

RENAISSANCE CAPITAL GROWTH & INCOME FUND III INC

Form 10-Q

May 16, 2003

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

FORM 10-Q

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

For quarterly period ended March 31, 2003

TRANSITION REPORT PURSUANT TO SECTION 12 OR 15(D) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-20671

RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.

-----  
(Exact name of registrant as specified in its charter)  
Texas 75-2533518

-----  
(State or other jurisdiction of (I.R.S. Employer I.D. No.)  
incorporation or organization)

8080 North Central Expressway, Dallas, Texas

75206-1857

-----  
(Address of principal executive offices)

(Zip Code)

214-891-8294

-----  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports  
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of  
1934 during the preceding 12 months (or for such shorter period that the  
registrant was required to file such reports, and (2) has been subject to such  
filing requirements for the past 90 days. Yes  No

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

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

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Renaissance Capital Growth & Income Fund III, Inc.

Statements of Assets and Liabilities

(Unaudited)

Assets

December 31, 2002

March 31, 2003

Edgar Filing: RENAISSANCE CAPITAL GROWTH & INCOME FUND III INC - Form 10-Q

|   |              |              |
|---|--------------|--------------|
| Cash and cash equivalents   | \$10,968,001 | \$20,185,505 |
| Investments at fair value, cost of \$32,918,344<br>and \$34,779,568 December 31, 2002 and<br>March 31, 2003, respectively | 39,459,243   | 35,259,273   |
| Interest and dividends receivable   | 28,409       | 418,407      |
| Prepaid expenses  | 40,068       | 21,575       |
|   | -----        | -----        |
|   | \$50,495,721 | \$55,884,760 |
|   | =====        | =====        |

Liabilities and Net Assets

|                              |           |            |
|------------------------------|-----------|------------|
| Liabilities:                 |           |            |
| Due to broker (Note 3)       | 9,001,163 | 19,003,991 |
| Accounts payable             | 12,106    | 20,932     |
| Accounts payable - affiliate | 223,386   | 372,169    |
|                              | -----     | -----      |
|                              | 9,236,655 | 19,397,092 |
|                              | -----     | -----      |

Commitments and contingencies

Net assets:

|   |              |              |
|---|--------------|--------------|
| Common stock, \$1 par value; authorized<br>20,000,000 shares; 4,561,618 issued;<br>4,351,418 shares outstanding | 4,561,618    | 4,561,618    |
| Additional paid-in-capital  | 35,642,954   | 35,642,954   |
| Treasury stock at cost, 209,900 shares at<br>December 31, 2002, and at March 31, 2003                           | (1,734,966)  | (1,734,966)  |
| Distributable earnings  | (3,751,440)  | (2,461,643)  |
| Net unrealized appreciation of investments  | 6,540,900    | 479,705      |
|   | -----        | -----        |
| Net assets, equivalent to \$9.48 and \$8.38<br>per share at December 31, 2002<br>March 31, 2003, respectively   | 41,259,066   | 36,487,668   |
|   | -----        | -----        |
|   | \$50,495,721 | \$55,884,760 |
|   | =====        | =====        |

See accompanying notes to financial statements.

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

March 31, 2003

|  | Interest<br>Rate | Due<br>Date | Cost      | Fair<br>Value | % of Net<br>Assets |
|--|------------------|-------------|-----------|---------------|--------------------|
| Eligible Portfolio Investments -<br>Convertible Debentures and<br>Promissory Notes |                  |             |           |               |                    |
| Active Link Communications, Inc. -<br>Convertible bridge note (2)                  | 12.00            | 09/30/03    | \$ 41,480 | \$ 41,480     | 0.11               |
| Convertible note (2)   | 8.00             | 09/30/03    | 125,000   | 125,000       | 0.34               |

Edgar Filing: RENAISSANCE CAPITAL GROWTH & INCOME FUND III INC - Form 10-Q

|   |       |          |              |              |        |
|---|-------|----------|--------------|--------------|--------|
| Convertible note (2)  | 8.00  | 09/30/03 | 250,000      | 250,000      | 0.69   |
| Business Process Outsourcing -<br>Convertible debenture (1) (3) | 12.00 | 08/31/03 | 98,000       | 100,001      | 0.27   |
| Dexterity Surgical, Inc. -<br>Convertible debenture (2)         | 9.00  | 12/19/04 | 1,316,282    | 1,066,282    | 2.92   |
| EDT Learning, Inc. -<br>Convertible redeemable note (2)         | 12.00 | 03/29/12 | 500,000      | 500,000      | 1.37   |
| Integrated Security Systems, Inc. -<br>Promissory notes (4)     | 8.00  | 09/05/03 | 325,000      | 325,000      | 0.89   |
| Laserscope -<br>Convertible debenture (2)                       | 8.00  | 02/11/07 | 1,500,000    | 4,621,320    | 12.67  |
| Simtek Corporation -<br>Convertible debenture (2)               | 7.50  | 06/28/09 | 1,000,000    | 1,000,000    | 2.74   |
|   |       |          | -----        | -----        | -----  |
|   |       |          | \$ 5,155,762 | \$ 8,029,083 | 22.00% |
|   |       |          | -----        | -----        | -----  |

3

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

March 31, 2003

|   | Interest<br>Rate | Due<br>Date | Cost       | Fair<br>Value | % of Net<br>Assets |
|---|------------------|-------------|------------|---------------|--------------------|
| Other Portfolio Investments -<br>Convertible Debentures and<br>Promissory Notes |                  |             |            |               |                    |
| CareerEngine Network, Inc. -<br>Convertible debenture (2)                       | 12.00            | 03/31/10    | \$ 250,000 | \$ 250,000    | 0.69               |
| Interpool, Inc. -<br>Convertible debenture (2)                                  | 9.25             | 12/27/22    | 375,000    | 375,000       | 1.02               |
|   |                  |             | -----      | -----         | -----              |
|   |                  |             | \$ 625,000 | \$ 625,000    | 1.71%              |
|   |                  |             | -----      | -----         | -----              |

- (1) Valued at fair value as determined by the Investment Adviser (Note 6).  
(2) Restricted securities - securities that are not fully registered and freely tradeable.  
(3) Securities in a privately owned company.  
(4) Securities that have no provision allowing conversion into a security for

Edgar Filing: RENAISSANCE CAPITAL GROWTH & INCOME FUND III INC - Form 10-Q

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.

