

RENAISSANCE CAPITAL GROWTH & INCOME FUND III INC

Form 10-Q

November 13, 2002

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

FORM 10-Q

[x] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For quarterly period ended September 30, 2002

[ ] 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 [x] No \_\_\_\_\_

4,351,718 shares of common stock were outstanding at October 31, 2002.

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

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

Assets December 31, September 30,
2001 2002

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Cash and cash equivalents	\$ 27,125,926	\$ 16,776,200
Investments at fair value, cost of \$35,015,807 and \$32,256,368 December 31,2001 and September 30, 2002, respectively	49,762,340	39,076,396
Interest receivable	114,539	27,805
Prepaid expenses	13,863	58,973
	-----	-----
	\$ 77,016,668	\$ 55,939,374
	=====	=====

Liabilities and Net Assets

Liabilities:

Securities sold under agreements to repurchase	22,197,146	13,502,803
Accounts payable	13,472	17,635
Accounts payable - affiliate	268,542	225,953
Dividends payable	0	0
	-----	-----
	22,479,160	13,746,391
	-----	-----

Net assets:

Common stock, \$1 par value; authorized 20,000,000 shares; 4,561,618 issued; 4,361,618 shares outstanding	4,561,618	4,561,618
Additional paid-in-capital	37,125,714	37,125,714
Treasury stock at cost, 200,000 shares at December 31, 2001, and at September 30, 2002	( 1,665,220)	( 1,665,220)
Distributions in excess of net investment income	( 231,137)	( 1,224,766)
Accumulated net realized loss on securities transactions	0	( 3,424,393)
Net unrealized appreciation of investments	14,746,533	6,820,030
	-----	-----
Net assets, equivalent to \$12.50 and \$9.67 per share at December 31, 2001, and September 30, 2002, respectively	54,537,508	42,192,983

Commitments and contingencies	0	0
	-----	-----
	\$ 77,016,668	\$ 55,939,374
	=====	=====

See accompanying notes to financial statements.

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

September 30, 2002

	Interest Rate	Due Date	Cost	Fair Value	% of Net Assets
Eligible Portfolio Investments -					
Convertible Debentures and Promissory notes (1)					
Active Link Communications, Inc. -					
Convertible bridge note (2)	12.00%	05/02	\$ 53,752	\$ 53,752	0.13%
Convertible note (2)	8.00%	09/30/02	\$ 125,000	\$ 125,000	0.30%
Convertible note (2)	8.00%	09/30/02	\$ 250,000	\$ 250,000	0.59%

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Dexterity Surgical, Inc. - Convertible debenture (2)	9.00%	12/19/04	\$ 1,316,282	\$ 816,282	1.93%
EDT Learning, Inc. - Convertible redeemable note (2)	12.00%	03/29/12	\$ 500,000	\$ 500,000	1.19%
eOriginal, Inc. - Senior Secured Notes (3)	12.00%	06/30/02	\$ 1,024,683	\$ 1,024,683	2.43%
Integrated Security Systems, Inc. - Promissory notes (4)	8.00%	01/25 - 05/14/02	\$ 325,000	\$ 325,000	0.77%

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

September 30, 2002

	Interest Rate	Due Date	Cost	Fair Value	% of Net Assets
Eligible Portfolio Investments - Convertible Debentures and Promissory notes (1)					
Laserscope - Convertible debenture (2)	8.00%	02/11/07	\$ 1,500,000	\$ 3,909,280	9.27%
Outsource Partners International, Inc. - Convertible note (3)	12.00%	08/31/03	\$ 100,000	\$ 100,000	0.24%
Simtek Corporation - Convertible debenture (2)	7.50%	06/28/09	\$ 1,000,000	\$ 1,000,000	2.37%
			\$ 6,194,717	\$ 8,103,997	19.21%

- (1) Valued at fair value as determined by the Investment Advisor (note 5).
- (2) Restricted securities under Rule 144 (note 6).
- (3) Securities in a privately owned company.
- (4) Securities have no provision that allows 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.  
Statement of Investments  
(unaudited)

September 30, 2002					
	Interest Rate	Due Date	Cost	Fair Value	% of Net Assets
Other Portfolio Investments -					
Convertible Debentures and					
Promissory notes (1)					
CareerEngine Network, Inc. -					
Convertible debenture (2)	12.00%	03/31/10	\$ 250,000	\$ 250,000	0.59%
			-----	-----	-----
			\$ 250,000	\$ 250,000	0.59%
			-----	-----	-----

- (1) Valued at fair value as determined by the Investment Advisor (note 5).  
(2) Restricted securities under Rule 144 (note 6).  
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Renaissance Capital Growth & Income Fund III, Inc.  
Statement of Investments (continued)  
(unaudited)

September 30, 2002					
	Shares	Cost	Fair Value	% of Net Assets	
Eligible Portfolio Investments -					
Common Stock, Preferred Stock, and					
Miscellaneous Securities (1)					
Bentley Pharmaceuticals, Inc. -					
Common stock	400,000	\$ 500,000	\$ 3,365,999	7.98%	
CaminoSoft Corporation -					
Common stock	1,750,000	\$ 4,000,000	\$ 1,749,825	4.15%	
Common stock (2)	708,333	\$ 875,000	\$ 622,492	1.48%	
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 (3)	6,000	\$ 1,500,000	\$ 794,000	1.88%	

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Series B-1 preferred stock (3)	1,785	\$ 392,700	\$ 1,426,215	3.38%
Series B-3 preferred stock (3)	447	\$ 107,280	\$ 357,153	0.85%
Series C-1 preferred stock (3)	2,353	\$ 2,000,050	\$ 2,000,050	4.74%

