

RENAISSANCE CAPITAL GROWTH & INCOME FUND III INC

Form 10-Q

August 18, 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 June 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 ☐

4,351,418 shares of common stock were outstanding at August 14, 2002.

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  
(Unaudited)

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Assets	December 31, 2002	June 30, 2003
Cash and cash equivalents	\$10,968,001	\$35,172,840
Investments at fair value, cost of \$32,918,344 and \$34,521,950 December 31, 2002 and June 30, 2003, respectively	39,459,243	49,563,287
Accounts receivable - brokerage	110,381	-
Interest and dividends receivable	28,409	494,055
Prepaid expenses	40,068	2,877
	-----	-----
	\$50,495,721	\$85,343,440
	=====	=====
Liabilities and Net Assets		
Liabilities:		
Due to broker (Note 3)	9,001,163	34,491,604
Accounts payable	12,106	21,632
Accounts payable - affiliate	223,386	344,753
	-----	-----
	9,236,655	34,857,989
	-----	-----
Commitments and contingencies		
Net assets:		
Common stock, \$1 par value; authorized 20,000,000 shares; 4,561,618 issued; 4,351,418 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 June 30, 2003	(1,734,966)	(1,734,966)
Accumulated deficit	(3,751,440)	(3,025,492)
Net unrealized appreciation of investments	6,540,900	15,041,337
	-----	-----
Net assets, equivalent to \$9.48 and \$11.60 per share at December 31, 2002 June 30, 2003, respectively	41,259,066	50,485,451
	-----	-----
	\$50,495,721	\$85,343,440
	=====	=====

See accompanying notes to financial statements.

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

	June 30, 2003				
	Interest Rate	Due Date	Cost	Fair Value	% of Net Assets
Eligible Portfolio Investments - Convertible Debentures and Promissory Notes					

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Active Link Communications, Inc. -						
Convertible bridge note (2)	12.00	09/30/03	\$ 19,023	\$ 0	0.00	
Convertible note (2)	8.00	09/30/03	125,000	0	0.00	
Convertible note (2)	8.00	09/30/03	250,000	0	0.00	
Business Process Outsourcing -						
Convertible debenture (1) (3)	12.00	08/31/03	98,000	100,001	0.20	
Dexterity Surgical, Inc. -						
Convertible debenture (2)	9.00	12/19/04	1,316,282	1,066,282	2.11	
EDT Learning, Inc. -						
Convertible redeemable note (2)	12.00	03/29/12	500,000	500,000	0.99	
Integrated Security Systems, Inc. -						
Promissory notes (4)	8.00	09/05/03	525,000	525,000	1.04	
Laserscope -						
Convertible debenture (2)	8.00	02/11/07	1,300,000	8,226,503	16.29	
Simtek Corporation -						
Convertible debenture (2)	7.50	06/28/09	1,000,000	1,094,872	2.17	
			-----	-----	-----	
			\$ 5,133,305	\$11,512,658	22.80%	
			-----	-----	-----	

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

June 30, 2003						
	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	0.50	
Interpool, Inc. -						
Convertible debenture (2)	9.25	12/27/22	375,000	375,000	0.74	
			-----	-----	-----	
			\$ 625,000	\$ 625,000	1.24%	
			-----	-----	-----	

- (1) Valued at fair value as determined by the Investment Adviser (Note 6).
- (2) Restricted securities - securities that are not fully registered and freely tradeable.
- (3) Securities in a privately owned company.

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- (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.

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

	June 30, 2003			
	Shares	Cost	Fair Value	% of Net Assets
Eligible Portfolio Investments - Common Stock, Preferred Stock, and Miscellaneous Securities				
Bentley Pharmaceuticals, Inc. - Common stock	400,000	\$ 500,000	\$ 5,207,400	10.31
CaminoSoft Corp. - Common stock	1,750,000	4,000,000	727,650	1.44
Common stock (2)	708,333	875,000	229,650	0.45
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 Holdings, Inc. - Series A, preferred stock (1)	10,680	4,692,207	770,383	1.53
Series B, preferred stock (1)	25,646	620,329	1,849,928	3.66
Series C, preferred stock (1)	28,929	699,734	2,086,741	4.13
Fortune Natural Resources Corp. - Common stock	1,262,394	500,500	324,940	0.64
Gasco Energy, Inc. - Common stock (2)	250,000	250,000	217,800	0.43
Integrated Security Systems, Inc. - Common stock	393,259	215,899	54,506	0.11
Common stock - PIK (2)	208,004	49,173	0	0.00
Series D, preferred stock (2)	187,500	150,000	31,500	0.06
Series F, preferred stock (2)	2,714,945	542,989	456,111	0.90
Series G, preferred stock (2)	18,334,755	3,666,951	3,080,239	6.10