4

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

|  | March 31, 2003 |            |              |                 |
|--|----------------|------------|--------------|-----------------|
|  | Shares         | Cost       | Fair Value   | % of Net Assets |
| Eligible Portfolio Investments -<br>Common Stock, Preferred Stock,<br>and Miscellaneous Securities |                |            |              |                 |
| Bentley Pharmaceuticals, Inc. -<br>Common stock  | 400,000        | \$ 500,000 | \$ 3,175,920 | 8.70            |
| CaminoSoft Corp. -<br>Common stock   | 1,750,000      | 4,000,000  | 883,575      | 2.42            |
| Common stock (2)   | 708,333        | 875,000    | 289,575      | 0.79            |
| Dexterity Surgical, Inc. -<br>Preferred stock - A (2)  | 500            | 500,000    | 0            | 0.00            |
| Preferred stock - B (2)  | 500            | 500,000    | 0            | 0.00            |
| Common stock (2)   | 260,000        | 635,000    | 0            | 0.00            |
| eOriginal, Inc. -<br>Series A, preferred stock (3)   | 10,680         | 4,692,203  | 770,380      | 2.11            |
| Series B, preferred stock (3)  | 25,646         | 620,329    | 1,849,928    | 5.07            |
| Series C, preferred stock (3)  | 28,929         | 699,734    | 2,086,741    | 5.72            |
| Fortune Natural Resources Corp. -<br>Common stock  | 1,262,394      | 500,500    | 87,484       | 0.24            |
| Gasco Energy, Inc. -<br>Common stock (2)   | 250,000        | 250,000    | 76,900       | 0.21            |
| Integrated Security Systems, Inc. -<br>Common stock  | 393,259        | 215,899    | 70,079       | 0.19            |
| Common stock - PIK (2)   | 194,707        | 47,178     | 0            | 0.00            |
| Series D, preferred stock (2)  | 187,500        | 150,000    | 40,500       | 0.11            |
| Series F, preferred stock (2)  | 2,714,945      | 542,989    | 542,989      | 1.49            |
| Series G, preferred stock (2)  | 18,334,755     | 3,666,951  | 3,666,951    | 10.06           |

5

Edgar Filing: RENAISSANCE CAPITAL GROWTH & INCOME FUND III INC - Form 10-Q

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

|  | March 31, 2003 |              |              |                 |
|--|----------------|--------------|--------------|-----------------|
|  | Shares         | Cost         | Fair Value   | % of Net Assets |
| Eligible Portfolio Investments -<br>Common Stock, Preferred Stock,<br>and Miscellaneous Securities |                |              |              |                 |
| JAKKS Pacific, Inc. -<br>Common stock  | 59,847         | 357,088      | 613,815      | 1.68            |
| Poore Brothers, Inc. -<br>Common stock (2)   | 2,016,357      | 2,078,170    | 3,835,520    | 10.52           |
| Simtek Corp. -<br>Common stock (2)   | 1,000,000      | 195,000      | 150,400      | 0.41            |
| ThermoView Industries, Inc. -<br>Common stock  | 134,951        | 497,832      | 60,121       | 0.16            |
| Miscellaneous Securities   |                | 2,165        | 179,432      | 0.49            |
|  |                | \$21,526,042 | \$18,380,313 | 50.37%          |

- (1) Valued at fair value as determined by the Investment Adviser (Note 6).
- (2) Restricted securities - securities that are not fully registered and freely tradeable.
- (3) Securities in a privately owned company.
- (4) Securities that have no provision allowing conversion into a security for which there is a public market.
- (5) Included Miscellaneous Securities, securities of privately owned companies, securities with no conversion feature, and securities for which there is no market.

6

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

|   | March 31, 2003 |            |            |                 |
|---|----------------|------------|------------|-----------------|
|   | Shares         | Cost       | Fair Value | % of Net Assets |
| Other Portfolio Investments -<br>Common Stock, Preferred Stock,<br>and Miscellaneous Securities |                |            |            |                 |
| AirNet Systems, Inc. -<br>Common stock (2)  | 75,000         | \$ 318,750 | \$ 170,033 | 0.47            |

Edgar Filing: RENAISSANCE CAPITAL GROWTH & INCOME FUND III INC - Form 10-Q

|   |         |           |           |      |
|---|---------|-----------|-----------|------|
| Bentley Pharmaceuticals, Inc. -<br>Common stock     | 135,879 | 246,325   | 1,078,852 | 2.96 |
| Canterbury Consulting Group, Inc. -<br>Common stock | 28,572  | 193,473   | 28,003    | 0.08 |
| Capital Senior Living Corp -<br>Common stock        | 57,100  | 146,335   | 166,761   | 0.46 |
| Creative Host Services, Inc. -<br>Common stock      | 4,830   | 7,921     | 8,416     | 0.02 |
| Daisytek International, Inc. -<br>Common stock      | 149,600 | 649,934   | 287,322   | 0.79 |
| Dave & Busters, Inc. -<br>Common stock              | 100,000 | 653,259   | 895,950   | 2.45 |
| Dwyer Group, Inc. -<br>Common stock                 | 675,000 | 1,966,632 | 2,873,475 | 7.87 |
| EDT Learning, Inc. -<br>Common stock                | 48,266  | 27,033    | 17,202    | 0.05 |

7

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

March 31, 2003

|   | Shares  | Cost    | Fair Value | % of Net Assets |
|---|---------|---------|------------|-----------------|
| -----   |         |         |            |                 |
| Other Portfolio Investments -<br>Common Stock, Preferred Stock,<br>and Miscellaneous Securities |         |         |            |                 |
| Flamel Technologies, SA -<br>Common stock   | 20,000  | 86,213  | 141,570    | 0.39            |
| Gasco Energy, Inc. -<br>Common stock  | 68,125  | 48,767  | 36,420     | 0.10            |
| I-Flow Corporation -<br>Common stock  | 100,000 | 254,038 | 249,480    | 0.68            |
| Inet Technologies, Inc. -<br>Common stock   | 96,600  | 530,338 | 564,241    | 1.55            |
| Medical Action Industries, Inc. -<br>Common stock   | 10,000  | 112,490 | 106,920    | 0.29            |
| Nautilus Group, Inc. -<br>Common stock  | 25,000  | 400,626 | 352,935    | 0.97            |

Edgar Filing: RENAISSANCE CAPITAL GROWTH & INCOME FUND III INC - Form 10-Q

|                         |         |           |         |      |
|-------------------------|---------|-----------|---------|------|
| Precis, Inc. -          |         |           |         |      |
| Common stock            | 100,700 | 1,025,047 | 324,002 | 0.89 |
| Stonepath Group, Inc. - |         |           |         |      |
| Common stock (2)        | 200,000 | 270,000   | 267,720 | 0.73 |

8

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

|   | March 31, 2003 |              |              |                 |
|---|----------------|--------------|--------------|-----------------|
|   | Shares         | Cost         | Fair Value   | % of Net Assets |
| Other Portfolio Investments -<br>Common Stock, Preferred Stock,<br>and Miscellaneous Securities |                |              |              |                 |
| US Home Systems, Inc. -<br>Common stock   | 110,000        | 535,587      | 655,578      | 1.80            |
| Miscellaneous Securities  |                | 0            | 0            | 0.00            |
|   |                | -----        | -----        | -----           |
|   |                | \$ 7,472,768 | \$ 8,224,880 | 22.55%          |
|   |                | -----        | -----        | -----           |
|   |                | \$34,779,568 | \$35,259,273 | 96.63%          |
|   |                | =====        | =====        | =====           |
| Allocation of Investments -<br>Restricted Shares, Unrestricted Shares,<br>and Other Securities  |                |              |              |                 |
| Restricted Securities (2)   |                | \$15,386,800 | \$17,269,670 | 47.33%          |
| Unrestricted Securities   |                | \$12,955,337 | \$12,678,121 | 34.74%          |
| Other Securities (5)  |                | \$ 6,437,431 | \$ 5,311,482 | 14.56%          |

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

9

Renaissance Capital Growth & Income Fund III, Inc.