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

	September 30, 2002			
	Shares	Cost	Fair Value	% of Net Assets
Eligible Portfolio Investments - Common Stock, Preferred Stock, and Miscellaneous Securities (1)				
Fortune Natural Resources, Inc. - Common stock	1,322,394	\$ 545,500	\$ 163,646	0.39%
Gasco Energy, Inc. - Common stock (2)	250,000	\$ 250,000	\$ 130,950	0.31%
Integrated Security Systems, Inc. - Common stock	393,259	\$ 215,899	\$ 124,584	0.30%
Common stock - PIK (2)	95,215	\$ 26,248	\$ 28,641	0.07%
Series D preferred stock (2)	187,500	\$ 150,000	\$ 72,000	0.17%
Series F preferred stock (2)	2,714,945	\$ 542,989	\$ 816,655	1.94%
Series G preferred stock (2)	18,334,755	\$ 3,666,951	\$ 5,465,095	12.95%
JAKKS Pacific, Inc. - Common stock	87,347	\$ 521,172	\$ 961,586	2.28%
Poore Brothers, Inc. - Common stock (2)	2,016,357	\$ 2,078,170	\$ 4,271,456	10.12%

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

	September 30, 2002			
	Shares	Cost	Fair Value	% of Net Assets
Eligible Portfolio Investments - Common Stock, Preferred Stock, and Miscellaneous Securities (1)				

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Simtek Corporation - Common stock (2)	1,000,000	\$	195,000	\$	150,400	0.36%
ThermoView Industries, Inc. - Common stock	31,851	\$	415,384	\$	26,487	0.06%
Verso Technologies, Inc. - Common stock (2)	179,375	\$	512,500	\$	48,898	0.12%
Miscellaneous securities		\$	5,915	\$	580,575	1.38%
			<u>\$20,135,758</u>		<u>\$23,156,707</u>	<u>54.88%</u>

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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.  
Statement of Investments (continued)  
(unaudited)

September 30, 2002

	Shares	Cost	Fair Value	% of Net Assets
Other Portfolio Investments - Common Stock, Preferred Stock, and Miscellaneous Securities (1)				
Bentley Pharmaceuticals, Inc. - Common stock	259,979	\$ 535,168	\$ 2,187,723	5.19%
Canterbury Consulting Group - Common stock	200,000	\$ 193,473	\$ 79,200	0.19%
Creative Host Services - Common stock	4,830	\$ 7,921	\$ 8,464	0.02%
DaisyTek International Corporation - Common stock	20,000	\$ 264,353	\$ 257,400	0.61%
Dave & Buster's, Inc. - Common stock	100,000	\$ 653,259	\$ 1,109,790	2.63%
The Dwyer Group, Inc. -				

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Common stock 675,000 \$ 1,966,632 \$ 2,539,350 6.02%

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

September 30, 2002

	Shares	Cost	Fair Value	% of Net Assets
Other Portfolio Investments - Common Stock, Preferred Stock, and Miscellaneous Securities (1)				
EDT Learning, Inc. - Common stock	48,266	\$ 27,033	\$ 16,246	0.04%
I-Flow Corp - Common stock	100,000	\$ 254,038	\$ 132,660	0.31%
Omnivision Technologies, Inc. - Common stock	25,000	\$ 244,532	\$ 163,103	0.39%
Precis, Inc. Common stock	93,700	\$ 993,897	\$ 543,592	1.29%

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

September 30, 2002

	Shares	Cost	Fair Value	% of Net Assets
Other Portfolio Investments - Common Stock, Preferred Stock, and Miscellaneous Securities (1)				
US Home Systems - Common stock	110,000	\$ 535,587	\$ 528,164	1.25%
		\$ 5,675,893	\$ 7,565,692	17.93%
		\$32,256,368	\$39,076,396	92.61%
		=====	=====	=====

- (1) Valued at fair value as determined by the Investment Advisor (note 5).  
(2) Restricted securities under Rule 144 (note 6).

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- (3) Securities in a privately owned company.
- (4) Securities have no provision that allows 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.  
Statement of Investments (continued)  
(unaudited)

September 30, 2002

	Shares	Cost	Fair Value	% of Net Assets
Allocation of Investments - Restricted Shares, Unrestricted Shares, and Other Securities				
Restricted Securities Under Rule 144		\$15,001,892	\$18,585,901	44.05%
Unrestricted Securities		\$12,123,848	\$14,207,821	33.67%
Other Securities (5)		\$ 5,130,628	\$ 6,282,676	14.89%

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

December 31, 2001

	Interest Rate	Due Date	Cost	Fair Value	% of Net Assets
Eligible Portfolio Investments - Convertible Debentures and Promissory notes (1)					
Active Link Communications, Inc. -					



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Convertible bridge note (2)	12.00%	05/02	\$ 116,667	\$ 150,792	0.28%
Convertible note (2)	8.00%	09/30/02	\$ 125,000	\$ 161,563	0.30%
Convertible note (2)	8.00%	09/30/02	\$ 250,000	\$ 288,125	0.53%
Dexterity Surgical, Inc. -					
Convertible debenture (2)	9.00%	12/19/04	\$ 1,329,577	\$ 1,329,577	2.44%
Display Technologies, Inc. -					
Convertible debenture (2)	8.75%	03/02/05	\$ 1,750,000	\$ 0	0.00%
eOriginal, Inc. -					
Promissory note (4)	12.00%	06/30/02	\$ 500,000	\$ 500,000	0.92%
Integrated Security Systems, Inc. -					
Promissory notes (5)	8.00%	01/25- 05/14/02	\$ 200,000	\$ 200,000	0.37%

