

RENAISSANCE CAPITAL GROWTH & INCOME FUND III INC  
Form 10-Q  
November 14, 2003

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 quarterly period ended September 30, 2003

TRANSITION REPORT PURSUANT TO SECTION 12 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)  
Texas 75-2533518

-----  
(State or other jurisdiction of (I.R.S. Employer I.D. No.)  
incorporation or organization)

8080 North Central Expressway, Dallas, Texas 75206-1857  
-----  
(Address of principal executive offices) (Zip Code)

214-891-8294

-----  
(Registrant's telephone number, including area code)

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

4,351,718 shares of common stock were outstanding at November 14, 2003.

The Registrant's Registration Statement on Form N-2 was declared effective by  
the Securities and Exchange Commission on May 6, 1994.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	December 31, 2002 (audited)	September 30, 2003 (unaudited)
<b>Assets</b>		
Cash and cash equivalents	\$10,968,001	\$34,221,579
Investments at fair value, cost of \$32,918,344, and \$31,557,897 at December 31, 2002 and September 30, 2003, respectively (note 7)	39,459,243	57,847,681
Interest and dividends receivable, net of reserves	28,409	207,974
Prepaid expenses	40,068	68,852
	-----	-----
	\$50,495,721	\$92,346,086
	=====	=====
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
Due to broker (note 4)	9,001,163	26,942,033
Accounts payable	12,106	6,401
Accounts payable - affiliate (note 5)	223,386	1,183,322
	-----	-----
	9,236,655	28,131,756
	=====	=====
<b>Net assets:</b>		
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	35,642,954	35,642,954
Treasury stock at cost, 209,900 shares at December 31, 2002, and at September 30, 2003	(1,734,966)	(1,734,966)
Accumulated deficit	(3,751,440)	(545,060)
Net unrealized appreciation of investments	6,540,900	26,289,784
Net assets, equivalent to \$9.48 and \$14.76 per share on the shares outstanding at December 31, 2002, and September 30, 2003, respectively	-----	-----
	41,259,066	64,214,330
	-----	-----
	\$50,495,721	\$92,346,086
	=====	=====

See accompanying notes to financial statements.

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

September 30, 2003  
(unaudited)

Interest Rate	Due Date	Cost	Fair Value	% of Net Assets
------------------	-------------	------	---------------	--------------------

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Eligible Portfolio Investments -						
Convertible Debentures and						
Promissory Notes						
Business Process Outsourcing -						
Convertible debenture (1) (3)	12.00	08/31/03	\$ 98,000	\$ 100,001	0.16	
Dexterity Surgical, Inc. -						
Convertible debenture (2)	9.00	12/19/04	1,316,282	1,066,282	1.66	
EDT Learning Inc. -						
Convertible redeemable note (2)	12.00	03/29/12	500,000	500,000	0.78	
Integrated Security Systems, Inc. -						
Promissory notes (4)	8.00	09/05/03	525,000	525,000	0.82	
Laserscope -						
Convertible debenture (2)	8.00	02/11/07	1,300,000	12,097,800	18.84	
Simtek Corporation -						
Debt (2)	7.50	06/28/09	1,000,000	2,330,128	3.63	
			-----	-----	-----	
			\$ 4,739,282	\$16,619,211	25.88	
			-----	-----	-----	

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Renaissance Capital Growth & Income Fund III, Inc.  
Schedules of Investments  
September 30, 2003  
(unaudited)

	Interest Rate	Due Date	Cost	Fair Value	% of Net Assets
Other Portfolio Investments -					
Convertible Debentures and					
Promissory Notes					
Interpool, Inc. -					
Convertible debenture (2)	9.25	12/27/22	\$ 375,000	\$ 375,000	0.58
			-----	-----	-----
			\$ 375,000	\$ 375,000	0.58
			-----	-----	-----

- (1) Valued at fair value as determined by the Investment Adviser (note 7).
- (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) Included Miscellaneous Securities, securities of privately owned companies, securities with no conversion feature, and securities for which there is no market.

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Renaissance Capital Growth & Income Fund III, Inc.  
Schedules of Investments  
September 30, 2003  
(unaudited)

	Shares	Cost	Fair Value	% of Net Assets
-----				
Eligible Portfolio Investments - Common Stock, Preferred Stock, and Miscellaneous Securities				
Bentley Pharmaceuticals, Inc. - Common stock	200,000	\$ 250,000	\$ 3,227,400	5.02
CaminoSoft Corp. - Common stock	1,750,000	4,000,000	762,300	1.19
Common stock (2)	708,333	875,000	242,967	0.38
CareerEngine Network, Inc. - Common stock (2)	125,000	250,000	19,325	0.03
eOriginal, Inc. - Series A, preferred stock (1) (3)	10,680	4,692,207	770,383	1.20
Series B, preferred stock (1) (3)	25,646	620,329	1,849,928	2.88
Series C, preferred stock (1) (3)	28,929	699,734	2,086,741	3.25
New Series C, preferred stock (1) (3)	12,709	205,000	205,000	0.32
Fortune Natural Resources Corp. - Common stock	1,262,394	500,500	374,931	0.58
Gasco Energy, Inc. - Common stock	750,000	639,105	423,225	0.66

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Renaissance Capital Growth & Income Fund III, Inc.  
Schedules of Investments  
September 30, 2003  
(unaudited)

	Shares	Cost	Fair Value	% of Net Assets
-----				
Eligible Portfolio Investments - Common Stock, Preferred Stock, and Miscellaneous Securities				
Integrated Security Systems, Inc. - Common stock (2)	24,173,966	\$ 4,973,166	\$ 7,903,235	12.31
Series D, preferred stock (2)	187,500	150,000	78,750	0.12
JAKKS Pacific, Inc. - Common stock	49,847	297,421	606,493	0.94

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Laserscope -				
Common stock	160,000	200,000	1,861,200	2.90
Poore Brothers, Inc. -				
Common stock (2)	1,686,357	1,748,170	7,557,258	11.77
Simtek Corp. -				
Common stock	1,000,000	195,000	782,100	1.22
ThermoView Industries, Inc. -				
Common stock	234,951	563,060	109,323	0.17
Miscellaneous Securities		165	762,989	1.19
			-----	-----
			\$20,858,857	\$29,623,548
			-----	-----
				46.13