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

	June 30, 2003			
	Shares	Cost	Fair Value	% of Net Assets
Eligible Portfolio Investments - Common Stock, Preferred Stock, and Miscellaneous Securities				
JAKKS Pacific, Inc. - Common stock	49,847	\$ 297,421	\$ 655,841	1.30
Laserscope - Common stock (2)	160,000	200,000	1,265,616	2.51
Poore Brothers, Inc. - Common stock (2)	2,016,357	2,078,170	7,645,225	15.14
Simtek Corp. - Common stock (2)	1,000,000	195,000	376,200	0.75
ThermoView Industries, Inc. - Common stock	134,951	497,832	85,505	0.17
Miscellaneous Securities		2,165	272,861	0.54
		-----	-----	-----
		\$21,668,370	\$25,338,096	50.19%
		-----	-----	-----

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- (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.

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

June 30, 2003  
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	Shares	Cost	Fair Value	% of Net Assets
Other Portfolio Investments - Common Stock, Preferred Stock, and Miscellaneous Securities				
AirNet Systems, Inc. - Common stock (2)	50,000	\$ 212,500	\$ 200,475	0.40
Bentley Pharmaceuticals, Inc. - Common stock	72,979	116,582	950,077	1.88
Canterbury Consulting Group, Inc. - Common stock	18,521	125,415	14,302	0.03
Capital Senior Living Corp - Common stock	57,100	146,335	176,935	0.35
Dave & Busters, Inc. - Common stock	100,000	653,259	1,079,100	2.14
Dwyer Group, Inc. - Common stock	525,000	1,627,470	3,751,358	7.43
EDT Learning, Inc. - Common stock	48,266	27,033	17,202	0.03

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

	June 30, 2003			
	Shares	Cost	Fair Value	% of Net Assets
Other Portfolio Investments - Common Stock, Preferred Stock, and Miscellaneous Securities				
Flamel Technologies, SA - Common stock	100,000	832,267	1,331,550	2.64
Gasco Energy, Inc. - Common stock	170,000	99,705	148,104	0.29
I-Flow Corporation - Common stock	100,000	254,038	735,570	1.46
Inet Technologies, Inc. - Common stock	96,600	530,338	951,558	1.88
Medical Action Industries, Inc. - Common stock	25,000	292,329	404,168	0.80

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Precis, Inc. -				
Common stock	200,700	1,372,416	913,988	1.81
Stonepath Group, Inc. -				
Common stock (2)	200,000	270,000	461,360	0.91

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

	June 30, 2003			
	Shares	Cost	Fair Value	% of Net Assets
Other Portfolio Investments - Common Stock, Preferred Stock, and Miscellaneous Securities				
US Home Systems, Inc. - Common stock	110,000	535,588	951,786	1.89
Miscellaneous Securities		0	0	0.00
		-----	-----	-----
		\$ 7,095,275	\$12,087,533	23.94%
		-----	-----	-----
		\$34,521,950	\$49,563,287	98.17%
		=====	=====	=====
Allocation of Investments - Restricted Shares, Unrestricted Shares, and Other Securities				
Restricted Securities (2)		\$15,260,088	\$25,476,833	50.46%
Unrestricted Securities		\$12,624,427	\$18,481,540	36.61%
Other Securities (5)		\$ 6,637,435	\$ 5,604,914	11.10%

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

December 31, 2002						
	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 -						
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 (continued)  
(unaudited)

December 31, 2002					
	Interest Rate	Due Date	Cost	Fair Value	% of Net Assets



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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 (continued) (unaudited)

	December 31, 2002			
	Shares	Cost	Fair Value	% of Net Assets
Eligible Portfolio Investments - Common Stock, Preferred Stock, and Miscellaneous Securities				
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

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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 (continued)  
(unaudited)

	December 31, 2002			
	Shares	Cost	Value	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 (continued)  
(unaudited)

	December 31, 2002			
	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 (continued)  
(unaudited)