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

December 31, 2001

	Interest Rate	Due Date	Cost	Fair Value	% of Net Assets
Eligible Portfolio Investments -					
Convertible Debentures and					
Promissory notes (1)					
Laserscope -					
Convertible debenture (2)	8.00%	02/11/07	\$ 1,500,000	\$ 2,770,000	5.08%
Northwestern Steel & Wire Corp. -					
Debt (3) (5)	N/A	N/A	\$ 127,500	\$ 127,500	0.23%
			\$ 5,898,744	\$ 5,527,557	10.14%

- (1) Valued at fair value as determined by the Investment Advisor (note 5).
- (2) Restricted securities under Rule 144 (note 6).
- (3) Company is liquidating in bankruptcy.
- (4) Securities in a privately owned company.
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- (6) 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.  
Statement of Investments (continued)  
(unaudited)

December 31, 2001

	Interest Rate	Due Date	Cost	Fair Value	% of Net Assets
Other Portfolio Investments -					
Convertible Debentures and Promissory Notes (1)					
CareerEngine Network, Inc. -					
Convertible debenture (2)	12.00%	03/31/10	\$ 250,000	\$ 250,000	0.46%
Play by Play Toys & Novelties -					
Convertible debenture (3)	10.50%	12/31/00	\$ 2,425,748	\$ 500,000	0.92%
RailAmerica, Inc. -					
Convertible debenture	6.00%	07/31/04	\$ 500,000	\$ 715,770	1.31%
			-----	-----	-----
			\$ 3,175,748	\$ 1,465,770	2.69%

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

December 31, 2001

	Shares	Cost	Fair Value	% of Net Assets
Eligible Portfolio Investments -				
Common Stock, Preferred Stock, and Miscellaneous Securities (1)				
Bentley Pharmaceuticals, Inc. -				
Common stock	400,000	\$ 500,000	\$ 4,035,240	7.40%

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CaminoSoft Corp. -					
Common stock	1,750,000	\$ 4,000,000	\$ 2,858,625	5.24%	
Common stock (2)	708,333	\$ 875,000	\$ 1,048,625	1.92%	
Dexterity Surgical, Inc. -					
Preferred stock - A (2)	500	\$ 500,000	\$ 5,769	0.01%	
Preferred stock - B (2)	500	\$ 500,000	\$ 5,769	0.01%	
Common stock (2)	260,000	\$ 635,000	\$ 0	0.00%	
Display Technologies, Inc. -					
Common stock (2)	127,604	\$ 500,000	\$ 0	0.00%	

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

	December 31, 2001			
	Shares	Cost	Fair Value	% of Net Assets
Eligible Portfolio Investments - Common Stock, Preferred Stock, and Miscellaneous Securities (1)				
eOriginal, Inc. -				
Series A, preferred stock (4)	6,000	\$ 1,500,000	\$ 4,794,000	8.79%
Series B-1, preferred stock (4)	1,785	\$ 392,700	\$ 1,426,215	2.62%
Series B-3, preferred stock (4)	447	\$ 107,280	\$ 357,153	0.65%
Series C-1, preferred stock (4)	2,353	\$ 2,000,050	\$ 2,000,050	3.67%
Fortune Natural Resources Corp. -				
Common stock	1,322,394	\$ 545,500	\$ 209,467	0.38%
Integrated Security Systems, Inc. -				
Common stock	393,259	\$ 215,899	\$ 159,624	0.29%
Common stock - PIK (2)	13,463	\$ 3,366	\$ 5,189	0.01%
Series D, preferred stock (2)	187,500	\$ 150,000	\$ 92,250	0.17%
Series F, preferred stock (2)	2,714,945	\$ 542,989	\$ 1,046,339	1.92%
Series G, preferred stock (2)	18,334,755	\$ 3,666,951	\$ 7,016,215	12.86%
JAKKS Pacific, Inc. -				
Common stock	87,347	\$ 521,172	\$ 1,638,674	3.00%

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

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December 31, 2001				
	Shares	Cost	Fair Value	% of Net Assets
Eligible Portfolio Investments - Common Stock, Preferred Stock, and Miscellaneous Securities (1)				
Poore Brothers, Inc. - Common stock (2)	1,931,357	\$ 1,963,170	\$ 4,488,689	8.23%
Simtek Corp. - Common stock (2)	1,000,000	\$ 195,000	\$ 394,800	0.72%
ThermoView Industries, Inc. - Common stock (2)	31,851	\$ 415,384	\$ 27,433	0.05%
Verso Technologies, Inc. - Common stock (2)	179,375	\$ 512,500	\$ 219,196	0.40%
Miscellaneous Securities		\$ 5,915	\$ 1,040,722	1.91%
		-----	-----	-----
		\$20,247,876	\$32,870,044	60.27%
		-----	-----	-----

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

December 31, 2001				
	Shares	Cost	Fair Value	% of Net Assets
Other Portfolio Investments - Common Stock, Preferred Stock, and Miscellaneous Securities (1)				
Bentley Pharmaceuticals, Inc. - Common stock	524,979	\$ 1,470,478	\$ 5,296,037	9.71%
Dave & Busters, Inc. - Common stock	100,000	\$ 653,259	\$ 621,720	1.14%
Display Technologies, Inc. - Common stock (2)	13,880	\$ 549,741	\$ 0	0.00%

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Preferred stock (2)	5,000	\$ 500,000	\$ 0	0.00%
Dwyer Group, Inc. Common stock	675,000	\$ 1,966,631	\$ 3,307,838	6.07%
EDT Learning, Inc. - Common stock	31,600	\$ 16,590	\$ 45,988	0.08%
Precis, Inc. - Common stock	6,200	\$ 36,740	\$ 74,884	0.14%