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Renaissance Capital Growth & Income Fund III, Inc.  
Schedules of Investments  
September 30, 2003  
(unaudited)

	Shares	Cost	Fair Value	% of Net Assets
Other Portfolio Investments - Common Stock, Preferred Stock, and Miscellaneous Securities				
AirNet Systems, Inc. - Common stock	9,900	\$ 42,075	\$ 39,204	0.06
Bentley Pharmaceuticals, Inc. - Common stock	72,979	91,224	1,177,662	1.83
Capital Senior Living Corp. - Common stock	57,100	146,335	245,336	0.38
Dave & Busters, Inc. - Common stock	100,000	653,259	1,019,700	1.59
EDT Learning, Inc. - Common stock	48,266	27,033	28,670	0.04

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Flamel Technologies, SA - Common stock	100,000	832,267	3,337,290	5.20
Franklin Covey - Common stock	204,326	287,858	258,922	0.40
Gasco Energy, Inc. - Common stock	250,000	250,000	141,075	0.22
I-Flow Corporation - Common stock	100,000	254,038	1,048,410	1.63

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Renaissance Capital Growth & Income Fund III, Inc.  
Schedules of Investments  
September 30, 2003  
(unaudited)

	Shares	Cost	Fair Value	% of Net Assets
Other Portfolio Investments - Common Stock, Preferred Stock, and Miscellaneous Securities				
Inet Technologies, Inc. - Common stock	96,600	\$ 530,338	\$ 1,226,984	1.91
Medical Action Industries, Inc. - Common stock	25,000	292,329	319,770	0.50
Precis, Inc. - Common stock	200,700	1,372,417	673,569	1.05
Stonepath Group, Inc. - Common stock (2)	200,000	270,000	429,400	0.67
US Home Systems, Inc. - Common stock	110,000	535,587	1,283,931	2.00
Miscellaneous Securities		0	0	0.00
		-----	-----	-----
		\$ 5,584,760	\$11,229,923	17.49
		-----	-----	-----
		\$31,557,899	\$57,847,682	90.09
		=====	=====	=====

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Renaissance Capital Growth & Income Fund III, Inc.  
Schedules of Investments  
September 30, 2003

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(unaudited)

	Shares	Cost	Fair Value	% of Net Assets
Allocation of Investments -				
Restricted Shares, Unrestricted Shares, and Other Securities				
Restricted Securities (2)		\$12,757,618	\$32,600,145	50.77
Unrestricted Securities		11,959,843	18,947,495	29.51
Other Securities (5)		6,840,435	6,300,042	9.81

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Renaissance Capital Growth & Income Fund III, Inc.  
Schedules of Investments  
December 31, 2003  
(audited)

	Interest Rate	Due Date	Cost	Fair Value	% of Net Assets
Eligible Portfolio Investments -					
Convertible Debentures and Promissory Notes					
Active Link Communications, Inc. -					
Convertible bridge note (2)	12.00	09/30/03	\$ 41,480	\$ 41,789	0.10
Convertible note (2)	8.00	09/30/03	125,000	126,000	0.31
Convertible note (2)	8.00	09/30/03	250,000	252,000	0.61
Business Process Outsourcing -					
Convertible debenture (1) (3)	12.00	08/31/03	98,000	100,000	0.24
Dexterity Surgical, Inc. -					
Convertible debenture (2)	9.00	12/19/04	1,316,282	1,066,282	2.58
EDT Learning, Inc. -					
Convertible redeemable note (2)	12.00	03/29/12	500,000	500,000	1.21
eOriginal, Inc. -					
Promissory note (3)	12.00	12/31/02	1,139,683	1,139,683	2.76
Integrated Security Systems, Inc. -					
Promissory notes (4)	8.00	09/05/03	325,000	325,000	0.79
Laserscope -					
Convertible debenture (2)	8.00	02/11/07	1,500,000	5,026,000	12.18
Simtek Corporation -					

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Convertible debenture (2)	7.50	06/28/09	1,000,000	1,000,000	2.42
			-----	-----	-----
			\$ 6,295,445	\$ 9,576,754	23.21
			-----	-----	-----

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Renaissance Capital Growth & Income Fund III, Inc.  
Schedules of Investments  
December 31, 2003  
(audited)

	Interest Rate	Due Date	Cost	Fair Value	% of Net Assets
-----					
Other Portfolio Investments - Convertible Debentures and Promissory Notes					
CareerEngine Network, Inc. - Convertible debenture (2)	12.00	03/31/10	\$ 250,000	\$ 250,000	0.61
Interpool, Inc. - Convertible debenture (2)	9.25	12/27/22	375,000	375,000	0.91
			-----	-----	-----
			\$ 625,000	\$ 625,000	1.51
			-----	-----	-----

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Renaissance Capital Growth & Income Fund III, Inc.  
Schedules of Investments  
December 31, 2003  
(audited)

	Shares	Cost	Fair Value	% of Net Assets
-----				
Eligible Portfolio Investments - Common Stock, Preferred Stock, and Miscellaneous Securities				



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Bentley Pharmaceuticals, Inc. -					
Common stock	400,000	\$ 500,000	\$ 3,187,800	7.73	
CaminoSoft Corp. -					
Common stock	1,750,000	4,000,000	1,559,250	3.78	
Common stock (2)	708,333	875,000	549,250	1.33	
Dexterity Surgical, Inc. -					
Preferred stock - A (2)	500	500,000	0	0.00	
Preferred stock - B (2)	500	500,000	0	0.00	
Common stock (2)	260,000	635,000	0	0.00	
eOriginal, Inc. -					
Series A, preferred stock (5)	6,000	1,500,000	794,000	1.92	
Series B-1, preferred stock (5)	1,785	392,700	1,426,215	3.46	
Series B-3, preferred stock (5)	447	107,280	357,153	0.87	
Series C-1, preferred stock (5)	2,353	2,000,050	2,000,050	4.85	
Fortune Natural Resources Corp. -					
Common stock	1,262,394	500,500	81,235	0.20	
Gasco Energy, Inc. -					
Common stock (2)	250,000	250,000	112,150	0.27	
Integrated Security Systems, Inc. -					
Common stock	393,259	215,899	93,438	0.23	
Common stock - PIK (2)	104,787	28,319	23,640	0.06	
Series D, preferred stock (2)	187,500	150,000	54,000	0.13	
Series F, preferred stock (2)	2,714,945	542,989	612,492	1.48	
Series G, preferred stock (2)	18,334,755	3,666,951	4,086,321	9.90	