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December 31, 2002				
	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%

- (1) Valued at fair value as determined by the Investment Adviser (Note 6).
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- (3) Securities in a privately owned company.
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- (5) Includes 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.  
Statements of Operations  
(Unaudited)

Three Months Ended June 30,

2002                      2003  
-----                      -----

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Income:		
Interest	\$ 93,430	\$ 86,954
Dividend	24,728	55,221
Commitment and other fees	-	1,553
	-----	-----
	118,158	143,728
	-----	-----
Expenses:		
General and administrative	159,287	118,130
Incentive fee	-	30,097
Interest expense	14,745	28,411
Legal and professional fees	99,158	22,349
Management fees	233,831	223,901
	-----	-----
	507,021	422,888
	-----	-----
Net investment income (loss)	(388,863)	(279,160)
Realized and unrealized gain (loss) on investments:		
Net unrealized appreciation (depreciation)		
on investments	( 1,985,523)	15,041,337
Net realized loss (gain) on investments	( 49,164)	150,483
	-----	-----
Net gain (loss) on investments	( 2,034,687)	15,191,820
	-----	-----
Net income (loss)	(\$ 1,423,550)	\$14,912,660
	=====	=====
Net income (loss) per share	(\$ 0.56)	\$ 3.43
	=====	=====

See accompanying notes to financial statements.

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

Six Months Ended June 30,

	2002	2003
	----	----
Income:		
Interest	\$ 186,104	\$ 347,486
Dividend	43,238	1,161,230
Commitment and other fees	-	1,553
	-----	-----

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	229,342	1,510,269
	-----	-----
Expenses:		
General and administrative	246,609	193,180
Incentive fee	-	196,260
Interest expense	44,401	38,444
Legal and professional fees	165,289	80,514
Management fees	478,313	386,878
	-----	-----
	934,612	895,276
	-----	-----
Net investment income (loss)	( 705,270)	614,993
Realized and unrealized gain (loss) on investments:		
Net unrealized appreciation (depreciation)		
on investments	2,805,510	8,500,437
Net realized loss (gain) on investments	( 3,424,391)	981,299
	-----	-----
Net gain (loss) on investments	( 618,881)	9,481,736
	-----	-----
Net income (loss)	(\$ 1,324,151)	\$10,096,729
	=====	=====
Net income (loss) per share	(\$ 0.30)	\$ 2.32
	=====	=====

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 June 30,	
	2002	2003
	----	----
From operations:		
Net investment income (loss)	(\$ 388,863)	(\$ 279,160)
Net realized gain (loss) on investments	( 49,164)	150,483
Increase (decrease) in unrealized		
appreciation on investments	( 1,985,523)	14,561,632
	-----	-----
Net increase (decrease) in net assets		
resulting from operations	( 2,423,550)	14,432,955
	-----	-----

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## From distributions to stockholders:

Common dividends from net investment income	-	( 435,172)
	-----	-----
Net decrease in net assets resulting from distributions	-	( 435,172)
	-----	-----

Total increase (decrease) in net assets ( 2,423,550) 13,997,783

## Net assets:

Beginning of period	55,636,907	36,487,668
	-----	-----
End of period	\$53,213,357	\$50,485,451
	=====	=====

See accompanying notes to financial statements.

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

Six Months Ended June 30,

	2002	2003
	----	----
From operations:		
Net investment income (loss)	(\$ 705,270)	\$ 614,993
Net realized gain (loss) on investments	( 3,424,391)	981,299
Increase (decrease) in unrealized appreciation on investments	2,805,510	8,500,437
	-----	-----
Net increase (decrease) in net assets resulting from operations	( 1,324,151)	10,096,729
	-----	-----
From distributions to stockholders:		
Common dividends from net investment income	-	( 870,344)
	-----	-----
Net decrease in net assets resulting from distributions	-	( 870,344)
	-----	-----
Total increase (decrease) in net assets	( 1,324,151)	9,226,385

## Net assets:

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Beginning of period	54,537,508	41,259,066
	-----	-----
End of period	\$53,213,357	\$50,485,451
	=====	=====

See accompanying notes to financial statements.

