

RENAISSANCE CAPITAL GROWTH & INCOME FUND III INC  
Form 10-Q  
December 19, 2006

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

---

**Form 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2004

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Transition period from \_\_\_\_\_ to \_\_\_\_\_ .

**Commission file number: 0-20671**

**Renaissance Capital Growth & Income Fund III, Inc.**  
(Exact name of registrant as specified in its charter)

**TX**  
(State or other jurisdiction  
of incorporation or organization)

**75-2533518**  
(I.R.S. Employer  
Identification No.)

**8080 N. Central Expressway, Suite 210, LB-59, Dallas, TX 75206**  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **214-891-8294**

None  
(Former name, former address and former fiscal year  
if changed since last report)

---

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 .

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  S

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes  No .

As of December 1, 2006, the issuer had 4,463,967 shares of common stock outstanding.

---

**RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.**

**INDEX**

	<b><u>Page Number</u></b>
<b>PART I. FINANCIAL INFORMATION</b>	
<b>Item 1. <u>Financial Statements (Unaudited)</u></b>	3
Statements of Assets and Liabilities as of March 31, 2004 and December 31, 2003	3
Schedules of Investments as of March 31, 2004 and December 31, 2003	4
Statements of Operations for the three months ended March 31, 2004 and 2003	16
Statements of Changes in Net Assets for the three months ended March 31, 2004 and 2003	17
Statements of Cash Flows for the three months ended March 31, 2004 and 2003	18
Notes to Financial Statements	19
<b>Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u></b>	27
<b>Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u></b>	30
<b>Item 4. <u>Controls and Procedures</u></b>	31
<b>PART II. OTHER INFORMATION</b>	
<b>Item 1. <u>Legal Proceedings</u></b>	32
<b>Item 1A. <u>Risk Factors</u></b>	32
<b>Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	35
<b>Item 3. <u>Defaults Upon Senior Securities</u></b>	35
<b>Item 4. <u>Submission of Matters to a Vote of Security Holders</u></b>	35
<b>Item 5. <u>Other Information</u></b>	35
<b>Item 6. <u>Exhibits</u></b>	35

## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

Renaissance Capital Growth & Income Fund III, Inc.  
Statements of Assets and Liabilities  
(Unaudited)

ASSETS

	March 31, 2004	December 31, 2003
Cash and cash equivalents	\$ 41,324,075	\$ 35,255,687
Investments at fair value, cost of \$36,446,147 and \$33,747,037 at March 31, 2004 and December 31, 2003, respectively	75,447,704	62,455,944
Accounts receivable - settlement with affiliate	3,775,872	3,775,872
Interest and dividends receivable	56,573	233,201
Prepaid and other assets	151,135	145,307
	\$ 120,755,359	\$ 101,866,011

## LIABILITIES AND NET ASSETS

Liabilities:		
Due to broker	\$ 27,004,331	\$ 27,000,416
Accounts payable	121,119	57,273
Accounts payable - affiliate	730,935	1,703,398
Accounts payable - dividends	-	3,698,960
	27,856,385	32,460,047

## Commitments and contingencies

Net assets:		
Common stock, \$1 par value; authorized 20,000,000 shares; 4,561,618 issued; 4,351,718 shares outstanding	4,561,618	4,561,618
Additional paid-in-capital	36,531,243	37,058,788
Treasury stock at cost, 209,900 shares	(1,734,967)	(1,734,967)
Distributable earnings	14,539,523	811,618
Net unrealized appreciation of investments	39,001,557	28,708,907
Net assets, equivalent to \$21.35 and \$15.95 per share at March 31, 2004 and December 31, 2003, respectively	92,898,974	69,405,964
	\$ 120,755,359	\$ 101,866,011

See accompanying notes

Renaissance Capital Growth & Income Fund III, Inc.  
Schedules of Investments  
(unaudited)

			March 31, 2004		
	Interest Rate	Due Date	Cost	Fair Value	% of Net Investments
Eligible Portfolio Investments -					
Convertible Debentures and					
Promissory Notes					
Dexterity Surgical, Inc. -					
Convertible debenture (2)	9.00%	12/19/04	\$ 1,316,282	\$ -	0.00%
Digital Learning Management Corp.					
-					
Convertible debenture (2)	7.00	02/27/11	1,000,000	2,863,534	3.80
iLinc Communications, Inc. -					
Convertible redeemable note (2)	12.00	03/29/12	500,000	500,000	0.66
Gasco Energy, Inc. -					
Convertible debenture (2)	8.00	10/15/08	625,000	2,020,834	2.68
Integrated Security Systems, Inc. -					
Promissory notes (4)	8.00	09/30/04	525,000	525,000	0.70
Promissory notes (4)	7.00	10/01/04	200,000	200,000	0.26
Simtek Corporation -					
Convertible debenture	7.50	06/28/09	1,000,000	5,000,000	6.63
			\$ 5,166,282	\$ 11,109,368	14.73%

See accompanying notes

Renaissance Capital Growth & Income Fund III, Inc.  
 Schedules of Investments, continued  
 (unaudited)

			March 31, 2004		
	Interest Rate	Due Date	Cost	Fair Value	% of Net Investments
Other Portfolio Investments - Convertible Debentures and Promissory Notes					
Interpool, Inc. - Convertible debenture (2)	9.25%	12/27/22	\$ 375,000	\$ 375,000	0.50%
			\$ 375,000	\$ 375,000	0.50%

See accompanying notes

Renaissance Capital Growth & Income Fund III, Inc.  
Schedules of Investments, continued  
(unaudited)

	Shares	Cost	March 31, 2004 Fair Value	% of Net Investments
Eligible Portfolio Investments -				
Common Stock, Preferred Stock, and Miscellaneous Securities				
CaminoSoft Corp. -				
Common stock	1,750,000	\$ 4,000,000	\$ 1,032,500	1.37%
Common stock (2)	1,539,414	1,150,000	908,254	1.20
Common stock (2)	250,000	125,000	147,500	0.20
eOriginal, Inc. -				
Series A, preferred stock (1)(3)	10,680	4,692,207	770,383	1.02
Series B, preferred stock (1)(3)	25,646	620,329	1,849,928	2.45
Series C, preferred stock (1)(3)	28,929	699,734	2,085,893	2.76
Series New C, preferred stock (1)(3)	22,319	360,000	360,000	0.48
Fortune Natural Resources Corp. -				
Common stock	1,262,394	500,500	-	0.00
Gaming & Entertainment Group, Inc.-				
Common stock	500,000	500,000	600,000	0.80
Gasco Energy, Inc. -				
Common stock	500,000	625,000	970,000	1.28
Global Axxess Corporation -				
Common stock (2)	4,766,666	1,261,667	2,955,333	3.92
Integrated Security Systems, Inc. -				
Common stock (2)	24,468,649	5,037,238	16,638,681	22.05
Series D, preferred stock (2)	187,500	150,000	150,000	0.20

