

RENAISSANCE CAPITAL GROWTH & INCOME FUND III INC
Form 10-Q
May 15, 2002

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

FORM 10-Q

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

For quarterly period ended March 31, 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 No 4,361,618 shares of common stock were outstanding at April 19, 2002.

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

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

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Assets	December 31, 2001	March 31, 2002
Cash and cash equivalents	\$27,125,926	\$24,917,818
Investments at fair value, cost of \$35,015,807 and \$32,093,757 December 31, 2001 and March 31, 2002, respectively	49,762,340	51,631,322
Interest receivable	114,539	70,276
Prepaid expenses	13,863	7,465
	-----	-----
	\$77,016,668	\$76,626,881
	=====	=====
Liabilities and Net Assets		
Liabilities:		
Securities sold under agreements to repurchase	22,197,146	20,698,688
Accounts payable	13,472	33,576
Accounts payable - affiliate	268,542	257,711
Dividends payable	-	-
	-----	-----
	22,479,160	20,989,975
	-----	-----
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 March 31, 2002	(1,665,220)	(1,665,220)
Distributions in excess of net investment income	(231,137)	(547,542)
Accumulated net realized loss on securities transactions	-	(3,375,228)
Net unrealized appreciation of investments	14,746,533	19,537,564
	-----	-----
Net assets, equivalent to \$12.50 and \$12.76 per share at December 31, 2001 March 31, 2002, respectively	54,537,508	55,636,906
Commitments and contingencies	-	-
	-----	-----
	\$77,016,668	\$76,626,881
	=====	=====

See accompanying notes to financial statements.

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

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

Eligible Portfolio Investments - Convertible Debentures and Promissory notes (1)				

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Active Link Communications, Inc. -						
Convertible bridge note (2)	12.00%	05/02	\$	98,027	\$	98,027 0.18%
Convertible note (2)	8.00%	09/30/02	\$	125,000	\$	125,000 0.22%
Convertible note (2)	8.00%	09/30/02	\$	250,000	\$	250,000 0.45%
Dexterity Surgical, Inc. -						
Convertible debenture (2)	9.00%	12/19/04	\$	1,316,282	\$	816,282 1.47%
EDT Learning, Inc. -						
Convertible redeemable note	12.00%	03/29/12	\$	500,000	\$	500,000 0.90%
eOriginal, Inc. -						
Senior Secured Notes (4)	12.00%	06/30/02	\$	575,000	\$	575,000 1.03%
Integrated Security Systems, Inc. -						
Promissory notes (5)	8.00%	01/25 - 05/14/02	\$	250,000	\$	250,000 0.45%

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

	March 31, 2002				
	Interest Rate	Due Date	Cost	Fair Value	% of Net Assets
Laserscope -					
Convertible debenture (2)	8.00%	02/11/07	\$ 1,500,000	\$ 4,992,160	8.97%
Northwestern Steel & Wire Corporation -					
Debt (3) (5)	N/A	N/A	\$ 127,500	\$ 127,500	0.23%
			<u>\$ 4,741,809</u>	<u>\$ 7,733,969</u>	<u>13.90%</u>

- (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.
- (5) Securities have no provision that allows conversion into a security for which there is a public market.
- (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
(unaudited)

		March 31, 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	0.45%	
Play by Play Toys & Novelties -						
Convertible debenture (3)	8.00%	12/31/00	\$ 2,425,747	\$ 500,000	0.90%	
				\$ 2,675,747	\$ 750,000	1.35%

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

		March 31, 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	\$ 4,019,400	7.22%	
CaminoSoft Corporation -					
Common stock	1,750,000	\$ 4,000,000	\$ 2,252,250	4.05%	
Common stock (2)	708,333	\$ 875,000	\$ 815,583	1.47%	
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%	

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eOriginal, Inc. -					
Series A preferred stock (4)	6,000	\$ 1,500,000	\$ 4,794,000	8.62%	
Series B-1 preferred stock (4)	1,785	\$ 392,700	\$ 1,426,215	2.56%	
Series B-3 preferred stock (4)	447	\$ 107,280	\$ 357,153	0.64%	
Series C-1 preferred stock (4)	2,353	\$ 2,000,050	\$ 2,000,050	3.59%	