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

	Three Months ended June 30, 2002	2003
	----	----
Cash flows from operating activities:		
Net income (loss)	(\$ 2,423,550)	\$14,912,660
Adjustments to reconcile net income to net cash provided by (used in) operation activities:		
Net unrealized (appreciation) depreciation on investments	1,985,523	( 15,041,337)
Net realized (gain) loss on investments	49,164	( 150,483)
(Increase) decrease in interest and dividends receivable	( 49,445)	( 75,648)
(Increase) decrease in other receivables	-	( 110,381)
(Increase) decrease in other assets	6,470	18,698
Increase (decrease) in accounts payable (	18,238)	700
Increase (decrease) in accounts payable - affiliate	17,539	( 27,416)
Increase (decrease) in other liabilities	( 4,331,990)	15,487,613
	-----	-----
Net cash provided by (used in) operating activities	( 4,764,527)	15,014,406
	-----	-----
Cash flows from (used in) investing activities:		
Purchase of investments	( 2,584,815)	( 1,526,194)
Proceeds from sale of investments	3,016,629	1,911,838
Repayment of debentures and notes	577,162	22,457
	-----	-----
Net cash provided by (used in) investing activities	1,008,976	408,101
	-----	-----
Cash flows from (used in) financing activities:		
Cash dividends	-	( 435,172)
	-----	-----
Net cash used in financing activities	-	( 435,172)
	-----	-----
Net increase (decrease) in cash and		



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cash equivalents	( 3,755,551)	\$14,987,335
Cash and cash equivalents at beginning of the period	24,917,818	20,185,505
	-----	-----
Cash and cash equivalents at end of the period	\$21,162,267	\$35,172,840
	=====	=====
Cash paid during the period for interest	\$ 14,745	\$ 28,411
Cash paid during the period for taxes	\$ 25,779	\$ 1,671

## Noncash investing activities:

During the quarter ended March 31, 2002, the Fund received common stock in settlement of amounts due from interest and dividends totaling \$9,308.

During the quarter ended March 31, 2003, the Fund received common stock in settlement of amounts due for interest and dividends totaling \$891,417.

See accompanying notes to financial statements.

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## Renaissance Capital Growth & Income Fund III, Inc. Statement of Cash Flows

	Six Months ended June 30, 2002	2003
	----	----
Cash flows from operating activities:		
Net income (loss)	(\$ 1,324,151)	\$10,096,729
Adjustments to reconcile net income to net cash provided by (used in) operation activities:		
Net unrealized (appreciation) depreciation on investments	( 2,805,509)	( 8,500,437)
Net realized (gain) loss on investments	3,424,392	( 981,299)
(Increase) decrease in interest and dividends receivable	( 14,577)	( 465,646)
(Increase) decrease in other receivables	-	( 110,381)
(Increase) decrease in other assets	12,868	37,191
Increase (decrease) in accounts payable	1,866	9,526
Increase (decrease) in accounts payable - affiliate	6,706	121,367
Increase (decrease) in other liabilities	( 5,830,448)	25,490,441
	-----	-----
Net cash provided by (used in) operating activities	( 6,528,853)	25,697,491
	-----	-----
Cash flows from (used in) investing activities:		
Purchase of investments	( 3,985,044)	( 3,676,266)
Proceeds from sale of investments	3,941,141	3,031,501
Repayment of debentures and notes	609,097	22,457
	-----	-----
Net cash provided by (used in) investing activities	565,194	( 622,308)
	-----	-----
Cash flows from (used in) financing activities:		
Cash dividends	-	( 870,344)
	-----	-----
Net cash used in financing activities	-	( 870,344)
	-----	-----

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Net increase (decrease) in cash and cash equivalents	( 5,963,659)	\$24,204,839
Cash and cash equivalents at beginning of the period	27,125,926	10,968,001
	-----	-----
Cash and cash equivalents at end of the period	\$21,162,267	\$35,172,840
	=====	=====
Cash paid during the period for interest	\$ 44,401	\$ 38,444
Cash paid during the period for taxes	\$ 25,779	\$ 1,671

## Noncash investing activities:

During the quarter ended March 31, 2002, the Fund received common stock in settlement of amounts due from interest and dividends totaling \$9,308. 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, 2002, the Fund received common stock in settlement of amounts due from interest and dividends totaling \$6,745. During the quarter ended June 30, 2003, the Fund received common stock in settlement of amounts due from interest totaling \$1,994.

See accompanying notes to financial statements.