See accompanying notes



Renaissance Capital Growth & Income Fund III, Inc.  
Schedules of Investments, continued  
(unaudited)

	Shares	Cost	March 31, 2004 Fair Value	% of Net Investments
Eligible Portfolio Investments - Common Stock, Preferred Stock, and Miscellaneous Securities, continued				
Inyx, Inc. - Common stock (2)	300,000	300,000	330,000	0.44
Laserscope - Common stock	600,000	750,000	11,868,000	15.73
Poore Brothers, Inc. - Common stock (2)	1,686,357	1,748,170	5,379,479	7.13
Simtek Corp. - Common stock	1,000,000	195,000	1,560,000	2.07
Common stock - private placement (2)	550,661	500,000	859,031	1.14
ThermoView Industries, Inc. - Common stock	234,951	563,060	117,476	0.16
Miscellaneous Securities		-	2,748,849	3.64
		\$ 23,777,905	\$ 51,331,307	68.04%

See accompanying notes

Renaissance Capital Growth & Income Fund III, Inc.  
Schedules of Investments, continued  
(unaudited)

	Shares	Cost	March 31, 2004 Fair Value	% of Net Investments
Other Portfolio Investments - Common Stock, Preferred Stock, and Miscellaneous Securities				
AdStar, Inc. - Common stock (2)	269,231	\$ 350,000	\$ 619,231	0.82%
Capital Senior Living Corp - Common stock	57,100	146,335	353,449	0.47
CNE Group, Inc. - Common stock (2)	125,000	250,000	100,000	0.13
Dave & Busters, Inc. - Common stock	100,000	653,259	1,505,000	1.99
iLinc Communications, Inc.- Common stock	48,266	27,033	47,301	0.06
Flamel Technologies, S.A. - Common stock	25,000	131,869	647,500	0.86
Franklin Covey - Common stock	207,876	293,251	519,690	0.69
Gasco Energy, Inc. - Common stock	750,000	639,105	1,455,000	1.93
Inet Technologies, Inc. - Common stock	46,600	237,275	574,578	0.76

See accompanying notes

Renaissance Capital Growth & Income Fund III, Inc.  
Schedules of Investments, continued  
(unaudited)

	Shares	Cost	March 31, 2004 Fair Value	% of Net Investments
Other Portfolio Investments - Common Stock, Preferred Stock, and Miscellaneous Securities, continued				
Intrusion, Inc. -				
Convertible preferred stock	159,033	500,000	500,000	0.66
Medical Action Industries, Inc. -				
Common stock	25,000	292,329	510,750	0.68
Precis, Inc. -				
Common stock	200,700	1,372,417	746,604	0.99
Stonepath Group, Inc. -				
Common stock	281,240	448,500	1,091,211	1.44
Tarantella, Inc. -				
Common stock	714,286	1,000,000	1,585,715	2.10
US Home Systems, Inc. -				
Common stock	110,000	535,587	1,237,500	1.64
Vaso Active Pharmaceuticals, Inc. -				
Common stock	150,000	250,000	1,138,500	1.51
		7,126,960	12,632,029	16.73%
		\$ 36,446,147	\$ 75,447,704	100.00%
Allocation of Investments - Restricted Shares, Unrestricted Shares, and Other Securities				
Restricted Securities (2)		\$ 14,688,357	\$ 33,846,877	44.86%
Unrestricted Securities		\$ 14,660,520	\$ 33,060,774	43.82%
Other Securities (5)		\$ 7,097,270	\$ 8,540,053	11.32%

- (1) Valued at fair value as determined by the Investment Adviser (Note 6).  
(2) Restricted securities - securities that are not fully registered and freely tradable.  
(3) Securities in a privately owned company.  
(4) Securities that have no provision allowing conversion into a security for which there is a public market.

(5) Includes Miscellaneous Securities, securities of privately owned companies, securities with no conversion feature, and securities for which there is no market.

See accompanying notes

9

---

Renaissance Capital Growth & Income Fund III, Inc.  
Schedules of Investments (continued)

			December 31, 2003		
	Interest Rate	Due Date	Cost	Fair Value	% of Net Investments
Eligible Portfolio Investments -					
Convertible Debentures and					
Promissory Notes					
Dexterity Surgical, Inc. -					
Convertible debenture (2)	9.00%	12/19/04	\$ 1,316,282	\$ 375,000	0.60%
iLinc Communications, Inc. -					
Convertible redeemable note (2)	12.00	03/29/12	500,000	500,000	0.80
Gasco Energy, Inc. -					
Convertible debenture (2)	8.00	10/15/08	625,000	1,333,334	2.13
Integrated Security Systems, Inc. -					
Promissory notes (4)	8.00	09/30/04	525,000	525,000	0.84
Promissory notes (4)	7.00	10/01/04	200,000	200,000	0.32
Simtek Corporation -					
Convertible debenture	7.50	06/28/09	1,000,000	3,846,155	6.16
			\$ 4,166,282	\$ 6,779,489	10.85%

See accompanying notes

Renaissance Capital Growth & Income Fund III, Inc.  
Schedules of Investments (continued)

	Interest Rate	Due Date	December 31, 2003		% of Net Investments
			Cost	Fair Value	
Other Portfolio Investments - Convertible Debentures and Promissory Notes					
Interpool, Inc. - Convertible debenture (2)	9.25%	12/27/22	\$ 375,000	\$ 375,000	0.60%
			\$ 375,000	\$ 375,000	0.60%

See accompanying notes

Renaissance Capital Growth & Income Fund III, Inc.  
Schedules of Investments (continued)

			December 31, 2003	
	Shares	Cost	Fair Value	% of Net Investments
Eligible Portfolio Investments -				
Common Stock, Preferred Stock, and Miscellaneous Securities				
Bentley Pharmaceuticals, Inc. -				
Common stock	63,450	\$ 79,313	\$ 843,885	1.22%
CaminoSoft Corp. -				
Common stock	1,750,000	4,000,000	647,500	1.04
Common stock (2)	1,539,414	1,150,000	569,583	0.91
Common stock (2)	250,000	125,000	92,500	0.15
eOriginal, Inc. -				
Series A, preferred stock (1)(3)	10,680	4,692,207	770,383	1.23
Series B, preferred stock (1)(3)	25,646	620,329	1,849,928	2.96
Series C, preferred stock (1)(3)	28,929	699,734	2,085,893	3.34
Series New C, preferred stock (1)(3)	22,319	360,000	360,000	0.58
Fortune Natural Resources Corp. -				
Common stock	1,262,394	500,500	138,863	0.22
Gasco Energy, Inc. -				
Common stock	250,000	250,000	320,000	0.51
Global Access Corporation -				
Common stock (2)	1,400,000	350,000	504,000	0.81
Integrated Security Systems, Inc. -				
Common stock (2)	24,164,301	4,973,166	8,940,791	14.32
Series D, preferred stock (2)	187,500	150,000	83,250	0.13