Edgar Filing: RENAISSANCE CAPITAL GROWTH & INCOME FUND III INC - Form 10-Q

Schedules of Investments (continued)  
(unaudited)

December 31, 2002

|  | Interest<br>Rate | Due<br>Date | Cost         | Fair<br>Value | % of Net<br>Assets |
|--|------------------|-------------|--------------|---------------|--------------------|
| Eligible Portfolio Investments -               |                  |             |              |               |                    |
| Convertible Debentures and<br>Promissory Notes |                  |             |              |               |                    |
| Active Link Communications, Inc. -             |                  |             |              |               |                    |
| Convertible bridge note (2)                    | 12.00            | 09/30/03    | \$ 41,480    | \$ 41,789     | 0.10               |
| Convertible note (2)                           | 8.00             | 09/30/03    | 125,000      | 126,000       | 0.31               |
| Convertible note (2)                           | 8.00             | 09/30/03    | 250,000      | 252,000       | 0.61               |
| Business Process Outsourcing -                 |                  |             |              |               |                    |
| Convertible debenture (1)(3)                   | 12.00            | 08/31/03    | 98,000       | 100,000       | 0.24               |
| Dexterity Surgical, Inc. -                     |                  |             |              |               |                    |
| Convertible debenture (2)                      | 9.00             | 12/19/04    | 1,316,282    | 1,066,282     | 2.58               |
| EDT Learning, Inc. -                           |                  |             |              |               |                    |
| Convertible redeemable note (2)                | 12.00            | 03/29/12    | 500,000      | 500,000       | 1.21               |
| eOriginal, Inc. -                              |                  |             |              |               |                    |
| Promissory note (3)                            | 12.00            | 12/31/02    | 1,139,683    | 1,139,683     | 2.76               |
| Integrated Security Systems, Inc. -            |                  |             |              |               |                    |
| Promissory notes (4)                           | 8.00             | 09/05/03    | 325,000      | 325,000       | 0.79               |
| Laserscope -                                   |                  |             |              |               |                    |
| Convertible debenture (2)                      | 8.00             | 02/11/07    | 1,500,000    | 5,026,000     | 12.18              |
| Simtek Corporation -                           |                  |             |              |               |                    |
| Convertible debenture (2)                      | 7.50             | 06/28/09    | 1,000,000    | 1,000,000     | 2.42               |
|  |                  |             | -----        | -----         | -----              |
|  |                  |             | \$ 6,295,445 | \$ 9,576,754  | 23.21%             |
|  |                  |             | -----        | -----         | -----              |

10

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

December 31, 2002

|  | Interest<br>Rate | Due<br>Date | Cost       | Fair<br>Value | % of Net<br>Assets |
|--|------------------|-------------|------------|---------------|--------------------|
| Other Portfolio Investments -                  |                  |             |            |               |                    |
| Convertible Debentures and<br>Promissory Notes |                  |             |            |               |                    |
| CareerEngine Network, Inc. -                   |                  |             |            |               |                    |
| Convertible debenture (2)                      | 12.00            | 03/31/10    | \$ 250,000 | \$ 250,000    | 0.61               |



Edgar Filing: RENAISSANCE CAPITAL GROWTH & INCOME FUND III INC - Form 10-Q

|                           |      |          |            |            |       |  |
|---------------------------|------|----------|------------|------------|-------|--|
| Interpool, Inc. -         |      |          |            |            |       |  |
| Convertible debenture (2) | 9.25 | 12/27/22 | 375,000    | 375,000    | 0.91  |  |
|                           |      |          | -----      | -----      | ----- |  |
|                           |      |          | \$ 625,000 | \$ 625,000 | 1.51% |  |
|                           |      |          | -----      | -----      | ----- |  |

- (1) Valued at fair value as determined by the Investment Adviser (Note 6).
- (2) Restricted securities - securities that are not fully registered and freely tradeable.
- (3) Securities in a privately owned company.
- (4) Securities that have no provision allowing conversion into a security for which there is a public market.
- (5) Included Miscellaneous Securities, securities of privately owned companies, securities with no conversion feature, and securities for which there is no market.

11

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

|  | December 31, 2002 |            |              |                 |
|--|-------------------|------------|--------------|-----------------|
|  | Shares            | Cost       | Fair Value   | % of Net Assets |
|  | -----             |            |              |                 |
| Eligible Portfolio Investments -<br>Common Stock, Preferred Stock,<br>and Miscellaneous Securities |                   |            |              |                 |
| Bentley Pharmaceuticals, Inc. -<br>Common stock  | 400,000           | \$ 500,000 | \$ 3,187,800 | 7.73            |
| CaminoSoft Corp. -<br>Common stock   | 1,750,000         | 4,000,000  | 1,559,250    | 3.78            |
| Common stock (2)   | 708,333           | 875,000    | 549,250      | 1.33            |
| Dexterity Surgical, Inc. -<br>Preferred stock - A (2)  | 500               | 500,000    | 0            | 0.00            |
| Preferred stock - B (2)  | 500               | 500,000    | 0            | 0.00            |
| Common stock (2)   | 260,000           | 635,000    | 0            | 0.00            |
| eOriginal, Inc. -<br>Series A, preferred stock (5)   | 6,000             | 1,500,000  | 794,000      | 1.92            |
| Series B-1, preferred stock (5)  | 1,785             | 392,700    | 1,426,215    | 3.46            |
| Series B-3, preferred stock (5)  | 447               | 107,280    | 357,153      | 0.87            |
| Series C-1, preferred stock (5)  | 2,353             | 2,000,050  | 2,000,050    | 4.85            |
| Fortune Natural Resources Corp. -<br>Common stock  | 1,262,394         | 500,500    | 81,235       | 0.20            |
| Gasco Energy, Inc. -<br>Common stock (2)   | 250,000           | 250,000    | 112,150      | 0.27            |
| Integrated Security Systems, Inc. -  |                   |            |              |                 |

