

RENAISSANCE CAPITAL GROWTH & INCOME FUND III INC
Form 10-Q
November 14, 2006

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

Form 10-Q

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

For the quarterly period ended September 30, 2006

OR

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

For the Transition period from _____ to _____ .

Commission file number: 0-20671

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

TX
(State or other jurisdiction
of incorporation or organization)

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

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

75206
(Zip Code)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

Yes No .

As of October 31, 2006, the issuer had 4,463,967 shares of common stock outstanding.

RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.

INDEX

| | Page Number |
|---|------------------------|
| PART I. FINANCIAL INFORMATION | |
| <u>Item 1. Financial Statements (Unaudited)</u> | 3 |
| Statements of Assets and Liabilities as of September 30, 2006 and December 31, 2005 | 3 |
| Schedules of Investments as of September 30, 2006 and December 31, 2005 | 4 |
| Statements of Operations for the three months and nine months ended September 30, 2006 and 2005 | 15 |
| Statements of Change in Net Assets for the nine months ended September 30, 2006 and 2005 | 17 |
| Statements of Cash Flows for the nine months ended September 30, 2006 and 2005 | 18 |
| Notes to Financial Statements | 19 |
| <u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> | 24 |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u> | 28 |
| <u>Item 4. Controls and Procedures</u> | 28 |
| PART II. OTHER INFORMATION | |
| <u>Item 1. Legal Proceedings</u> | 29 |
| <u>Item 1A. Risk Factors</u> | 29 |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | 32 |
| <u>Item 3. Defaults Upon Senior Securities</u> | 32 |
| <u>Item 4. Submission of Matters to a Vote of Security Holders</u> | 32 |
| <u>Item 5. Other Information</u> | 32 |
| <u>Item 6. Exhibits</u> | 32 |

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

| | September 30, 2006 | December 31, 2005 |
|--|-----------------------|----------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 16,441,071 | \$ 8,396,052 |
| Investments at fair value, cost of \$37,280,584 and \$35,433,480 at September 30, 2006 and December 31, 2005, respectively | 38,315,651 | 54,002,499 |
| Interest and dividends receivable | 136,423 | 48,226 |
| Prepaid and other assets | 10,921 | 101,598 |
| | \$ 54,904,066 | \$ 62,548,375 |
| LIABILITIES AND NET ASSETS | | |
| Liabilities: | | |
| Due to broker | \$ — | \$ 2,075,975 |
| Accounts payable | 119,313 | 86,782 |
| Accounts payable - affiliate | 673,763 | 2,050,989 |
| Accounts payable - dividends | — | 4,145,686 |
| | 793,076 | 8,359,432 |
| Commitments and contingencies | | |
| Net assets: | | |
| Common stock, \$1 par value; authorized 20,000,000 shares; 4,673,867 issued; 4,463,967 shares outstanding | 4,673,867 | 4,673,867 |
| Additional paid-in-capital | 31,790,153 | 32,681,024 |
| Treasury stock at cost, 209,900 | (1,734,967) | (1,734,967) |
| Distributable earnings | 18,346,870 | — |
| Net unrealized appreciation of investments | 1,035,067 | 18,569,019 |
| Net assets, equivalent to \$12.12 and \$12.14 per share at September 30, 2006 and December 31, 2005, respectively | 54,110,990 | 54,188,943 |
| | \$ 54,904,066 | \$ 62,548,375 |

See accompanying notes

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

| | Interest Rate | Due Date | September 30, 2006 | | % of Net Investments |
|--|------------------|----------|--------------------|--------------|-------------------------|
| | | | Cost | Fair Value | |
| Eligible Portfolio Investments - Convertible Debentures and Promissory Notes | | | | | |
| CaminoSoft Corp. - | | | | | |
| Promissory note (4) | 7.00% | 01/19/08 | \$ 250,000 | \$ 250,000 | 0.65% |
| iLinc Communications, Inc. - | | | | | |
| Convertible promissory note (2) | 12.00 | 03/29/12 | 500,000 | 500,000 | 1.30 |
| Integrated Security Systems, Inc. - | | | | | |
| Promissory note (4) | 8.00 | 09/30/07 | 525,000 | 525,000 | 1.37 |
| Promissory note (4) | 7.00 | 09/30/07 | 200,000 | 200,000 | 0.52 |
| Promissory note (4) | 8.00 | 09/30/07 | 175,000 | 175,000 | 0.46 |
| Convertible promissory note (2) | 8.00 | 12/14/08 | 500,000 | 500,000 | 1.31 |
| Simtek Corporation - | | | | | |
| Convertible debenture (2) | 7.50 | 06/28/09 | 900,000 | 2,127,273 | 5.55 |
| | | | \$ 3,050,000 | \$ 4,277,273 | 11.16% |

See accompanying notes

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

September 30, 2006

| | Interest Rate | Due Date | Cost | Fair Value | % of Net Investments |
|---|------------------|----------|------------|------------|-------------------------|
| Other Portfolio Investments - Convertible Debentures and Promissory Notes | | | | | |
| Integrated Security Systems, Inc. - | | | | | |
| Convertible debenture (4) | 6.00% | 06/16/09 | \$ 400,000 | \$ 400,000 | 1.04% |
| Pipeline Data, Inc. - | | | | | |
| Convertible debenture (2) | 8.00 | 06/29/10 | 500,000 | 519,231 | 1.36 |
| | | | \$ 900,000 | \$ 919,231 | 2.40% |