See accompanying notes

Renaissance Capital Growth & Income Fund III, Inc.  
Schedules of Investments (continued)

			December 31, 2003	
	Shares	Cost	Fair Value	% of Net Investments
Eligible Portfolio Investments -				
Common Stock, Preferred Stock, and Miscellaneous Securities, continued				
Inyx, Inc. -				
Common stock (2)	300,000	300,000	414,000	0.66
Laserscope -				
Common stock	1,200,000	1,500,000	18,708,000	29.96
Poore Brothers, Inc. -				
Common stock (2)	1,686,357	1,748,170	5,716,750	9.15
Simtek Corp. -				
Common stock	1,000,000	195,000	1,200,000	1.92
Common stock - private placement (2)	550,661	500,000	660,793	1.06
ThermoView Industries, Inc. -				
Common stock	234,951	563,060	148,019	0.24
Miscellaneous Securities		-	898,497	1.44
		\$ 22,756,479	\$ 44,952,635	71.98%

See accompanying notes



Renaissance Capital Growth & Income Fund III, Inc.  
Schedules of Investments (continued)

	Shares	Cost	December 31, 2003 Fair Value	% of Net Investments
Other Portfolio Investments - Common Stock, Preferred Stock, and Miscellaneous Securities				
AdStar, Inc. - Common stock (2)	269,231	\$ 350,000	\$ 538,462	0.86%
Blue Rhino Corp. - Common stock	40,000	476,999	555,600	0.89
Capital Senior Living Corp - Common stock	57,100	146,335	335,748	0.54
CNE Group, Inc. - Common stock (2)	125,000	250,000	66,250	0.11
Dave & Busters, Inc. - Common stock	100,000	653,259	1,268,000	2.03
iLinc Communications, Inc. - Common stock	48,266	27,033	43,439	0.07
Flamel Technologies, S.A. - Common stock	50,000	360,143	1,339,500	2.14
Franklin Covey - Common stock	207,876	293,251	582,053	0.93
Gasco Energy, Inc. - Common stock	750,000	639,105	960,000	1.54
I-Flow Corporation - Common stock	50,000	117,043	696,000	1.11
Inet Technologies, Inc. - Common stock	46,600	237,275	559,200	0.90

See accompanying notes

Renaissance Capital Growth & Income Fund III, Inc.  
Schedules of Investments (continued)

			December 31, 2003	
	Shares	Cost	Fair Value	% of Net Investments
Other Portfolio Investments -				
Common Stock, Preferred Stock, and Miscellaneous Securities, continued				
Medical Action Industries, Inc. -				
Common stock	25,000	292,329	467,750	0.75
Precis, Inc. -				
Common stock	200,700	1,372,417	778,716	1.25
Stonepath Group, Inc. -				
Common stock	281,240	448,500	635,602	1.02
US Home Systems, Inc. -				
Common stock	110,000	535,587	1,221,000	1.95
Vaso Active Pharmaceuticals, Inc. -				
Common stock	50,000	250,000	301,500	0.48
		6,449,276	10,348,820	16.57%
		\$ 33,747,037	\$ 62,455,944	100.00%
Allocation of Investments -				
Restricted Shares, Unrestricted Shares, and Other Securities				
Restricted Securities (2)		\$ 12,712,618	\$ 20,169,713	32.29%
Unrestricted Securities		\$ 13,937,149	\$ 35,596,530	57.00%
Other Securities (5)		\$ 7,097,270	\$ 6,689,701	10.71%

(1) Valued at fair value as determined by the Investment Adviser (Note 6).

(2) Restricted securities - securities that are not fully registered and freely tradable.

(3) Securities in a privately owned company.

(4) Securities that have no provision allowing conversion into a security for which there is a public market.

(5) Includes Miscellaneous Securities, securities of privately owned companies, securities with no conversion feature, and securities for which there is no market.

See accompanying notes

Renaissance Capital Growth & Income Fund III, Inc.  
Statements of Operations  
(Unaudited)

	Three Months Ended March 31,	
	2004	2003 (restated)
<b>Income:</b>		
Interest income	\$ 79,963	\$ 306,345
Dividend income	20,983	1,106,009
Other income	28,282	-
	129,228	1,412,354
<b>Expenses:</b>		
General and administrative	103,364	75,048
Interest expense	13,406	10,033
Legal and professional fees	129,873	58,165
Management fee to affiliate	410,131	178,476
	656,774	321,722
Net investment income (loss)	(527,546)	1,090,632
<b>Realized and unrealized gain (loss) on investments:</b>		
Net change in unrealized appreciation of investments	10,292,651	(7,408,956)
Net realized gain on investments	14,163,079	830,815
Net gain (loss) on investments	24,455,730	(6,578,141)
Net income (loss)	\$ 23,928,184	\$ (5,487,509)
Net income (loss) per share	\$ 5.50	\$ (1.26)
Weighted average shares outstanding	4,351,718	4,351,718

See accompanying notes

Renaissance Capital Growth & Income Fund III, Inc.  
 Statements of Changes in Net Assets  
 (Unaudited)

	Three Months Ended March 31,	
	2004	2003 (restated)
From operations:		
Net investment income (loss)	\$ (527,546)	\$ 1,090,632
Net realized gain on investments	14,163,079	830,815
Net increase (decrease) in unrealized appreciation on investments	10,292,651	(7,408,956)
Net income (loss)	23,928,184	(5,487,509)
From distributions to stockholders:		
Common stock dividends declared from realized capital gains	(435,174)	(435,172)
Total increase (decrease) in net assets	23,493,010	(5,922,681)
Net assets:		
Beginning of period	69,405,964	46,103,648
End of period	\$ 92,898,974	\$ 40,180,967

See accompanying notes

Renaissance Capital Growth & Income Fund III, Inc.  
Statements of Cash Flows  
(Unaudited)

	Three Months Ended March 31,	
	2004	2003 (restated)
Cash flows from operating activities:		
Net income (loss)	\$ 23,928,184	\$ (5,487,509)
Adjustments to reconcile net income to net cash provided by operating activities:		
Net change in unrealized appreciation on investments	(10,292,651)	7,408,956
Net realized gain on investments	(14,163,079)	(830,815)
(Increase) decrease in interest and dividends receivable	176,628	(389,997)
Increase in accounts receivable-settlement with affiliate	-	(211,977)
(Increase) decrease in prepaid and other assets	(5,828)	18,493
Increase in accounts payable	63,846	8,826
Increase (decrease) in accounts payable-affiliate	(972,463)	164,282
Increase in due to broker	3,915	10,002,828
Purchase of investments	(4,350,738)	(2,150,073)
Proceeds from sale of investments	15,814,708	1,119,662
<b>Net cash provided by operating activities</b>	<b>10,202,522</b>	<b>9,652,676</b>
Cash flows from financing activities:		
Cash dividends paid	(4,134,134)	(435,172)
<b>Net increase in cash and cash equivalents</b>	<b>6,068,388</b>	<b>9,217,504</b>
Cash and cash equivalents at beginning of the period	35,255,687	10,968,001
<b>Cash and cash equivalents at end of period</b>	<b>\$ 41,324,075</b>	<b>\$ 20,185,505</b>
Cash paid during the period		
Interest	\$ 13,406	\$ 10,033

See accompanying notes

RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.