Edgar Filing: RENAISSANCE CAPITAL GROWTH & INCOME FUND III INC - Form 10-Q

|                               |            |           |           |      |
|-------------------------------|------------|-----------|-----------|------|
| Common stock                  | 393,259    | 215,899   | 93,438    | 0.23 |
| Common stock - PIK (2)        | 104,787    | 28,319    | 23,640    | 0.06 |
| Series D, preferred stock (2) | 187,500    | 150,000   | 54,000    | 0.13 |
| Series F, preferred stock (2) | 2,714,945  | 542,989   | 612,492   | 1.48 |
| Series G, preferred stock (2) | 18,334,755 | 3,666,951 | 4,086,321 | 9.90 |

12

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

|  | December 31, 2002 |              |              |                 |
|--|-------------------|--------------|--------------|-----------------|
|  | Shares            | Cost         | Fair Value   | % of Net Assets |
| Eligible Portfolio Investments -<br>Common Stock, Preferred Stock,<br>and Miscellaneous Securities |                   |              |              |                 |
| JAKKS Pacific, Inc. -<br>Common stock  | 59,847            | \$ 357,088   | \$ 798,078   | 1.93            |
| Poore Brothers, Inc. -<br>Common stock (2)   | 2,016,357         | 2,078,170    | 4,669,485    | 11.32           |
| Simtek Corp. -<br>Common stock (2)   | 1,000,000         | 195,000      | 150,400      | 0.36            |
| ThermoView Industries, Inc. -<br>Common stock  | 134,951           | 497,832      | 120,241      | 0.29            |
| Miscellaneous Securities   |                   | 2,165        | 462,349      | 1.12            |
|  |                   | -----        | -----        | -----           |
|  |                   | \$19,494,943 | \$21,137,547 | 51.23%          |
|  |                   | -----        | -----        | -----           |

- (1) Valued at fair value as determined by the Investment Adviser (Note 6).
- (2) Restricted securities - securities that are not fully registered and freely tradeable.
- (3) Securities in a privately owned company.
- (4) Securities that have no provision allowing conversion into a security for which there is a public market.
- (5) Included Miscellaneous Securities, securities of privately owned companies, securities with no conversion feature, and securities for which there is no market.

13

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

December 31, 2002

Edgar Filing: RENAISSANCE CAPITAL GROWTH & INCOME FUND III INC - Form 10-Q

|   | Shares  | Cost       | Fair Value | % of Net Assets |
|---|---------|------------|------------|-----------------|
| -----   |         |            |            |                 |
| Other Portfolio Investments -<br>Common Stock, Preferred Stock,<br>and Miscellaneous Securities |         |            |            |                 |
| AirNet Systems, Inc. -<br>Common stock (2)  | 75,000  | \$ 318,750 | \$ 296,860 | 0.72            |
| Bentley Pharmaceuticals, Inc. -<br>Common stock   | 259,979 | 535,168    | 2,071,902  | 5.02            |
| Canterbury Consulting Group, Inc. -<br>Common stock   | 200,000 | 193,473    | 51,480     | 0.12            |
| Capital Senior Living Corp -<br>Common stock  | 44,500  | 110,975    | 112,340    | 0.27            |
| Creative Host Services, Inc. -<br>Common stock  | 4,830   | 7,921      | 9,085      | 0.02            |
| Daisytek International, Inc. -<br>Common stock  | 49,600  | 507,639    | 389,395    | 0.94            |
| Dave & Busters, Inc. -<br>Common stock  | 100,000 | 653,259    | 856,350    | 2.08            |
| Dwyer Group, Inc. -<br>Common stock   | 675,000 | 1,966,632  | 2,559,397  | 6.20            |
| EDT Learning, Inc. -<br>Common stock  | 48,266  | 27,033     | 14,335     | 0.03            |
| I-Flow Corporation -<br>Common stock  | 100,000 | 254,038    | 154,440    | 0.37            |

14

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

December 31, 2002

|   | Shares  | Cost       | Fair Value | % of Net Assets |
|---|---------|------------|------------|-----------------|
| -----   |         |            |            |                 |
| Other Portfolio Investments -<br>Common Stock, Preferred Stock,<br>and Miscellaneous Securities |         |            |            |                 |
| Inet Technologies, Inc. -<br>Common stock   | 75,000  | \$ 367,434 | \$ 452,925 | 1.10            |
| Precis, Inc. -<br>Common stock  | 100,700 | 1,025,047  | 550,305    | 1.33            |

Edgar Filing: RENAISSANCE CAPITAL GROWTH & INCOME FUND III INC - Form 10-Q

|   |         |              |              |        |
|---|---------|--------------|--------------|--------|
| US Home Systems, Inc. -<br>Common stock | 110,000 | 535,587      | 601,128      | 1.46   |
| Miscellaneous Securities                |         | 0            | 0            | 0.00   |
|   |         | -----        | -----        | -----  |
|   |         | \$ 6,502,956 | \$ 8,119,942 | 19.68% |
|   |         | -----        | -----        | -----  |
|   |         | \$32,918,344 | \$39,459,243 | 95.64% |
|   |         | =====        | =====        | =====  |

Allocation of Investments -  
Restricted Shares, Unrestricted Shares,  
and Other Securities

|                           |              |              |        |
|---------------------------|--------------|--------------|--------|
| Restricted Securities (2) | \$15,097,941 | \$19,191,669 | 46.52% |
| Unrestricted Securities   | \$12,255,525 | \$13,663,124 | 33.12% |
| Other Securities (5)      | \$ 5,564,878 | \$ 6,604,450 | 16.01% |

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

15

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

|                             | Three Months Ended March 31 |            |
|-----------------------------|-----------------------------|------------|
|                             | 2002                        | 2003       |
|                             | ----                        | ----       |
| Income:                     |                             |            |
| Interest                    | \$ 92,675                   | \$ 260,532 |
| Dividend Income             | 18,510                      | 1,106,009  |
|                             | -----                       | -----      |
|                             | 111,185                     | 1,366,541  |
|                             | -----                       | -----      |
| Expenses:                   |                             |            |
| General and administrative  | 87,323                      | 75,048     |
| Incentive fee               | -                           | 166,163    |
| Interest expense            | 29,656                      | 10,033     |
| Legal and professional fees | 66,131                      | 58,165     |
| Management fees             | 244,481                     | 162,977    |
|                             | -----                       | -----      |
|                             | 427,591                     | 472,386    |
|                             | -----                       | -----      |

Edgar Filing: RENAISSANCE CAPITAL GROWTH & INCOME FUND III INC - Form 10-Q

|   |             |               |
|---|-------------|---------------|
| Net investment income (loss)                        | (316,406)   | 894,155       |
| Realized and unrealized gain (loss) on investments: |             |               |
| Net unrealized appreciation (depreciation)          |             |               |
| on investments                                      | 4,791,032   | (6,061,196)   |
| Net realized loss (gain) on investments             | (3,375,228) | 830,815       |
|   | -----       | -----         |
| Net gain (loss) on investments                      | 1,415,804   | (5,230,381)   |
|   | -----       | -----         |
| Net income (loss)                                   | \$1,099,398 | \$(4,336,226) |
|   | =====       | =====         |
| Net income (loss) per share                         | \$ 0.25     | \$(1.00)      |
|   | =====       | =====         |

See accompanying notes to financial statements.

