Nine Months Ended September 30, 2003 Compared to Nine Months Ended September 30, 2002*.

The Company had a working capital surplus of \$543,112 as of September 30, 2003. On October 23, 2003, the Company filed a Form 8-K with the SEC. The Company reported a significant revenue shortfall in 2003 as a result of a decrease in attendance at its Southern and Northern California and New York Faires. Further, the Company disclosed its concern that cash reserves would not be sufficient to meet its cash requirements for the balance of 2003, including \$337,500 in debt obligations due in November, 2003. The Company believes it needs to raise approximately \$500,000 to \$750,000 in additional capital to satisfy the operating capital and debt requirements going forward to the opening of the Southern California Faire in 2004. See *Liquidity and Capital Resources*.

### **Three Months Ended September 30, 2003, Compared to Three Months Ended September 30, 2002**

The Northern California Renaissance Faire operated four weekends in September 2003 and three weekends in September, 2002. In spite of the additional weekend of operation of the Northern California Faire in the third quarter of 2003, revenues increased less than 1% or \$44,718 from \$6,096,924 in 2002 to \$6,141,642 in 2003. A decline in attendance at the Company's Northern California and New York Faires is the major reason for lower than expected revenues for the third quarter. Attendance at the Northern California Faire declined 37% and New York decreased 11% as compared to the same period in 2002.

Cost of sales decreased \$87,526 or 5% from \$1,816,718 in 2002 to \$1,729,192 in 2003. This decrease is largely attributable to cost savings and lower cost of goods attributable to a decline in attendance levels in 2003.

Total operating expenses (year-round operating costs and corporate overhead) increased \$138,666 or 4%, from \$3,287,381 in 2002 to \$3,426,047 in 2003. Of the operating expenses, salaries increased



2%, from \$1,255,548 in 2002 to 1,285,459 in 2003 reflecting a \$29,911 increase for the 2003 period as compared to the 2002 period. Advertising expense showed an increase of \$32,428 or 4%, from \$840,622 in 2002 to \$873,050 in 2003. Both salaries and advertising expense increased as a result of the additional weekend of operation of the Company's Northern California Faire in September, 2003 as compared to 2002. Depreciation and amortization increased 8%, from \$85,326 in 2002 to \$92,408 in 2003. Other operating expenses (all other general and administrative expenses of the Company) increased \$69,245 or 6%, from \$1,105,885 in 2002 to \$1,175,130 in 2003. The change in other operating expenses is due to an increase at the Ski Center of approximately \$80,000 in other operating expense for the third quarter 2003 as compared to 2002.

As a result of the foregoing, net operating income (before interest charges and other income) decreased \$6,422 or 1%, from \$992,825 for the 2002 period to \$986,403 for the 2003 period.

Interest expense increased \$6,965 or 5%, from \$130,296 in 2002 to \$137,261 in 2003. Other income increased \$6,526 from \$7,462 in 2002 to \$13,988 in 2003. Interest income decreased \$5,676, from \$9,712 in 2002 to \$4,036 in 2003.

Combining net operating income with other income/expense resulted in a \$12,537 decrease in net income before taxes, from income of \$879,703 for the 2002 period to income of \$867,166 for the 2003 period.

Net income to common stockholders also decreased \$12,537, from \$879,703 for the 2002 period to \$867,166 for the 2003 period. Finally, net income per common share decreased from \$0.41 for the 2002 period to \$0.40 for the 2003 period, based on 2,144,889 weighted average shares outstanding in both years.

#### **Nine Months Ended September 30, 2003 Compared to Nine Months Ended September 30, 2002**

Revenues increased \$943,146 or 10% from \$9,884,722 in 2002 to \$10,827,868 in 2003. The Ski Center revenue for the first nine months of 2003 was approximately \$1.1 million. This additional revenue was offset by lower than expected revenue and attendance at three of the Company's four Renaissance Faires. Attendance at the Southern California Faire dropped 12%, Northern California Faire declined 37% and New York decreased 11% as compared to the same period in 2002.