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

December 31, 2001

	Shares	Cost	Fair Value	% of Net Assets
Other Portfolio Investments - Common Stock, Preferred Stock, and Miscellaneous Securities (1)				
RailAmerica, Inc. - Common stock	40,000	\$ 500,000	\$ 493,696	0.91%
Miscellaneous Securities		\$ 0	\$ 58,806	0.11%
		\$ 5,693,439	\$ 9,898,969	18.15%
		\$35,015,807	\$49,762,340	91.24%
		=====	=====	=====
Allocation of Investments - Restricted Shares, Unrestricted Shares, and Other Securities				
Restricted Securities Under Rule 144		\$16,830,345	\$19,300,331	35.39%
Unrestricted Securities		\$13,352,017	\$19,957,563	36.59%
Other Securities (6)		\$ 4,833,445	\$10,504,446	19.26%

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Renaissance Capital Growth & Income Fund III, Inc.  
 Statements of Operations  
 Three Months Ended September 30,

	2001	2002
Income:		
Interest	\$ 43,040	\$ ( 10,405)
Dividend Income	104,511	16,396
Commitment and other fees	3,000	20,000
	-----	-----
	150,551	25,991
	-----	-----
Expenses:		
General and administrative	68,487	84,886
Incentive fee	7,571	0
Interest expense	0	9,813
Legal and professional fees	67,547	28,784
Management fees	223,529	190,870
	-----	-----
	367,134	314,353
	-----	-----
Net investment income (loss)	( 216,583)	( 288,362)
	-----	-----
Realized and unrealized gain (loss) on investments:		
Net unrealized appreciation (depreciation) on investments	( 209,694)	(10,732,012)
Net realized gain (loss) on investments	37,857	0
	-----	-----
Net gain (loss) on investments	( 171,837)	(10,732,012)
	-----	-----
Net income (loss)	\$ ( 388,420)	\$ (11,020,374)
	=====	=====
Net income (loss) per share	\$ (0.09)	\$ (2.53)
	=====	=====

See accompanying notes to financial statements.

Renaissance Capital Growth & Income Fund III, Inc.  
 Statements of Operations  
 Nine Months Ended September 30,

	2001	2002
Income:		
Interest	\$ 357,605	\$ 175,700
Dividend Income	159,903	59,635
Commitment and other fees	7,600	20,000
	-----	-----
	525,108	255,335
	-----	-----
Expenses:		

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General and administrative	279,306	331,496
Incentive fee	919,429	0
Interest expense	0	54,213
Legal and professional fees	179,598	194,074
Management fees	672,894	669,183
	-----	-----
	2,051,227	1,248,966
	-----	-----
Net investment income (loss)	( 1,526,119)	( 993,631)
	-----	-----
Realized and unrealized gain (loss) on investments:		
Net unrealized appreciation (depreciation) on investments	5,267,049	( 7,926,503)
Net realized gain (loss) on investments	2,129,486	( 3,424,391)
	-----	-----
Net gain on investments	7,396,535	(11,350,894)
	-----	-----
Net income	\$ 5,870,416	\$ (12,344,525)
	=====	=====
Net income (loss) per share	\$ 1.35	\$ (2.83)
	=====	=====

See accompanying notes to financial statements.

22

Renaissance Capital Growth & Income Fund III, Inc.  
Statement of Changes in Net Assets  
Three Months Ended September 30,

	2001	2002
From operations:		
Net investment income	\$ ( 216,583)	\$ ( 288,362)
Net realized gain (loss) on investments	37,857	0
Increase (decrease) in unrealized appreciation on investments	( 209,694)	(10,732,012)
	-----	-----
Net increase in net assets resulting from operations	( 388,420)	(11,020,374)
	-----	-----
From distributions to stockholders:		
Common dividends from net investment income	0	0
Common dividends from realized gains	( 2,129,486)	0
Common dividends from other sources	( 255,788)	0
	-----	-----
Net decrease in net assets resulting from distributions	( 2,355,274)	0
	-----	-----

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From capital transactions:		
Shares issued	0	0
Purchase of treasury stock	0	0
	-----	-----
Net increase (decrease) in net assets resulting from capital contributions	0	0
Total increase in net assets	( 2,743,694)	(11,020,374)
Net assets:		
Beginning of period	53,604,903	53,213,357
	-----	-----
End of period	\$ 50,861,209	\$ 42,192,983
	=====	=====

See accompanying notes to financial statements.

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Renaissance Capital Growth & Income Fund III, Inc.  
Statement of Changes in Net Assets  
Nine Months Ended September 30,

	2001	2002
From operations:		
Net investment income	\$( 1,526,119)	\$( 993,631)
Net realized gain (loss) on investments	2,129,486	( 3,424,391)
Increase (decrease) in unrealized appreciation on investments	5,267,049	( 7,926,503)
	-----	-----
Net increase in net assets resulting from operations	5,870,416	(12,344,525)
	-----	-----
From distributions to stockholders:		
Common dividends from net investment income	0	0
Common dividends from realized gains	( 2,129,486)	0
Common dividends from other sources	( 225,788)	0
	-----	-----
Net decrease in net assets resulting from distributions	( 2,355,274)	0
	-----	-----
From capital transactions:		
Shares issued	0	0
Purchase of treasury stock	0	0
	-----	-----
Net increase (decrease) in net assets resulting from capital contributions	0	0
	-----	-----
Total increase in net assets	3,515,142	( 12,344,525)



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Net assets:		
Beginning of period	47,346,067	54,537,508
	-----	-----
End of period	\$ 50,861,209	\$ 42,192,983
	=====	=====

See accompanying notes to financial statements.