16

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

|  | Three Months Ended March 31 |             |
|--|-----------------------------|-------------|
|  | 2002                        | 2003        |
|  | ----                        | ----        |
| From operations:                               |                             |             |
| Net investment income (loss)                   | \$ (316,406)                | \$ 894,155  |
| Net realized gain (loss) on investments        | (3,375,228)                 | 830,815     |
| Increase (decrease) in unrealized appreciation |                             |             |
| on investments                                 | 4,791,032                   | (6,061,196) |
|  | -----                       | -----       |
| Net increase (decrease) in net                 |                             |             |
| assets resulting from                          |                             |             |
| operations                                     | 1,099,398                   | (4,336,226) |
|  | -----                       | -----       |
| From distributions to stockholders:            |                             |             |
| Common dividends from net investment income    | -                           | (435,172)   |
|  | -----                       | -----       |
| Net decrease in net assets resulting from      |                             |             |
| distributions                                  | -                           | (435,172)   |
|  | -----                       | -----       |
| Total increase (decrease) in net assets        | 1,099,398                   | (4,771,398) |
| Net assets:                                    |                             |             |
| Beginning of period                            | 54,537,508                  | 41,259,066  |

Edgar Filing: RENAISSANCE CAPITAL GROWTH & INCOME FUND III INC - Form 10-Q

|               |                                |                                |
|---------------|--------------------------------|--------------------------------|
| End of period | -----<br>\$55,636,906<br>===== | -----<br>\$36,487,668<br>===== |
|---------------|--------------------------------|--------------------------------|

See accompanying notes to financial statements.

17

| Renaissance Capital Growth & Income Fund III, Inc.<br>Statement of Cash Flows<br>Three Months ended March 31 |              |                |
|--|--------------|----------------|
|  | 2002<br>---- | 2003<br>----   |
| Cash flows from operating activities:  |              |                |
| Net income (loss)  | \$ 1,099,398 | \$ (4,336,226) |
| Adjustments to reconcile net income to<br>net cash provided by (used in) operation<br>activities:            |              |                |
| Net unrealized (appreciation)<br>depreciation on investments   | (4,791,032)  | 6,061,196      |
| Net realized (gain) loss on investments  | 3,375,228    | (830,815)      |
| (Increase) decrease in interest and dividends<br>receivable  | 34,868       | (389,998)      |
| (Increase) decrease in other assets  | 6,398        | 18,493         |
| Increase (decrease) in accounts payable  | 20,104       | 8,826          |
| Increase (decrease) in accounts<br>payable - affiliate   | (10,831)     | 148,783        |
| Increase (decrease) in other liabilities   | (1,498,458)  | 10,002,828     |
|  | -----        | -----          |
| Net cash provided by (used in) operating<br>activities   | (1,764,325)  | 10,683,087     |
|  | -----        | -----          |
| Cash flows from investing activities:  |              |                |
| Purchase of investments  | (1,400,230)  | (2,150,073)    |
| Proceeds from sale of investments  | 924,512      | 1,119,662      |
| Repayment of debentures and notes  | 31,935       | -              |
|  | -----        | -----          |
| Net cash provided by (used in) investing<br>activities   | (443,783)    | (1,030,411)    |
|  | -----        | -----          |
| Cash flows from financing activities:  |              |                |
| Cash dividends   | -            | (435,172)      |
|  | -----        | -----          |
| Net cash used in financing activities  | -            | (435,172)      |
|  | -----        | -----          |
| Net increase (decrease) in cash and cash equivalents   | (2,208,108)  | \$ 9,217,504   |

Edgar Filing: RENAISSANCE CAPITAL GROWTH & INCOME FUND III INC - Form 10-Q

|  |              |              |
|--|--------------|--------------|
| Cash and cash equivalents at beginning of the period | 27,125,926   | 10,968,001   |
|  | -----        | -----        |
| Cash and cash equivalents at end of the period       | \$24,917,818 | \$20,185,505 |
|  | =====        | =====        |
| Cash paid during the period for interest             | \$ 29,656    | \$ 10,033    |
| Cash paid during the period 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 from interest and dividends totaling \$9,308.

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

18

RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.

Notes to Financial Statements

March 31, 2003

(1) Organization and Business Purpose

Renaissance Capital Growth & Income Fund III, Inc. (the Fund), a Texas corporation, was formed on January 20, 1994. The Fund seeks to achieve current income and capital appreciation potential by investing 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 Adviser) believes offers the opportunity for growth. The Fund is a non-diversified closed-end investment company and has elected to be treated as a business development company under the Investment Company Act of 1940, as amended (1940 Act).

(2) Summary of Significant Accounting Policies

(a) Valuation of Investments

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

(b) Other

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

(c) Cash and Cash Equivalents

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

19

RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.  
Notes to Financial Statements  
March 31, 2003

(d) Federal Income Taxes

The Fund has elected the special income tax treatment available to "regulated investment companies" ("RIC") under Subchapter M of the Internal Revenue Code (IRC) in order to be relieved of federal income tax on that part of its net investment income and realized capital gains that it pays out to its shareholders. The Fund's policy is to comply with the requirements of the IRC that are applicable to regulated investment companies. Such requirements include, but are not limited to certain qualifying income tests, asset diversification tests and distribution of substantially all of the Fund's taxable investment income to its shareholders. It is the intent of management to comply with all IRC requirements as they pertain to a RIC and to distribute all of the Fund's taxable investment income and long-term capital gains within the defined period under the IRC to qualify as a RIC. Failure to qualify as a RIC would subject the Fund to federal income tax as if the Fund were an ordinary corporation, which could result in a substantial reduction in the Fund's net assets as well as the amount of income available for distribution to shareholders.

(e) Net Income per Share

Net income per share is based on the weighted average of shares outstanding of 4,351,718 during the period.

(f) Use of Estimates

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

(3) Due to Broker

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



(4) Management and Organization Fees

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

- o The Investment Adviser receives a management fee equal to a quarterly rate of 0.4375% (1.75% annually) of the Fund's Net Assets, as determined at the end of such quarter with each such payment to be due as of the last day of the calendar quarter. The Fund incurred \$162,977 and \$244,481 for management fees during the quarter ended March 31, 2003, and March 31, 2002, respectively. Amounts payable for such fees at March 31, 2003, and March 31, 2002, were \$162,977 and \$244,481, respectively, and are included in Accounts payable - affiliate.
- o The Investment Adviser receives an incentive fee in an amount equal to 20% of the Fund's realized capital gains in excess of realized capital losses of the Fund after allowance for any unrealized capital losses in excess of unrealized capital gains on the portfolio investments of the Fund. The incentive fee is calculated, accrued, and paid on a quarterly basis. The Fund incurred \$166,163 during the quarter ended March 31, 2003, for such incentive fees and are included in Accounts payable - affiliate. The Fund did not incur any incentive fees for the quarter ended 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 \$11,293 and \$13,244 during the quarter ended March 31, 2003, and March 31, 2002, respectively, and are included in general and administrative expenses in the accompanying statements of operations.