Cost of sales decreased \$36,589 or 1% from \$2,697,997 in 2002 to \$2,661,408 in 2003. The Ski Center cost of sales was approximately \$100,000 for this time period. This decrease is largely attributable to cost savings and lower cost of goods attributable to a decline in attendance levels in 2003.

Total operating expenses (year-round operating costs and corporate overhead) increased \$797,427 or 12%, from \$6,455,824 in 2002 to \$7,253,251 in 2003. Of the operating expenses, salary expense increased \$342,934 or 13% from \$2,597,308 in 2002 to \$2,940,242 in 2003. Salary expense for the Ski Center was \$405,808 for the first nine-months of 2003. Advertising expense showed an increase of \$10,565 or 1%, from \$1,313,214 in 2002 to \$1,323,779 in 2003 of which \$40,000 is attributable to the Ski Center. Depreciation increased 15%, from \$230,047 in 2002 to \$264,835 in 2003. Other operating expenses (all other general and administrative expenses of the Company) increased \$409,140 or 18%, from \$2,315,255 in 2002 to \$2,724,395 in 2003. For the nine months ended September 30, 2003, other operating expenses for the Ski



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Center totaled approximately \$320,000. The remainder of the difference in other operating expenses is due to increase in insurance expense (approximately \$90,000).

As a result of the foregoing, net operating income (before interest charges and other income) increased 25% from \$730,901 for the 2002 period to \$913,209 for the 2003 period.

Interest expense increased \$9,509 or 2%, from \$392,914 in 2002 to \$402,423 in 2003. Other income increased \$28,223, from \$47,760 in 2002 to \$75,983 in 2003. Interest income decreased \$8,229, from \$28,428 in 2002 to \$20,199 in 2003.

Combining net operating income with other income/expense resulted in a \$192,793 increase in net income before taxes, from \$414,175 for the 2002 period to \$606,968 for the 2003 period.

Net income to common stockholders also increased, from \$414,175 for the 2002 period to \$606,968 for the 2003 period. Finally, net income per common share increased from \$0.19 for the 2002 period to \$0.28 for the 2003 period, based on 2,144,889 weighted average shares outstanding in both years.

### **Liquidity and Capital Resources**

The Company's working capital surplus widened during the nine-months ended September 30, 2003, from a deficit of (\$48,697) at December 31, 2002 to a surplus of \$543,112 at September 30, 2003. The Company's working capital requirements are greatest during the period from January 1 through May 1, when it is incurring start-up expenses for its first Faire of the season, the Southern California Faire.

During the first four months of fiscal 2002, the Company raised capital in the amount of \$100,000 through the issuance of 12% subordinated promissory notes. The funds were provided by Charles S. Leavell, Chairman of the Board of Directors (\$50,000), and a party affiliated with the Chairman of the Board. The notes were issued in units, each unit consisting of two promissory notes of equal principal, identical in nature except that one note is convertible to common stock at a price of \$0.30 per share. Interest is due and payable quarterly and the notes were initially set to mature on August 31, 2003. The maturity date of the note to Mr. Leavell (\$50,000) was extended until November 30, 2003 under the same terms and conditions as the original offer. The remaining \$50,000 note was retired in August, 2003.

During the first nine months of fiscal 2000, the Company raised capital in the amount of \$575,000 through the issuance of 12% subordinated promissory notes. The funds were provided by Charles S. Leavell, Chairman of the Board of Directors (\$250,000), J. Stanley Gilbert, President and Director (\$225,000), and one other investor. The notes were issued in units, each unit consisting of two promissory notes of equal principal, identical in nature except that one note is convertible to common stock at a price of \$0.30 per share. Interest was due and payable quarterly and the notes matured August 31, 2001. On the maturity date, the non-convertible portion of the notes were retired. The maturity date for the convertible portion of the notes was extended until November of 2003 under the same terms and conditions as the original offer.

