

RENAISSANCE CAPITAL GROWTH & INCOME FUND III INC  
Form 10-Q  
November 13, 2001

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 September 30, 2001

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 October 15, 2001.

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.

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Statement of Assets and Liabilities  
(Unaudited)

Assets		
	December 31, 2000	September 30, 2001
Cash and cash equivalents	\$ 18,206,540	\$ 24,208,711
Investments at fair value, cost of \$39,985,786 and \$33,674,981 in 2000 and 2001 respectively	45,367,138	44,323,395
Accounts receivable	464,110	626,066
Other assets	39,812	20,404
	-----	-----
	\$ 64,077,600	\$ 69,178,576
	=====	=====
Liabilities and Net Assets		
Liabilities:		
Securities sold under agreements to repurchase	\$ 16,482,024	\$ 18,020,094
Accounts payable	14,082	52,019
Incentive fee and administrative fee due to Investment Advisor	235,427	245,254
	-----	-----
	16,731,533	18,317,367
	-----	-----
Net Assets:		
Common stock, \$1 par value; 20,000,000 shares authorized; 4,561,618 issued, and 4,361,618 outstanding	4,561,618	4,561,618
Additional paid-in capital	38,799,907	38,799,907
Treasury stock at cost, 200,000 shares at December 31, 2000, and at September 30, 2001	( 1,665,220)	( 1,665,220)
Undistributed net investment income	5,649,762	9,164,904
	-----	-----
Net assets	47,346,067	50,861,209
	-----	-----
	\$ 64,077,600	\$69,178,576
	=====	=====
Net asset value per share	\$ 10.86	\$ 11.66
	=====	=====

See accompanying notes to financial statements.

RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.  
Statement of Operations  
(Unaudited)

Three Months Ended September 30,	
2000	2001
----	----

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Investment Income:		
Interest	\$ 366,633	\$ 43,040
Dividends	23,403	104,511
Other investment income	20,375	3,000
	-----	-----
Total investment income	410,411	150,551
	-----	-----
Expenses:		
Bank charges	14,506	7,707
Directors' fees	18,000	15,000
Incentive fees	-0-	7,571
Legal and professional	37,923	67,547
Management fees	258,461	223,529
Franchise Taxes	-0-	129
Other	42,886	45,651
	-----	-----
Total expenses	371,776	367,134
	-----	-----
Net investment income (loss)	38,635	( 216,583)
Realized gain on investments	-0-	37,857
Unrealized gain (loss) on investments	3,601,156	( 209,694)
	-----	-----
Net increase (decrease) in net assets resulting from operations	\$ 3,639,791	\$ ( 388,420)
	=====	=====

See accompanying notes to financial statements.

RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.  
Statement of Operations  
(Unaudited)

	Nine Months Ended September 30,	
	2000	2001
	----	----
Investment Income:		
Interest	\$ 1,125,791	\$ 357,605
Dividends	84,490	159,903
Other investment income	105,250	7,600
	-----	-----
Total investment income	1,315,531	525,108
	-----	-----

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Expenses:

Bank charges	32,686	19,835
Directors' fees	51,000	46,500
Incentive fees	1,611,135	919,429
Legal and professional	154,832	179,598
Management fees	848,434	672,894
Franchise Taxes	24,884	32,139
Other	169,719	180,832
	-----	-----
Total expenses	2,892,690	2,051,227
	-----	-----
Net investment income (loss)	(1,577,159)	(1,526,119)
Realized gain on investments	8,055,675	2,129,486
Unrealized gain (loss) on investments	10,025,894	5,267,049
	-----	-----
Net increase (decrease) in net assets resulting from operations	\$ 16,504,410	\$ 5,870,416
	=====	=====

See accompanying notes to financial statements.

RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.  
Statements of Changes in Net Assets  
(Unaudited)

	Three Months Ended September 30,	
	2000	2001
	----	----
Increase (decrease) in net assets resulting from operations:		
Investment income - net	\$ 38,635	\$ ( 216,583)
Realized gain on investment	-0-	37,857
Unrealized gain (loss) on investments	3,601,156	( 209,694)
	-----	-----
Net increase (decrease in net assets resulting from operations)	3,639,791	( 388,420)
Distributions to shareholders	-0-	( 2,355,274)
	-----	-----
Total increase (decrease)	3,639,791	( 2,743,694)
Net assets:		
Beginning of period	55,178,483	53,604,903
	-----	-----
End of period	\$ 58,818,274	\$ 50,861,209

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	Nine Months Ended September 30, 2000	2001
	----	----
Increase (decrease) in net assets resulting from operations:		
Investment income - net	\$( 1,577,159)	\$( 1,526,119)
Realized gain on investment	8,055,675	2,129,486
Unrealized gain (loss) on investments	10,025,894	5,267,049
	-----	-----
Net increase (decrease in net assets resulting from operations	16,504,410	5,870,416
Distributions to shareholders	( 6,380,130)	( 2,355,274)
Cost of shares repurchased	2,759,688	-0-
	-----	-----
Total increase (decrease)	12,883,968	3,515,142
Net assets:		
Beginning of period	45,934,306	47,346,067
	-----	-----
End of period	\$58,818,274	\$ 50,861,209

See accompanying notes to financial statements.

RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.  
Notes to Financial Statements  
September 30, 2001

1. Organization and Business Purpose

Renaissance Capital Growth & Income Fund III, Inc. (the "Fund"), a Texas corporation formed in 1994, is a non-diversified closed-end investment company and has elected to be treated as a business development company ("BDC") under the Investment Company Act of 1940, as amended ("1940 Act"). The Fund seeks to achieve current income and capital appreciation by investing primarily in unregistered convertible securities of emerging growth size companies.

2. Significant Accounting Policies

A. Federal Income Taxes - The Fund has elected the special income tax treatment available to a regulated investment company ("RIC") under Subchapter M of the Internal Revenue Code 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. If a RIC meets certain diversification and distribution requirements under the Code, it qualifies for pass-through tax treatment. The Fund would cease to qualify for pass-through tax treatment if it were unable to comply with these requirements. Failure to qualify as a RIC would subject the Fund to federal income tax as if the Fund were an ordinary corporation, which could result in a substantial reduction in both the Fund's net assets and the amount of income available for distribution to shareholders.

B. Distributions to Shareholders - Dividends paid to shareholders are recorded on the ex-dividend date. The Fund announced a dividend of \$0.54 per share on July 16, 2001. The ex-dividend date was July 20, 2001, and the dividend was paid on August 16, 2001, to shareholders of record July 24, 2001. With this dividend, the Fund has paid shareholders a total of \$7.56 per share in cash distributions since inception.

C. Management Estimates - The financial statements have been prepared in conformity with generally accepted accounting principles. The preparation of the accompanying financial statements requires estimates and assumptions made by the Investment Adviser as to the valuation of investments that effect the amounts and disclosures in the financial statements. Actual results could differ significantly from those estimates.

D. Financial Instruments - In accordance with the reporting requirements of Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financials Instruments," the Company calculates the fair value of its financial instruments and includes this additional information in the notes to the financial statements when the fair value is different from the carrying value of those financial instruments. When the fair value reasonably approximates the carrying value, no additional disclosure is made.

RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.  
Notes to Financial Statements  
September 30, 2001

3. Investment Advisory Agreement

The Investment Adviser for the Fund, Renaissance Capital Group, Inc. ("RCG"), is registered as an investment adviser under the Investment Advisers Act of 1940, as amended. Pursuant to an Investment Advisory Agreement, the Investment Adviser performs certain services, including certain management, investment advisory, and administrative services necessary for the operation of the Fund. The Investment Adviser receives a fee equal to .4375% (1.75% annually) of the net assets each quarter. The Fund accrued a liability of \$223,529 for such operational management fees performed during the quarter ended September 30, 2001.