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Renaissance Capital Growth & Income Fund III, Inc.  
Schedules of Investments  
December 31, 2003  
(audited)

	Shares	Cost	Fair Value	% of Net Assets
Eligible Portfolio Investments - Common Stock, Preferred Stock, and Miscellaneous Securities				
JAKKS Pacific, Inc. -				
Common stock	59,847	\$ 357,088	\$ 798,078	1.93
Poore Brothers, Inc. -				
Common stock (2)	2,016,357	2,078,170	4,669,485	11.32
Simtek Corp. -				
Common stock (2)	1,000,000	195,000	150,400	0.36
ThermoView Industries, Inc. -				
Common stock	134,951	497,832	120,241	0.29
Miscellaneous Securities		2,165	462,349	1.12

-----  
 \$19,494,943 \$21,137,547 51.23  
 -----

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Renaissance Capital Growth & Income Fund III, Inc.  
 Schedules of Investments  
 December 31, 2003  
 (audited)

	Shares	Cost	Fair Value	% of Net Assets
Other Portfolio Investments - Common Stock, Preferred Stock, and Miscellaneous Securities				
AirNet Systems, Inc. - Common stock (2)	75,000	\$ 318,750	\$ 296,860	0.72
Bentley Pharmaceuticals, Inc. - Common stock	259,979	535,168	2,071,902	5.02
Canterbury Consulting Group, Inc. - Common stock	200,000	193,473	51,480	0.12
Capital Senior Living Corp - Common stock	44,500	110,975	112,340	0.27
Creative Host Services, Inc. - Common stock	4,830	7,921	9,085	0.02
Daisytek International, Inc. - Common stock	49,600	507,639	389,395	0.94
Dave & Busters, Inc. - Common stock	100,000	653,259	856,350	2.08
Dwyer Group, Inc. - Common stock	675,000	1,966,632	2,559,397	6.20
EDT Learning, Inc. - Common stock	48,266	27,033	14,335	0.03
I-Flow Corporation - Common stock	100,000	254,038	154,440	0.37

Renaissance Capital Growth & Income Fund III, Inc.  
Schedules of Investments  
December 31, 2003  
(audited)

	Shares	Cost	Fair Value	% of Net Assets
Other Portfolio Investments - Common Stock, Preferred Stock, and Miscellaneous Securities				
Inet Technologies, Inc. - Common stock	75,000	\$ 367,434	\$ 452,925	1.10
Precis, Inc. - Common stock	100,700	1,025,047	550,305	1.33
US Home Systems, Inc. - Common stock	110,000	535,587	601,128	1.46
Miscellaneous Securities		0	0	0.00
		-----	-----	-----
		\$ 6,502,956	\$ 8,119,942	19.68
		-----	-----	-----
		\$32,918,344	\$39,459,243	95.64
		=====	=====	=====
Allocation of Investments - Restricted Shares, Unrestricted Shares, and Other Securities				
Restricted Securities (2)		\$15,097,941	\$19,191,669	46.52
Unrestricted Securities		\$12,255,525	\$13,663,124	33.12
Other Securities (5)		\$ 5,564,878	\$ 6,604,450	16.01

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Statements of Operations  
(Unaudited)

	Three Months Ended September 30,	
	2002	2003
	----	----
Income:		
Interest	(\$ 10,405)	\$ 88,396
Dividend income	16,396	46,706
Commitment and other fees	20,000	2,423
	-----	-----
	25,991	137,525
	-----	-----
Expenses (note 5):		
General and administrative	84,886	71,164
Incentive fee	0	794,919
Interest expense	9,813	20,979
Legal and professional fees	28,784	21,879
Management fees	190,870	287,577
	-----	-----
	314,353	1,196,518
	-----	-----
Net investment income (loss)	( 288,362)	( 1,058,993)
	-----	-----
Realized and unrealized gain (loss) on investments:		
Net unrealized appreciation (depreciation) on investments	( 10,732,012)	11,248,447
Net realized gain on investments	0	3,974,597
	-----	-----
Net gain on investments	( 10,732,012)	15,223,044
	-----	-----
Net income	(\$11,020,374)	\$14,164,050
	=====	=====
Net income per share (note 2(e))	(\$ 2.53)	\$ 3.25
	=====	=====

See accompanying notes to financial statements.

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

	Nine Months Ended September 30,	
	2002	2003
	----	----
Income:		
Interest	\$ 175,700	\$ 435,884
Dividend income	59,635	1,207,937
Commitment and other fees	20,000	3,975
	-----	-----
	255,335	1,647,796

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Expenses (note 5):		
General and administrative	331,496	264,344
Incentive fee	0	991,179
Interest expense	54,213	59,422
Legal and professional fees	194,074	102,393
Management fees	669,183	674,456
	-----	-----
	1,248,966	2,091,794
	-----	-----
Net investment income (loss)	( 993,631)	( 443,998)
	-----	-----
Realized and unrealized gain (loss) on investments:		
Net unrealized appreciation (depreciation) on investments	( 7,926,503)	19,748,883
Net realized gain (loss) on investments	( 3,424,391)	4,955,896
	-----	-----
Net gain (loss) on investments	( 11,350,894)	24,704,779
	-----	-----
Net income (loss)	(\$12,344,525)	\$24,260,781
	=====	=====
Net income (loss) per share (note 2(e))	(\$ 2.84)	\$ 5.57
	=====	=====

See accompanying notes to financial statements.