See accompanying notes

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

| | September 30, 2006 | | | % of Net Investments |
|--|--------------------|--------------|------------|-------------------------|
| | Shares | Cost | Fair Value | |
| Eligible Portfolio Investments - Common Stock, Preferred Stock, and Miscellaneous Securities | | | | |
| CaminoSoft Corp. - | | | | |
| Common stock (2) | 3,539,414 | \$ 5,275,000 | \$ 955,642 | 2.49 |
| eOriginal, Inc. - | | | | |
| Series A, preferred stock (1)(2)(3) | 10,680 | 4,692,207 | 332,575 | 0.87 |
| Series B, preferred stock (1)(2)(3) | 25,646 | 620,329 | 798,616 | 2.08 |
| Series C, preferred stock (1)(2)(3) | 51,249 | 1,059,734 | 1,595,894 | 4.17 |
| Series D, preferred stock (1)(2)(3) | 16,057 | 500,000 | 500,015 | 1.30 |
| Gaming & Entertainment Group - | | | | |
| Common stock (2) | 612,500 | 550,625 | 67,375 | 0.18 |
| Gasco Energy, Inc. - | | | | |
| Common stock | 1,541,666 | 1,250,000 | 4,162,498 | 10.86 |
| Global Access Corporation - | | | | |
| Common stock (2) | 953,333 | 1,261,667 | 371,800 | 0.97 |
| Hemobiotech, Inc. - | | | | |
| Common stock (2) | 1,137,405 | 1,143,882 | 1,592,367 | 4.16 |
| Integrated Security Systems, Inc. - | | | | |
| Common stock (2) | 31,205,238 | 5,909,401 | 4,056,681 | 10.59 |
| Series D, preferred stock (2) | 187,500 | 150,000 | 24,375 | 0.06 |
| Inyx, Inc. - | | | | |
| Common stock | 300,000 | 300,000 | 756,000 | 1.97 |
| PracticeXpert, Inc. - | | | | |
| Common stock (2) | 4,166,667 | 500,000 | 41,667 | 0.11 |

See accompanying notes

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

| | September 30, 2006 | | | % of Net Investments |
|--|--------------------|---------------|---------------|-------------------------|
| | Shares | Cost | Fair Value | |
| Eligible Portfolio Investments - Common Stock, Preferred Stock, and Miscellaneous Securities, continued | | | | |
| Simtek Corp. - | | | | |
| Common stock (2) | 6,407,625 | 1,799,294 | 3,331,965 | 8.70 |
| Symbolon Pharmaceuticals, Inc. - | | | | |
| Common stock (2) | 250,000 | 250,000 | 312,500 | 0.82 |
| Miscellaneous Securities | | | | |
| | | - | 562,943 | 1.47 |
| | | \$ 25,262,139 | \$ 19,462,913 | 50.80% |

See accompanying notes

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

| | September 30, 2006 | | | % of Net Investments |
|---|--------------------|------------|------------|-------------------------|
| | Shares | Cost | Fair Value | |
| Other Portfolio Investments - Common Stock, Preferred Stock, and Miscellaneous Securities | | | | |
| AdStar, Inc. - | | | | |
| Common stock | 269,231 | \$ 350,000 | \$ 223,462 | 0.58% |
| Advance Nanotech, Inc. - | | | | |
| Common stock (2) | 170,796 | 330,000 | 131,513 | 0.34 |
| Bovie Medical Corporation - | | | | |
| Common stock (2) | 500,000 | 907,845 | 3,520,000 | 9.19 |
| China Security & Surveillance Technology, Inc. - | | | | |
| Common stock (2) | 142,857 | 500,000 | 957,142 | 2.50 |
| Comtech Group, Inc. - | | | | |
| Common stock (2) | 240,000 | 840,000 | 3,597,600 | 9.39 |
| Common stock | 60,000 | 346,018 | 899,400 | 2.35 |
| Hemobiotech, Inc. - | | | | |
| Common stock | 62,595 | 140,235 | 87,633 | 0.23 |
| i2 Telecom - | | | | |
| Convertible Preferred (2) | 625 | 618,750 | 44,531 | 0.11 |
| Information Intellect - | | | | |
| Series A preferred stock (1)(2)(3) | 666,666 | 999,999 | 999,999 | 2.61 |
| iLinc Communications, Inc. - | | | | |
| Common stock | 23,266 | 13,908 | 11,865 | 0.03 |
| Medical Action Industries, Inc. - | | | | |
| Common stock | 20,100 | 237,209 | 540,489 | 1.41 |