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

	March 31, 2002			
	Shares	Cost	Fair Value	% of Net Assets
Fortune Natural Resources, Inc. -				
Common stock	1,322,394	\$ 545,500	\$ 615,310	1.11%
Preferred stock (5)	120,000	\$ 120,000	\$ 120,000	0.22%
Integrated Security Systems, Inc. -				
Common stock	393,259	\$ 215,899	\$ 175,197	0.31%
Common stock - PIK (2)	44,653	\$ 12,763	\$ 18,888	0.03%
Series D preferred stock (2)	187,500	\$ 150,000	\$ 101,250	0.18%
Series F preferred stock (2)	2,714,945	\$ 542,989	\$ 1,148,421	2.06%
Series G preferred stock (2)	18,334,755	\$ 3,666,951	\$ 7,705,602	13.85%
JAKKS Pacific, Inc. -				
Common stock	87,347	\$ 521,172	\$ 1,971,596	3.54%
Poore Brothers, Inc. -				
Common stock (2)	1,931,357	\$ 1,963,170	\$ 4,397,915	7.90%

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

	March 31, 2002			
	Shares	Cost	Fair Value	% of Net Assets
Simtek Corporation -				
Common stock (2)	1,000,000	\$ 195,000	\$ 357,200	0.64%
ThermoView Industries, Inc. -				
Common stock (2)	31,851	\$ 415,384	\$ 32,794	0.06%

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Verso Technologies, Inc. - Common stock (2)	179,375	\$ 512,500	\$ 204,021	0.37%
Miscellaneous securities		\$ 5,915	\$ 917,961	1.65%
		-----	-----	-----
		\$19,877,273	\$33,430,806	60.45%
		-----	-----	-----

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

	March 31, 2002			
	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	\$ 5,275,251	9.48%
DaisyTek International Corporation - Common stock	10,000	\$ 136,918	\$ 157,509	0.28%
Dave & Buster's, Inc. - Common stock	100,000	\$ 653,259	\$ 1,026,630	1.85%
The Dwyer Group, Inc. - Common stock	675,000	\$ 1,966,632	\$ 2,639,587	4.74%
EDT Learning, Inc. - Common stock	31,600	\$ 16,590	\$ 31,597	0.06%
I-Flow Corporation - Common stock	17,500	\$ 57,719	\$ 52,668	0.09%

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

March 31, 2002

	Shares	Cost	Fair Value	% of Net Assets
Precis, Inc.				
Common stock	46,200	\$ 497,333	\$ 533,305	0.96%
		\$ 4,798,929	\$ 9,716,547	17.46%
		\$32,093,758	\$51,631,322	92.80%
Allocation of Investments -				
Restricted Shares, Unrestricted Shares, and Other Securities				
Restricted Securities Under Rule 144		\$13,508,066	\$21,313,143	38.31%
Unrestricted Securities		\$13,507,247	\$19,750,300	35.50%
Other Securities (6)		\$5,078,445	\$10,567,879	18.99%

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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. -					
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%

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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
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%
			<u>\$ 5,898,744</u>	<u>\$ 5,527,557</u>	<u>10.14%</u>

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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
Other Portfolio Investments - Convertible Debentures and					

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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%
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%
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%

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Series C-1, preferred stock (4) 2,353 \$ 2,000,050 \$ 2,000,050 3.67%

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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
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%
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%

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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
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.
Statement 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%
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.
Statement of Investments (continued)
(unaudited)

December 31, 2001

	Shares	Cost	Fair Value	% of Net Assets
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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
(Unaudited)

Three Months Ended March 31

	2001	2002
	----	----
Income:		
Interest	\$ 294,736	\$ 92,675
Dividend Income	23,329	18,510
Commitment and other fees	6,420	-
	-----	-----
	324,485	111,185
	-----	-----
Expenses:		
General and administrative	63,936	87,323
Incentive fee	-	-
Interest expense	-	29,656
Legal and professional fees	41,037	66,131
Management fees	209,806	244,481
	-----	-----
	314,779	427,591
	-----	-----
Net investment income (loss)	9,706	(316,406)

Realized and unrealized gain (loss) on investments:

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Net unrealized appreciation on investments	2,857,732	4,791,032
Net realized loss on investments	(2,467,658)	(3,375,228)
	-----	-----
Net gain on investments	390,074	1,415,804
	-----	-----
Net income	\$ 399,780	\$1,099,398
	=====	=====
Net income per share	\$ 0.09	\$ 0.25
	=====	=====

See accompanying notes to financial statements.