Notes to Unaudited Financial Statements

March 31, 2004

Note 1 - Organization and Business Purpose

Renaissance Capital Growth & Income Fund III, Inc. (the "Fund"), a Texas corporation, was formed on January 20, 1994. The Fund seeks to achieve current income and capital appreciation potential by investing primarily in unregistered equity investments and convertible issues of small and medium size companies which are in need of capital and which RENN Capital Group, Inc. (the "Investment Adviser"), believes offer the opportunity for growth. The Fund is a non-diversified closed-end fund and has elected to be treated as a business development company under the Investment Company Act of 1940, as amended ("1940 Act").

Note 2 - Summary of Significant Accounting Policies

**Basis of Presentation**

We have prepared the accompanying unaudited interim financial statements pursuant to the rules and regulations of the Securities and Exchange Commission, which reflect all adjustments which, in the opinion of management, are necessary to present fairly the results for the interim periods. We have omitted certain information and disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States pursuant to those rules and regulations, although we believe that the disclosures we have made are adequate to make the information presented not misleading. You should read these unaudited interim financial statements in conjunction with our audited financial statements and notes included in our Annual Report on Form 10-K for the year ended December 31, 2003.

The results of operations for the interim periods are not necessarily indicative of the results we expect for the full year.

**Valuation of Investments**

Portfolio investments are stated at quoted market or fair value as determined by the Investment Adviser (Note 6). The securities held by the Fund are primarily unregistered and their value does not necessarily represent the amounts that may be realized from their immediate sale or disposition.

**Other**

The Fund records security transactions on the trade date. Dividend income is recorded on the record date. Interest income is recorded as earned on the accrual basis.

**Cash and Cash Equivalents**

The Fund considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.

Notes to Unaudited Financial Statements

March 31, 2004

Note 2 - Summary of Significant Accounting Policies, continued

**Federal Income Taxes**

The Fund has elected the special income tax treatment available to “regulated investment companies” (“RIC”) under Subchapter M of the Internal Revenue Code (“IRC”) in order to be relieved of federal income tax on that part of its net investment income and realized capital gains that it pays out to its shareholders. The Fund’s policy is to comply with the requirements of the IRC that are applicable to regulated investment companies. Such requirements include, but are not limited to certain qualifying income tests, asset diversification tests and distribution of substantially all of the Fund’s taxable investment income to its shareholders. It is the intent of management to comply with all IRC requirements as they pertain to the RIC and to distribute all of the Fund’s taxable investment income and long-term capital gains within the defined period under the IRC to qualify as a RIC. Failure to qualify as a RIC would subject the Fund to federal income tax as if the Fund were an ordinary corporation, which could result in a substantial reduction in the Fund’s net assets as well as the amount of income available for distribution to shareholders.

**Net Income (Loss) Per Share**

Net income (loss) per share is based on the weighted average of shares outstanding of 4,351,718 during the period.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts and disclosures in the financial statements. Actual results could differ from these estimates.

Note 3 - Due to Broker

The Fund conducts business with various brokers for its investment activities. The clearing and depository operations for the investment activities are performed pursuant to agreements with these brokers. Due to broker represents a margin loan payable to one of these brokers, which is secured by investments in securities maintained with the lending broker as collateral for the margin loan. Cash and cash equivalents related to the margin loan payable are held by the lending broker as additional collateral for the margin loan. The Fund is subject to credit risk to the extent the brokers are unable to deliver cash balances or securities, or clear security transactions on the Fund’s behalf. The Investment Adviser actively monitors the Fund’s exposure to these brokers and believes the likelihood of loss under those circumstances is remote.

Note 4 - Management and Incentive Fees

The Investment Adviser for the Fund is registered as an investment adviser under the Investment Advisers Act of 1940 (the “Advisers Act”). Pursuant to an Investment Advisory Agreement (the “Agreement”), the Investment Adviser performs certain services, including certain management, investment advisory and administrative services necessary for the operation of the Fund. In addition, under the Agreement, the Investment Adviser is reimbursed by the Fund for certain directly allocable administrative expenses. A summary of fees and reimbursements paid by the Fund under the Agreement, the prospectus and the original offering document are as follows:

RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.

Notes to Unaudited Financial Statements

March 31, 2004

Note 4 - Management and Incentive Fees, continued

· The Investment Adviser receives a management fee equal to a quarterly rate of 0.4375% of the Fund's net assets, as determined at the end of such quarter with each such payment to be due as of the last day of the calendar quarter. The Fund incurred \$410,131 and \$178,476 for management fees during the quarter ended March 31, 2004 and 2003, respectively.

· The Investment Adviser receives an incentive fee in an amount equal to 20% of the Fund's cumulative realized capital gains in excess of cumulative realized capital losses after allowance for any unrealized capital depreciation on the portfolio investments of the Fund at the end of the period being calculated less cumulative incentive fees previously accrued. Unrealized capital depreciation equals net unrealized capital loss on each class of security without netting net unrealized capital gains on other classes of securities. Because the incentive fee is calculated, accrued, and paid on an annual basis as of each year end and no probability or estimate of the ultimate fee can be ascertained, no incentive fee was recorded during the quarters ended March 31, 2004 and 2003.

· The Investment Adviser was reimbursed by the Fund for administrative expenses paid by the Investment Adviser on behalf of the Fund. Such reimbursements were \$158,281 and \$0 during the quarter ended March 31, 2004 and 2003, respectively.

As of March 31, 2004 and December 31, 2003, the Fund had an account payable to the Investment Advisor of \$730,935 and \$1,703,398, respectively, for the amount due for the fees and expense reimbursements above.

As explained in Note 9, during 2005, the Investment Adviser resolved a dispute with the staff of the Securities and Exchange Commission involving the appropriate interpretation of section 205(b)(3) of the Advisers Act. As part of the settlement, the Investment Adviser agreed to pay \$2,851,362 as a reduction of incentive fees for the period from inception through December 31, 2003. The Fund reported a receivable of \$3,775,872 as of March 31, 2004 and December 31, 2003 to reflect the settlement which included interest income of \$924,510, of which \$45,813 was reflected as interest income during the three months ended March 31, 2003.