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

### (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 in equity securities and convertible issues of small and medium size companies which are in need of capital and which Renaissance Capital Group, Inc. (Investment Adviser) believes offers the opportunity for growth. The Fund is a non-diversified closed-end investment company and has elected to be treated as a business development company under the Investment Company Act of 1940, as amended (1940 Act).

### (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 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.

#### (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  
June 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 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.

(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) 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 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 the broker and believes the likelihood of loss under those circumstances is remote.

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

(4) Management and Organization 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 \$223,901 and \$233,831 for management fees during the quarter ended June 30, 2003, and June 30, 2002, respectively. Amounts payable for such fees at June 30, 2003, and June 30, 2002, were \$223,901 and \$233,831, 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. During the quarter ended June 30, 2003, the Fund incurred \$30,097 during the quarter ended June 30, 2003, for such incentive fees, which are included in Accounts payable - affiliate on the statements of assets and liabilities. The Fund did not incur any incentive fees for the quarter ended June 30, 2002.
- 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 \$49,279 and \$28,190 during the quarter ended June 30, 2003, and June 30, 2002, respectively, and are included in general and administrative expenses in the accompanying statements of operations.

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RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.  
Notes to Financial Statements  
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(5) 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 June 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.

(6) 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:

- 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.

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RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.  
Notes to Financial Statements  
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- 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.

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

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RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.  
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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 June 31, 2003, and December 31, 2002, the net unrealized appreciation associated with investments held by the Fund was \$15,041,337, and \$6,540,900, respectively.

(7) Restricted Securities

As indicated on the schedule of investments as of June 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 5).

(8) 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 six months ended June 30, 2003, under the dividend reinvestment plan.

(9) Distributions to Shareholders

During the three months ended June 30, 2003, the Fund distributed \$435,172, resulting in total distributions for the six months ended June 30, 2003, amounting to \$870,344. The final tax characteristics of this distribution cannot be determined at this time.

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RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.  
Notes to Financial Statements  
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(10) Financial Highlights

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

	2002	2003
Net asset value, beginning of period	\$ 12.75	\$ 8.39
Net investment income (loss)	\$ ( 0.09)	\$ ( 0.06)
Net realized and unrealized gain on investments	\$ ( 0.30)	\$ 3.37
	-----	-----
Total return from investment operations	\$ ( 0.55)	\$ 3.31
	-----	-----
Distributions:	\$ 0.00	\$ 0.10
	-----	-----
Net asset value, end of period	\$ 12.20	\$ 11.60
	=====	=====
Per share market value, end of period	\$ 10.00	\$ 9.35
Portfolio turnover rate (quarterly)	3.18%	2.83%
Quarterly return (a)	-7.41%	38.52%
Ratio to average net assets (quarterly) (b):		
Net investment income (loss)	-0.71%	-0.65%

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Expenses, excluding incentive fees	0.93%	0.92%
Expenses, including incentive fees	0.93%	0.99%

- (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 six months ended June 30, 2002, and 2003, are as follows:

	2002	2003
Net asset value, beginning of period	\$ 12.50	\$ 9.48
Net investment income (loss)	\$ ( 0.16)	\$ 0.14
Net realized and unrealized gain on investments	\$ ( 0.14)	\$ 2.18
	-----	-----
Total return from investment operations	\$ ( 0.30)	\$ 2.32
	-----	-----
Distributions:	\$ 0.00	\$ 0.20
	-----	-----
Net asset value, end of period	\$ 12.75	\$ 11.60
	=====	=====
Per share market value, end of period	\$ 10.00	\$ 9.35
Portfolio turnover rate (semi-annually)	6.00%	7.15%
Six-month return (a)	-3.01%	18.96%
Ratio to average net assets (semi-annually) (b):		
Net investment income (loss)	-1.30%	1.44%
Expenses, excluding incentive fees	1.72%	1.64%
Expenses, including incentive fees	1.72%	2.10%

- (a) Semi-annual 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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## 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 June 30, 2003:



Active Link Communications, Inc. (OTC:ACVE) In the second quarter of 2003, the Company made a principal repayment on the convertible bridge note owned by the Fund of \$22,457, reducing the balance outstanding on the bridge note to \$19,023. At June 30, 2003, the Company was in default on principal and interest payments due to the Fund. As a result of the default, the Fund has placed a reserve equal to 100% of the par value of the principal amounts of all positions held by the Fund in the Company.