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

	Three Months Ended September 30, 2002	2003
	----	----
From operations:		
Net investment income (loss)	(\$ 288,362)	(\$ 1,058,993)
Net realized gain (loss) on investments	0	3,974,597
Increase (decrease) in unrealized appreciation on investments	( 10,732,012)	11,248,447
	-----	-----
Net increase (decrease) in net assets resulting from operations	( 11,020,374)	14,164,051
	-----	-----
From distributions to stockholders:		
Common dividends *	0	( 435,172)
	-----	-----
Net decrease in net assets resulting from distributions	0	( 435,172)
	-----	-----

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Total increase (decrease) in net assets ( 11,020,374) 13,728,879

Net assets:

Beginning of period	53,213,357	50,485,451
	-----	-----
End of period	\$42,192,983	\$64,214,330
	=====	=====

\* Source of distributions not determinable at September 30, 2003; will be characterized at year end.

See accompanying notes to financial statements.

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

	Nine Months Ended September 30,	
	2002	2003
	----	----
From operations:		
Net investment income (loss)	(\$ 993,631)	(\$ 443,998)
Net realized gain (loss) on investments	( 3,424,391)	4,955,896
Increase (decrease) in unrealized appreciation on investments	( 7,926,503)	19,748,882
	-----	-----
Net increase (decrease) in net assets resulting from operations	( 12,344,525)	24,260,780
	-----	-----
From distributions to stockholders:		
Common dividends *	0	( 1,305,516)
	-----	-----
Net decrease in net assets resulting from distributions	0	( 1,305,516)
	-----	-----
Total increase (decrease) in net assets	( 12,344,525)	22,955,264
Net assets:		
Beginning of period	54,537,508	41,259,066
	-----	-----
End of period	\$42,192,983	\$64,214,330
	=====	=====

\* Source of distributions not determinable at September 30, 2003; will be characterized at year end.

See accompanying notes to financial statements.

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Renaissance Capital Growth & Income Fund III, Inc.  
Statement of Cash Flows  
(unaudited)

	Three Months Ended September 30,	
	2002	2003
	----	----
Cash flows from operation activities:		
Net income	(\$11,020,374)	\$14,164,050
Adjustments to reconcile net income to net cash provided by (used in) operations:		
Net unrealized (appreciation) depreciation on investments	10,732,012	( 11,248,447)
Net realized (gain) loss on investments	0	( 3,974,597)
(Increase) decrease in interest and dividends receivable	78,431	286,082
(Increase) decrease in other receivables	0	110,381
(Increase) decrease in other assets	( 57,978)	( 65,975)
Increase (decrease) in accounts payable	2,297	( 15,231)
Increase (decrease) in accounts payable - affiliate	( 49,297)	838,569
Increase (decrease) in other liabilities	( 2,863,895)	( 7,549,571)
Purchase of investments	( 1,217,143)	( 1,595,640)
Proceeds from sale of investments	0	8,534,289
Repayment of debentures and notes	9,880	0
	-----	-----
Net cash provided by (used in) operating activities	( 4,386,067)	( 516,089)
	-----	-----
Cash flows from financing activities:		
Cash dividends	0	( 435,172)
	-----	-----
Net cash used in financing activities	0	( 435,172)
	-----	-----
Net increase (decrease) in cash and cash equivalents	( 4,386,067)	( 951,261)
Cash and cash equivalents at beginning of year	21,162,267	35,172,840
	-----	-----
Cash and cash equivalents at end of period	\$16,776,200	\$34,221,579
	=====	=====
Cash paid during the year for interest	\$ 9,813	\$ 20,979
Cash paid during the year for income/excise tax	\$ 0	\$ 0

See accompanying notes to financial statements.

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(unaudited)

	Nine Months Ended September 30,	
	2002	2003
	----	----
Cash flows from operation activities:		
Net income	(\$12,344,525)	\$24,260,780
Adjustments to reconcile net income to net cash provided by (used in) operations:		
Net unrealized (appreciation) depreciation on investments	7,926,503	( 19,748,884)
Net realized (gain) loss on investments	3,424,391	( 4,955,896)
(Increase) decrease in interest and dividends receivable	63,853	( 179,564)
(Increase) decrease in other receivables	0	0
(Increase) decrease in other assets	( 45,110)	( 28,784)
Increase (decrease) in accounts payable	4,163	( 5,705)
Increase (decrease) in accounts payable - affiliate	( 42,589)	959,936
Increase (decrease) in other liabilities	( 8,694,343)	17,940,871
Purchase of investments	( 5,202,187)	( 5,271,906)
Proceeds from sale of investments	3,941,141	11,565,790
Repayment of debentures and notes	618,977	22,456
	-----	-----
Net cash provided by (used in) operating activities	(10,349,726)	24,559,094
	-----	-----
Cash flows from financing activities:		
Cash dividends	0	( 1,305,516)
	-----	-----
Net cash used in financing activities	0	( 1,305,516)
	-----	-----
Net increase (decrease) in cash and cash equivalents	( 10,349,726)	23,253,578
Cash and cash equivalents at beginning of year	27,125,926	10,968,001
	-----	-----
Cash and cash equivalents at end of period	\$16,776,200	\$34,221,579
	=====	=====
Cash paid during the year for interest	\$ 54,214	\$ 59,422
Cash paid during the year for income/excise tax	\$ 25,779	\$ 1,671

See accompanying notes to financial statements.

Renaissance Capital Growth & Income Fund III, Inc.  
Statement of Cash Flows  
(unaudited)  
Periods ended September 30, 2002 and 2003

Noncash investing and financing activities:

During the quarter ended March 31, 2003, the Fund received common stock in settlement of amounts due from interest and dividends totaling \$891,417. During the quarter ended June 30, 2003, the Fund received common stock in settlement of amounts due from interest totaling \$1,994. During the quarter ended September 30, 2003, the Fund received common stock in settlement of



amounts due from interest totaling \$498,155.

During the quarter ended March 31, 2002, the Fund received common stock in settlement of amounts due from interest and dividends totaling \$9,397. During the quarter ended June 30, 2002, the Fund received common stock in settlement of amounts due from interest totaling \$6,745. During the quarter ended September 30, 2002, the Fund received common stock in settlement of amounts due from interest totaling \$6,740.

See accompanying notes to financial statements.

