

Yes No

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

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(or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark if disclosure by delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any statement to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. (Check one):

Large Accelerated Filer Accelerated Filer Non-accelerated filer

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes No

The aggregate market value of the voting and non-voting common equity held by non-affiliates, based on the closing price of such the Registrant's Common Stock as of June 30, 2006, was \$43,467,879. As of September 1, 2006, there were 4,463,967 of Registrant's Common Stock outstanding.

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Part I

Certain of the statements included below, including those regarding future financial performance or results that are not historical facts, contain “forward-looking” information as that term is defined in the Securities Exchange Act of 1934, as amended. The words “expect,” “believe,” “anticipate,” “project,” “estimate,” and similar expressions are intended to identify forward-looking statements. The Fund cautions readers that any such statements are not guarantees of future performance or events and that such statements involve risks, uncertainties and assumptions, including but not limited to industry conditions, general economic conditions, interest rates, competition, ability of the Fund to successfully manage its growth, and other factors discussed or included by reference in this Annual Report on Form 10-K. Should one or more of these risks or uncertainties materialize or should the underlying assumptions prove incorrect, those actual results and outcomes may differ materially from those indicated in the forward-looking statements.

Item 1. Business.

GENERAL

Renaissance Capital Growth & Income Fund III, Inc., (the “Fund” or the “Registrant”) is a non-diversified, closed-end fund that has elected to be treated as a business development company (a “BDC”) under the Investment Company Act of 1940, as amended (the “1940 Act”). The Fund, a Texas corporation, was organized and commenced operations in 1994.

Our Internet website address is www.rencapital.com/index2.html. You can review the filings we have made with the U.S. Securities and Exchange Commission (“SEC”), free of charge, by linking to the Electronic Data Gathering, Analysis, and Retrieval System of the SEC (“EDGAR”) at www.sec.gov/index.htm. From EDGAR, you should be able to access our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934.

The investment objective of the Fund is to provide its shareholders with current income and long-term capital appreciation by investing primarily in privately placed convertible securities and equity securities of emerging growth companies.

The Fund seeks to provide returns to shareholders through cash dividends of net investment income and through distributions of realized gains. Pursuant to its annual distribution policy, the Fund currently pays to its shareholders a minimum annual distribution of \$0.40 per share, payable quarterly. Through December 31, 2004, the Fund had declared a total of \$12.08 per share in cash to its shareholders since inception in 1994.

RENN Capital Group, Inc. (“RENN Group” or the “Investment Adviser”), a Texas corporation, serves as the investment adviser to the Fund. In this capacity, RENN Group is primarily responsible for the selection, evaluation, structure, valuation, and administration of the Fund’s investment portfolio. RENN Group is a registered investment adviser under the Investment Advisers Act of 1940, as amended (the “Advisers Act”).

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Generally, investments are, and will continue to be, in companies that have their common stock registered for public trading under the Securities Exchange Act of 1934, as amended (the “1934 Act”), or companies that in the opinion of the Investment Adviser have the ability to effect a public offering within three to five years. The Fund generally invests in privately placed preferred stock or debentures of a company the Fund holds in its portfolio (“Portfolio Company”), which securities typically are convertible into or exchangeable for common stock of the Portfolio Company. While such common stock of the Portfolio Company may be publicly traded, the common stock acquired by the Fund is often unregistered. Therefore, such securities are restricted from distribution or sale to the public except in compliance with certain holding periods and exemptions under the Securities Act of 1933, as amended (the “1933 Act”), or after registration pursuant to the 1933 Act. The Fund also purchases shares of small and micro cap issuers in the secondary markets. These shares are freely tradable and have no restrictions on resale.

From inception through December 31, 2004, the Fund had made investments in sixty-six (66) different Portfolio Companies having an aggregate cost of \$87,662,840. The Fund had active investments in thirty (32) Portfolio Companies at December 31, 2004. The Fund does not focus on particular industry segments. Instead, the Fund makes investment decisions using a bottom-up analysis of the potential Portfolio Company, with no predetermined industry bias.

Under the provisions of the 1940 Act, a Business Development Company generally is required to invest at least 70% or more of its assets in “Eligible Portfolio Investments,” defined generally as direct placements to “Eligible Portfolio Companies” and temporary investments in “cash items” pending other investments. The Fund determines whether any prospective investment is in an “Eligible Portfolio Company” at the time the investment is made, and the calculation of the requisite percentage is also made at that time and is based on the most recent valuation of the Fund’s assets. Under and pursuant to the provisions of the 1940 Act, a Business Development Company may invest up to 30% of its funds in investments that do not qualify as “Eligible Portfolio Investments.” In the event the Fund has less than 70% of its assets in Eligible Portfolio Investments, then the Fund will be prohibited from making non-eligible investments until such time as the percentage of eligible investments again are at least equal to the 70% threshold.