In addition to the management fee, the Investment Advisory Agreement entitles the Investment Adviser to an incentive fee equal to 20% of any net realized capital gains after allowance for any unrealized capital depreciation of the Fund. This management incentive fee is calculated on a quarterly basis. For the three-month period ended September 30, 2001, the Investment Adviser earned incentive fees of \$7,571.

Finally, the Investment Adviser is reimbursed for administrative expenses paid by the Investment Adviser on behalf of the Fund. The Fund accrued a liability of \$29,107 for these reimbursable administrative expenses in the quarter ended September 30, 2001, which accrual is included in general and administrative expenses in the accompanying statement of operations.

4. Capital Share Transactions

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As of September 30, 2001, there were 20,000,000 shares of \$1 par value capital stock authorized, 4,561,618 shares issued, 4,361,618 shares outstanding, and additional paid-in capital aggregating \$41,696,305.

Year-to-date transactions in capital stock are as follows:

	Shares	Amount
Balance December 31, 2000	4,361,618	\$41,696,305
Shares repurchased	-	-
	-----	-----
Balance September 30, 2001	4,361,618	\$41,696,305
	=====	=====

### 5. Temporary Investments

At September 30, 2001, temporary investments were held in a money market fund made up of U.S. Treasury obligations and a U.S. Treasury bill. These investments qualify for investment as permitted in Section 55(a)(1) of the 1940 Act.

RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.  
Notes to Financial Statements  
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### 6. Functions and Activities of Business Development Companies

Pursuant to Section 55(a) of the 1940 Act, a BDC is required to have at least 70% of the value of its total assets invested in 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 (6) of the 1940 Act. In the event a BDC has less than 70% of its assets in eligible or other qualified portfolio investments, then it will be prohibited from making non-eligible investments until such time as the percentage of eligible or other qualified investments again exceeds the 70% threshold. At September 30, 2001, the Fund had more than 70% of its assets in eligible and other qualified portfolio investments.

### 7. Investments

The Fund's investments are carried in the statements of assets and liabilities as of September 30, 2001, at fair value as determined by the Investment Advisor. 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 the discretion of the Fund at a set conversion price. The common stock underlying these securities is generally unregistered and thinly to moderately traded. In certain instances, the Fund has registration rights. In addition, the Fund may sell restricted securities pursuant to Rule 144 of the Securities Act of 1933.

Interest on convertible debentures is generally payable monthly. The convertible debt securities generally contain embedded call options giving the issuer the right to call the underlying issue. In these instances, the Fund has the right of redemption or conversion. The embedded call option will generally not vest until certain conditions

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are achieved by the issuer. Such conditions may require that minimum thresholds be met relating to underlying market prices, liquidity, and other factors.

RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.  
Notes to Financial Statements  
September 30, 2001

INVESTMENT VALUATION SUMMARY

	COST	CONVERSION OR FACE VALUE	FAIR VALUE
800America.com, Inc. Common Stock	\$ 221,376	\$ 92,880	\$ 91,951
Active Link Communications, Inc. 8% Subordinated Convertible Promissory Notes	\$ 375,000	\$ 375,000	\$ 375,000
Bentley Pharmaceuticals, Inc. Common Stock	\$ 1,970,478	\$ 5,781,118	\$ 5,723,307
CaminoSoft Corp. Common Stock	\$ 4,625,000	\$ 3,825,000	\$ 3,694,250
CareerEngine Network, Inc. 12% Convertible Debenture	\$ 250,000	\$ 250,000	\$ 250,000
Dexterity Surgical, Inc. 9% Convertible Debenture	\$ 1,370,276	\$ 1,370,276	\$ 1,370,276
8% Convertible Preferred Stock	1,000,000	38,462	38,462
Common Stock	635,000	13,000	-0-
Display Technologies, Inc. 8.75% Convertible Debenture	\$ 1,750,000	\$ 1,750,000	\$ 450,000
5.25% Convertible Preferred Stock	500,000	8,100	-0-
Common Stock	1,049,741	7,193	-0-
The Dwyer Group, Inc. Common Stock	\$ 1,966,632	\$ 1,957,500	\$ 1,937,925
eOriginal, Inc. 5% Convertible Preferred Stock	\$ 4,000,030	\$ 8,997,250	\$ 8,577,418
Senior Secured Promissory Note	500,000	500,000	500,000