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Renaissance Capital Growth & Income Fund III, Inc.		
Statement of Cash Flows		
Three Months Ended September 30,		
	2001	2002
Cash flows from operating activities:		
Net income	\$( 388,420)	\$(11,020,374)
Adjustments to reconcile net income to net cash provided by (used in) operation activities:		
Net unrealized (appreciation) depreciation on investments	209,694	10,732,012
Net realized (gain) loss on investments	( 37,857)	0
(Increase) decrease in interest receivable	( 380,026)	78,431
(Increase) decrease in other assets	1,280,613	( 57,978)
Increase (decrease) in accounts payable	26,044	2,297
Increase (decrease) in accounts payable - affiliate	( 1,007,586)	( 49,297)
Increase (decrease) in other liabilities	3,112,345	( 2,863,895)
	-----	-----
Net cash provided by (used in) operating activities	2,814,807	( 3,178,804)
	-----	-----
Cash flows from investing activities:		
Purchase of investments	( 767,149)	( 1,217,143)
Proceeds from sale of investments	2,910,196	0
Repayment of debentures and notes	41,944	9,880
	-----	-----
Net cash provided by (used in) investing activities	2,184,991	( 1,207,263)
	-----	-----
Cash flows from financing activities:		
Net proceeds from issuance of shares	0	0
Purchase of treasury shares	0	0
Cash dividends	( 2,355,274)	0
	-----	-----
Net cash used in financing activities	( 2,355,274)	0
	-----	-----
Net increase (decrease) in cash and cash equivalents	2,644,524	( 4,386,067)
Cash and cash equivalents at beginning of the period	21,564,187	21,162,267
	-----	-----
Cash and cash equivalents at end of the period	\$ 24,208,711	\$ 16,776,200
	=====	=====
Cash paid during the period for interest	\$ 0	\$ 9,813
Cash paid during the period for income/excise taxes	\$ 129	\$ 0

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Noncash investing activities: During the quarter ended September 30, 2002, the Fund received common stock in settlement of amounts due for interest totaling \$6,740.

See accompanying notes to financial statements.

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Renaissance Capital Growth & Income Fund III, Inc.  
Statement of Cash Flows  
Nine Months Ended September 30,

	2001	2002
Cash flows from operating activities:		
Net income	\$ 5,870,416	\$ (12,344,525)
Adjustments to reconcile net income to net cash provided by (used in) operation activities:		
Net unrealized (appreciation) depreciation on investments	( 5,267,048)	7,926,503
Net realized (gain) loss on investments	( 2,129,486)	3,424,391
(Increase) decrease in interest receivable	( 161,956)	63,853
(Increase) decrease in other assets	( 484,118)	( 45,110)
Increase (decrease) in accounts payable	37,937	4,163
Increase (decrease) in accounts payable - affiliate	9,827	( 42,589)
Increase (decrease) in other liabilities	1,538,070	( 8,694,343)
	-----	-----
Net cash provided by (used in) operating activities	( 586,358)	( 9,707,657)
	-----	-----
Cash flows from investing activities:		
Purchase of investments	( 2,155,489)	( 5,202,187)
Proceeds from sale of investments	10,969,568	3,941,141
Repayment of debentures and notes	129,724	618,977
	-----	-----
Net cash provided by (used in) investing activities	8,943,803	( 642,069)
	-----	-----
Cash flows from financing activities:		
Net proceeds from issuance of shares	0	0
Purchase of treasury shares	0	0
Cash dividends	( 2,355,274)	0
	-----	-----
Net cash used in financing activities	( 2,355,274)	0
	-----	-----
Net increase (decrease) in cash and cash equivalents	6,002,171	(10,349,726)
Cash and cash equivalents at beginning of the period	18,206,540	27,125,926
	-----	-----
Cash and cash equivalents at end of the period	\$ 24,208,711	\$ 16,776,200
	=====	=====
Cash paid during the period for interest	\$ 0	\$ 54,214
Cash paid during the period for income/excise taxes	\$ 32,140	\$ 25,779

Noncash investing activities: The Fund received common stock in settlement of amounts due from interest and/or dividends as follows: Quarter ended March 31, 2002, \$9,397; quarter ended June 30, 2002, \$6,745; quarter ended September 30, 2002, \$6,740.

See accompanying notes to financial statements.

RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.  
Notes to Financial Statements  
September 30, 2002

(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 offered to sell shares in the Fund until closing of the offering on December 31, 1994. The Prospectus of the Fund required minimum aggregate capital contributions by shareholders of not less than \$2,500,000 and allowed for maximum capital contributions of \$100,000,000. The Fund seeks to achieve current income and capital appreciation potential by investing primarily in unregistered equity investments and convertible issues of small and medium size companies which are in need of capital and which Renaissance Capital Group, Inc. (Investment Advisor) 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 Advisor (note 5). 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 follows industry practice and 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.

(d) Federal Income Taxes

The Fund has elected the special income tax treatment available to a regulated investment company ("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

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comply with the requirements of the IRC including those applicable to a RIC. 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 4,361,618 during each 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 as to the valuation of investments that affect the amounts and disclosures in the financial statements. Actual results could differ from these estimates.

(3) 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 fee equal to 0.4375% (1.75% annually) of the Net Assets each quarter. The Fund incurred \$190,870 for such management fees for the quarter ended September 30, 2002, and \$669,183 for the nine months ended September 30, 2002. Amounts payable for such fees at September 30, 2002, were \$185,405.