Note 5 - Eligible Portfolio Companies and Investments

**Eligible Portfolio Companies**

The Fund invests primarily in convertible securities and equity investments of companies that qualify as Eligible Portfolio Companies as defined in Section 2(a)(46) of the 1940 Act or in securities that otherwise qualify for investment as permitted in Section 55(a)(1) through (5) of the 1940 Act. Under the 1940 Act, at least 70% of the Fund's assets, as defined under the 1940 Act, must be invested in Eligible Portfolio Companies. In the event the Fund has less than 70% of its assets invested in Eligible Portfolio Investments, then it will be prohibited from making non-eligible investments until such time as the percentage of eligible investments again exceeds the 70% threshold. The Fund was in compliance with these provisions at March 31, 2004.



RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.

Notes to Unaudited Financial Statements

March 31, 2004

Note 5 - Eligible Portfolio Companies and Investments, continued

**Investments**

Investments are carried in the statements of assets and liabilities at fair value, as determined in good faith by the Investment Adviser. The convertible debt securities held by the Fund generally have maturities between five and seven years and are convertible into the common stock of the issuer at a set conversion price at the discretion of the Fund. The common stock underlying these securities is generally unregistered and thinly to moderately traded, but is not otherwise restricted. Generally, the Fund negotiates registration rights at the time of purchase and the portfolio companies are required to register the shares within a designated period and the cost of registration is borne by the portfolio company. Interest on convertible securities is generally payable monthly. The convertible debt securities generally contain embedded call options giving the issuer the right to call the underlying issue. In these instances, the Fund has the right of redemption or conversion. The embedded call option will generally not vest until certain conditions are achieved by the issuer. Such conditions may require that minimum thresholds be met relating to underlying market prices, liquidity, or other factors.

Note 6 - Valuation of Investments

On a quarterly basis, the Investment Adviser prepares a valuation of the assets of the Fund, subject to the approval of the Board of Directors of the Fund. The valuation principles are described below.

- The common stock of companies listed on an exchange, Nasdaq or in the over-the-counter market is valued at the closing price on the date of valuation.
- The unlisted preferred stock of companies with common stock listed on an exchange, Nasdaq or in the over-the-counter market is valued at the closing price of the common stock into which the preferred stock is convertible on the date of valuation. If the preferred stock is redeemable, the preferred stock is valued at the greater of cost or market.
- The unlisted in-the-money options or warrants of companies with the underlying common stock listed on an exchange, Nasdaq or in the over-the-counter market are valued at the positive difference between the closing price of the underlying common stock and the strike price of the warrant or option. An out-of-the money warrant or option has no intrinsic value; thus, we assign no value to it.
- Debt securities are valued at the greater of (i) cost or (ii) the market value of the underlying common stock into which the debt instrument is convertible. In cases where the debt instrument is in default or the company is in bankruptcy, the value will be (i) the value of the underlying common stock, (ii) the value of the collateral, if secured, or (iii) zero, if the common stock has no value and there is no collateral.

RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.

Notes to Unaudited Financial Statements

March 31, 2004

Note 6 - Valuation of Investments, continued

If there is no independent and objective pricing authority (i.e. a public market) for investments in privately held entities, the latest sale of equity securities to independent third parties by the entity governs the value of that enterprise. This valuation method causes the Fund's initial investment in the private entity to be valued at cost. Thereafter, new issuances or offers of equity or equity-linked securities by the portfolio company to new investors will be used to determine enterprise value as they will provide the most objective and independent basis for determining the worth of the issuer. Where a private entity does not have an independent value established over an extended period of time, then the Investment Adviser will determine fair value on the basis of appraisal procedures established in good faith and approved by the Fund's Board of Directors.

As of March 31, 2004, and December 31, 2003, the net unrealized appreciation associated with investments held by the Fund was \$39,001,557 and \$28,708,907, respectively. For the periods ended March 31, 2004 and December 31, 2003, the Fund had gross unrealized gains of \$49,170,807 and \$39,158,309, respectively, and gross unrealized losses of \$10,169,250 and \$10,449,402, respectively.

Note 7 - Restricted Securities

As indicated on the schedules of investments as of March 31, 2004 and December 31, 2003, the Fund holds investments in shares of common stock, the sale of which is restricted. These securities have been valued by the Investment Adviser after considering certain pertinent factors relevant to the individual securities (See Note 6).

Note 8 Distributions to Shareholders

During the three months ended March 31, 2004 and March 31, 2003, the Fund declared dividends of \$435,174 and \$435,172 respectively. The dividends declared represent a distribution of capital gains.

Note 9 Settlement with the Investment Advisor

During 2004, the staff of the Securities and Exchange Commission ("SEC") informed the Fund's counsel of potential significant regulatory issues in connection with the Staff's review of a registration statement for a proposed rights offering. On December 1, 2005, the Investment Adviser consented, without admitting or denying the findings, to the entry of an order by the SEC instituting public administrative and cease and desist proceedings and imposing remedial sanctions (the "Order").

RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.

Notes to Unaudited Financial Statements

March 31, 2004

Note 9 Settlement with the Investment Advisor, continued

In summary, the dispute concerned the definition of the wording of the incentive fee calculation in the Advisers Act. Under Section 205(b)(3) of the Advisers Act, a performance fee may be earned. The Investment Adviser, for many years, believed the word “capital” referred to the Fund’s shareholders equity as a whole. In 2004, the SEC informed the Investment Adviser that capital depreciation in the formula referred only to unrealized capital losses on marketable securities in the portfolio and therefore the calculations in previous years were incorrect. In the Order, the SEC states that in calculating a performance-based fee under Section 205(b)(3), an Investment Adviser must account for its client’s assets on a security-by-security basis and may not take into consideration unrealized capital appreciation on any individual security or the portfolio as a whole. Section 205(b)(3) does not require that fees earned in one period be subject to repayment based upon performance in a subsequent period. If the performance fee is calculated on a cumulative basis and is based on the period since inception, the unrealized capital depreciation may be calculated for each calculation period by subtracting each security’s valuation at the end of the applicable calculation period from the original cost, as adjusted, of purchasing that security. In practice, the Investment Adviser also took into account unrealized capital appreciation, which offset unrealized capital depreciation, to calculate its performance-based fee. Thus, beginning in fiscal year 1996, the first period in which the Fund realized capital gains, the Investment Adviser’s formula for calculating that fee was not consistent with the agreed formula permitted under Section 205(b)(3).

As part of the settlement of the SEC proceedings, the Investment Adviser agreed to pay \$2,851,362 for adjustments in the incentive fee from the inception through December 31, 2003, plus prejudgment interest of \$924,509 and a penalty of \$100,000 to the Fund.

The Investment Adviser satisfied this obligation in full as of December 8, 2005.

The effect of the SEC settlement, was reflected retroactively. As such the effect of the adjustments in incentive fees were reported in prior years as though the agreed methodology had been in place since inception. Interest received by the fund upon settlement was allocated to the years in which it was earned. The \$100,000 penalty received upon settlement was reflected in the year settlement was reached (2005).