During the first four months of fiscal 2003, the Company raised short-term capital in the amount of \$220,000 through the issuance of 12% unsubordinated promissory notes. The funds were provided by Charles S. Leavell (\$70,000), Chairman of the Board of Directors, J. Stanley Gilbert (\$100,000), Officer and Board Director, and another Board Director (\$50,000). Of the total outstanding, \$120,000 was retired in June and \$100,000 in July of 2003.

In July, 2003, the CEO and Chairman of the Board of Directors (Lender) extended the Company a line of credit in the amount of \$220,000 under the same terms and conditions of the Lender's loan agreement with the bank. Generally, the interest rate is indexed to the highest prime rate on the

banks first business day of the calendar week, with a 1% spread over index and the line matures annually on the anniversary date of the loan. As of September 30, 2003, the Company had drawn \$50,000 on this line of credit.

On October 23, 2003, the Company filed a Form 8-K reporting a significant revenue shortfall in 2003 as a result of a decrease in attendance at its Southern and Northern California and New York Faires. The Company also disclosed its concern that cash reserves would not be sufficient to meet its cash requirements for the balance of 2003, including \$337,500 in debt obligations due in November, 2003. The Company believes it needs to raise approximately \$500,000 to \$750,000 in additional capital to satisfy the operating capital and debt requirements going forward to the opening of the Southern California Faire in 2004.

Reviewing the change in financial position over the nine months, current assets, largely comprised of cash and prepaid expenses, increased from \$1,192,473 at December 31, 2002 to \$2,723,479 at September 30, 2003, an increase of \$1,531,006 or 128%. Of these amounts, cash and cash equivalents increased from \$642,061 at December 31, 2002 to \$1,595,676 at September 30, 2003. Accounts receivable increased from \$23,530 at December 31, 2002 to \$179,915 at September 30, 2003. Inventory increased from \$160,500 at December 31, 2002 to \$173,575 at September 30, 2003. Prepaid expenses (expenses incurred on behalf of the Faires) increased from \$275,520 at December 31, 2002 to \$774,313 at September 30, 2003. These costs are expensed once the Faires are operating.

Current liabilities increased from \$1,241,170 at December 31, 2002, to \$2,180,367 at September 30, 2003, an increase of \$939,197 or 76%. During the quarter, accounts payable and accrued expenses increased \$641,306 or 174% from \$369,466 at December 31, 2002 to \$1,010,772 at September 30, 2003. Unearned income, which consists of the sale of admission tickets to upcoming Faires, passes for the Sterling Forest Ski Center and deposits received from craft vendors for future Faires, increased from \$447,746 at December 31, 2002 to \$719,586 at September 30, 2003. This revenue is recognized once the Faires and the Ski Center are operating. The Company's notes payable accounts for \$404,942 of the total current liabilities at September 30, 2003. This amount is largely attributable to the aforementioned subordinated promissory notes that mature in November, 2003.

Stockholders' Deficit decreased from (\$940,607) at December 31, 2002 to (\$333,639) at September 30, 2003, a decrease of \$606,968. This decrease is due to the net income generated during the first nine-months of 2003.

With the permanent closure of the Northern California Faire, management has negotiated a verbal with the landlord regarding final cash requirements to terminate this lease. The Company's lease has an exit clause at the end of 2004. As a result, the Company may be responsible for approximately \$150,000 in rental payments for calendar year 2004. In addition, the lease requires the Company to complete certain capital projects over its term. The Company estimates it could also be responsible for approximately \$175,000 in capital improvements as a result of the termination of this lease. A contingency exists with respect to this matter, the ultimate resolution of which cannot presently be determined.

See Factors That May Affect Future Operating Results-Need for Additional Capital regarding the Company's financing requirements.

#### **FACTORS THAT MAY AFFECT FUTURE OPERATING RESULTS**



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In addition to the other information contained in this report, prospective investors should carefully consider the following factors in evaluating the Company and its business.

*Recent Losses.* The Company has incurred operating losses in all fiscal periods since 1995 except fiscal 2000. For the nine months ended September 30, 2003, the Company reported net income of \$606,968. There is no assurance that the Company will be profitable in any subsequent period.