See accompanying notes

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

| | September 30, 2006 | | | % of Net |
|---|--------------------|---------------|---------------|-------------|
| Other Portfolio Investments - Common Stock, Preferred Stock, and Miscellaneous Securities, continued | Shares | Cost | Fair Value | Investments |
| Precis, Inc. - | | | | |
| Common stock (2) | 800,000 | 1,998,894 | 1,560,000 | 4.07 |
| US Home Systems, Inc. - | | | | |
| Common stock | 110,000 | 535,587 | 1,040,600 | 2.72 |
| Vaso Active Pharmaceuticals, Inc. - | | | | |
| Common stock | 150,000 | 250,000 | 42,000 | 0.11 |
| | | 8,068,445 | 13,656,234 | 35.64% |
| | | \$ 37,280,584 | \$ 38,315,651 | 100.00% |
| Allocation of Investments - Restricted Shares, Unrestricted Shares, and Other Securities | | | | |
| Restricted Securities (2) | | \$ 24,435,358 | \$ 24,211,662 | 63.19% |
| Unrestricted Securities | | \$ 3,422,957 | \$ 7,763,947 | 20.26% |
| Other Securities (5) | | \$ 9,422,269 | \$ 6,340,042 | 16.55% |

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

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

(3) Securities in a privately owned company.

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

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

See accompanying notes

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

| | Interest Rate | Due Date | Cost | December 31, 2005 Fair Value | % of Net Investments |
|--|------------------|-------------|--------------|------------------------------------|-------------------------|
| Eligible Portfolio Investments - Convertible Debentures and Promissory Notes | | | | | |
| CaminoSoft Corp. - | | | | | |
| Promissory note (4) | 7.00 | 07/19/06 | \$ 250,000 | \$ 250,000 | 0.46% |
| iLinc Communications, Inc. - | | | | | |
| Convertible promissory note (2) | 12.00 | 03/29/12 | 500,000 | 500,000 | 0.93 |
| Integrated Security Systems, Inc. - | | | | | |
| Promissory note (4) | 8.00 | 09/30/06 | 525,000 | 525,000 | 0.97 |
| Promissory note (4) | 7.00 | 09/30/06 | 200,000 | 200,000 | 0.37 |
| Promissory note (4) | 8.00 | 09/30/06 | 175,000 | 175,000 | 0.33 |
| Convertible promissory note (2) | 8.00 | 12/14/08 | 500,000 | 400,000 | 0.74 |
| Simtek Corporation - | | | | | |
| Convertible debenture | 7.50 | 06/28/09 | 1,000,000 | 1,000,000 | 1.85 |
| | | | \$ 3,150,000 | \$ 3,050,000 | 5.65% |

See accompanying notes

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

| | Shares | Cost | December 31, 2005 Fair Value | % of Net Investments |
|--|------------|--------------|------------------------------------|-------------------------|
| Eligible Portfolio Investments - Common Stock, Preferred Stock, and Miscellaneous Securities | | | | |
| CaminoSoft Corp. - | | | | |
| Common stock | 3,539,414 | \$ 5,275,000 | \$ 3,433,232 | 6.36 |
| eOriginal, Inc. - | | | | |
| Series A, preferred stock (1)(2)(3) | 10,680 | 4,692,207 | 332,575 | 0.62 |
| Series B, preferred stock (1)(2)(3) | 25,646 | 620,329 | 798,616 | 1.48 |
| Series C, preferred stock (1)(2)(3) | 51,249 | 1,059,734 | 1,595,894 | 2.96 |
| Series D, preferred stock (1)(2)(3) | 16,057 | 500,000 | 500,015 | 0.93 |
| Gaming & Entertainment Group - | | | | |
| Common stock (2) | 612,500 | 550,625 | 79,625 | 0.15 |
| Gasco Energy, Inc. - | | | | |
| Common stock | 1,541,667 | 1,250,000 | 10,067,086 | 18.64 |
| Global Axxess Corporation - | | | | |
| Common stock (2) | 953,333 | 1,261,667 | 1,134,466 | 2.10 |
| Hemobiotech, Inc. - | | | | |
| Common stock (2) | 549,165 | 520,347 | 1,180,705 | 2.19 |
| Information Intellect - | | | | |
| Series A preferred stock (1)(2)(3) | 666,666 | 999,999 | 999,999 | 1.85 |
| Integrated Security Systems, Inc. - | | | | |
| Common stock (2) | 30,737,482 | 5,846,422 | 6,147,496 | 11.38 |
| Series D, preferred stock (2) | 187,500 | 150,000 | 45,000 | 0.08 |

See accompanying notes

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

| | Shares | Cost | December 31, 2005 Fair Value | % of Net Investments |
|--|-----------|---------------|------------------------------------|-------------------------|
| Eligible Portfolio Investments - Common Stock, Preferred Stock, and Miscellaneous Securities, continued | | | | |
| Inyx, Inc. - | | | | |
| Common stock (2) | 300,000 | 300,000 | 564,000 | 1.04 |
| Laserscope - | | | | |
| Common stock | 600,000 | 750,000 | 13,476,000 | 24.95 |
| PracticeXpert, Inc. - | | | | |
| Common stock (2) | 4,166,667 | 500,000 | 108,333 | 0.20 |
| Simtek Corp. - | | | | |
| Common stock | 1,550,661 | 695,000 | 449,692 | 0.83 |
| Common stock (2) | 3,125,000 | 500,000 | 906,250 | 1.68 |
| Miscellaneous Securities | | - | 1,960,473 | 3.63 |
| | | \$ 25,471,330 | \$ 43,779,457 | 81.07% |