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RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.  
Notes to Financial Statements  
September 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 \$19,129 for the quarter ended September 30, 2002, and \$59,801 for the nine months ended September 30, 2002, and are included in general and administrative expenses in the accompanying statements of operations.

- o The Investment Adviser is to receive an incentive fee in an amount equal to 20% of any of the Fund's realized capital gains computed net of all realized capital losses and cumulative unrealized depreciation of the Fund, which fee is to be accrued and paid on a quarterly basis. The Fund did not incur any incentive fees for the quarter ended September 30, 2002, or for the nine months ended September 30, 2002.

(4) 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). 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 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, 2001, and September 30, 2002, 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. The Fund may register and sell such securities at any time with the Fund paying the costs of registration. Interest on the 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.

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RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.  
Notes to Financial Statements  
September 30, 2002

(5) Valuation of Investments

On a quarterly basis, the Investment Adviser prepares a valuation of the assets of the Fund subject to the approval of the Fund's Board of Directors. The valuation principles are as follows:

- o Generally, the guiding principle for valuation is 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 closing price or the closing bid and ask prices, as the case may be, 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.

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RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.  
Notes to Financial Statements  
September 30, 2002

- 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 will govern the value of the enterprise. This valuation method will cause 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 rates for private equity valuations 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, then 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 perspective. In the event of unsuccessful operations by a portfolio company, the appraisal may be based upon a net realizable value when that investment is liquidated.

As of December 31, 2001, and September 30, 2002, the net unrealized appreciation associated with investments held by the Fund was \$14,746,533, and \$6,820,030 respectively.

(6) Restricted Securities

As indicated on the statement of investments as of September 30, 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).

(7) Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase are collateralized by \$1,500,000 in cash held by the broker and are included in cash and cash equivalents and investments on the statement of assets and liabilities as of September 30, 2002.

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RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.  
Notes to Financial Statements  
September 30, 2002

(8) Financial Highlights

Selected per share data and ratios for each share of common stock outstanding throughout the three months ended September 30, 2001 and 2002, are as follows:

	2001	2002
Net asset value, beginning of period	\$ 12.29	\$ 12.20
Net investment income (loss)	\$( 0.05)	\$( 0.07)
Net realized and unrealized gain on investments	\$( 0.04)	\$( 2.46)
	-----	-----
Total return from investment operations	\$( 0.09)	\$( 2.53)
Distributions to shareholders	\$( 0.54)	\$ 0.00
	-----	-----
Net asset value, end of period	\$ 11.66	\$ 9.67
	=====	=====
 Per share market value, end of period	 \$ 10.99	 \$ 8.94
 Portfolio turnover rate (quarterly)	 1.31%	 0.02%
Quarterly return (a)	4.67%	-10.61%
Ratio to average net assets (quarterly) (b):		

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Net investment income (loss)	-0.42%	-0.60%
Expenses, excluding incentive fees	0.69%	0.66%
Expenses, including incentive fees	0.70%	0.66%

- (a) Quarterly return (not annualized) was calculated by comparing the common stock price on the first day of the period to the common stock price on the last day of the period, in accordance with AICPA guidelines.
- (b) Average net assets have been computed based on quarterly valuations.

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RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.  
Notes to Financial Statements  
September 30, 2002

Selected per share data and ratios for each share of common stock outstanding throughout the nine months ended September 30, 2001 and 2002, are as follows:

	2001	2002
Net asset value, beginning of period	\$ 10.86	\$ 12.50
Net investment income (loss)	\$ ( 0.35)	\$ ( 0.23)
Net realized and unrealized gain on investments	\$ 1.69	\$ ( 2.60)
	-----	-----
Total return from investment operations	\$ 1.34	\$ ( 2.83)
Distributions to shareholders	\$ ( 0.54)	\$ 0.00
	-----	-----
Net asset value, end of period	\$ 11.66	\$ 9.67
	=====	=====
Per share market value, end of period	\$ 10.99	\$ 8.94
Portfolio turnover rate (nine months)	4.38%	8.75%
Nine month return (a)	22.11%	-13.30%
Ratio to average net assets (nine months) (b):		
Net investment income (loss)	-3.06%	-1.93%
Expenses, excluding incentive fees	2.27%	2.43%
Expenses, including incentive fees	4.11%	2.43%

- (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, in accordance with AICPA guidelines.
- (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 September 30, 2002 (portfolio companies are herein referred to as the "Company"):

Active Link Communications, Inc. (OTC:ACVE) In the third quarter of 2002, the Company repaid \$9,880 of principal outstanding on the convertible bridge loan, and at September 30, 2002, the Company had \$53,752 remaining on the loan.

Canterbury Consulting Group (NASDAQ:CITI) In the third quarter of 2002, the Fund purchased 97,000 shares of the Company's common stock in the open market for \$94,962 or \$0.98 per share. At September 30, 2002, the fund owned 200,000 shares of CITI common stock having a basis of \$193,473 or \$0.97 per share. All stock is freely tradeable.

Creative Host Services, Inc. (NASDAQ:CHST) In the third quarter of 2002, the Fund purchased 4,830 shares of the Company's common shares in the open market for \$7,921 or \$1.64 per share. This is a new investment for the fund. All stock is freely tradeable.

Creative Host Services acquires and operates food, beverage, and other concessions at airports throughout the United States. The Company focuses on non-core markets. The airport concession business is complemented by inflight catering contracts awarded to the Company by major airlines at certain airports.