Note 10 Restatements

Subsequent to the previous issuance of financial statements for 2003, the Investment Adviser determined that the method used in valuing certain unregistered securities was inappropriate based upon changes in SEC guidelines. For this reason, the unrealized gains on those securities was increased.

Because of the changes in the Fund’s net assets resulting from the settlement with the SEC as disclosed in Note 9 and the revaluation of investments, the Fund recomputed the management fee explained in Note 4 resulting in an increase in management fees of \$251,764 from inception through December 31, 2003.

RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.  
Notes to Unaudited Financial Statements  
March 31, 2004

Note 10 Restatements, continued

The effect of the SEC settlement disclosed in Note 9 was reflected as a prior period adjustment. As such the effect of the adjustments in incentive fees were reported in prior years as though the agreed methodology had been in place since inception. Interest received by the Fund upon settlement was allocated to the years in which it was earned. The penalty received upon settlement was reflected in the year settlement was reached (2005).

The Fund also reported the effect of the revaluation of investments discussed above as a prior period adjustment.

The resultant increase in management fees disclosed was allocated to each period based on the recalculation of net assets as restated.

The Fund reflected these adjustments retrospectively for the three months ended March 31, 2003 as follows:

Net loss as originally reported	\$ (4,336,226)
Increase in interest income	45,813
Decrease in net change in unrealized appreciation (depreciation) on investments	(1,347,760)
Reduction in incentive fees	166,163
Increase in management fees	(15,499)
Net loss, as restated	\$ (5,487,509)
Net loss per share for the three months ended March 31, 2003 was adjusted as follows:	
As originally reported	\$ (1.00)
Adjustment	(.26)
As restated	\$ (1.26)

Note 11 - Commitments and Contingencies

As disclosed in Note 4, the Fund is obligated to pay to the Investment Adviser an incentive fee equal to 20% of the funds cumulative realized capital gains in excess of cumulative capital losses of the Fund after allowance for any capital depreciation on the portfolio investments of the Fund. As incentive fees on capital gains are not due to the Investment Adviser until the capital gains are realized, any obligations for incentive fees based on unrealized capital gains are not reflected in the accompanying financial statements as there is no assurance that the unrealized gains as of the end of any period will ultimately become realized. Had an incentive fee been accrued as a liability based on all unrealized capital gains, net assets of the Fund would have been reduced by \$7,831,661 as of December 31, 2003.



RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.  
Notes to Unaudited Financial Statements  
March 31, 2004

Note 12 - Financial Highlights - unaudited

Selected per share data and ratios for each share of common stock outstanding throughout the three months ended March 31, 2004 and 2003 are as follows:

	2004	2003 (restated)
Net asset value, beginning of period	\$ 15.95	\$ 10.59
Net investment loss	(.12)	(.24)
Net realized and unrealized gain on investments	5.62	6.85
Total return from investment operations	5.50	6.61
Distributions	(.10)	(1.25)
Net asset value, end of period	\$ 21.35	\$ 15.95
Per share market value, end of period	\$ 17.24	\$ 6.75
Portfolio turnover rate (quarterly)	6.58%	2.89%
Quarterly return (a)	28.75%	(14.12)%
Ratio to average net assets (quarterly) (b):		
Net investment income (loss)	(0.65)%	.25%
Expenses, excluding incentive fees	.81%	(1.51)%
Expenses, including incentive fees	.81%	(1.26)%

(a) Quarterly return (not annualized) was calculated by comparing the common stock price on the first day of the period to the common stock price on the last day of the period, in accordance with American Institute of Certified Public Account guidelines.

(b) Average net assets have been computed based on quarterly valuations.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

### Material Changes in Portfolio Investments

The following material portfolio transactions occurred during the quarter ended March 31, 2004:

**Bentley Pharmaceuticals, Inc.** (AMEX:BNT) During the first quarter of 2004, the Fund sold 63,450 shares of common stock in the open market realizing proceeds of \$860,247, representing a gain of \$780,934.

**Blue Rhino Corporation** (NASDAQ:RINO) During the first quarter of 2004, the Fund sold 40,000 shares of common stock in the open market realizing proceeds of \$667,217, representing a gain of \$190,218.

**CNE Group, Inc.** (AMEX:CNE) During the first quarter of 2004, the Fund sold 125,000 shares of common stock realizing proceeds of \$30,079, representing a loss of \$219,921.

**Digital Learning Institute** (OTCBB:DGTL) During the first quarter of 2004, the Fund bought a \$1,000,000 - 7% convertible debenture.

**Flamel Technologies S.A.** (Nasdaq:FLML) During the first quarter of 2004, the Fund sold 25,000 shares of common stock realizing proceeds of \$748,280, representing a loss of \$520,005.

**Gaming & Entertainment Group, Inc.** (OTCBB:GMEI) In the quarter ended March 31, 2004, the Fund purchased 500,000 shares of common stock for \$500,000 and received warrants to purchase 500,000 shares of common stock at \$1.50 per share.

**Gasco Energy, Inc.** (AMEX:GSX) During the quarter ended March 31, 2004, the Fund received options to purchase 12,500 shares of common stock in connection with John Schmit's service on the board of directors of Gasco. The Fund also purchased 250,000 shares of common stock for \$375,000.

**Global Access Corporation** (OTCBB:GLXS) During the quarter ended March 31, 2004, the Fund exercised warrants to purchase 700,000 shares of common stock. The Fund immediately sold those 700,000 shares of common stock realizing proceeds of \$245,000. The Fund also acquired 2,666,667 shares of common stock and warrants to purchase 5,333,333 shares of common stock at prices ranging from \$0.35 to \$1.00 for \$666,667.

**I-Flow Corporation** (Nasdaq:IFLO) In the quarter ended March 31, 2004, the Fund sold 50,000 shares of common stock realizing proceeds of \$635,173, representing a loss of \$518,130.

**Integrated Security Systems, Inc.** (OTC:IZZ) In the first quarter of 2004, the Fund received common stock of the Company as payment in kind for interest on 8% Promissory Notes owned by the Fund. In total, the Fund received 77,331 shares of IZZI having an imputed cost of \$19,830 as payment in kind for interest on the notes. The Fund also received 26,756 shares of common stock of the Company as payment in kind for Russell Cleveland's director's fee, having an imputed cost of \$4,242. In addition, the Fund exercised warrants to purchase 200,000 shares of the Company's common stock. The Fund allowed warrants to purchase 364,299 shares of common stock to expire.

**Intrusion, Inc.** (Nasdaq:INTZ) In the first quarter of 2004, the Fund bought a 100,000 shares of 5% preferred stock for \$500,000 and received warrants to purchase 222,646 shares of common stock at \$0.78 per share. Subsequent to that purchase, the company declared a 1-for-4 reverse stock split.