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Fortune Natural Resources Corp. Common Stock	\$ 545,500	\$ 436,390	\$ 432,026
Integrated Security Systems, Inc. 8% Promissory Note	\$ 75,000	\$ 75,000	\$ 75,000
Series D Preferred	150,000	90,000	90,000
Series F Convertible Preferred	542,989	1,085,978	1,020,819
Series G Convertible Preferred	3,666,950	7,333,902	6,843,868
Common Stock	215,899	157,303	155,730
JAKKS Pacific, Inc. Common Stock	\$ 521,172	\$ 1,179,184	\$ 1,167,392
Laserscope 8% Convertible Debenture	\$ 1,500,000	\$ 1,980,000	\$ 1,811,200
Northwestern Steel & Wire Corp. Bonds	\$ 127,500	\$ 127,500	\$ 127,500
Play by Play Toys & Novelties, Inc. 8% Convertible Debenture	\$ 2,425,748	\$ 2,425,748	\$ 1,925,748
Poore Brothers, Inc. Common Stock	\$ 1,963,170	\$ 6,064,461	\$ 5,650,593
Precis, Inc. Common Stock	\$ 14,105	\$ 14,000	\$ 13,860
RailAmerica, Inc. 6% Convertible Debenture	\$ 500,000	\$ 625,000	\$ 618,750
Simtek Corporation Common Stock	\$ 195,000	\$ 365,000	\$ 343,100
ThermoView Industries, Inc. Common Stock	\$ 500,000	\$ 33,750	\$ -0-
Verso Technologies, Inc. Common Stock	\$ 512,500	\$ 111,212	\$ 104,539

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Miscellaneous Securities	\$ 5,915	\$ 1,049,559	\$ 934,681
	-----	-----	-----
Total	\$33,674,981	\$48,119,766	\$44,323,395
	=====	=====	=====

Pursuant to procedures established by the Investment Adviser, the fair value of each investment is based upon its cost to the Fund. Costs are the primary factor used to determine fair value until significant developments affecting the investee company provide a basis for use in an appraisal valuation. 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 would be required to liquidate the position, and selling expenses. Publicly traded securities, or securities that are convertible into publicly traded securities, are valued at the last sale price, or in the event an over-the-counter security has no closing price, then the security is valued at the average closing bid and asked price, as of the valuation date. While these valuations are believed to represent fair value, these values do not necessarily reflect amounts which may be ultimately realized upon disposition of such securities.

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS.

#### Material Changes in Portfolio Investments

The following portfolio transactions are noted for the quarter ended September 30, 2001 (portfolio companies are herein referred to as the "Company"):

800America.com, Inc. (ACCO) In the third quarter 2001, the Fund purchased 54,000 shares of the Company's common stock in the open market for \$221,376, a cost of \$4.10 per share. The shares are freely tradeable.

Bentley Pharmaceutical, Inc. (BNT) In the third quarter 2001, the Fund exercised its option to purchase 7,779 shares of the Company's common stock at a rate of \$3 per share. The Fund sold none of the common stock during the quarter. The shares are freely tradeable.

Dexterity Surgical, Inc. (DEXT) In the quarter ended September 30, 2001, the Company made principal repayments on the Fund's convertible debentures of \$41,944, reducing the outstanding principal balance on the debentures to \$1,370,276.

Renaissance US Growth & Income Trust PLC ("RUSGIT") also received \$41,944 in principal repayments on its debentures in the second quarter, reducing the outstanding balance on the RUSGIT debentures to \$1,370,276 at September 30, 2001.

Display Technologies, Inc. (DTEK) Due to the operational difficulties being experienced at the Company, the Fund fully reserved all its preferred and common stock positions in the Company and additionally reserved the value of its convertible debenture to \$450,000.