Pending investment in securities of eligible Portfolio Companies or other Portfolio Companies, the Registrant’s funds are invested in short-term investments consisting primarily of cash or U.S. Government and agency obligations.

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At December 31, 2004, the Fund's investment assets were classified by amount as follows:

Classification	Value	Percentage Of Assets
Eligible Portfolio Investments (including cash and cash equivalents)	\$ 101,423,316	89.4%
Other Portfolio Investments	12,058,857	10.6%
	\$ 113,482,173	100.00%

INVESTMENT OBJECTIVE

The investment objective of the Fund is to provide its shareholders with current income and long-term capital appreciation by investing primarily in privately placed convertible securities and equity securities of emerging growth public companies. The Fund seeks to provide returns to shareholders through cash dividends of net investment income and through distributions of realized gains.

The Fund has elected the special income tax treatment available to a regulated investment company ("RIC") under Subchapter M of the Internal Revenue Code 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 shareholders. If a RIC meets certain diversification and distribution requirements under the Internal Revenue Code, the RIC qualifies for pass-through tax treatment. The Fund would be unable to qualify for pass-through tax treatment if it were unable to comply with these requirements. 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 both the Fund's net assets and the amount of income available for distribution to shareholders.

GENERAL INVESTMENT POLICIES

The Fund invests in the securities of emerging growth companies that are generally not available to the public and which typically require substantial financial commitment. An emerging growth company is generally considered to have the following attributes: (1) either a publicly held company with a relatively small market capitalization or a privately held company; (2) an established operating history but of a limited period so as to not have fully developed its market potential for the products or services offered; and (3) a provider of a new or unique product or service that allows the company an opportunity for exceptional growth. Emerging growth companies typically require non-conventional sources of financing because the extent and nature of the market for their products or services is not fully known. Consequently, there is uncertainty as to the rate and extent of growth and also uncertainty as to the capital and human resources required to achieve the goals sought.

With respect to investments in emerging growth companies, the Fund emphasizes investing in convertible debentures or convertible preferred stock of publicly held companies that the Fund anticipates will be converted into common stock and registered for public sale within three to five years after the private placement. In addition, the Fund will invest in privately

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placed common stock of publicly traded issuers that are initially restricted from trading. To a lesser extent, the Fund may participate in bridge financings in the form of loans or other preferred securities which are convertible into common stock of the issuer or issued together with equity participation, or both, for companies which the Fund anticipates will complete a stock offering or other financing within one or more years from the date of the investment. The Fund may also make bridge loans, either secured or unsecured, intended to carry the borrower to a private placement or an initial public offering, or to a merger, acquisition, or other strategic transaction.

Generally, the securities of Portfolio Companies have an initial fixed term of five to seven years, with no amortization of the principal amount for the initial two to three years. Further, privately-placed investments in Portfolio Companies will be individually negotiated, non-registered for public trading, and will be subject to legal and contractual investment restrictions. Accordingly, the Fund's securities of Portfolio Companies are generally considered non-liquid.

The Fund has no fixed policy concerning the types of businesses or industry groups in which it may invest or as to the amount of funds that it will invest in any one issuer. However, the Fund will generally seek to limit its investment in securities of any single Portfolio Company to approximately 15% of the Portfolio Company's net assets at the time of the investment.

In the event the Fund elects to participate as a member of the Portfolio Company's Board of Directors, either through advisory or full membership, the Fund's nominee to the board will generally be selected from among the officers of RENN Group. When, at the discretion of RENN Group, a suitable nominee is not available from among its officers, RENN Group will select, as alternate nominees, outside consultants who have prior experience as an independent outside director of a public company. At December 31, 2004, officers of the Fund served as directors of six of the Fund's portfolio companies. The Fund makes available significant managerial assistance to its portfolio companies through participating in discussions with management and review of various management reports.

Although the Fund has no intent to change its current investment objectives, they may be changed without a vote of the holders of a majority of the Fund's common stock.

It is the policy of the Fund not to structure off-balance sheet arrangements.

REGULATION UNDER THE INVESTMENT COMPANY ACT OF 1940

The 1940 Act was enacted to regulate investment companies. In 1980, the 1940 Act was amended by the adoption of the Small Business Investment Incentive Act. The purpose of the amendment was to remove regulatory burdens on professionally managed investment companies engaged in providing capital to smaller companies. The Small Business Investment Incentive Act established a new type of investment company specifically identified as a Business Development Company as a way to encourage financial institutions and other major investors to provide a new source of capital for small developing businesses.