**Laserscope, Inc.** (Nasdaq:LSCP) In the first quarter of 2004, the Fund sold 600,000 shares of common stock realizing proceeds of \$12,881,396, representing a gain of \$12,131,396.

**Tarantella, Inc.** (Nasdaq:TTLA) In the first quarter of 2004, the Fund bought 917,048 shares of common stock and warrants to purchase 142,857 shares of common stock for \$1,186,541.

**Vaso Active Pharmaceuticals, Inc.** (OTCBB:VAPH) In the first quarter of 2004, the company declared a 3-for-1 stock split. At the end of the quarter, the Fund owned 150,000 shares of common stock.

#### Results of Operations for the Quarter Ended March 31, 2004

For the quarter ended March 31, 2004, the Fund had net investment loss of \$527,546 compared to net investment income of \$1,090,632 for the first quarter of 2003. This change was due in large part to a decrease in investment income from \$1,412,354 for the first quarter of 2003 to \$129,228 for the comparable period of 2004. This decrease in investment income was primarily attributable to a decrease in dividend income from \$1,106,009 for the quarter ended March 31, 2003 to \$20,983 for the quarter ended March 31, 2004, as a result of no dividend declarations being made by portfolio companies in the quarter ended March 31, 2004. In addition, interest income decreased in the first quarter of 2004 due to debt positions being converted to equity, and cash holdings being held in short term treasury funds that earn dividends instead of interest. Also, there was no settlement interest from affiliate accrued for the first quarter of 2004.

Investment expenses increased from \$321,722 for the quarter ended March 31, 2003 to \$656,774 for the quarter ended March 31, 2004. General and administrative expenses increased for the first quarter of 2004 to \$103,364 from \$75,048 for the first quarter of 2003, as a result of higher travel, investor relations, marketing, insurance, postage, and bank charges for the quarter ended March 31, 2004. Legal and professional fees increased from \$58,165 for the first quarter of 2003 to \$129,873 for the first quarter of 2004, as a result of rights offering and consulting expenses in the first quarter of 2004. Management fees increased from \$178,476 for the first quarter of 2003 to \$410,131 for the comparable period of 2004 as a result of higher market values for portfolio investments during the period.



The net change in unrealized appreciation decreased \$7,408,956 for the quarter ended March 31, 2003. The net change in unrealized appreciation increased \$10,292,651 for the quarter ended March 31, 2004. This change was due to the fluctuation of market values at each quarter end and the realization of gains upon the disposition of investments.

Net realized gains increased from \$830,815 for the quarter ended March 31, 2003 to \$14,163,079 for the same period of 2004, as a result of more gains being earned from the sale of investments during the quarter ended March 31, 2004.

#### Liquidity and Capital Resources

For the three months ended March 31, 2004, net assets increased from \$69,405,964 at December 31, 2003, to \$92,898,974 at March 31, 2004. This increase is primarily attributable to an increase in distributable net capital gains from proceeds from the sale of investments and an increase in net unrealized appreciation. This increase was partially offset by the net investment loss in the quarter ended March 31, 2004.

At the end of the first quarter of 2004, the Fund had cash and cash equivalents of \$41,324,075 versus cash and cash equivalents of \$35,255,687 at December 31, 2003. This increase was primarily attributable to the receipt of proceeds from the sale of investments including Laserscope, Bentley Pharmaceutical, Inc. and I-Flow Corporation, offset with the January 2004 payment of the dividend payable at December 31, 2003, and the purchase of new or follow-on investments. The Fund's interest and dividends receivable decreased from \$233,201 at December 31, 2003 to \$56,573 at March 31, 2004 primarily due to no dividend declarations being made by portfolio companies in the quarter ended March 31, 2004.

Accounts payable increased from \$57,273 at December 31, 2003, to \$121,119 at March 31, 2004 primarily due to the accrual of rights offering and consulting expenses during the quarter ended March 31, 2004. Accounts payable to affiliate decreased from \$1,703,398 at December 31, 2003 to \$730,935 at March 31, 2004 due to the payment of the 2003 incentive fee to the Fund's investment adviser.

During the quarter ended March 31, 2004 the Fund paid \$4,134,134 of dividends to shareholders of which \$3,698,960 was capital gains dividend payable at December 31, 2003 and \$435,174 of dividends declared and payable during the quarter ended March 31, 2004.

The majority of the Fund's investments in portfolio companies are individually negotiated, non-registered for public trading, and are subject to legal and contractual investment restrictions. Accordingly, the Fund's portfolio investments are generally considered non-liquid. This lack of liquidity primarily affects the Fund's ability to make new investments and distributions to shareholders.

Pending investment in portfolio investments, funds are invested in temporary cash accounts and in government securities. Government securities used as cash equivalents will typically consist of U. S. Treasury securities or other U. S. Government and Agency obligations having slightly higher yields and maturity dates of three months or less. These investments qualify for investment as permitted in Section 55(a)(1) through (5) of the 1940 Act.

### Contractual Obligations

The Fund has a contract for the purchase of services under which it will have future commitments: the investment advisory agreement, pursuant to which RENN Capital Group, Inc. has agreed to serve as the Fund's investment adviser. Such agreement has contractual obligations with fees which are based on values of the portfolio investments which the Fund owns. For further information regarding the Fund's obligations under the investment advisory agreement see Note 4 of the Financial Statements.

Because the Fund does not enter into other long-term debt obligations, capital lease obligations, operating lease obligations, or purchase obligations, a table of contractual obligations has not been presented.

### **Item 3. Quantitative and Qualitative Disclosure About Market Risk**

The Fund is subject to financial market risks, including changes in market interest rates as well as changes in marketable equity security prices. The Fund does not use derivative financial instruments to mitigate any of these risks. The return on the Fund's investments is generally not affected by foreign currency fluctuations.

A majority of the Fund's net assets consist of common stock, and warrants and options to purchase common stock, in publicly traded companies. These investments are directly exposed to equity price risk, in that a percentage change in these equity prices would result in a similar percentage change in the fair value of these securities.

A lesser percentage of the Fund's net assets consist of fixed rate convertible debentures and other debt instruments as well as convertible preferred securities. Since these instruments are generally priced at a fixed rate, changes in market interest rates do not directly impact interest income, although they could impact the Fund's yield on future investments in debt instruments. In addition, changes in market interest rates are not typically a significant factor in the Fund's determination of fair value of its debt instruments, as it is generally assumed they will be held to maturity, and their fair values are determined on the basis of the terms of the particular instrument and the financial condition of the issuer.

A small percentage of the Fund's net assets consist of equity investments in private companies. The Fund anticipates no impact on these investments from modest changes in public market equity prices. However, should significant changes in market prices occur, there could be a longer-term effect on valuations of private companies which could affect the carrying value and the amount and timing of proceeds realized on these investments.