RUSGIT also placed identical reserves on its investments in the Company in the third quarter 2001.

Grand Adventures Tour & Travel (GATT) In the quarter ended September 30, 2001, the Fund realized a tax loss on its investments in the Company which consisted of \$350,000 in principal balance of 10% convertible debentures, \$1,000,000 in principal balance of 8% convertible debentures, and 45,500 shares of common stock having a cost basis of \$130,089.

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RUSGIT also wrote off its entire investment in the Company, which consisted of \$400,000 in principal balance of 10% convertible debentures, \$1,000,000 in principal balance of 8% convertible debentures, and 55,500 shares of common stock having a cost basis of \$165,707.

Integrated Security Systems, Inc. (IZZI) In the third quarter 2001, the Fund invested \$75,000 to purchase an 8%, 120-day promissory note of the Company, which is secured by all of the assets of the Company and all of its subsidiary companies. As additional consideration for the investment, the Fund received 375,000 warrants to purchase common stock of the Company at a rate of \$0.20 per share on or before September 27, 2006.

RUSGIT also invested \$75,000 in the third quarter 2001 to purchase an 8%, 120-day promissory note of the Company that is secured by all the assets of the Company and its subsidiaries. RUSGIT also received additional consideration of 375,000 warrants to purchase common stock of the Company at a rate of \$0.20 per share on or before September 27, 2006.

Medical Action Industries, Inc. (MDCI) Throughout the third quarter 2001, the Fund sold its entire investment in the Company in the open market. The total investment of the Fund was 160,000 shares of common stock having a cost basis of \$555,392, a rate of \$3.47 per share. In total, the Fund received proceeds of \$2,073,337 from its stock sales, representing an average exit price of \$12.96 per share, representing a gain of \$1,517,945.

RUSGIT also exited from its entire position in Medical Action Industries, Inc., during the third quarter 2001.

Precis, Inc. (PCIS) In the third quarter 2001, the Fund made a new investment into this Company by purchasing 3,500 shares of the Company's common stock on the open market for approximately \$4.03 per share, representing a total cost of \$14,105. Precis operates through two subsidiary companies. Foresight, Inc., provides product enhancements in the form of "club benefits" to markets including rent-to-own, banking, consumer finance, and other national associations. Care Entree is the primary business, and it is a provider of medical savings programs designed to lower health care costs for consumers and accelerate payments to providers. The Fund's stock in the Company is freely tradeable.

### Results of Operations for the Quarter Ended September 30, 2001

For the three months ended September 30, 2001, the Fund had a net decrease in net assets resulting from operations in the amount of \$388,420, in comparison to a net increase in net assets of \$3,639,791 for the three months ended September 30, 2000. The change is primarily due to an unrealized loss on investments of \$209,694, due to lower values for portfolio investments and a net investment loss of \$216,583, in comparison to an unrealized gain on investments of \$3,601,156 and net investment income of \$38,635 for the three months ended September 30, 2000. The Fund's net decrease in net assets for the 2001 period was reduced somewhat by a realized gain on investments of \$37,857, which represents the gains realized on the Fund's sale of its stock in Medical Action Industries, Inc., net of the losses realized on the Fund's investments in Grand Adventures Tour and Travel Publishing, Inc. The net realized gain on investments resulted in an incentive fee of \$7,571 for the third quarter ended September 30, 2001.

In the third quarter of 2001, the Fund's total investment income was

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\$150,551, a 63.3% decrease relative to total investment income of \$410,411 for the three months ended September 30, 2000. The reason for the difference is a 62.2% decrease in interest and dividend income due to fewer of the Fund's investments being held in interest-bearing instruments. Total expenses for the Fund were \$367,134 for the 2001 third quarter, a 1.3% decrease in comparison to total expenses of \$371,776 in the comparable quarter of 2000. Expenses were driven lower primarily by a 13.5% reduction in management fees due to lower valuations for the Fund's invested portfolio, together with lower bank charges of 46.9% as a result of the new custodial relationship, offset by higher legal and professional fees. For the third quarter of 2001, professional fees were \$67,547, a 78.1% increase over the \$37,923 in legal and professional fees incurred in the quarter ended September 30, 2000.