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BUSINESS DEVELOPMENT COMPANY

A business development company (“BDC”) is a closed-end management investment company that generally makes 70% or more of its investments in “Eligible Portfolio Companies” and “cash items” pending other investment. Under the 1940 Act, only certain companies may qualify as “Eligible Portfolio Companies.” To be an “Eligible Portfolio Company,” the company must satisfy the following:

- it must be organized under the laws of, and has its principal place of business in, any state or states of the United States of America;
- it is neither an investment company as defined in Section 3 of the 1940 Act (other than a small business investment company which is licensed by the Small Business Administration to operate under the Small Business Investment Act of 1958 and which is a wholly-owned subsidiary of the business development company) nor a company which would be an investment company under the 1940 Act except for the exclusion from the definition of investment company in Section 3(c) of the 1940 Act; and

· it satisfies one of the following:

- Ø it does not have any class of securities with respect to which a member of a national securities exchange, broker, or dealer may extend or maintain credit to or for a customer pursuant to rules or regulations adopted by the Board of Governors of the Federal Reserve System under Section 7 of the Securities Exchange Act of 1934;
- Ø it is controlled by a business development company, either alone or as part of a group acting together, and such business development company in fact exercises a controlling influence over the management or policies of such Eligible Portfolio Company and, as a result of such control, has an affiliated person who is a director of such Eligible Portfolio Company;
- Ø it has total assets of not more than \$4,000,000, and capital and surplus (shareholders’ equity less retained earnings) of not less than \$2,000,000, except that the Securities and Exchange Commission (the “SEC”) may adjust such amounts by rule, regulation, or order to reflect changes in one or more generally accepted indices or other indicators for small businesses; or
- Ø it meets such other criteria as the SEC may, by rule, establish as consistent with the public interest, the protection of investors, and the purposes fairly intended by the policy and provisions of this title.

Therefore, the Investment Adviser believes that “Eligible Portfolio Companies” are, generally, those companies that, while being publicly held, may not have or do not have a broad based market for their securities, or the securities that they wish to offer are restricted from

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public trading until registered. Further, while the 1940 Act allows a BDC to “control” a Portfolio Company, it is not the general policy of the Fund to acquire a controlling position in its portfolio companies. The Fund only provides managerial assistance, and in certain circumstances seeks to limit its “control” position by contracting for the right to have a designee of the Fund be elected to the board of directors of the Portfolio Company, or be selected an advisory director. While these are the Fund’s general policies, the application of these policies, of necessity, varies with each investment situation.

1940 ACT REQUIREMENTS

The BDC election exempts the Fund from some provisions of the 1940 Act. However, except for those specific provisions, the Fund will continue to be subject to all provisions of the 1940 Act not exempted, including the following:

- restrictions on the Fund from changing the nature of business so as to cease to be, or to withdraw its election as, a BDC without the majority vote of the shares outstanding;
- restrictions against certain transactions between the Fund and affiliated persons;
- restrictions on issuance of senior securities, such not being prohibited by the 1940 Act but being restricted as a percentage of capital;
- compliance with accounting rules and conditions as established by the SEC, including annual audits by independent accountants;
- compliance with fiduciary obligations imposed under the 1940 Act; and
- requirement that the shareholders ratify the selection of the Fund’s independent public accountants and the approval of the Fund’s Advisory Agreement with the Investment Adviser or similar contracts and amendments thereto.

CO-INVESTMENTS WITH ADVISOR AFFILIATED FUNDS

In accordance with the conditions of an exemptive order of the SEC permitting co-investments (the “Co-investment Order”), many of the Fund’s acquisitions and dispositions of investments are made in participation with two funds that are advised or managed by RENN Group (“Advisor Affiliated Funds”).

The Co-investment Order provides that the Investment Adviser will review private placement investment opportunities on behalf of the Fund, including investments being considered on behalf of its Advisor Affiliated Funds. If the Investment Adviser determines that any such investment is an eligible co-investment opportunity, the Fund must be offered the opportunity to invest in such investment in an amount recommended by the Adviser. Securities purchased by the Fund in a co-investment transaction with Advisor Affiliated Funds will consist of the same class of securities and will have the same rights, price, terms and conditions. Any such co-investment transaction must be approved by the Fund’s Board of Directors, including a majority of its independent directors. The Fund will not make any direct investment in the securities of any issuers in which the Advisor Affiliated Funds, but not the Fund, has previously

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made a private placement, except for follow-on investments that meet the same requirements. To the extent that the amount of a follow-on investment opportunity is not based on the amount of the Fund's and the Advisor Affiliated Funds' initial investments, the relative amount of investment by the Advisor Affiliated Funds and the Fund will be based on the ratio of the Fund's remaining funds available for investment to the aggregate of the Fund's and the Advisor Affiliated Funds' remaining funds available for investment. The Co-investment Order also provides that the Fund will have the opportunity to dispose of any securities in which the Fund and the Advisor Affiliated Funds have invested at the same price, terms and conditions. The Fund will participate in any such disposition to the extent that a majority of its independent directors believe it is in its best interest. The Fund will bear no more than its own transaction costs.