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RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.  
Notes to Financial Statements  
September 30, 2003

(1) Organization and Business Purpose

Renaissance Capital Growth & Income Fund III, Inc. (the Fund), is a non-diversified, closed-end fund that has elected to be treated as a Business Development Company under the Investment Company Act of 1940, as amended (1940 Act). The Fund, a Texas corporation, was organized in 1994 and commenced operations in 1995. The investment objective of the Fund is to provide its shareholders with current income and long-term capital appreciation by investing primarily in privately-placed convertible and equity securities of emerging growth public companies (portfolio companies). The Fund's investment adviser is RENN Capital Group, Inc. (Investment Adviser).

(2) Summary of Significant Accounting Policies

(a) Valuation of Investments

Portfolio investments are stated at quoted market or fair value as determined by the Investment Adviser (note 7). 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.

(b) Other

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

(c) Cash and Cash Equivalents

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

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RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.  
Notes to Financial Statements  
September 30, 2003

(d) 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 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.

(e) Net Income per Share

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

(f) 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.

(3) Reclassifications

Certain reclassifications of prior period amounts have been made in the statement of cash flows to conform to the current period presentation.

(4) Due to Broker

The Fund conducts business with a broker for its investment activities. The clearing and depository operations for the investment activities are performed pursuant to agreements with this broker. Due to broker represents a margin loan payable to the broker, which is secured by investments in securities maintained with the broker. Cash and cash equivalents related to the margin loan payable are held by the broker as collateral for the margin loan. The Fund is subject to credit risk to the extent the broker is unable

the Fund's behalf. The Investment Adviser actively monitors the Fund's exposure to the broker and believes the likelihood of loss under those circumstances is remote.

(5) Management and Incentive Fees

The Investment Adviser for the Fund is registered as an investment adviser under the Investment Advisers Act of 1940. 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 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:

- o The Investment Adviser receives a management fee equal to a quarterly rate of 0.4375% (1.75% annually) 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 \$287,577 and \$190,870 for such management fees during the quarters ended September 30, 2003, and September 30, 2002, respectively, and \$674,456 and \$669,183 for the nine months ended September 30, 2003, and September 30, 2002, respectively. Amounts payable for such fees at September 30, 2003, and September 30, 2002, were \$287,577 and \$185,405, respectively, and are included in Accounts payable - affiliate on the statements of assets and liabilities.
- o The Investment Adviser receives an incentive fee in an amount equal to 20% of the Fund's realized capital gains in excess of realized capital losses of the Fund after allowance for any unrealized capital losses in excess of unrealized capital gains on the portfolio investments of the Fund. The incentive fee is calculated, accrued, and paid on a quarterly basis. The Fund incurred \$794,919 during the quarter ended September 30, 2003, for such incentive fees, and \$919,179 for the nine months ended September 30, 2003. The Fund did not incur any incentive fees for the quarter ended September 30, 2002, or for the nine months ended September 30, 2002. Amounts payable for such fees at September 30, 2003 were \$794,919, which are included in Accounts payable - affiliate on the statements of assets and liabilities.
- o The Investment Adviser was reimbursed by the Fund for administrative expenses paid by the Investment Adviser on behalf of the Fund. Such reimbursements were \$12,493 and \$19,129 during the quarters ended September 30, 2003, and September 30, 2002, respectively, and \$73,065

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RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.  
Notes to Financial Statements  
September 30, 2003

and \$59,801 for the nine months ended September 30, 2003, and September 30, 2002, respectively. Such reimbursements are included in general and administrative expenses in the accompanying statements of operations.

(6) Eligible Portfolio Companies and Investments

(a) 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 provisions of 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.

(b) Investments.

Investments are carried in the statements of assets and liabilities as of December 31, 2002, and September 30, 2003, 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 may register and sell such securities at any time with the Fund paying the costs of registration. Interest on convertible securities are 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, and other factors.

(7) Valuation of Investments

On a quarterly basis, Renaissance Group prepares a valuation of the assets of the Fund subject to the approval of the Board of Directors. The valuation principles are as follows:

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RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.  
Notes to Financial Statements  
September 30, 2003

- o Generally, the guiding principle for valuation is the application of objective standards. The objective standards for determining market prices and applying valuation methodologies will govern in all situations except where a debt issuer is in default.
- o Generally, the fair value of debt securities and preferred securities convertible into common stock is the sum of (a) the value of such securities without regard to the conversion feature, and (b) the value, if any, of the conversion feature. The fair value of debt securities without regard to conversion

features is determined on the basis of the terms of the debt security, the interest yield, and the financial condition of the issuer. The fair value of preferred securities without regard to conversion features is determined on the basis of the terms of the preferred security, its dividend, and its liquidation and redemption rights and absent special circumstances will typically be equal to the lower of cost or 120% of the value of the underlying common stock. The fair value of the conversion features of a security, if any, are based on fair values of the derivative securities as of the relevant date less an allowance, as appropriate, for costs of registration, if any, and selling expenses.

- o Portfolio investments for which market quotations are readily available and which are freely transferable are valued as follows: (i) securities traded on a securities exchange or the Nasdaq or in the over-the-counter market are valued at the closing price on, or the last trading day prior to, the date of valuation, and (ii) securities traded in the over-the-counter market that do not have a closing price on, or the last trading day prior to, the date of valuation are valued at the average of the closing bid and ask price for the last trading day on, or prior to, the date of valuation. Securities for which market quotations are readily available but are restricted from free trading in the public securities markets (such as Rule 144 stock) are valued by discounting the value for the last trading day on, or prior to, the date of valuation to reflect the liquidity caused by such restriction, but taking into consideration the existence, or lack thereof, of any contractual right to have the securities registered and freed from such trading restrictions.
  
- o Because 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 by the entity governs the value of the enterprise. This valuation method causes the Fund's initial investment in the private entity to be valued at cost. Thereafter, new issuances of equity or equity-linked securities by a portfolio company will be used to determine enterprise value as they will provide the most objective and independent basis for determining the worth of the issuer.

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RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.  
Notes to Financial Statements  
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There can be no assurance that stated market fair values for private equities will stay constant, or that future equity raises will value the portfolio company at levels equal to or greater than the prior equity financing for the issuer. As a result, the Fund's valuation of a privately held portfolio company may be subject to downward adjustment that would directly impact the Fund's net asset value and which could result in a substantial reduction in the fund's net assets.