*Need for Additional Capital.* The Company had a working capital surplus of \$543,112 as of September 30, 2003. See *Management's Discussion and Analysis of Financial Condition and Results of Operations*. On October 23, 2003, the Company filed a Form 8-K reporting that cash reserves would not be sufficient to meet its cash requirements for the balance of 2003, including \$337,500 in debt obligations due in November, 2003. The Company believes it needs to raise approximately \$500,000 to \$750,000 in additional capital to satisfy its operating capital and debt requirements going forward to the opening of the Southern California Faire in 2004. Additional capital may be sought through borrowings or from additional equity financing. Any such additional equity financing may result in additional dilution to investors. In any case, there can be no assurance that additional capital can be satisfactorily obtained, if and when required.

*Competition.* The Company faces significant competition from numerous organizations throughout the country which offer Renaissance Faires and other entertainment events, including amusement parks, theme parks, local and county fairs and festivals, some of which possess significantly greater resources than the Company, and in many cases, greater expertise and industry contacts. The Company estimates that there are currently 20 major Renaissance Faires produced each year in the United States. In addition, the Company estimates that there are 100 minor Renaissance Faire events held throughout the United States each year, ranging in duration from one day to two weekends.

*Lack of Trademark Protection.* Because of the large number of existing Renaissance Faires, the Company is not able to rely upon trademark or service mark protection for the name Renaissance Faire. As a result, there is no protection against others using the name Renaissance Faire for the production of entertainment events similar to those produced by the Company. The Company's own Faires could be negatively impacted by association with substandard productions.

*Public Liability and Insurance.* As a producer of a public entertainment event, the Company has exposure for claims of personal injury and property damage suffered by visitors to the Faires. The Company maintains comprehensive liability insurance which it considers to be adequate against this risk; however, there can be no assurance that a catastrophic event or claim which could result in damage or liability in excess of this coverage will not occur.

*Dependence Upon Vendors.* A substantial portion of the Company's revenues generated at each Faire is derived from arrangements that the Company has with vendors who construct elaborate booths at the Faires and sell a variety of food, crafts and souvenirs. This arrangement consists of either a fixed rental or a percent of revenues paid by the vendors to the Company. In either case, the success of a Faire is dependent upon the Company's ability to attract responsible vendors who sell high quality goods.

*Seasonality.* The Company's Renaissance Faires are located in traditionally seasonal areas that attract the greatest number of visitors during the warm weather months in the spring, summer, and early fall. With the operation of the Sterling Forest Ski Center in New York, the counter-seasonal revenue may help smooth the seasonality of the Company's revenue stream from the Renaissance Faires. Unless the Company acquires or develops additional Faire sites or other events in areas that are counter-seasonal to the present sites located in temperate climates, the Company's revenues and income will be highly concentrated from April through October 31st of each year.



*Dependence Upon Weather.* Each Renaissance Faire operated by the Company is scheduled for a finite period, typically consecutive weekends during a seven to nine-week period, which are determined substantially in advance in order to facilitate advertising and other promotional efforts. The success of each Faire is directly dependent upon public attendance, which is directly affected by weather conditions. While each of the Company's Faires are normally open, rain or shine, poor weather, or even the forecast of poor weather can result in substantial declines in attendance and, as a result, loss of revenues. Further, as the Renaissance Faires are outdoor events, they are vulnerable to severe weather conditions that can cause damage to the Faire's infrastructure and buildings, as well as injuries to patrons and employees. Risks associated with the weather are beyond anyone's control, but have a direct and material impact upon the relative success or failure of a given Faire.

*Licensing and Other Governmental Regulation.* For each Faire operated by the Company, it is necessary to apply for and obtain permits and other licenses from local governmental authorities regulating service of alcoholic beverages, service of food, health, sanitation, and other matters at the Faire sites. Each governmental jurisdiction has its own regulatory requirements that can impose unforeseeable delays or impediments in preparing for a Faire production. While the Company has been able to obtain all necessary permits and licenses in the past, there can be no assurance that future changes in governmental regulation or the adoption of more stringent requirements may not have a material adverse impact upon the Company's future operations.