EDT Learning, Inc. (ASE:EDT) In the third quarter of 2002, the Fund purchased an additional 16,666 shares of the Company's common stock in the open market. At September 30, 2002, the Fund owned a total of 48,266 shares of freely tradeable common stock having a basis of \$27,033. In addition, the Fund owned a \$500,000 12% Convertible Subordinated Note and three-year warrants to purchase 500,000 shares of the Company's common stock at an exercise price of \$3.00.

eOriginal, Inc. (Private) In the third quarter of 2002, the Fund made three follow-on investments in the Company by advancing \$348,500 to purchase Senior Secured Promissory Notes of eOriginal. The notes bear interest at 12%, payable at maturity on December 31, 2002, and are secured by all intellectual property and software owned by the Company. The maturity dates of the other Senior Secured Promissory Notes were also extended to December 31, 2002. Also during the third quarter of 2002, the Fund reserved the value of the Series A Convertible Preferred stock to \$794,000.

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Gasco Energy, Inc. (OTC:GASE) During the third quarter of 2002, the Fund purchased 250,000 shares of the Company's common stock in a private placement at a cost of \$250,000. This is a new investment for the Fund. Gasco Energy is an oil and gas company whose focus is exploration and development of domestic natural gas properties located primarily in the rocky Mountain regions of Colorado and Wyoming.

I-Flow Corporation (NASDAQ:IFLO) In the third quarter of 2002, the Fund purchased an additional 35,480 shares of the Company's common stock in the open market. At September 30, 2002, the Fund owned 100,000 shares of common stock having a basis of \$254,038, or \$2.54 per share. All stock is freely

tradeable.

Integrated Security Systems, Inc. (OTC:IZZII) In the third quarter of 2002, the Fund received 26,780 shares of the Company's common stock as payment in kind for interest due to the Fund on promissory notes. These shares were paid to the Fund at an average rate of \$0.25 per share.

Also in the third quarter, the Fund purchased a \$75,000, 8%, one-year note and, as part of the consideration for the loan, received five-year warrants to purchase 375,000 shares of the Company's common stock at \$0.20 per share. In conjunction with this purchase, the Fund agreed to extend the due dates of the existing promissory notes to September 4, 2003.

Omnivision Technologies, Inc. (NASDAQ:OVTI) In the third quarter of 2002, the Fund purchased 25,000 shares of the Company's common stock in the open market at a cost of \$244,532. This is a new investment for the Fund.

Omnivision Technologies provides integrated single chip semiconductor imaging devices. The Company designs, develops, and markets semiconductor imaging devices for various applications in computing, communications, and consumer electronics.

Outsource Partners International, Inc. (Private) In the third quarter of 2002, the Fund purchased a \$100,000, 12% promissory note maturing August 31, 2003, and a one-year warrant to purchase 4,587 shares of the common stock of Business Process Outsourcing ("BPO"), the parent of the Company. The promissory note is convertible into common shares of BPO at a rate equal to 85% of the price paid by investors in the Company's or BPO's next round of permanent financing (the "Financing"), and will entitle the Fund to hold the same class of securities as those issued in the Financing. The warrants are exercisable at a rate equal to 100% of the price paid by investors in the Financing, but if the Company does not complete the Financing by August 31, 2003, then the exercise price shall be \$4.36 per share. This is a new investment for the Fund.

Business Process Outsourcing is a privately held business process outsourcing firm that specializes in finance and accounting services, providing innovative business solutions that is designed to empower clients with a competitive advantage, enabling them to focus on their core activities.

Results of Operations for the Quarter Ended September 30, 2002:

For the quarter ended September 30, 2002, the Fund had a net investment loss of (\$288,362) compared to a net investment loss of (\$216,583) in the third quarter of 2001. Most of the difference came from reduced investment income. Interest income decreased from \$43,040 in the third quarter of 2001 to (\$10,405) in the third quarter of 2002. This decrease was caused by the Fund's reserve of previously accrued but unpaid interest. Dividend income decreased from \$104,511 in the third quarter of 2001 to \$16,396 in the same period of 2002 primarily as a result of the Fund's more concentrated position in common stock rather than in yield-bearing instruments. Other investment income increased from \$3,000 in third quarter of 2001 to \$20,000 in the third quarter of 2002 as a result of loan closing fees received. The reduction in investment income was

partially offset by an overall reduction in investment expenses for the third quarter of 2002. Although General and administrative expenses rose 23.9% from \$68,487 to 84,886, Legal and professional fees decreased 57.4% from \$67,547 in the third quarter of 2001 to \$28,784 in the same period of 2002. Additionally, management fees decreased 14.6% from \$223,529 in the third quarter of 2001 to \$190,870 in the third quarter of 2002 due to lower portfolio values primarily resulting from overall market decline coupled with reserves taken on portfolio investment valuations. No incentive fees were incurred by the Fund in the current year third quarter versus \$7,571 in incentive fees incurred in the third quarter of 2001. During the third quarter of 2002, the Fund incurred interest expense in the amount of \$9,813, compared to no interest expense for the same period of 2001. Net income in the third quarter of 2002 was (\$11,020,374) compared to a net loss of (\$388,420) for the third quarter of 2001. This increase in the net loss was due primarily to a decrease in the net unrealized appreciation of investments of (\$10,732,012) resulting from reserves taken on portfolio valuations combined with a declining market.