21

RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.  
Notes to Financial Statements  
March 31, 2003

(5) Eligible Portfolio Companies and Investments

(a) Eligible Portfolio Companies.

The Fund invests primarily in convertible securities and equity investments of companies that qualify as Eligible Portfolio Companies as defined in Section 2(a)(46) of the 1940 Act or in securities that otherwise qualify for investment as permitted in Section 55(a)(1) through (5). Under the provisions of the 1940 Act at least 70% of the fund's assets, as defined under the 1940 Act, must be invested in Eligible Portfolio Companies. In the event the Fund has less than 70% of its assets invested in eligible portfolio investments, then it will

be prohibited from making non-eligible investments until such time as the percentage of eligible investments again exceeds the 70% threshold.

(b) Investments.

Investments are carried in the statements of assets and liabilities as of December 31, 2002, and March 31, 2003, at fair value, as determined in good faith by the Investment Adviser. The convertible debt securities held by the Fund generally have maturities between five and seven years and are convertible into the common stock of the issuer at a set conversion price at the discretion of the fund. The common stock underlying these securities is generally unregistered and thinly to moderately traded but is not otherwise restricted. Generally, the Fund may register and sell such securities at any time with the Fund paying the costs of registration. Interest on convertible securities are generally payable monthly. The convertible debt securities generally contain embedded call options giving the issuer the right to call the underlying issue. In these instances, the Fund has the right of redemption or conversion. The embedded call option will generally not vest until certain conditions are achieved by the issuer. Such conditions may require that minimum thresholds be met relating to underlying market prices, liquidity, and other factors.

(6) Valuation of Investments

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

- o Generally, the guiding principle for valuation is the application of objective standards. The objective standards for determining market prices and applying valuation methodologies will govern in all situations except where a debt issuer is in default.

22

RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.  
Notes to Financial Statements  
March 31, 2003

- o Generally, the fair value of debt securities and preferred securities convertible into common stock is the sum of (a) the value of such securities without regard to the conversion feature, and (b) the value, if any, of the conversion feature. The fair value of debt securities without regard to conversion features is determined on the basis of the terms of the debt security, the interest yield, and the financial condition of the issuer. The fair value of preferred securities without regard to conversion features is determined on the basis of the terms of the preferred security, its dividend, and its liquidation and redemption rights and absent special circumstances will typically be equal to the lower of cost or 120% of the value of the underlying common stock. The fair value of the conversion features of a security, if any, are based on fair values of the derivative securities as of the relevant date less an allowance, as appropriate, for costs of registration, if any, and selling expenses.
- o Portfolio investments for which market quotations are readily

available and which are freely transferable are valued as follows: (i) securities traded on a securities exchange or the Nasdaq or in the over-the-counter market are valued at the closing price on, or the last trading day prior to, the date of valuation, and (ii) securities traded in the over-the-counter market that do not have a closing price on, or the last trading day prior to, the date of valuation are valued at the average of the closing bid and ask price for the last trading day on, or prior to, the date of valuation. Securities for which market quotations are readily available but are restricted from free trading in the public securities markets (such as Rule 144 stock) are valued by discounting the value for the last trading day on, or prior to, the date of valuation to reflect the liquidity caused by such restriction, but taking into consideration the existence, or lack thereof, of any contractual right to have the securities registered and freed from such trading restrictions.

- o Because there is no independent and objective pricing authority (i.e. a public market) for investments in privately held entities, the latest sale of equity securities by the entity governs the value of the enterprise. This valuation method causes the Fund's initial investment in the private entity to be valued at cost. Thereafter, new issuances of equity or equity-linked securities by a portfolio company will be used to determine enterprise value as they will provide the most objective and independent basis for determining the worth of the issuer.

There can be no assurance that stated market fair values for private equities will stay constant, or that future equity raises will value the portfolio company at levels equal to or greater than the prior equity financing for the issuer. As a result, the Fund's valuation of a privately held portfolio company may be subject to downward

23

RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.  
Notes to Financial Statements  
March 31, 2003

adjustment that would directly impact the Fund's net asset value and which could result in a substantial reduction in the fund's net assets.

- o Where a portfolio company is in default on a debt instrument held by the Fund, and no market exists for that instrument, the fair value for the investment is determined on the basis of appraisal procedures established in good faith by the Investment Adviser. This type of fair value determination is based upon numerous factors such as the portfolio company's earnings and net worth, market prices for comparative investments (similar securities in the market place), the terms of the Fund's investment, and a detailed assessment of the portfolio company's future financial prospects. In the event of unsuccessful operations by a portfolio company, the appraisal may be based upon an estimated net realizable value when that investment is liquidated

As of March 31, 2003, and December 31, 2002, the net unrealized appreciation associated with investments held by the Fund was \$479,705, and \$6,540,900, respectively. For the periods ended March 31, 2003, and December 31, 2002, the Fund had gross unrealized gains

## Edgar Filing: RENAISSANCE CAPITAL GROWTH & INCOME FUND III INC - Form 10-Q

of \$12,819,424 and \$13,970,011, respectively, and gross unrealized losses of (\$12,339,719) and (\$7,429,111), respectively.

### (7) Restricted Securities

As indicated on the statement of investments as of March 31, 2003, and December 31, 2002, the Fund holds investments in shares of common stock, the sale of which is restricted. These securities have been valued by the Investment Adviser after considering certain pertinent factors relevant to the individual securities (note 5).

### (8) Purchase of Additional Shares

In accordance with Fund guidelines, certain shareholders reinvested their dividends in the Fund. The Fund issued no shares during the periods ended March 31, 2003, and December 31, 2002, under the dividend reinvestment plan.

### (9) Distributions to Shareholders

During the periods ended March 31, 2003, and December 31, 2002, the Fund distributed \$435,172 and \$435,172, respectively. During the period ended March 31, 2002, the Fund made no cash distributions. At March 31, 2003, the Fund had net investment income in excess of the amount of the cash distribution; however, the final tax characteristics of this distribution cannot be determined at this time. The cash distribution made in 2002

24

RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.  
Notes to Financial Statements  
March 31, 2003

represented a tax return of capital. The capital loss carryover of (\$3,429,593) as of December 31, 2002, will expire in 2010. The tax cost of securities is identical to the book cost.