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

	Three Months Ended March 31	
	2001	2002
	----	----
From operations:		
Net investment income	\$ 9,706	\$ (316,406)
Net realized gain (loss) on investments	(2,467,658)	(3,375,228)
Increase (decrease) in unrealized appreciation on investments	2,857,732	4,791,032
	-----	-----
Net increase in net assets resulting from operations	399,780	1,099,398
	-----	-----
From distributions to stockholders:		
Common dividends from net investment income	-	-
Common dividends from realized gains	-	-
Common dividends from other sources	-	-
	-----	-----
Net decrease in net assets resulting from distributions	-	-
	-----	-----
From capital transactions:		
Shares issued	-	-
Purchase of treasury stock	-	-
	-----	-----
Net increase (decrease) in net assets resulting from capital contributions	-	-
	-----	-----

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Total increase in net assets	399,780	1,099,398
Net assets:		
Beginning of period	47,346,067	54,537,508
End of period	<u>\$47,745,847</u>	<u>\$55,636,906</u>

See accompanying notes to financial statements.

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

	Three Months ended March 31 2001	2002
	----	----
Cash flows from operating activities:		
Net income	\$ 399,780	\$ 1,099,398
Adjustments to reconcile net income to net cash provided by (used in) operation activities:		
Net unrealized (appreciation) depreciation on investments	(2,857,732)	(4,791,032)
Net realized (gain) loss on investments	2,467,658	3,375,228
(Increase) decrease in interest receivable	(173,331)	34,867
(Increase) decrease in other assets	6,398	6,398
Increase (decrease) in accounts payable	(4,675)	20,104
Increase (decrease) in accounts payable - affiliate	15,147	(10,831)
Increase (decrease) in other liabilities	(1,006,166)	(1,498,458)
Net cash provided by (used in) operating activities	<u>(1,152,921)</u>	<u>(1,764,325)</u>
Cash flows from investing activities:		
Purchase of investments	(125,000)	(1,400,230)
Proceeds from sale of investments	538,796	924,512
Repayment of debentures and notes	59,106	31,935
Net cash provided by (used in) investing activities	<u>472,902</u>	<u>(443,783)</u>
Cash flows from financing activities:		
Net proceeds from issuance of shares	-	-
Purchase of treasury shares	-	-
Cash dividends	-	-

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Net cash used in financing activities	-	-
Net increase (decrease) in cash and cash equivalents	(680,019)	(2,208,108)
Cash and cash equivalents at beginning of the period	19,697,211	27,125,926
Cash and cash equivalents at end of the period	\$19,017,192	\$24,917,818
Cash paid during the year for interest	\$ 0	\$ 29,656
Cash paid during the year for income/excise taxes	\$ 0	\$ 0

Noncash investing activities:

During the quarter ended March 31, 2002, the Fund received common stock in settlement of amounts due for interest and dividends totaling \$9,397.

See accompanying notes to financial statements.

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RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.
Notes to Financial Statements
March 31, 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 "regulated investment companies" 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

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RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.
Notes to Financial Statements
March 31, 2002

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 distribute all of its taxable investment income and long-term capital gains within the defined period under the IRC to qualify as a regulated investment company. Therefore, no federal income tax provision is included in the accompanying financial statements.

(e) Net Income per Share

Net income per share is based on the weighted average of shares outstanding of 4,361,618 during the period.

(f) Use of Estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions 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 \$244,481 for such management fees for the quarter ended March 31, 2002. Amounts payable for such fees at March 31, 2002, were \$244,481.

RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.
Notes to Financial Statements
March 31, 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 \$13,244 for the quarter ended March 31, 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 March 31, 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 March 31, 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.

March 31, 2002

(5) Valuation of Investments

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

- o Generally, the guiding principle for valuation is 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 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.
- 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 will govern the value of the

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.

- 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 March 31, 2002, the net unrealized appreciation associated with investments held by the Fund was \$14,746,533, and \$19,537,655 respectively.

(6) Restricted Securities

As indicated on the statement of investments as of March 31, 2002, the Fund holds investments in shares of common stock, the sale of which is restricted. These securities have been valued by the Investment Adviser after considering certain pertinent factors relevant to the individual securities (note 5).

(7) Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase are collateralized by \$22,990,230 in Federal securities and \$2,404,637 in equity securities held by the broker and are included in cash and cash equivalents and investments on the statement of assets and liabilities as of March 31, 2002.

RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.
Notes to Financial Statements
March 31, 2002

(8) Financial Highlights

Selected per share data and ratios for each share of common stock outstanding throughout the three months ended March 31, 2001 and 2002, are as follows:

	2001	2002
Net asset value, beginning of period	\$10.86	\$12.50
Net investment income (loss)	\$ 0.00	\$(0.07)
Net realized and unrealized gain on investments	\$ 0.09	\$ 0.32
	-----	-----
Total return from investment operations	\$10.95	\$12.75
	-----	-----
Net asset value, end of period	\$10.95	\$12.75

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	=====	=====
Per share market value, end of period	\$ 9.19	\$10.80
Portfolio turnover rate (quarterly)	0.25%	1.78%
Quarterly return (a)	2.80%	5.37%
Ratio to average net assets (quarterly) (b):		
Net investment income (loss)	0.00%	-0.55%
Expenses, excluding incentive fees	0.66%	0.78%
Expenses, including incentive fees	0.66%	0.78%

(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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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 March 31, 2002 (portfolio companies are herein referred to as the "Company"):

Active Link Communications, Inc. (OTC:ACVE) On January 30, 2002, the Company paid down the principal balance of the convertible bridge loan by \$9,320 and additionally made a principal repayment of \$9,320 on February 12, 2002. At March 31, 2002, the Company still owed \$98,027 on the convertible bridge loan due in May 2002.

DaisyTek International, Inc. (NASDAQ:DZTK) In the first quarter of 2002, the Fund purchased 10,000 shares of the Company's common shares in the open market for \$136,918 or \$13.69 per share. All stock is freely tradeable. This is a new investment for the Fund.

DaisyTek is a leading wholesale distributor of computer and office supplies and professional tape products, in addition to providing marketing and demand generation services. The Company has significant international operations in Canada, Australia, Mexico, and South America, and additionally owns 50% of ISA International, a billion dollar office and computer supply distributor in the UK. ISA in turn owns 47% of Kingfield Heath, another major international distributor of computer and office supply products.

Dexterity Surgical, Inc. (OTC:DEXT) In the first quarter of 2002, the Company made a principal payment of \$13,296 on the Fund's 9% Convertible Debentures. The remaining balance on the debentures at March 31, 2002, was \$1,316,282.

Because of the Company's continuing operational and financial difficulties, the Fund has taken an additional reserve on the debentures of \$500,000, leaving the Fund with a fair valuation at March 31 of \$816,282. Additionally, the Fund has fully reserved all of its preferred and common stock positions.

Display Technologies, Inc. (OTC:DTEK) In the first quarter of 2002, the Fund wrote off its entire investment in the Company, realizing a tax loss of \$3,299,741.

EDT Learning, Inc. (AMEX:EDT) In the first quarter of 2002, the Fund made a private placement into the Company by investing \$500,000 to purchase 12% Convertible Redeemable Subordinated Notes together with warrants to purchase 500,000 shares of the Company's common stock. The Note bears interest at 12%, has a ten-year term, is unsecured, and is convertible into shares of the Company's common stock at a rate of \$1.00 per share. As additional consideration for the investment, the Fund received warrants to purchase 500,000 shares of the Company's common stock on or before March 29, 2005, at a rate of \$3.00 per share.

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eOriginal, Inc. (Private) In March 2002, the Fund made a follow-on investment by advancing \$75,000 to purchase Senior Secured Promissory Notes of eOriginal. The notes bear interest at 12%, payable at maturity on June 30, 2002, and are secured by all intellectual property and software owned by the Company.

Fortune Natural Resources Corp. (OTC:FPXA) In the first quarter of 2002, the Fund invested \$120,000 to purchase Series B Preferred Stock of Fortune (the "Series B"). The Series B pays a 10% dividend, payable cumulatively over the six-month term of the instrument, and entitles the Fund to redemption on the earlier of (1) 180 days after the date of issuance of the Series B or (2) the funding of a private placement of the Company's Series A Convertible Participating Preferred Stock. In the event that redemption does not occur within six months upon issuance of the Series B, then the Fund is entitled to put its entire position in Fortune to the Company at cost plus any accrued and unpaid dividends on the Series B. At March 31, 2002, the Fund owned 1,322,394 shares of Fortune common having a cost basis of \$545,500. As additional consideration for the Series B investment, the Fund is entitled to warrant coverage at varying strike prices and in varying amounts depending on the amount of time the Series B is outstanding. If the Series B is carried to its term, then the Fund will be entitled to 60% warrant coverage on its Series B investment.

I-Flow Corporation (NASDAQ:IFLO) In the first quarter of 2002, the Fund purchased 17,500 shares of the Company's common stock in the open market for \$57,718.50, or \$3.30 per share. This is a new investment for the Fund.