For the nine months ended September 30, 2002, the Fund incurred a net investment loss of (\$993,631) versus (\$1,526,119) for the same period of 2001. The reduction in net investment loss was driven primarily by lower expenses as a result of no net realized gains being taken on investments and no accruals of incentive fees so far in 2002. For the first nine months of 2001, incentive fees of \$919,429 were incurred by the Fund due to the realization of gains on sales of portfolio investments. For the first nine months of 2002, general and administrative expenses increased 18.7% to \$331,496, and legal and professional fees rose from \$179,598 in the first nine months of 2001 to \$194,074 for the first nine months of 2002. Management fees for the first nine months of 2002 were slightly lower than in the same period of 2001 due to lower valuations for portfolio investments over the period. In addition, the Fund incurred \$9,813 in interest expense during the third quarter of 2002 compared to no interest expense for the same period of 2001. For the first three quarters of 2002, the Fund realized a net loss of (\$12,344,525), reflecting a net loss on investments of (\$11,350,894) comprised of the realization of losses on portfolio investments of (\$3,424,391) and a decrease in net unrealized appreciation of investments of (\$7,926,503). In the first nine months of 2001, the Fund's net income was \$5,870,416 due primarily to net unrealized appreciation on investments of \$5,267,049 and net realized gains of \$2,129,486.

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#### Liquidity and Capital Resources

For the three months ended September 30, 2002, net assets decreased by (\$11,020,374) giving the fund net assets of \$42,192,983 at September 30, 2002, or \$9.67 per share. The reduction in net assets is due to the net investment loss of (\$288,362), lower valuations of portfolio investments of (\$10,732,012) resulting from a general decline in market values, and reserves taken on portfolio investments.

At the end of the third quarter of 2002, the Fund had net cash and cash equivalents of \$3,273,397 versus net cash and cash equivalents of \$4,795,570 at June 30, 2002, a 31.7% decrease. The decrease in cash and cash equivalents results primarily from follow-on investments in existing portfolio companies and investments in new portfolio companies. The Fund's interest receivable decreased 75.4% from \$112,974 at June 30, 2002, to

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\$27,805 at September 30, 2002, whereas prepaid expenses increased from \$995 at June 30, 2002 to \$58,973 at September 30, 2002.

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.

### Critical Accounting Policies and Judgments

Critical accounting policies are those that are both important to the presentation of our financial condition and results of operations and require management's most difficult, complex, or subjective judgments. The Fund's critical accounting policies are those applicable to the valuation of investments discussed below.

Valuation of Portfolio Investments. The Fund invests primarily in convertible securities and equity investments of public companies, although the Fund also may make investments in private companies. These investments may be subject to restrictions on resale, illiquid, and without an established trading market. Therefore, on a quarterly basis, the Investment Adviser prepares a valuation of the assets of the Fund subject to approval of the Fund's Board of Directors. Generally, the guiding principle for valuation of any investment is application of objective standards. The types of investments made by the Fund and the specific policies used in valuation of the Fund's portfolio are discussed thoroughly in the footnotes to the financial statements found in Part I, Item 1 of this report, specifically in Notes 4, 5, and 6.

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### Disclosure Regarding Forward-Looking Statements

Information contained in this Form 10-Q may contain "forward-looking statements" which can be identified by the use of forward-looking terminology including but not necessarily limited to "may," "will," "expect," "intend," "anticipate," "estimate," or "continue" or the negative thereof or other variations or similar words or phrases. The matters described in "Critical Accounting Policies and Judgments," "Quantitative and Qualitative Disclosure About Market Risk," and certain other factors noted throughout this Form 10-Q constitute cautionary statements identifying important factors with respect to any such forward-looking statements, including certain risks and uncertainties, that could cause actual results to differ materially from those in such forward-looking statements.

Although we believe that the assumptions on which these forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate, and as a result, the forward-looking statements based on those assumptions also could be incorrect. In light of these and other uncertainties, the inclusion of a projection or forward-looking statement in this Form 10-Q should not be regarded as a representation by us that our plans and objectives will be achieved. No undue reliance should be placed on such forward-looking

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statements, which apply only as of the date of this Form 10-Q.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

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

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

A portion of the Fund's portfolio consists of equity investments in private companies. The Fund would anticipate no impact on this 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.

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A portion of the Fund's investment portfolio also consists of common stocks and warrants 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.

### ITEM 4. CONTROLS AND PROCEDURES

Within 90 days prior to the date of this report, the Fund's President and Chief Executive Officer along with the Fund's Chief Financial Officer evaluated the effectiveness of the design and operation of the Fund's disclosure controls and procedures pursuant to Exchange Act Rule 13a-14(c). Based upon that evaluation, the Fund's President and Chief Executive Officer along with the Fund's Chief Financial Officer concluded that the Fund's disclosure controls and procedures are effective in timely alerting them to material information relating to the Fund required to be included in the Fund's periodic SEC filings. There have been no significant changes in the Fund's internal controls or in other factors which could significantly affect internal controls subsequent to the date of their evaluation.

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PART II

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

99-1 Certification of Russell Cleveland, President and CEO

99-2 Certification of Barbe Butschek, Chief Financial Officer

(b) Reports on Form 8-K

None

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 12, 2002

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

November 12, 2002

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

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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 quarterly 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 quarterly report;

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3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly 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 to ensure that material information relating to the registrant is made known to us by others, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
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

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6. The registrant's other certifying officers and I have indicated in this quarterly 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 5, 2002

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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 quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly 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 to ensure that material information relating to the registrant is made known to us by others, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
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 quarterly report whether or not there were significant changes in internal



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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 5, 2002

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EXHIBIT 99-1

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 quarter ended September 30, 2002 (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: November 5, 2002

/S/ Russell Cleveland  
Russell Cleveland  
President & CEO

EXHIBIT 99-2

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 quarter ended September 30, 2002 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities

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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: November 5, 2002

/s/ Barbe Butschek  
Barbe Butschek  
Chief Financial Officer