*Faire Sites.* The Company has long-term leases for all four of its Renaissance Faires. The terms and conditions of each lease vary by location, and to a large extent, are beyond the control of the Company. The Company's dependence upon leasing Faire sites creates a certain risk of fluctuation in the Company's operations from year to year.

Item 3. Controls and Procedures.

Our management, including our Chief Executive Officer/Chief Financial Officer, has conducted an evaluation of the effectiveness of our disclosure controls and procedures (as this term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on this evaluation, the Chief Executive Officer/Chief Financial Officer has concluded that, as of the end of the period, our disclosure controls and procedures are effective.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

No material change in litigation previously reported.

Item 2. Changes in Securities

None

Item 3. Defaults upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(A) **EXHIBITS**

| Exhibit No | Title  |
|------------|--|
| 3.0(i)     | Amended and Restated Articles of Incorporation, incorporated by reference from the Amendment No. 1 to Registrant's Registration Statement on Form 8-A filed with the Commission on April 12, 1994.   |
| 3.0(ii)    | By-Laws, incorporated by reference from the Amendment No. 1 to Registrant's Registration Statement on Form 8-A filed with the Commission on April 12, 1994.  |
| * 3.1      | Articles of Amendment to the Articles of Incorporation.  |
| 4.1        | Specimen Certificate of Common Stock, incorporated by reference from the Amendment No. 1 to Registrant's Registration Statement on Form 8-A filed with the Commission on April 12, 1994.   |
| * 4.2      | Renaissance Entertainment Corporation 1993 Stock Incentive Plan. (1)   |
| * 10.1     | Specimen Vendor and Exhibitor Agreement for the Bristol Renaissance Faire.   |
| * 10.2     | Specimen Vendor and Exhibitor Agreement for the Northern and Southern Renaissance Pleasure Faires.   |
| * 10.3     | Specimen Bristol Renaissance Faire Concession Agreement.   |
| * 10.4     | Specimen Bristol Renaissance Faire Games Concession Agreement.   |
| 10.9       | Purchase Agreement dated November 12, 1997 between Faire Partners, LLC and Renaissance Entertainment Corporation, including Lease Agreement and Warrant to Purchase Common Stock as exhibits thereto, incorporated by reference from Registrant's Registration Statement on Form S-1 (No. 333-43503).  |
| 10.10      | Lease dated January 21, 1998 by and between Attache Publishing Services, Inc. and the Company, incorporated by reference from the Registrants Quarterly Report on Form 10-Q for the quarter ended March 31, 1998.  |
| 10.11      | Employment Agreement dated December 11, 1998 with Charles S. Leavell, incorporated by reference from Registrant's Annual Report on Form 10-KSB for the year ended December 31, 1998.   |
| 10.12      | Employment Agreement dated December 11, 1998 with J. Stanley Gilbert, incorporated by reference from Registrant's Annual Report on Form 10-KSB for the year ended December 31, 1998.   |
| 10.15      | Warrant Agreement dated December 17, 1999, incorporated by reference from Registrant's Annual Report on Form 10-KSB for the year ended December 31, 1999.  |
| 10.17      | Asset Purchase Agreement between Jim and Marta Selway and the Company dated April 6, 2000, incorporated by reference from Registrant's Annual Report on Form 10-KSB for the year ended December 31, 1999.<br>Form of Subordinated Subscription and Purchase Agreement for 2000, including A Note and Convertible B Note incorporated by reference from Registrant's Quarterly Report on Form 10-QSB for the period ended March 31, 2000. |