- o Where a portfolio company is in default on a debt instrument held by the Fund, and no market exists for that instrument, the fair

value for the investment is determined on the basis of appraisal procedures established in good faith by the Investment Adviser. This type of fair value determination is based upon numerous factors such as the portfolio company's earnings and net worth, market prices for comparative investments (similar securities in the market place), the terms of the Fund's investment, and a detailed assessment of the portfolio company's future financial prospects. In the event of unsuccessful operations by a portfolio company, the appraisal may be based upon an estimated net realizable value when that investment is liquidated

As of September 30, 2003, and December 31, 2002, the net unrealized appreciation associated with investments held by the Fund was \$26,289,784, and \$6,540,900, respectively.

(8) Restricted Securities

As indicated on the statement of investments as of September 30, 2003, and December 31, 2002, 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 (note 7).

(9) Purchase of Additional Shares

In accordance with Fund guidelines, certain shareholders reinvested their dividends in the Fund. The Fund issued no shares during the three months and nine months ended September 30, 2003, under the dividend reinvestment plan.

(10) Distributions to Shareholders

During the three months ended September 30, 2003, the Fund distributed \$435,172, resulting in total distributions for the nine months ended September 30, 2003, amounting to \$1,305,516. The final tax characteristics

RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.  
Notes to Financial Statements  
September 30, 2003

of these distributions cannot be determined at this time. The Fund made no distributions to shareholders during the three and nine months ended September 30, 2002.

(11) Financial Highlights

Selected per share data and ratios for each share of common stock outstanding throughout the three months ended September 30, 2002, and 2003, are as follows:

	2002	2003
	----	----
Net asset value, beginning of period	\$ 12.20	\$ 11.60
Net investment income (loss)	\$( 0.07)	\$( 0.24)
Net realized and unrealized gain on investments	\$( 2.46)	\$ 3.50
	-----	-----

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Total return from investment operations	\$ ( 2.53)	\$ 3.26
	-----	-----
Distributions:	\$ 0.00	\$ 0.10
	-----	-----
Net asset value, end of period	\$ 9.67	\$ 14.76
	=====	=====
Per share market value, end of period	\$ 8.94	\$ 11.44
Portfolio turnover rate (quarterly)	0.02%	2.96%
Quarterly return (a)	-10.61%	22.35%
Ratio to average net assets (quarterly) (b):		
Net investment income (loss)	- 0.60%	- 2.20%
Expenses, excluding incentive fees	0.66%	0.84%
Expenses, including incentive fees	0.66%	2.49%

(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.

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

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(10) Financial Highlights (continued)

Selected per share data and ratios for each share of common stock outstanding throughout the nine months ended September 30, 2002, and 2003, are as follows:

	2002	2003
	----	----
Net asset value, beginning of period	\$ 12.50	\$ 9.48
Net investment income (loss)	\$ ( 0.23)	\$ ( 0.10)
Net realized and unrealized gain on investments	\$ ( 2.60)	\$ 5.68
	-----	-----
Total return from investment operations	\$ ( 2.83)	\$ 5.58
	-----	-----
Distributions	\$ 0.00	\$ 0.30
	-----	-----
Net asset value, end of period	\$ 9.67	\$ 14.76
	=====	=====
Per share market value, end of period	\$ 8.94	\$ 11.44
Portfolio turnover rate (nine months)	8.75%	10.34%
Nine-month return (a)	-13.30%	45.55%
Ratio to average net assets (semi-annually) (b):		
Net investment income (loss)	- 1.93%	- 0.92%
Expenses, excluding incentive fees	2.43%	2.29%
Expenses, including incentive fees	2.43%	4.35%

(a) Nine month 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.

(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 portfolio transactions are noted for the quarter ended September 30, 2003:

Active Link Communications, Inc. (OTC:ACVE) In the third quarter of 2003, the Fund wrote off its entire investment in the Company realizing a tax loss in the amount of \$396,023.

Airnet Systems, Inc. (NYSE:ANS) During the third quarter of 2003, the Fund sold 40,100 shares of Airnet common stock in the open market realizing proceeds of \$172,585, representing a gain of \$2,161. At September 30, 2003, the Fund had 9,900 shares of ANS remaining having a basis of \$42,075, or \$4.25 per share.

Bentley Pharmaceuticals, Inc. (AMEX:BNT) In the third quarter of 2003, the Fund sold 200,000 shares of common stock in the open market realizing proceeds of \$2,723,911, representing a gain of \$2,448,552. At September 30, 2003, the Fund owned 272,979 shares of Bentley common stock with a basis of \$341,224 or \$1.25 per share.

Canterbury Consulting Group, Inc. (NASDAQ:CITI) In the third quarter of 2003, the Fund exited its position in the Company by selling 18,521 shares of Canterbury common stock in the open market realizing proceeds of \$12,594, representing a loss of \$112,822.

CNE Group, Inc. (AMEX:CNE) During the third quarter of 2003, the Company exchanged its outstanding debenture for 125,000 shares of the Company's common stock. At September 30, 2003, the Fund owned 125,000 shares of the Company's common stock with a basis of \$250,000 or \$2.00 per share and warrants to purchase 62,500 shares of the Company's common stock with an exercise price of \$6.00 per share.

Dexterity Surgical, Inc. (OTC:DEXT) In the third quarter of 2003, the Fund sold 500 shares of Series A Preferred Stock, 500 shares of Series B Preferred Stock, and 260,000 shares of the Company's common stock for a total of \$0.50, representing a loss of \$1,634,999.50. At September 30, 2003, the Fund owned \$1,316,282 of the Company's 9% Convertible Debentures.