### (10) Financial Highlights

Selected per share data and ratios for each share of common stock outstanding throughout the three months ended March 31, 2002, and 2003, are as follows:

|   | 2002      | 2003      |
|---|-----------|-----------|
| Net asset value, beginning of period            | \$ 12.50  | \$ 9.48   |
| Net investment income (loss)                    | \$ (0.07) | \$ 0.21   |
| Net realized and unrealized gain on investments | \$ 0.32   | \$ (1.21) |
|   | -----     | -----     |
| Total return from investment operations         | \$ 0.25   | \$ (1.00) |
|   | -----     | -----     |
| Distributions:                                  | \$ 0.00   | \$ 0.10   |
|   | -----     | -----     |
| Net asset value, end of period                  | \$ 12.75  | \$ 8.38   |
|   | =====     | =====     |
| Per share market value, end of period           | \$ 9.19   | \$ 6.75   |
| Portfolio turnover rate (quarterly)             | 0.25%     | 1.88%     |
| Quarterly return (a)                            | 2.80%     | -14.12%   |

## Edgar Filing: RENAISSANCE CAPITAL GROWTH & INCOME FUND III INC - Form 10-Q

|  |       |       |
|--|-------|-------|
| Ratio to average net assets (quarterly) (b): |       |       |
| Net investment income (loss)                 | 0.00% | 2.30% |
| Expenses, excluding incentive fees           | 0.66% | 0.78% |
| Expenses, including incentive fees           | 0.66% | 1.22% |

- (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.

25

### 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, 2003:

Active Link Communications, Inc. (OTC:ACVE) Subsequent to March 31, 2003, the Company made a principal repayment on the convertible bridge note owned by the Fund of \$44,240, reducing the balance outstanding on the bridge note to \$19,023. Also subsequent to March 31, 2003, the Company fell into principal and interest default on payments on all of the debt obligations of the Company. As a result of the default, the Fund has placed a reserve equal to 50% of the par value of the principal amounts of all positions held by the Fund in the Company.

Bentley Pharmaceuticals, Inc. (AMEX:BNT) In the first quarter of 2003, the Fund sold 124,100 shares of common stock in the open market realizing proceeds of \$1,119,661, representing a gain of \$830,818. At March 31, 2003, the Fund owned 535,879 shares of Bentley common stock with a basis of \$746,325 or \$1.39 per share. The stock is freely tradeable.

Capital Senior Living Corp. (NYSE:CSU) In the first quarter of 2003, the Fund purchased an additional 12,600 shares of common stock in the open market. At March 31, 2003, the Fund owned 57,100 shares of the Company's common stock having a basis of \$146,335, or \$2.56 per share. All shares are freely tradeable.

DaisyTek International, Inc. (NASDAQ:DZTK) In the first quarter of 2003, the Fund purchased an additional 100,000 shares of the Company's common stock in the open market. At March 31, 2003, the Fund owned 149,600 shares of DZTK common stock with a basis of \$649,934, or \$4.34 per share. The stock is freely tradeable.

eOriginal Holdings, Inc. (Private) In the first quarter of 2003, eOriginal, Inc., went through a tax-free reorganization (the "reorganization") in which all the assets of eOriginal, Inc., were transferred to eOriginal Holdings, Inc. (the "Company"). As a result of the reorganization, the Fund exchanged all of its positions in eOriginal, Inc., for the following securities of the Company: 10,680 of Series A Convertible Preferred Stock; 25,646 of Series B Convertible Preferred Stock; 28,929 shares of Series C Convertible Preferred Stock; 2,302 Warrants to purchase shares of common stock of the Company. Each series of Preferred of the Company is convertible one for one into common stock of eOriginal Holdings, and the

Warrants have an exercise price of \$0.01 per share. The implied value of the Company for purposes of the reorganization is \$72.13 per share, giving the Company an enterprise value of \$64.9 million and causing the Funds new total ownership in the Company to be valued at \$4,873,079 as of the date of reorganization. As a result of the reorganization, the Fund's cost basis of

26

its entire investment in the Company was increased from \$5,139,713 to \$6,012,435 due to the capitalization of accrued interest and dividends.

Flamel Technologies, SA (Nasdaq:FLML) In the first quarter of 2003, the Fund purchased 20,000 shares of the Company's shares in the open market for \$86,213, a cost of \$4.31 per share. This is the Fund's initial investment in Flamel and the stock is freely tradeable.

Flamel is a biopharmaceutical company principally engaged in the development of two polymer-based delivery technologies for medical applications. Flamel's Medusa nano-encapsulation is designed to deliver therapeutic proteins. Micropump is a controlled release and taste-masking technology for the oral administration of small molecule drugs.

Gasco Energy, Inc. (OTC:GASE) In the quarter ended March 31, 2003, the Fund purchased 68,125 shares of the Company's common stock in the open market for \$48,767, a basis of \$0.72 per share. At March 31, 2003, the Fund owned the freely tradeable shares previously discussed in addition to 250,000 shares at \$1.00 per share or \$250,000 which are restricted, but which may be sold pursuant to the prospectus delivery requirements of a "shelf" registration filed by the Company.

Inet Technologies (Nasdaq:INTI) In the first quarter of 2003, the Fund purchased an additional 21,600 shares of the Company's common stock in the open market. At March 31, 2003, the Fund owned 96,600 shares of the Company's common stock having a basis of \$530,338, or \$5.49 per share.

Integrated Security Systems, Inc. (OTC:IZZI) In the first quarter of 2003, the Fund received common stock of the Company as payment in kind for interest on 8% Promissory Notes owned by the Fund as well as dividends on Series D Preferred Stock owned by the Fund. In total, the Fund received 89,920 shares of IZZI having an imputed cost of \$18,859, a rate of \$0.21 per share, as payment in kind for interest on the notes and dividends on the Series D Preferred. The total number of shares owned by the Fund as a result of PIK agreements with the Company at March 31, 2003, was 194,707 shares of the Company's common stock having a basis of \$47,178, a rate of \$0.24 per share.

In addition to the PIK shares discussed previously, at March 31, 2003, the Fund owned the following: \$325,000 in 8% Promissory Notes with no conversion feature; \$542,989 in Series F Preferred convertible into the Company's common stock at a rate of \$0.20 per share; \$3,666,951 in Series G Preferred convertible into common at a rate of \$0.20 per share; \$150,000 in Series D Preferred convertible into common at a rate of \$0.80 per share; 393,259 shares of the Company's common stock having a basis of \$215,899 or \$0.55 per share; warrants to purchase 364,299 shares of the Company's common stock at \$0.549 per share on or before March 8, 2004; warrants to purchase 312,500 shares of the Company's common stock at \$0.80 per share on or before October 2, 2003; warrants to purchase 125,000 shares of the

Company's common stock at \$1.00 per share on or before October 11, 2004; warrants to purchase 1,625,000 shares of the Company's common stock at

27

\$0.20 per share with term dates ranging from September 2006 to September 2007; and options to purchase 41,034 shares of the Company's common stock having strike prices ranging between \$0.21 and \$0.49 per share and term dates ranging from May 2006 to August 2007.