I-Flow Corporation designs, develops, manufactures, and markets ambulatory infusion systems. The Company's products administer antibiotics, analgesics, chemotherapeutic agents, hormones, nutrients, hydration therapies, and other medical treatments to patients. The Company's products are used primarily in the home, hospital, and physician office.

Integrated Security Systems, Inc. (OTC:IZZI) In the first quarter of 2002, the Fund invested \$50,000 to purchase a 120-day promissory note bearing interest at 8% and secured by all the assets of the Company and its subsidiaries. As additional consideration for the investment,

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the Fund received 250,000 warrants to purchase the Company's common stock at \$0.20 per share.

Also in the first quarter, the Fund received 31,190 of the Company's common stock as payment in kind for dividend and interest payments that were accrued and payable. The total basis of these shares is \$9,397. In total, 10,634 shares were received as payment in kind of Series D preferred stock dividends owed and outstanding. These shares have a basis of \$3,403, or \$0.32 per share. The remaining 20,556 shares were received as payment in kind for interest obligations on debt instruments that were owed and outstanding. The basis for these shares is \$5,994, or \$0.29 per share.

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Precis, Inc. (NASDAQ:PCIS) In the first quarter of 2002, the Fund added to its ownership of common stock in this company. All shares were purchased on the open market and are freely tradeable. In total, the Fund purchased 40,000 shares of the Company's common stock for \$460,593, a cost of \$11.51 per share, bringing the Fund's total ownership to 46,200 shares having a basis of \$594,190, or \$11.07 per share.

RailAmerica, Inc. (NYSE:RRA) In the first quarter of 2002, the Fund sold its entire position in RailAmerica and realized proceeds of \$924,512.78, a loss of \$75,487.22.

Results of Operations for the Quarter Ended March 31, 2002

For the quarter ended March 31, 2002, the Fund had net investment loss of (\$316,406) compared to net investment income of \$9,706 for the first quarter of 2001. This change was due in large part to a reduction in investment income from \$324,485 for the first quarter of 2001 to \$111,185 for the comparable period of 2002, a decrease of 65.73%. This reduction in investment income is primarily the result of lower interest and dividend income due to the fund's more concentrated position in common stock and other non-interest bearing instruments, coupled with the lack of new investment activity in yield-bearing instruments and the failure of some portfolio companies to make required interest payments. In addition, general and administrative expenses increased for the first quarter of 2002 to \$87,323 from \$63,936, an increase of 36.58%. Interest expense for the quarter ended March 31, 2002, was \$29,656, compared to zero in the comparable period of 2001. Legal and professional fees increased 61.15% from \$41,037 in 2001 to \$66,131 for the first quarter of 2002. Finally, management fee expense increased from \$209,806 for the first quarter of 2001 to \$244,481 for the comparable period in 2002, an increase of 16.53%, due to higher market values for portfolio investments.

Liquidity and Capital Resources

For the three months ended March 30, 2002, net assets increased \$1,099,398 representing an increase of 2.02% over the period, entirely resulting from operations. This increase is due primarily to the Fund's unrealized gains on investments in the amount of \$4,791,032, offset by the net investment loss of (\$316,406) as discussed previously and a net realized loss on investments in the amount of \$3,375,228. This realized loss is a combination of the (\$75,487) loss on the disposition of the Fund's entire

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position in RailAmerica, Inc., and the loss realized on the Fund's entire investment in Display Technologies, Inc., in the amount of(\$3,299,741).

At the end of the first quarter of 2002, the Fund had net cash and cash equivalents of \$4,219,131 versus net cash and cash equivalents of \$4,928,780 at December 31, 2001. The Fund's interest receivable decreased from \$114,539 at December 31, 2001, to \$70,276 at March 31, 2002, a decrease of 38.64%.

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

PART II

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

(1) Amendment #1 to Dividend Reinvestment Plan

(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.

May 15, 2002

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

May 15, 2002

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

EXHIBIT 1

AMENDMENT #1 TO DIVIDEND REINVESTMENT PLAN
RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.
DIVIDEND REINVESTMENT PLAN
NOTICE OF CHANGE OF PLAN AGENT AND AMENDMENTS TO PLAN

To the Beneficial Shareholder:

Effective August 15, 2001, the Plan Agent for the Dividend Reinvestment Plan of Renaissance Growth & Income Fund III, Inc., is American Stock Transfer & Trust Company.

Further, the references to forty-five (45) days in Sections 3 and 4 shall be changed to thirty (30) days with respect to the period for open-market purchases of shares through the reinvestment of dividends, and the parenthetical reference in the third sentence of Section 3 is eliminated.

Dated: July 2, 2001