INVESTMENT ADVISERS ACT OF 1940 AND THE ADVISORY AGREEMENT

RENN Group is the investment adviser to the Fund pursuant to the Advisory Agreement, as amended (the "Advisory Agreement"). RENN Group is registered as an investment adviser under the Advisers Act and is subject to its filing and other requirements. The Advisers Act also provides restrictions on the activities of registered advisers in order to protect clients from manipulative or deceptive practices.

The Advisory Agreement is further subject to the 1940 Act, which requires that the Advisory Agreement, in addition to having to be initially ratified by the holders of a majority of the outstanding shares of the Fund, must precisely describe all compensation to be paid to RENN Group, must be approved annually by a majority vote of the Board of Directors of the Fund, may be terminated without penalty on not more than 60 days notice by a vote of the holders of a majority of the outstanding shares of the Fund, and must automatically terminate in the event of assignment. The Board of Directors has determined that the Advisory Agreement shall be construed in compliance with the applicable provisions of the Advisers Act and the 1940 Act.

FUND PORTFOLIO INVESTMENTS

At December 31, 2004, the Fund had active investments in the following companies:

AdStar, Inc. (NASDAQ:ADST)

4553 Glencoe Avenue, Suite 325, Marina del Rey, CA 90292

AdStar, Inc. is a leading provider of remote advertising technology products and services to the classified advertising industry. The company transforms publishers' websites into full service classified ad sales channels for their print and on-line classified ad departments.

At December 31, 2004, the Fund owned 269,231 shares of common stock in the company, having a cost basis of \$350,000.

Bovie Medical Corporation (AMEX: BVX)

734 Walt Whitman Road, Melville, NY 11747

Bovie Medical Corporation manufactures, markets and develops medical products and related technologies. The company also manufactures a variety of specialty lighting instruments for use in ophthalmology, general surgery, hip replacement surgery and for the placement of

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endotracheal tubes.

During the third quarter of 2004, the Fund acquired 300,000 shares of the company's common stock for \$1.75 per share.

At December 31, 2004, the Fund owned 300,000 shares of common stock in the company, having a cost basis of \$525,000.

Business Process Outsourcing (Private)

11150 Santa Monica Boulevard, Suite 350, Los Angeles, CA 90025

Business Process Outsourcing is a privately held business process outsourcing firm that specializes in finance and accounting services, other administrative functions, and high volume transaction processing services. The company's services are designed to empower clients with a competitive advantage by enabling them to focus on their core activities.

At December 31, 2004, the Fund owned a warrant to purchase 4,587 shares of the company's common stock at a rate of \$4.36 per share.

CaminoSoft Corporation (OTC:CMSF)

600 North Hampshire Road, Suite 105, West Lake Village, CA 91361

CaminoSoft Corporation creates intelligent data storage and management infrastructures by facilitating data storage, retrieval, protection, and performance measurement and management.

During the third quarter of 2004, the Fund purchased a 2-year, 7% senior secured promissory note from the company for \$250,000. As part of that transaction, the Fund received warrants to purchase 471,698 shares of the company's common stock at a price of \$0.53.

At December 31, 2004, the Fund held a \$250,000 promissory note. The Fund also owned 3,539,414 shares of common stock in the company, having a basis of \$5,275,000. Additionally, the Fund owned warrants to purchase 2,052,779 shares common at exercise prices ranging from \$0.53 per share to \$1.11 per share, with varying terms dates, and options to purchase 120,700 shares common with strike prices ranging from \$0.41 per share to \$0.95 per share.

CNE Group, Inc. (AMEX:CNE)

200 West 57th Street, Suite 507, New York, NY 10019

CNE Group, Inc., through its subsidiaries, is a provider of solar-powered wireless communication solutions for the intelligent traffic systems market.

During the first quarter of 2004, the Fund received warrants to purchase 125,000 shares of the company's common stock. During the third quarter of 2004, the Fund sold 125,000 shares of the company's common stock for a net loss of \$219,921.

At December 31, 2004, the Fund owned warrants to purchase 62,500 shares of the company's common stock with an exercise price of \$6.00 per share and warrants to purchase 125,000 shares of the company's common stock with an exercise price of \$3.00 per share.

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Comtech Group, Inc. (Nasdaq:COGO)

Room 1001 Tower C Skyworth Building High-Tech Industrial Park Nanshan, Shenzhen, China 518057

Comtech Group, Inc. provides design solutions to telecom equipment, mobile device and consumer electronic manufacturers in China.