**Item 4. Controls and Procedures.**

The Fund has in place systems relating to disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934). Our principal executive officer and principal financial officer evaluated the effectiveness of these disclosure controls and procedures as of the end of our quarter ended March 31, 2004 in connection with the preparation of this report. They concluded that the controls and procedures were effective and adequate at that time. There were no significant changes in the Fund's internal control over financial reporting during the first quarter of fiscal 2004 that have materially affected, or are reasonably likely to materially affect, the Fund's internal control over financial reporting.

PART II

**Item 1. Legal Proceedings**

None

**Item 1A. Risk Factors**

You should carefully consider the risks described below and all other information contained in this quarterly report on Form 10-Q, including our financial statements and the related notes thereto before making a decision to purchase our common stock. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties not presently known to us, or not presently deemed material by us, may also impair our operations and performance. If any of the following risks actually occur, our business, financial condition or results of operations could be materially adversely affected. If that happens, the trading price of our common stock could decline, and you may lose all or part of your investment.

*Failure to Meet Listing Standards.* It is uncertain whether our common stock will meet the requirements for listing on Nasdaq, or any other stock exchange or quotation service.

In July 2004, due to our inability to complete our audit and file our Form 10-K for the year ended December 31, 2003 in a timely manner, the Fund's common stock was delisted from Nasdaq. As we become current with the delinquent filings, we will attempt to relist with Nasdaq or a national stock exchange, but there is no certainty that we will be able to do so.

*Our Growth is Dependent on Investing in Quality Transactions.* Sustaining growth depends on our ability to identify, evaluate, finance, and invest in companies that meet our investment criteria. Accomplishing such results on a cost-effective basis is a function of our marketing capabilities and skillful management of the investment process. Failure to achieve future growth could have a material adverse effect on our business, financial condition, and results of operations.

*Failure to Invest Capital Effectively May Decrease Our Stock Price.* If we fail to invest our capital effectively, our return on equity may be decreased, which could reduce the price of the shares of our common stock.

*Highly Competitive Market for Investments.* We compete with a number of private equity funds, other investment entities and individuals for investment opportunities. Some of these competitors are substantially larger and have greater financial resources, and some are subject to different and frequently less stringent regulation. As a result of this competition, we may not be able to take advantage of attractive investment opportunities from time to time and there can be no assurance that we will be able to identify and make investments that satisfy our objectives.

*Lack of Publicly Available Information on Certain Portfolio Companies.* Some of the securities in our portfolio are issued by privately held companies. There is generally little or no publicly available information about such companies, and we must rely on the diligence of our management to obtain the information necessary for our decision to invest. There can be no assurance that such diligence efforts will uncover all material information necessary to make fully informed investment decisions.

*Dependence on Key Management.* Selecting, structuring and closing our investments depends upon the diligence and skill of our management, which is responsible for identifying, evaluating, negotiating, monitoring and disposing of our investments. Our management's capabilities will significantly impact our results of operations. If we lose any member of our management team and he/she cannot be promptly replaced with an equally capable team member, our results of operations could be significantly impacted.

*Failure to Deploy Capital may Lower Returns.* Our failure to successfully deploy sufficient capital may reduce our return on equity.

*Results May Fluctuate.* Our operating results may fluctuate materially due to a number of factors including, among others, variations in and the timing of the recognition of realized and unrealized gains or losses, the degree to which we encounter competition in our portfolio companies' markets, the ability to find and close suitable investments, and general economic conditions. As a result of these factors, results for any period should not be relied upon as being indicative of performance in future periods.

*Uncertain Value of Certain Restricted Securities.* Our net asset value is based on the values assigned to the various investments in our portfolio, determined in good faith by our board of directors. Because of the inherent uncertainty of the valuation of portfolio securities which do not have readily ascertainable market values, our fair value determinations may differ materially from the values which would be applicable to unrestricted securities having a public market.

*Illiquid Securities May Adversely Affect Our Business.* Our portfolio contains securities which are subject to restrictions on sale because they were acquired from issuers in "private placement" transactions or because we are deemed to be an affiliate of the issuer. Unless an exemption from the registration requirements of the Securities Act of 1933 is available, we will not be able to sell these securities publicly without the expense and time required to register the securities under applicable federal and state securities laws. In addition, contractual or practical limitations may restrict our ability to liquidate our securities in portfolio companies, because we may own a relatively large percentage of the issuer's outstanding securities. Sales may also be limited by unfavorable market conditions. The illiquidity of our investments may preclude or delay the disposition of such securities, which may make it difficult for us to obtain cash equal to the value at which we record our investments.

Regulated Industry. Publicly traded investment funds are highly regulated. Changes in securities laws or regulations governing our operations or our failure to comply with those laws or regulations may adversely affect our business.

Failure to Qualify for Favorable Tax Treatment. We may not qualify for conduit tax treatment as a Regulated Investment Company ("RIC") if we are unable to comply with the requirements of Subchapter M of the Internal Revenue Code. If we fail to satisfy such requirements and cease to qualify for conduit tax treatment, we will be subject to federal taxes on our net investment income. The loss of this pass-through tax treatment could have a material adverse effect on the total return, if any, obtainable from an investment in our common stock.

Highly Leveraged Portfolio Companies. Some of our portfolio companies could incur substantial indebtedness in relation to their overall capital base. Such indebtedness often has a term that will require the balance of the loan to be refinanced when it matures. If portfolio companies cannot generate adequate cash flow to meet the principal and interest payments on their indebtedness, the value of our investments could be reduced or eliminated through foreclosure on the portfolio company's assets or by the portfolio company's reorganization or bankruptcy.

Our Common Stock Often Trades at a Discount. Our common stock often trades at a discount from net asset value. Our common stock is traded over-the-counter in the pink sheets. Stockholders desiring liquidity may sell their shares at current market value, which has often been below net asset value. Shares of closed-end investment companies frequently trade at discounts from net asset value, which is a risk separate and distinct from the risk that a fund's performance will cause its net asset value to decrease.

Nature of Investment in Our Common Stock. Our stock is intended for investors seeking long-term capital appreciation. Our investments in portfolio securities generally require some time to reach maturity, and such investments generally are illiquid. An investment in our shares should not be considered a complete investment program. Each prospective purchaser should take into account his or her investment objectives as well as his or her other investments when considering the purchase of our shares.

Our Stock Price May Fluctuate Significantly. The market price of our common stock may fluctuate significantly. The market price and marketability of shares of our common stock may from time to time be significantly affected by numerous factors, including our investment results, market conditions, and other influences and events over which we have no control and that may not be directly related to us.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

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**

31.1 Certification of the principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of the principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of the principal executive officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification of the principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

35

---

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.

/s/ Russell Cleveland

December 19, 2006

Russell Cleveland, President and  
Chief Executive Officer  
(Principal Executive Officer)

/s/ Barbe Butschek

December 19, 2006

Barbe Butschek, Chief Financial Officer  
(Principal Executive Officer)