For the nine months ended September 30, 2001, the Fund's increase in net assets resulting from operations amounted to \$5,870,416 in comparison to the net increase in net assets of \$16,504,410 in the nine months ended September 30, 2000. The net increase in net assets for the first three quarters of 2001 is primarily due to an unrealized gain on the Fund's investment portfolio of \$5,267,049 coupled with net realized gains on investments of \$2,129,486. This compares to unrealized gains on investments of \$10,025,894 for the nine months ended September 30, 2000, together with net realized gains on investments of \$8,055,675. The net realized gain on investments for the two periods includes incentive fees of \$919,429 for the nine months ended September 30, 2001, and \$1,611,135 for incentive fees realized in the first nine months of 2000. For 2001 the nine-month increase in net assets was offset slightly by the Fund's net investment loss of \$1,526,119 due primarily to lower investment income being generated by Fund investments.

For the nine months ended September 30, 2001, total investment income was \$525,108, a decline of 60.1% in comparison to the same period of 2000, and is mostly explained by lower interest and dividend income on portfolio investments. Interest and dividend income for the nine-month period ended September 30, 2001, was \$517,508, a decrease of 57.2% in relation to the \$1,210,281 in interest and dividend income for the same period of 2000. The decrease in interest and dividend income is a result of fewer of the Fund's investments being held in interest-bearing instruments. In addition, other investment income declined 92.8% to \$7,600 for the 2001 period in comparison to \$105,250 realized in the first nine months of 2000, due to fewer originations of new privately placed investments. Offsetting the decline in total investment income were lower overall total expenses. For the first nine months of 2001, the Fund's total expenses were \$2,051,227, a 29.1% decrease from the comparable period of 2000 when total expenses were \$2,892,690. The primary reason for the expense reduction is lower management fees due to lower values for investment holdings, decreased incentive fees resulting from a decrease in realized gains, and lower bank charges resulting from a new custodial relationship, offset somewhat by higher legal and professional fees.

### Liquidity and Capital Resources

For the three months ended September 30, 2001, net assets declined \$2,743,694 representing a 5.1% decline over the period. The primary reason for the decline is a \$0.54 dividend declared and paid to shareholders in the third quarter. The total dividend amounted to \$2,355,274. The remaining decrease in net assets resulted primarily from an unrealized loss on investments of \$209,694 together with a net investment loss of \$216,583, offset by the Fund's realized gain on investments of \$37,857.

For the nine months ended September 30, 2001, net assets increased

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\$3,515,142, a 7.4% increase over the period. The increase is a result of the Fund's unrealized gains on investments of \$5,267,049 together with net realized gains on investments of \$2,129,486 offset by a net investment loss of \$1,526,119 and the \$0.54 per share distribution to shareholders in the third quarter which totaled \$2,355,274.

At the end of the third quarter, the Fund had net cash and cash equivalents of \$6,188,617 versus net cash and cash equivalents of \$1,724,516 at December 31, 2000. In addition, the Fund's accounts receivable was \$626,066 in comparison to accounts receivable of \$464,110 at December 31, 2000. Overall, in the nine-month period ended September 30, 2001, net assets have returned 7.4% from December 31, 2000, after distribution of the dividend, and have increased more than 12% on a total return basis for the fiscal year to date before the distribution of the \$0.54 per share dividend to shareholders in the third quarter 2001.

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

None

(b) Reports on Form 8-K

None

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Fund has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.

November 13, 2001 /S/ \_\_\_\_\_  
Russell Cleveland, Chairman and President

(Principal Executive Officer)

November 13, 2001 /S/ \_\_\_\_\_  
Barbe Butschek, Chief Financial Officer

(Principal Financial Officer)