Airnet Systems, Inc. (NYSE:ANS) During the second quarter of 2003, the Fund sold 25,000 shares of Airnet common stock in the open market realizing proceeds of \$107,756, representing a gain of \$1,506. At June 30, 2003, the Fund had 50,000 shares of ANS remaining having a basis of \$212,500, or \$2.13 per share.

Bentley Pharmaceuticals, Inc. (AMEX:BNT) In the second quarter of 2003, the Fund sold 62,900 shares of common stock in the open market realizing proceeds of \$605,893, representing a gain of \$476,151. At June 30, 2003, the Fund owned 472,979 shares of Bentley common stock with a basis of \$616,582 or \$1.30 per share.

Canterbury Consulting Group, Inc. (NASDAQ:CITI) In the second quarter of 2003, the Fund sold 10,050 shares of Canterbury common stock in the open market realizing proceeds of \$7,537, representing a loss of \$60,517. At June 30, 2003, the Fund owned 18,521 shares of CITI common stock with a basis of \$125,415 or \$6.77 per share.

Creative Host Services, Inc. (NASDAQ:CHST) During the second quarter of 2003, the Fund exited its position in Creative Host. The Fund sold 4,830 shares of CHST common stock in the open market realizing proceeds of \$8,403, representing a gain of \$482.

DaisyTek International, Inc. (NASDAQ:DZTK) During the quarter ending June 30, 2003, the Fund sold its entire position of 149,600 shares of DaisyTek common stock in the open market realizing proceeds of \$82,414, representing a loss of \$569,524.

The Dwyer Group, Inc. (NASDAQ:DWYR) In the second quarter of 2003, the Fund sold 100,000 shares of Dwyer common stock in the open market realizing proceeds of \$651,870, representing a gain of \$312,709. At June 30, 2003, the Fund owned 575,000 shares of DWYR common stock having a basis of \$1,627,470 or \$2.83 per share.

Flamel Technologies, SA (Nasdaq:FLML) In the second quarter of 2003, the Fund purchased 80,000 shares of the Company's shares in the open market for

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\$746,053, a cost of \$9.33 per share. At June 30, 2003, the Fund owned 100,000 shares of FLML common stock having a basis of \$832,267, or 8.32 per share.

Gasco Energy, Inc. (OTC:GASE) In the quarter ended June 30, 2003, the Fund purchased an additional 101,875 shares of the Company's common stock in the open market for \$50,938, a cost of \$0.50 per share. At June 30, 2003, the Fund owned a total of 170,000 common shares having a basis of \$48,767, or \$0.29 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 second 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 13,297 shares of IZZI having an imputed cost of \$1,994, a rate of \$0.15 per share, as payment in kind for interest on the notes. The total number of shares owned by the Fund as a result of PIK agreements with the Company at June 30, 2003, was 208,004 shares of the Company's common stock having a basis of \$49,173, a rate of \$0.24 per share. Also during the second quarter of 2003, the Fund purchased two \$100,000, 8% promissory notes due July 1, 2004, and as additional consideration for the loans received five-year warrants to purchase a total of 1,000,000 shares of the Company's common stock at \$0.20. In conjunction with these purchases, the Fund agreed to extend the due date of the previously existing promissory notes to July 1, 2004.

At June 30, 2003, in addition to the PIK shares discussed above, the Fund owned the following: \$525,000 in 8% Promissory Notes with no conversion feature; \$542,989 in Series F Preferred convertible into the Company's common stock at a rate of \$0.20 per share; \$3,666,951 in Series G Preferred convertible into common at a rate of \$0.20 per share; \$150,000 in Series D Preferred convertible into common at a rate of \$0.80 per share; 393,259 shares of the Company's common stock having a basis of \$215,899 or \$0.55 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.

JAKKS Pacific, Inc. (Nasdaq:JAKK) During the second quarter of 2003, the Fund sold 10,000 shares of the Company's common stock in the open market realizing proceeds of \$128,483, representing a gain of \$68,816. At June 30, 2003, the Fund owned 49,847 shares of JAKK common stock having a basis of \$297,421, or a cost of \$5.97 per share.

Laserscope (Nasdaq:LSCP) During the second quarter of 2003, the Fund converted \$200,000 of its 8% Debentures into 160,000 shares of the Company's common stock at \$1.25 per share in lieu of mandatory principal

payments on the debentures. At June 30, 2003, the Fund owned \$1,300,000 in 8% Convertible Debentures of the Company having a conversion rate of \$1.25 per share and options to purchase 30,000 common shares at \$4.19.