The Dwyer Group, Inc. (NASDAQ:DWYR) In the third quarter of 2003, the Fund sold all of its remaining 575,000 shares of Dwyer common stock in the open market realizing proceeds of \$3,759,132, representing a gain of \$2,131,662.

eOriginal, Inc. (Private) During the third quarter of 2003, the Fund made a follow-on investment in eOriginal by purchasing 12,709 shares of the Company's Series C Convertible Preferred Stock for \$205,000. In



addition to these shares, at September 30, 2003, the Fund owned 10,680 shares Series A Convertible Preferred stock having a basis of \$4,692,207; 25,646 shares Series B Convertible Preferred Stock with a basis of \$620,329; 28,929 shares Series C Convertible Preferred Stock with a basis of \$699,734; and 2,302 warrants to purchase shares of common stock of the Company having a basis of \$165. Each series of Preferred of the Company is convertible one for one into common stock of eOriginal Holdings, and the warrants have an exercise price of \$0.01 per share.

Franklin Covey Co. (NYSE:FC) During the quarter ended September 30, 2003, the Fund purchased a total of 204,326 shares of the Company's common stock in the open market for \$\$287,858 or \$1.41 per share. This is a new investment for the Fund.

Franklin Covey is a global leader in effectiveness training, productivity tools, and assessment services for organizations and individuals.

GascoEnergy, Inc. (OTC:GASE) In the quarter ended September 30, 2003, the Fund purchased an additional 580,000 shares of the Company's common stock in the open market for \$539,400, a cost of \$0.93 per share. At September 30, 2003, the Fund owned a total of 750,000 common shares having a basis of \$639,105, or \$0.85 per share purchased in the open market and 250,000 shares at \$1.00 per share that were purchased in a private placement.

Integrated Security Systems, Inc. (OTC:IZZI) In the third quarter of 2003, 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 74,844 shares of IZZI having an imputed cost of \$10,466, a rate of \$0.14 per share, as payment in kind for interest on the notes. The Fund also received 2,438,445 shares of common stock of the Company as payment in kind for dividends on the Series F and G preferred stock, an imputed cost of \$487,689, a rate of \$0.20 per share. In addition, the Fund converted the Series F and G preferred stock into 21,049,750 shares of the Company's common stock, an imputed cost of \$4,209,940, a rate of \$0.20 per share.

At September 30, 2003, the Fund owned the following: \$525,000 in 8% Promissory Notes with no conversion feature; 24,173,966 shares of the Company's common stock with a basis of \$4,973,166, or \$0.21 per share; \$150,000 in Series D Preferred convertible into common at a rate of \$0.80 per share; warrants to purchase 364,299 shares of the Company's common stock at \$0.549 per share on or before March 8, 2004; warrants to purchase 312,500 shares of the Company's common stock at \$0.80 per share on or before October 2, 2003; warrants to purchase 125,000 shares of the Company's common stock at \$1.00 per share on or before October 11, 2004; warrants to purchase 2,625,000 shares of the Company's common stock at \$0.20 per share with term dates ranging from September 2006 to June 2008; and options to purchase 41,034 shares of the Company's common stock having strike prices ranging between \$0.21 and \$0.49 per share and term dates ranging from May 2006 to August 2007.

Subsequent to September 30, 2003, a warrant to purchase 312,500 shares of the Company's common stock at \$0.80 per share was allowed to

expire.

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PooreBrothers, Inc. (Nasdaq:SNAK) During the third quarter of 2003, the Fund sold 330,000 shares of the Company's common stock realizing proceeds of \$1,392,534, representing a gain of \$1,062,534. At September 30, 2003, the Fund owned 1,686,357 shares of the Company's common stock having a basis of \$1,748,170 or \$1.04 per share and three tranches of options to purchase a total of 20,210 shares, having exercise prices ranging from \$1.31 per share to \$3.60 per share.

ThermoView Industries, Inc. (AMEX:THV) During the quarter ended September 30, 2003, the Fund purchased an additional 100,000 shares of the Company's common stock in the open market for \$65,228 or \$0.65 per share. At September 30, 2003, the Fund owned a total of 234,951 shares of ThermoView common stock having a cost of \$563,060 or \$2.40 per share.

#### Results of Operations for the Three Months Ended September 30, 2003

For the quarter ended September 30, 2003, the Fund had a net investment loss of (\$1,058,993) compared to a net investment loss of (\$288,362) in the third quarter of 2002. This increase in net loss resulted from increased expenses offset slightly by increased income in the third quarter of 2003 compared to the same period of 2002. Interest income increased from a negative (\$10,405) for the third quarter of 2002 to \$88,396 for the same period in 2003, an increase of 949.55%. Dividend income increased 184.86% to \$46,706 in the quarter ended September 30, 2003, from \$16,396 for the same quarter in 2002. In the third quarter of 2003, the Fund accrued \$2,423 in income from commitment and other fees, compared to \$20,000 in the third quarter 2002, a decrease of 87.89%.

General and administrative expenses decreased 16.17% from \$84,886 in the third quarter of 2002 to \$71,164 in the third quarter 2003. Interest expense increased from \$9,813 for the quarter ended September 30, 2002, to \$20,979 for the same period in 2003, an increase of 113.79%. Legal and professional expenses decreased 23.99% from \$28,784 in the third quarter of 2002 to \$21,879 for the same quarter in 2003. Management fees increased from \$190,870 in the quarter ended September 30, 2002, to \$287,577 for the same period in 2003, an increase of 50.67%, and incentive fees increased to \$794,919 for the third quarter of 2003 compared to no incentive fees incurred in the third quarter of 2002.

Net income for the third quarter of 2003 was \$14,164,050 compared to a net loss of (\$11,020,374) for the same period of 2002. This increase was primarily due to an increase from net unrealized depreciation on investments from (\$10,732,012) in the third quarter of 2002 to net unrealized appreciation on investments in the amount of \$11,248,447 in the third quarter of 2003. In addition, the fund realized net realized gains on investments in the amount of \$3,974,597 in the third quarter of 2003 compared to no realized gains or losses in the same period of 2002. The realized gains in the third quarter of 2003 include \$473,533 in bankruptcy proceeds from two companies formerly in the Fund's portfolio.

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Results of Operations for the Nine months Ended September 30, 2003

For the nine months ended September 30, 2003, the Fund experienced a net investment loss in the amount of (\$443,998), compared to a net investment loss in the amount of (\$993,631) for the same nine-month period in 2002. Interest income increased from \$175,700 for the nine months ended September 30, 2002, to \$435,884 for the same period of 2003, an increase of 148.08%. Dividend income for the nine-month period ended September 30, 2003, was \$1,207,937 versus \$59,635 for the same period in 2002. Other income decreased 80.13% to \$3,975 in the nine months ended September 30, 2003, compared to \$20,000 in the same period of 2002.