See accompanying notes

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

| | Shares | Cost | December 31, 2005 Fair Value | % of Net Investments |
|---|---------|------------|------------------------------------|-------------------------|
| Other Portfolio Investments - Common Stock, Preferred Stock, and Miscellaneous Securities | | | | |
| AdStar, Inc. - | | | | |
| Common stock (2) | 269,231 | \$ 350,000 | \$ 600,385 | 1.11% |
| Advance Nanotech, Inc. - | | | | |
| Common stock (2) | 165,000 | 330,000 | 341,550 | 0.63 |
| Bovie Medical Corporation - | | | | |
| Common stock (2) | 500,000 | 904,545 | 1,490,000 | 2.76 |
| Comtech Group, Inc. - | | | | |
| Common stock (2) | 300,000 | 1,186,019 | 1,863,000 | 3.45 |
| i2 Telecom - | | | | |
| Convertible Preferred (2) | 625 | 618,750 | 50,781 | 0.10 |
| iLinc Communications, Inc. - | | | | |
| Common stock | 23,266 | 13,908 | 6,282 | 0.01 |
| Medical Action Industries, Inc. - | | | | |
| Common stock | 20,100 | 237,209 | 410,844 | 0.76 |
| Metasolv, Inc. - | | | | |
| Common stock | 100,000 | 210,838 | 290,000 | 0.54 |

See accompanying notes

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

| | Shares | Cost | December 31, 2005 Fair Value | % of Net Investments |
|---|---------------|---------------|------------------------------------|-------------------------|
| Other Portfolio Investments - Common Stock, Preferred Stock, and Miscellaneous Securities, continued | | | | |
| PhotoMedex, Inc. - | | | | |
| Common stock | 70,000 | 176,400 | 120,400 | 0.22 |
| Precis, Inc. - | | | | |
| Common stock | 800,000 | 1,998,894 | 1,232,000 | 2.28 |
| US Home Systems, Inc. - | | | | |
| Common stock | 110,000 | 535,587 | 701,800 | 1.30 |
| Vaso Active Pharmaceuticals, Inc. - | | | | |
| Common stock | 150,000 | 250,000 | 66,000 | 0.12 |
| | | 6,812,150 | 7,173,042 | 13.28% |
| | \$ 35,433,480 | | \$ 54,002,499 | 100.00% |
| Allocation of Investments - Restricted Shares, Unrestricted Shares, and Other Securities | | | | |
| Restricted Securities (2) | | \$ 14,018,375 | \$ 15,411,591 | 28.54% |
| Unrestricted Securities | | \$ 12,392,836 | \$ 31,253,336 | 57.87% |
| Other Securities (5) | | \$ 9,022,269 | \$ 7,337,572 | 13.59% |

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

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

(3) Securities in a privately owned company.

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

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

See accompanying notes

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

| | Three Months Ended September 30, | |
|--|-------------------------------------|--------------|
| | 2006 | 2005 |
| Income: | | |
| Interest income | \$ 125,296 | \$ 91,546 |
| Dividend income | 236,814 | 45,661 |
| Write-off of interest receivable | — | (140,199) |
| Other income | (3,822) | 5,386 |
| | 358,288 | 2,394 |
| Expenses: | | |
| General and administrative | 63,538 | 166,376 |
| Interest expense | — | 24,464 |
| Legal and professional fees | 140,140 | 17,420 |
| Management fee to affiliate | 237,776 | 278,937 |
| | 441,454 | 487,197 |
| Net investment loss | (83,166) | (484,803) |
| Realized and unrealized gain (loss) on investments: | | |
| Net change in unrealized appreciation of investments | (2,379,862) | 583,608 |
| Net realized gain on investments | 874,823 | 1,304,189 |
| Net gain (loss) on investments | (1,505,039) | 1,887,797 |
| Net income (loss) | \$ (1,588,205) | \$ 1,402,994 |
| Net income (loss) per share | \$ (0.36) | \$ 0.31 |
| Weighted average shares outstanding | 4,463,967 | 4,451,495 |

See accompanying notes

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

| | Nine Months Ended September 30, | |
|--|---------------------------------|-----------------|
| | 2006 | 2005 |
| Income: | | |
| Interest income | \$ 244,630 | \$ 263,308 |
| Dividend income | 347,037 | 106,705 |
| Write-off of interest receivable | — | (140,199) |
| Other income | 19,954 | 72,957 |
| | 611,621 | 302,771 |
| Expenses: | | |
| General and administrative | 235,777 | 267,562 |
| Interest expense | 60,188 | 63,485 |
| Legal and professional fees | 483,288 | 197,022 |
| Management fee to affiliate | 723,239 | 826,961 |
| | 1,502,492 | 1,355,030 |
| Net investment loss | (890,871) | (1,052,259) |
| Realized and unrealized gain (loss) on investments: | | |
| Net change in unrealized appreciation (depreciation) of investments | (17,533,952) | (15,768,269) |
| Net realized gain on investments | 19,686,060 | 5,493,584 |
| Net gain (loss) on investments | 2,152,108 | (10,274,685) |
| Net income (loss) | \$ 1,261,237 | \$ (11,326,944) |
| Net income (loss) per share | \$ 0.28 | \$ (2.54) |
| Weighted average shares outstanding | 4,463,967 | 4,451,495 |