Medical Action Industries, Inc. (Nasdaq:MDCI) In the second quarter of 2003, the Fund purchased an additional 15,000 shares of Medical Action common stock in the open market for \$179,839, a rate of \$11.99 per share. At June 30, 2003, the Fund owned a total of 25,000 shares of MDCI common stock having a basis of \$292,329, or \$11.69 per share.

Nautilus Group, Inc. (NYSE:NLS) During the second quarter of 2003, the Fund

exited its position in Nautilus by selling 25,000 shares of its common stock in the open market realizing proceeds of \$319,485, representing a loss of \$81,140.

Simtek Corporation (OTC:SRAM) In the second quarter of 2003, the Fund acquired options to purchase 5,288 shares of the Company's common stock at \$0.165 per share. These options were obtained by assignment from Robert C. Pearson, Executive Vice-President of RENN Capital Group, Inc., who earned the options as a member of the Company's Board of Directors. At June 30, 2003, in addition to the options discussed previously, the Fund owned a \$1,000,000, 7.5% Convertible Debenture, convertible into the Company's common stock at a rate of \$3.12 per share and 1,000,000 shares of the Company's common stock having a basis of \$195,000 or \$0.195 per share.

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

For the quarter ended June 30, 2003, the Fund had a net investment loss of (\$279,160) compared to a net investment loss of (\$388,863) in the second quarter of 2002. This reduction in net loss resulted from a combination of increased income and decreased expenses in the second quarter of 2003 compared to the same period of 2002. Interest income decreased 6.93% from \$93,429 in the second quarter of 2002 to \$86,954 for the second quarter of 2003. Dividend income increased to \$55,221 in 2003 from \$24,728 for the second quarter of 2002, an increase of 123.31%. This increase in dividend income is due primarily to the accrual of dividends due on Series F and G Preferred Stock of Integrated Security Systems, Inc. In the second quarter of 2003, the Fund accrued \$1,552 in income from commitment and other fees, compared to no commitment and other fee income in the second quarter 2002.

General and administrative expenses decreased from \$159,287 in the second quarter of 2002 to \$118,130 in the same period of 2003, a decrease of 25.84%. Legal and professional fees decreased 77.46% from \$99,158 in the second quarter of 2002 to \$22,349 in the same period 2003. Management fees decreased from \$233,831 for the second quarter of 2002 to \$223,901 for the second quarter of 2003, a decrease of 4.25%, and incentive fees increased to \$30,097 for the second quarter of 2003 compared to no incentive fees incurred in the second quarter of 2002.

Net income for the second quarter of 2003 was \$14,912,660 compared to a net loss of (\$2,423,550) for the same period of 2002. This increase was due primarily to an increase from net unrealized depreciation on investments from (\$1,985,523) in 2002 to net unrealized appreciation on investments in the amount of \$15,041,337 in 2003. In addition, in the second quarter of 2003, the Fund realized net gains on investments in the amount of \$150,483, compared to a net realized loss on investments of (\$49,164) in the second quarter of 2002.

#### Results of Operations for the Six Months Ended June 30, 2003

For the six months ended June 30, 2003, the Fund experienced net investment income in the amount of \$614,993, compared to a net investment loss in the amount of (\$705,270) for the same six-month period in 2002. Interest income increased from \$185,104 for the six months ended June 30, 2002, to \$347,486 for the same period of 2003, an increase of 86.72%. Dividend income for the six-month period ended June 30, 2003, was \$1,161,230 versus \$43,238 for the

same period in 2002.

General and administrative expenses decreased from \$246,609 in the six months ended June 30, 2002, to \$193,180 for the same period in 2003. Legal and professional expenses also decreased from \$165,289 in 2002 to \$80,514 for the six months ended June 30, 2003. Management fees decreased from

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\$478,313 for the six months ended June 30, 2002, to \$386,878 for the same period in 2003; whereas incentive fees increased from zero in 2002 to \$196,260 for the six months ended June 30, 2003.