Subsequent to March 31, 2003, the Fund purchased a \$100,000 8% one-year non-convertible Promissory Note. As additional consideration for the investment, the Fund received five-year warrants to purchase the Company's common shares at \$0.20 per share. In addition, subsequent to March 31, 2003, the Fund received an additional 13,297 shares of the Company's common stock as payment in kind of \$1,995 or \$0.15 per share in interest due on promissory notes.

Laserscope (Nasdaq:LSCP) At March 31, 2003, the Fund owned \$1,500,000 in 8% Convertible Debentures of the Company having a conversion rate of \$1.25 per share and options to purchase 30,000 common shares at \$4.19.

Subsequent to March 31, 2003, the Fund converted \$100,000 of the debentures into 80,000 shares of the Company's common stock at \$1.25 per share in lieu of six months' mandatory principal payments on the debentures.

Medical Action Industries, Inc. (Nasdaq:MDCI) In the first quarter of 2003, the Fund made a new investment into the common stock of Medical Action Industries, Inc., by purchasing 10,000 shares in the open market for \$112,490, a rate of \$11.25 per share.

The Company develops, manufactures, markets, and distributes a variety of disposable surgical-related products.

Nautilus Group, Inc. (NYSE:NLS) In the first quarter of 2003, the Fund made a new investment into the Company by purchasing 25,000 shares of its common stock in the open market for \$400,626, a rate of \$16.03 per share. This is a new investment for the Fund.

Nautilus is a marketer, developer, and manufacturer of branded health and fitness products sold under such names as Nautilus, Bowflex, Schwinn, and StairMaster.

Stonepath Group, Inc. (AMEX:STG) In the first quarter of 2003, the Fund made a new investment by purchasing 200,000 shares of the Company's common stock in a private placement at a rate of \$1.35 per share for a total investment of \$270,000. The Fund's securities are unregistered, but the Fund does have registration rights and the Company is working toward the registration of the securities in the near term.

Stonepath is a non-asset based provider of third-party logistics services, offering a full range of time-definite transportation and distribution solutions. The Company manages and arranges the domestic movement of raw materials, supplies, components, and finished goods, and also provides a broad range of value-added supply chain management services.

## Results of Operations for the Quarter Ended March 31, 2003

For the quarter ended March 31, 2003, the Fund had net investment income of \$894,155 compared to net investment loss of (\$316,406) for the first quarter of 2002. This change was due in large part to an increase in investment income from \$111,185 for the first quarter of 2002 to \$1,366,541 for the comparable period of 2003. This increase was primarily attributable to the accrual of dividends receivable from eOriginal Holdings, Inc., as a result of its reorganization and from Integrated Security Systems, Inc., on its Series F and G Convertible Preferred Stock. In addition, interest income increased due to the reversal of reserves against accrued interest income from eOriginal as part of the reorganization mentioned previously.

The increase in investment income was partially offset by an increase in investment expenses from \$427,591 for the first period of 2002 to \$472,386 for the first quarter of 2003. General and administrative expenses decreased for the first quarter of 2003 to \$75,048 from \$87,323 for the first quarter of 2002, a decrease of 14.06%. Interest expense decreased 66.17% from \$29,656 for the first quarter of 2002 to \$10,033 for the comparable period of 2003. Legal and professional fees decreased from \$66,131 for the first quarter of 2002 to \$58,165 for the first quarter of 2003, a decrease of 12.05%. Management fees decreased 33.33% from \$244,481 for the first quarter of 2002 to \$162,977 for the comparable period of 2003 as a result of lower market values for portfolio investments during the period. These increases in expenses were offset by the incentive fee on capital gains accrued in the first quarter of 2003. There was no incentive fee in the first quarter of 2002 because there were no capital gains in that period.

## Liquidity and Capital Resources

For the three months ended March 31, 2003, net assets decreased 11.56% from \$41,259,065 at December 31, 2002, to \$36,487,669 at March 31, 2003. This decrease is primarily attributable to a decrease in the net unrealized appreciation of investments from \$6,540,900 at December 31, 2002, to \$479,705 at March 31, 2003, and the cash distribution to shareholders of \$435,172 paid during the first quarter of 2003. This decrease was partially offset by the net investment income discussed previously and a realized gain in the amount of \$830,818 on the disposition of a portion of the Fund's position in Bentley Pharmaceuticals.

At the end of the first quarter of 2003, the Fund had net cash and cash equivalents of \$1,181,514 versus net cash and cash equivalents of \$1,966,838 at December 31, 2002. The Fund's interest and dividends receivable increased from \$28,409 at December 31, 2002, to \$418,407 at March 31, 2003, primarily due to the dividend accrued on Integrated Security Systems Series F & G Preferred Stock. Prepaid expenses decreased 46.15% from \$40,069 at December 31, 2002, to \$21,575 at March 31, 2003, primarily attributable to quarterly charges against prepaid insurance amounts.



Accounts payable increased from \$12,107 at December 31, 2002, to \$20,932 at March 31, 2003, a 72.89%, primarily due to the first quarter accrual of custodial, auditing, and legal fees. Finally, accounts payable to affiliate increased 66.60% from \$223,386 at December 31, 2002, to \$372,169 at March 31, 2003, due to the accrual of a first quarter incentive fee payable to the investment adviser offset partially by a reduction in management fees also payable to the investment adviser.

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

99-1 Certification of Russell Cleveland, President and CEO

99-2 Certification of Barbe Butschek, Chief Financial Officer

(b) Reports on Form 8-K

None

30

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, 2003

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

May 15, 2003

\_\_\_\_\_

Barbe Butschek, Chief Financial Officer  
(Principal Financial Officer)

31

CERTIFICATION

I, Russell Cleveland, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Renaissance Capital Growth & Income Fund III, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant is made known to us by others, particularly during the period in which this annual report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed to the registrant's auditors and to the audit committee of the registrant's board of directors:
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the issuer's ability to record, process, summarize, and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

32

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/S/ Russell Cleveland  
Russell Cleveland  
President and CEO  
May 15, 2003

33

CERTIFICATION

I, Barbe Butschek, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Renaissance Capital Growth & Income Fund III, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statements of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant is made known to us by others, particularly during the period in which this annual report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed to the registrant's auditors and to the audit committee of the registrant's board of directors:

- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the issuer's ability to record, process, summarize, and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

34

- 6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/S/ Barbe Butschek  
Barbe Butschek  
Chief Financial Officer  
May 15, 2003

35

EXHIBIT 99-1

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. ss.1350, the undersigned officer of Renaissance Capital Growth & Income Fund III, Inc. (the "Company"), hereby certifies, to such officer's knowledge, that the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2003 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 15, 2003

/S/ Russell Cleveland  
Russell Cleveland  
President & CEO

1

EXHIBIT 99-2

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. ss.1350, the undersigned officer of Renaissance Capital Growth & Income Fund III, Inc. (the "Company"), hereby certifies, to such officer's knowledge, that the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2003 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 15, 2003

/S/ Barbe Butschek  
Barbe Butschek  
Chief Financial Officer

1