See accompanying notes

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

| | Nine Months Ended September 30, | |
|--|------------------------------------|----------------|
| | 2006 | 2005 |
| From operations: | | |
| Net investment loss | \$ (890,871) | \$ (1,052,259) |
| Net realized gain on investments | 19,686,060 | 5,493,584 |
| Net change in unrealized appreciation on investments | (17,533,952) | (15,768,269) |
| Net income (loss) | 1,261,237 | (11,326,944) |
| From distributions to stockholders: | | |
| Common stock dividends from realized capital gains | (1,339,190) | (1,339,189) |
| From capital transactions: | | |
| Sale of common stock | — | 1,561,383 |
| Total decrease in net assets | (77,953) | (11,104,750) |
| Net assets: | | |
| Beginning of period | 54,188,943 | 74,582,499 |
| End of period | \$ 54,110,990 | \$ 63,477,749 |

See accompanying notes

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

| | Nine Months Ended September 30, | |
|--|------------------------------------|-----------------|
| | 2006 | 2005 |
| Cash flows from operating activities: | | |
| Net income (loss) | \$ 1,261,237 | \$ (11,326,944) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operation activities: | | |
| Net decrease in unrealized appreciation on investments | 17,533,952 | 15,768,269 |
| Net realized gain on investments | (19,686,060) | (5,493,584) |
| Decreases in accounts receivable-broker | — | 52,782 |
| Increase in interest and dividends receivable | (88,197) | (1,194,291) |
| (Increase) decrease in prepaid and other assets | 90,677 | (49,616) |
| Increase in accounts payable | 32,531 | 82,141 |
| Increase (decrease) in accounts payable-affiliate | (1,377,226) | 520,065 |
| Decrease in due to broker | (2,075,975) | (24,955,801) |
| Purchase of investments | (2,984,342) | (2,828,590) |
| Proceeds from sale of investments | 20,823,298 | 11,703,345 |
| Net cash provided by (used in) operating activities | 13,529,895 | (17,722,224) |
| Cash flows from financing activities: | | |
| Cash dividends | (5,484,876) | (13,393,447) |
| Sale of common stock | — | 1,561,383 |
| Net cash used in financing activities | (5,484,876) | (11,832,064) |
| Net increase (decrease) in cash and cash equivalents | 8,045,019 | (29,554,288) |
| Cash and cash equivalents at beginning of the period | 8,396,052 | 37,278,871 |
| Cash and cash equivalents at end of period | \$ 16,441,071 | \$ 7,724,583 |
| Cash paid during the period Interest | \$ 60,188 | \$ 63,485 |

See accompanying notes

RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.

Notes to Unaudited Financial Statements

September 30, 2006

Note 1 -

Organization and Business Purpose

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

Note 2 -

Summary of Significant Accounting Policies

Basis of Presentation

We have prepared the accompanying unaudited interim financial statements pursuant to the rules and regulations of the Securities and Exchange Commission, which reflect all adjustments which, in the opinion of management, are necessary to present fairly the results for the interim periods. We have omitted certain information and disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States pursuant to those rules and regulations, although we believe that the disclosures we have made are adequate to make the information presented not misleading. You should read these unaudited interim financial statements in conjunction with our audited financial statements and notes included in our Annual Report on Form 10-K for the year ended December 31, 2005.

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

Valuation of Investments

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

Other

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

Cash and Cash Equivalents

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

Federal Income Taxes

The Fund has elected the special income tax treatment available to "regulated investment companies" ("RIC") under Subchapter M of the Internal Revenue Code ("IRC") in order to be relieved of federal income tax on that part of its net investment income and realized capital gains that it pays out to its shareholders. The Fund's policy is to comply with the requirements of the IRC that are applicable to regulated investment companies. Such requirements include, but are

not limited to certain qualifying income tests, asset diversification tests and distribution of substantially all of the Fund's taxable investment income to its shareholders. It is the intent of management to comply with all IRC requirements as they pertain to the RIC and to distribute all of the Fund's taxable investment income and long-term capital gains within the defined period under the IRC to qualify as a RIC. Failure to qualify as a RIC would subject the Fund to federal income tax as if the Fund were an ordinary corporation, which could result in a substantial reduction in the Fund's net assets as well as the amount of income available for distribution to shareholders.

RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.

Notes to Unaudited Financial Statements

September 30, 2006

Use of Estimates

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

Note 3 -

Due to Broker

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

Note 4 -

Management and Incentive Fees

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

- The Investment Adviser receives a management fee equal to a quarterly rate of 0.4375% of the Fund's net assets, as determined at the end of such quarter with each such payment to be due as of the last day of the calendar quarter. The Fund incurred \$723,239 and \$826,961 for management fees during the nine months ended September 30, 2006 and 2005, respectively.
- The Investment Adviser receives an incentive fee in an amount equal to 20% of the Fund's cumulative realized capital gains in excess of cumulative realized capital losses of the Fund after allowance for any unrealized capital depreciation on the portfolio investments of the Fund at the end of the period being calculated less cumulative incentive fees previously accrued. Unrealized capital depreciation equals net unrealized capital loss on each class of security without netting net unrealized capital gains on other classes of securities. Because the incentive fee is calculated, accrued, and paid on an annual basis as of each year end and no probability or estimate of the ultimate fee can be ascertained (see note 8), no incentive fee was recorded during the nine months ended September 30, 2006 or 2005.

RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.

Notes to Unaudited Financial Statements

September 30, 2006

Note 4 - Management and Incentive Fees, continued

- The Investment Adviser was reimbursed by the Fund for administrative expenses paid by the Investment Adviser on behalf of the Fund. Such reimbursements were \$49,977 and \$95,672 during the nine months ended September 30, 2006 and 2005, respectively, and are included in general and administrative expenses in the accompanying statements of operations.

As of September 30, 2006 and December 31, 2005, the Fund had an accounts payable of \$673,763 and \$2,050,989, respectively, for the amount due for the fees and expense reimbursements above.

Note 5 - Eligible Portfolio Companies and Investments

Eligible Portfolio Companies

The Fund invests primarily in convertible securities and equity investments of companies that qualify as Eligible Portfolio Companies as defined in Section 2(a)(46) of the 1940 Act or in securities that otherwise qualify for investment as permitted in Section 55(a)(1) through (5). Under the provisions of the 1940 Act at least 70% of the Fund's assets, as defined under the 1940 Act, must be invested in Eligible Portfolio Companies. In the event the Fund has less than 70% of its assets invested in Eligible Portfolio Investments, then it will be prohibited from making non-eligible investments until such time as the percentage of eligible investments again exceeds the 70% threshold. The Fund was in compliance with these provisions at September 30, 2006.

Investments

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

Note 6 - Valuation of Investment

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

- The common stock of companies listed on an exchange, Nasdaq or in the over-the-counter market is valued at the closing price on the date of valuation.
- The unlisted preferred stock of companies with common stock listed on an exchange, Nasdaq or in the over-the-counter market is valued at the closing price of the common stock into which the preferred stock is convertible on the date of valuation. If the preferred stock is redeemable, the preferred stock is valued at the greater of cost or

market.

21

RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.

Notes to Unaudited Financial Statements

September 30, 2006

Note 6

Valuation of Investment, continued

- The unlisted in-the-money options or warrants of companies with the underlying common stock listed on an exchange, Nasdaq or in the over-the-counter market are valued at the positive difference between the closing price of the underlying common stock and the strike price of the warrant or option. An out-of-the money warrant or option has no intrinsic value; thus, we assign no value to it.
- Debt securities are valued at the greater of (i) cost or (ii) the market value of the underlying common stock into which the debt instrument is convertible. In cases where the debt instrument is in default or the company is in bankruptcy, the value will be (i) the value of the underlying common stock, (ii) the value of the collateral, if secured, or (iii) zero, if the common stock has no value and there is no collateral.
- If there is no independent and objective pricing authority (i.e. a public market) for investments in privately held entities, the latest sale of equity securities to independent third parties by the entity governs the value of that enterprise. This valuation method causes the Fund's initial investment in the private entity to be valued at cost. Thereafter, new issuances or offers of equity or equity-linked securities by the portfolio company to new investors will be used to determine enterprise value as they will provide the most objective and independent basis for determining the worth of the issuer. Where a private entity does not have an independent value established over an extended period of time, then the Investment Adviser will determine fair value on the basis of appraisal procedures established in good faith and approved by the Fund's Board of Directors.

As of September 30, 2006, and December 31, 2005, the net unrealized appreciation associated with investments held by the Fund was \$1,035,067 and \$18,569,019, respectively. As of September 30, 2006 and December 31, 2005, the Fund had gross unrealized gains of \$15,072,033 and \$28,008,507, respectively, and gross unrealized losses of \$(14,036,966) and \$(9,439,488), respectively.

Note 7 -

Restricted Securities

As indicated on the schedules of investments as of September 30, 2006 and December 31, 2005, the Fund holds investments in shares of common stock, the sale of which is restricted. These securities have been valued by the Investment Adviser after considering certain pertinent factors relevant to the individual securities (See Note 6).

Note 8 -

Commitments and Contingencies

As disclosed in Note 4, the Fund is obligated to pay to the Investment Advisor an incentive fee equal to 20% of the Fund's cumulative realized capital gains in excess of cumulative capital losses of the Fund after allowance for any capital depreciation on the portfolio investments of the Fund. As incentive fees on capital gains are not due to the Investment Advisor until the capital gains are realized, any obligations for incentive fees based on unrealized capital gains are not reflected in the accompanying financial statements as there is no assurance that the unrealized gains as of the end of any period will ultimately become realized. Had an incentive fee been accrued as a liability based on all unrealized capital gains, net assets of the Fund would have been reduced by \$5,509,555 as of December 31, 2005.

RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.Notes to Unaudited Financial StatementsSeptember 30, 2006

Note 9 -

Financial Highlights - unaudited

Selected per share data and ratios for each share of common stock outstanding throughout the nine months ended September 30, 2006 and 2005 are as follows:

| | 2006 | 2005 |
|---|----------|----------|
| Net asset value, beginning of period | \$ 12.14 | \$ 16.71 |
| Net investment loss | (0.20) | (0.24) |
| Net realized and unrealized gain on investments | 0.48 | (2.30) |
| Total return from investment operations | 0.28 | (2.54) |
| Capital share transactions | — | 0.35 |
| Distributions | (0.30) | (0.30) |
| Net asset value, end of period | 12.12 | 14.22 |
| Per share market value, end of period | \$ 11.61 | \$ 11.25 |
| Portfolio turnover rate | 6.40% | 4.54% |
| Quarterly return (a) | 5.55% | (13.13%) |
| Ratio to average net assets (b): | | |
| Net investment income (loss) | (1.63%) | (1.60%) |
| Expenses | 2.75% | 2.06% |

(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 American Institute of Certified Public Account guidelines.

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

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

Material Changes in Portfolio Investments

The following material portfolio transactions occurred during the quarter ended September 30, 2006:

Advanced Refractive Technologies (formerly known as Visijet) (OTCBB:ARFR): In the first quarter of 2006, the Fund recorded a \$125,000 receivable related to the sale of debt securities of Advanced Refractive Technologies. The Fund received a payment of \$62,500 in the second quarter of 2006. The Fund wrote-off the remaining \$62,500 accrual in the third quarter of 2006.

Integrated Security Systems, Inc. (OTCBB:IZZ1): In the third quarter of 2006, the Fund received 134,074 shares of common stock, with a value of \$17,644 at the time of issuance, as payment in kind for interest on promissory notes held by the Fund.

Laserscope, Inc. (Nasdaq:LSCP): During the third quarter of 2006, the Fund tendered options to purchase 34,923 shares of common stock, realizing proceeds of \$843,192 representing a gain of \$843,192.

Metasolv, Inc. (OTCBB:MSLV): During the third quarter of 2006, the Fund sold 100,000 shares of common stock realizing proceeds of \$304,970 representing a gain of \$94,132.

Simtek Corporation (OTCBB:SRAM): During the quarter ended September 30, 2006, the Fund converted a \$100,000 debenture into 454,545 shares of common stock. The Fund also purchased 1,265,823 shares of common stock and warrants to purchase 189,874 shares of common stock at \$0.54 per share for \$500,000.

Results of Operations for the Three Months Ended September 30, 2006

For the quarter ended September 30, 2006, the Fund had a net investment loss of \$83,166 compared to a net investment loss of \$484,803 for the third quarter of 2005. This change was due in part to an increase in investment income from \$2,394 for the third quarter of 2005 to \$358,288 for the comparable period of 2006. This increase in investment income was attributable to higher interest and dividend income for the third quarter of 2006. Interest income increased from \$91,546 for the three months ended September 30, 2005 to \$125,296 for the same period of 2006, primarily as a result of the recovery of interest income from iLinc Communications, Inc. that had been previously written off. Dividend income for the three-month period ended September 30, 2006, was \$236,814 versus \$45,661 for the same period in 2005 as a result of higher balances in 2006 of short-term treasury investments that earn dividends. There were no interest receivable write-offs during the three months ended September 30, 2006; however, during the comparable period of 2005, the Fund wrote off \$140,199 of interest that was determined to be uncollectable.

Expenses decreased from \$487,197 for the quarter ended September 30, 2005 to \$441,454 for the third quarter of 2006. General and administrative expenses decreased for the third quarter of 2006 to \$63,538 from \$166,376 for the third quarter of 2005, primarily due to decreased travel, subscriptions, bank charges, and insurance expenses, offset by higher investor relations and director fee expenses. Interest expense decreased from \$24,464 for the third quarter of 2005 to \$0 for the comparable period of 2006 as a result of repayment of margin balances in June 2006. Legal and professional fees increased from \$17,420 for the third quarter of 2005 to \$140,140 in the same period of 2006 as a result of higher audit and consulting fees for the third quarter of 2006. These increased fees were a result of the Fund completing the 2003, 2004 and 2005 audits during 2006 and starting the reviews of 2006 quarterly financial information. Management fees decreased from \$278,937 for the third quarter of 2005 to \$237,776 for the third quarter of 2006 as a result of lower market values for portfolio investments at September 30, 2006.

Net change in unrealized appreciation for the quarter ended September 30, 2005 was \$583,608. For the quarter ended September 30, 2006 net change in unrealized appreciation was a decrease of \$2,379,862 as a result of fluctuations in market values of securities at each quarter end and the realization of gains or losses upon disposition of investments.

Realized gains decreased from \$1,304,189 for the quarter ended September 30, 2005 to \$874,823 for the same period in 2006. The difference is the result of fewer gains recorded from the sale of investments during the quarter ended September 30, 2006.

Results of Operations for the Nine Months Ended September 30, 2006

For the nine months ended September 30, 2006, the Fund experienced net investment loss in the amount of \$890,871, compared to a net investment loss in the amount of \$1,052,259 for the same period in 2005. This change was due in part to an increase in investment income from \$302,771 for the nine months ended September 30, 2005 to \$611,621 for the comparable period of 2006. This increase in investment income was partially attributable to higher dividend income being earned in 2006. Dividend income for the nine-month period ended September 30, 2006 was \$347,037 versus \$106,705 for the same period in 2005 as a result of higher balances in 2006 of short-term treasury investments that earn dividends. There were no interest receivable write-offs during the nine months ended September 30, 2006; however, during the comparable period of 2005, the Fund wrote off \$140,199 of interest that was determined to be uncollectable.