Net income for the first six months of 2003 was \$10,096,729, compared to a net loss in the amount of (\$1,324,151) 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 in net unrealized appreciation on investments from \$2,805,510 in 2002 to \$8,500,437 in 2003. In addition, in the first six months of 2003, the Fund realized net gains on investments in the amount of \$981,299, compared to a net realized loss on investments of (\$3,424,391) in the same period of 2002.

#### Liquidity and Capital Resources

For the six months ended June 30, 2003, net assets increased 38.36% from \$36,487,668 at March 31, 2003, to \$50,485,451, or \$11.60 per share, at June 30, 2003. This increase is primarily attributable to an increase in the net unrealized appreciation of investments from \$479,705 at March 31, 2003, to \$15,041,337 at June 30, 2003.

At the end of the second quarter of 2003, the Fund had net cash and cash equivalents of \$681,236 versus net cash and cash equivalents of \$1,181,514 at March 31, 2003, primarily due to an increase in the Fund's margin balance. Receivables, including interest, dividends, and brokerage, increased from \$418,407 at March 31 to \$604,436 at June 30, 2003, due primarily to a combination of dividends accrued on Integrated Security Systems Series F and G Preferred Stock, interest and dividends that were accrued on the restructuring of eOriginal, and the brokerage receivable. Prepaid expenses decreased from \$21,575 at March 31 to \$2,877 at June 30, 2003, primarily due to quarterly charges against prepaid insurance amounts.

Accounts payable increased slightly from \$20,932 at March 31, to \$21,632 at June 30, 2003. Accounts payable to affiliate decreased 7.37% from 372,169 at March 31, to \$344,753 at June 30, 2003, reflecting an increase in management fee due to higher portfolio values in the second quarter offset by a decrease in incentive fees due to lower realized gains during the second quarter.

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.

## 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.

- (a) The Annual Meeting of Shareholders of the Fund (the "Meeting") was held on May 16, 2003. Proxies for the Meeting were solicited pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended. There was no solicitation in opposition to the management's nominees as listed in the proxy statement.
- (b) At the Meeting, the Fund's shareholders voted upon the election of two Class Three directors of the Fund to hold office for terms of three years or until their successors are elected and qualified. Management's nominees were Mr. Russell Cleveland and Mr. Ernest C. Hill. There were no other nominees. Each of the nominees received a plurality of the shares present in person or by proxy and entitled to vote and were therefore elected as directors. The following are the respective numbers of votes cast "for" and "against" with respect to each nominee.

Name of Nominee -----	Votes Cast For -----	Votes Cast Against -----
Russell Cleveland	2,908,201	52,232
Ernest C. Hill	2,960,433	49,832

In addition to the directors elected at the Meeting, the following directors' terms continued after the meeting: Peter Collins, Class One director whose term expires at the Annual Meeting in 2004; and Edward O. Boshell, Jr., and Charles C. Pierce, Jr., Class Two directors whose terms expire at the Annual Meeting in 2005.

- (c) Shareholders also voted on Management's proposal to amend the Fund's Articles of Incorporation to change the name of the Fund to RENN Capital Fund III, Inc. This proposal required the affirmative vote of the holders of at least two-thirds (2/3) of the outstanding shares of

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Common stock entitled to vote. Because the required two-thirds majority vote was not obtained, the proposal to amend the Fund's Articles of Incorporation to change the name of the Fund did not pass. The following are the numbers of votes cast "for," "against," and "abstain" with respect to the name change proposal.

Votes Cast For -----	Votes Cast Against -----	Abstain -----	% In Favor -----
2,881,511	53,345	25,577	61.147%

### 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.

August 15, 2003

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

August 15, 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 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/ Russell Cleveland  
Russell Cleveland  
President and CEO  
August 15, 2003

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### 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



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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

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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/ Barbe Butschek  
Barbe Butschek  
Chief Financial Officer  
August 13, 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. ss.1350, the undersigned officer of Renaissance Capital Growth & Income Fund III, Inc. (the "Company"), hereby certifies, to such officer's knowledge, that the Company's Quarterly Report on Form 10-Q for the period ended June 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 the Company.

Dated: August 15, 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. ss.1350, the undersigned officer of Renaissance Capital Growth & Income Fund III, Inc. (the "Company"), hereby certifies, to such officer's knowledge, that the Company's Quarterly Report on Form 10-Q for the period ended June 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 the Company.

Dated: August 15, 2003

/S/ Barbe Butschek  
Barbe Butschek  
Chief Financial Officer

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