General and administrative expenses decreased from \$331,496 in the nine months ended September 30, 2002, to \$264,344 for the same period in 2003. Legal and professional expenses also decreased from \$194,074 in 2002 to \$102,393 for the nine months ended September 30, 2003. Interest expense increased only 9.61% from \$54,213 for the nine-month period ending September 30, 2002, to \$59,422 for the same period in 2003. Management fees were relatively constant with \$669,183 for the nine months ended September 30, 2002, compared to \$674,456 for the same period in 2003; and incentive fees increased from zero in 2002 to \$991,179 for the nine months ended September 30, 2003.

Net income for the first nine months of 2003 was \$24,260,781, compared to a net loss in the amount of (\$12,344,525) for the same period of 2002. In addition to the increases in income and decreases in expenses discussed previously, this increase was driven by an increase from net unrealized depreciation on investments of (\$7,926,503) in the first nine months of 2002 to net unrealized appreciation on investments of \$19,748,883 for the same time period in 2003. In addition, in the first nine months of 2003, the Fund realized net gains on investments in the amount of \$4,955,896, compared to a net realized loss on investments of (\$3,424,391) in the same period of 2002.

Liquidity and Capital Resources

For the three months ended September 30, 2003, net assets increased 27.19% from \$50,485,451 at June 30, 2003, to \$64,214,330, or \$14.76 per share, at September 30, 2003. This increase is primarily attributable to an increase in the net unrealized appreciation of investments from \$15,041,337 at June 30, 2003, to \$26,289,784 at September 30, 2003, combined with a decrease in the accumulated deficit from (\$3,025,492) at June 30, 2003, to (\$545,060) at September 30, 2003.

At the end of the third quarter of 2003, the Fund had net cash and cash equivalents of \$7,279,546 versus net cash and cash equivalents of \$681,236 at June 30, 2003, primarily due to an accumulation of cash from proceeds from sales of investments, combined with a smaller margin balance. Receivables, including interest, dividends, and brokerage, decreased from \$604,436 at June 30 to \$207,974 at September 30, 2003, due to accrued

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dividend and interest amounts that were paid during the quarter. Prepaid expenses increased from \$2,877 at June 30, 2003 to \$68,852 at September 30, 2003, due to the payment of insurance.

Accounts payable decreased 70.41% from \$21,632 at June 30, 2003, to \$6,401 at September 30, 2003. Accounts payable to affiliate increased from \$344,753 at June 30, 2003, to \$1,183,322 at September 30, 2003, reflecting an increase in management fee due to higher portfolio values in the third quarter and the increase in incentive fees accrued as a result of higher net gains on the sale of investments.

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.

### ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES 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 consists of common stocks 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 consists 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 changes in interest rates 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 consists of equity investments in private companies. The Fund would anticipate no impact on these investment 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: DISCLOSURES AND PROCEDURES

As required by SEC Rule 13a-15 promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), within 90 days prior to the filing date of this report, the Fund carried out an evaluation of the effectiveness of the design and operation of the Fund's disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of the Fund's management, including the Fund's President and Chief Executive Officer and the Fund's Chief Financial Officer. Based upon that evaluation, the Fund's President and Chief Executive Officer and the Fund's Chief Financial Officer concluded that the Fund's disclosure controls and procedures are effective. Subsequent to the date the Fund carried out its evaluation, there have been no significant changes in the Fund's internal controls or in other factors which could significantly affect internal controls. Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in Fund reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in Fund reports filed under the Exchange Act is accumulated and communicated to management, including the Fund's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

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PART II

ITEM 1. LEGAL PROCEEDINGS.

Not applicable

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS.

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

Not applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

31-1 Certification of Russell Cleveland, President and CEO

31-2 Certification of Barbe Butschek, Chief Financial Officer

32-1 Certification of Russell Cleveland, President and CEO

32-2 Certification of Barbe Butschek, Chief Financial Officer

(b) Reports on Form 8-K

None

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SIGNATURES

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

RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.

November 14, 2003

/S/ Russell Cleveland  
Russell Cleveland, President and CEO  
(Principal Executive Officer)

November 14, 2003

/S/ Barbe Butschek  
Barbe Butschek, Chief Financial Officer  
(Principal Financial Officer)

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EXHIBIT 31-1

CERTIFICATION

I, Russell Cleveland, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Renaissance Capital Growth & Income Fund III, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial

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information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant is made known to us by others, particularly during the period in which this report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed to the registrant's auditors and to the audit committee of the registrant's board of directors:
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the issuer's ability to record, process, summarize, and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/S/ Russell Cleveland  
Russell Cleveland  
President and CEO  
November 14, 2003

EXHIBIT 31-2

CERTIFICATION

I, Barbe Butschek, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Renaissance Capital Growth & Income Fund III, Inc.;
2. Based on my knowledge, this report does not contain any untrue statements of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant is made known to us by others, particularly during the period in which this report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed to the registrant's auditors and to the audit committee of the registrant's board of directors:
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the issuer's ability to record, process, summarize, and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other



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employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/S/ Barbe Butschek  
Barbe Butschek  
Chief Financial Officer  
November 14, 2003

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EXHIBIT 32-1

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. section 1350, the undersigned officer of Renaissance Capital Growth & Income Fund III, Inc. (the "Company"), hereby certifies, to such officer's knowledge, that theFund's Quarterly Report on Form 10-Q for the period ended September 30, 2003 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of theFund.

Dated: November 14, 2003

/S/ Russell Cleveland  
Russell Cleveland  
President & CEO

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EXHIBIT 32-2

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. section 1350, the undersigned officer of Renaissance Capital Growth & Income Fund III, Inc. (the "Company"), hereby certifies, to

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such officer's knowledge, that theFund's Quarterly Report on Form 10-Q for the period ended September 30, 2003 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of theFund.

Dated: November 14, 2003

/S/ Barbe Butschek  
Barbe Butschek  
Chief Financial Officer