Expenses increased from \$1,355,030 for the nine months ended September 30, 2005 to \$1,502,492 for the same period in 2006. General and administrative expenses decreased from \$267,562 in the nine months ended September 30, 2005, to \$235,777 for the same period in 2006, primarily due to lower subscription, and insurance expenses, offset by higher investor relations, printing, taxes, and director's fee expenses in 2006. Legal and professional fees increased from \$197,022 for the nine months ended September 30, 2005 to \$483,288 for the nine months ended September 30, 2006 as a result of higher audit and consulting fees for the nine months ended September 30, 2006. These increased fees were a result of the Fund completing the 2003, 2004 and 2005 audits during 2006 and starting the reviews of 2006 quarterly financial information. Management fees decreased from \$826,961 for the nine months ended September 30, 2005, to \$723,239 for the same period in 2006, due to lower market values for portfolio investments at September 30, 2006.

Net change in unrealized appreciation on investments was a decrease of \$15,768,269 for the nine months ended September 30, 2005, and \$17,533,952 for the nine months ended September 30, 2006. The difference between the net change for the two periods is the result of fluctuations in market values of securities at each quarter end and the realization of gains or losses upon disposition of investments.

Realized gains increased from \$5,493,584 for the nine months ended September 30, 2005 to \$19,686,060 for the same period in 2006, as a result of gains earned from the sale of investments (primarily Laserscope) during the nine months ended September 30, 2006.

Liquidity and Capital Resources

For the nine months ended September 30, 2006, net assets decreased from \$54,188,943 at December 31, 2005 to \$54,110,990 at September 30, 2006. This decrease is attributable to dividends declared of \$1,339,190 partially offset by net income of 1,261,237 for the nine months ended September 30, 2006.

At the end of the third quarter of 2006, the Fund had cash and cash equivalents of \$16,441,071 versus cash and cash equivalents of \$8,396,052 at December 31, 2005. This increase is primarily attributable to the receipt of proceeds of \$18,464,321 from the sale of Laserscope common stock. The Fund's interest and dividends receivable increased from \$48,226 at December 31, 2005 to \$136,423 at September 30, 2006 due primarily to more dividends being recorded on higher short-term treasury investment balances. In addition, during the nine months ended September 30, 2006, the Fund purchased an additional promissory note and convertible debenture from Integrated Security Systems, Inc. and a convertible debenture from Pipeline Data, Inc.

During the nine months ended September 30, 2006, the Fund paid the accounts payable due to broker margin balance with part of the proceeds from the sale of Laserscope. Also, the dividend payable of \$4,145,686 to shareholders of record as of December 30, 2005 was paid on January 12, 2006.

Accounts payable increased from \$86,782 at December 31, 2005 to \$119,313 at September 30, 2006 primarily due to the accrual of audit and consulting fees. Finally, accounts payable to affiliate decreased from \$2,050,989 at December 31, 2005 to \$673,763 at September 30, 2006, reflecting the payments of accrued management and incentive fees to the Fund's investment adviser.

During the nine months ended September 30, 2006 the Fund paid \$5,484,876 of dividends to shareholders of which \$4,145,686 was capital gains dividend payable at December 31, 2005 and \$1,339,190 of dividends declared during the nine months ended September 30, 2006.

During the nine months ended September 30, 2006, the Fund invested \$2,984,342 in new and follow-on investments compared to \$2,828,590 for the same period in 2005. During the nine months ended September 30, 2006, the Fund received \$20,823,298 in proceeds from the sale of the securities of various portfolio companies, including \$18,464,321 from the sale of Laserscope common stock and a recovery of \$1,091,200 of the Fund's original \$3,135,000 investment in Dexterity Surgical, Inc. which had previously been written-off. During the same nine month period of 2005, the Fund received \$11,964,359 in proceeds from the sale of portfolio company securities.

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

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

Contractual Obligations

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

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

Item 3. Quantitative and Qualitative Disclosure About Market Risk

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

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

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

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

Item 4. Controls and Procedures.

The Fund has in place systems relating to disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934). Our principal executive officer and principal financial officer evaluated the effectiveness of these disclosure controls and procedures as of the end of our quarter ended September 30, 2006 in connection with the preparation of this report. They concluded that the controls and procedures were effective and adequate at that time. There were no significant changes in the Fund's internal control over financial reporting during the third quarter of fiscal 2006 that have materially affected, or are reasonably likely to materially affect the Fund's control over financial reporting.

PART II

Item 1.

Legal Proceedings

None

Item 1A.

Risk Factors

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

None

Item 6. Exhibits

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

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

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

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

32

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.

/s/ Russell Cleveland

November 14, 2006

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

/s/ Barbe Butschek

November 14, 2006

Barbe Butschek, Chief Financial Officer
(Principal Financial Officer)