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- 10.20 Lease dated June 27, 2000 by and between San Bernardino County Community and Cultural Resources Department and the Company incorporated by reference from Registrant's Annual Report on Form 10-KSB for the year ended December 31, 2000.
- 10.25 Amendment dated October 30, 2000 to Lease with Faire Partners, LLC incorporated by reference from Registrant's Annual Report on Form 10-KSB for the year ended December 31, 2000.
- 10.28 Form of Subordinated Subscription and Purchase Agreement for 2002, including A Note and Convertible B Note filed herewith incorporated by reference from Registrant's Annual Report on Form 10-KSB for the year ended December 31, 2001. Amendment dated August 31, 2001 to Subordinated Subscription and Purchase Agreement for 2000 incorporated by reference from Registrant's Annual Report on Form 10-KSB for the year ended December 31, 2001.
- 10.30 Lease agreement dated March 19, 2002 by and between Faire Partners, Ltd. and the Company incorporated by reference from Registrant's Quarterly Report on Form 10-QSB for the period ended March 31, 2002.
- 10.31 Lease agreement dated May 3, 2002 by and between Casa De Fruta and the Company incorporated by reference from Registrant's Quarterly Report on Form 10-QSB for the period ended March 31, 2002.
- 10.32 Amendment dated February 28, 2002 to Faire Partners, Ltd. lease dated November, 1997 incorporated by reference from Registrant's Quarterly Report on Form 10-QSB for the period ended March 31, 2002.
- 10.33 Amendment dated March 18, 2002 to Faire Partners, Ltd. lease dated November, 1997 incorporated by reference from Registrant's Quarterly Report on Form 10-QSB for the period ended March 31, 2002.
- 10.34 Amendment dated January 27, 2003 to lease dated January 21, 1998 by and between Attache Publishing Service incorporated by reference from Registrant's Annual Report on Form 10-KSB for the period ended December 31, 2002.
- 10.35 School Days Contractual Agreement dated December 9, 2002 by and between Sheridan Sechter & Associates and the Company incorporated by reference from Registrant's Annual Report on Form 10-KSB for the period ended December 31, 2002.
- 10.36 Contractual Agreement dated December 9, 2002 by and between Sheridan Sechter & Associates and the Company incorporated by reference from Registrant's Annual Report on Form 10-KSB for the period ended December 31, 2002.
- 10.37 Agreement to Terminate Contractual Relationships dated December 12, 2002 between Events Group Corporation and the Company incorporated by reference from Registrant's Annual Report on Form 10-KSB for the period ended December 31, 2002.
- 10.38 Amendment dated January 16, 2002 to San Bernardino County Community and Cultural Resources Department lease dated June 27, 2000 incorporated by reference from Registrant's Quarterly Report on Form 10-QSB for the period ended June 30, 2003.
- \*\* 31.1 Rule 13a-14(a)/15d-14(a) Certifications.
- 32.1 Section 1350 Certifications.

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\* Incorporated by reference from the Company's Registration Statement on Form SB-2, declared effective by the Commission on January 27, 1995, and the Post-Effective amendments thereto.

\*\* Filed herewith.

(b) REPORTS ON FORM 8-K

The Registrant filed a report on Form 8-K on October 23, 2003, reporting under Item 5 of the form, a significant revenue shortfall in 2003 as a result of a decrease in attendance at its Southern and

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Northern California and New York Faires. The Company also reported its concern that cash reserves would not be sufficient to meet its cash requirements for the balance of 2003, including \$337,500 in debt obligations due in November, 2003

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this quarterly report to be signed on its behalf by the undersigned, thereunto duly authorized.

RENAISSANCE ENTERTAINMENT CORPORATION

Date: November 14, 2003                      /s/ Charles S. Leavell  
Charles S. Leavell, Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| <b>Signature</b>                             | <b>Title</b>  | <b>Date</b>       |
|--|---|-------------------|
| /s/ Charles S. Leavell<br>Charles S. Leavell | Chairman of the Board,<br>Chief Executive and Chief<br>Financial Officers | November 14, 2003 |
| /s/ Sue Brophy<br>Sue Brophy                 | Chief Accounting Officer and Controller                                   | November 14, 2003 |