

RENAISSANCE CAPITAL GROWTH & INCOME FUND III INC
Form 10-Q
November 06, 2006

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

Form 10-Q

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

For the equarterly period ended June 30, 2006

OR

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

For the Transition period from _____ to _____ .

Commission file number: 0-20671

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

TX
(State or other jurisdiction of incorporation or organization)

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

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

75206
(Zip Code)

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

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

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

Yes No .

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

Large accelerated filer Accelerated filer Non-accelerated filer S

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No .

As of September 30, 2006, the issuer had 4,463,967 shares of common stock outstanding.

RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

ASSETS

	June 30, 2006	December 31, 2005
Cash and cash equivalents	\$ 18,763,599	\$ 8,396,052
Investments at fair value, cost of \$36,473,779 and \$35,433,480 at June 30, 2006 and December 31, 2005, respectively	39,888,708	54,002,499
Interest and dividends receivable	129,892	48,226
Prepaid and other assets	19,245	101,598
	\$ 58,801,444	\$ 62,548,375

LIABILITIES AND NET ASSETS

Liabilities:

Due to broker (Note 3)	\$ —	\$ 2,075,975
Accounts payable	77,445	86,782
Accounts payable - affiliate	2,578,408	2,050,989
Accounts payable - dividends	—	4,145,686
	2,655,853	8,359,432

Commitments and contingencies

Net assets:

Common stock, \$1 par value; authorized 20,000,000 shares; 4,673,867 issued; 4,463,967 shares outstanding	4,673,867	4,673,867
Additional paid-in-capital	31,873,320	32,681,024
Treasury stock at cost, 209,900 shares	(1,734,967)	(1,734,967)
Distributable earnings	17,918,442	—
Net unrealized appreciation of investments	3,414,929	18,569,019

Net assets, equivalent to \$12.58 and \$12.14
per share at June 30, 2006 and
December 31, 2005, respectively

	\$ 56,145,591	\$ 54,188,943
	\$ 58,801,444	\$ 62,548,375

See accompanying notes

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

			June 30, 2006		
	Interest Rate	Due Date	Cost	Fair Value	% of Net Investments
Eligible Portfolio Investments - Convertible Debentures and Promissory Notes					
CaminoSoft Corp. - Promissory note (4)	7.00%	07/19/06	\$ 250,000	\$ 250,000	0.63%
iLinc Communications, Inc. - Convertible promissory note (2)	12.00	03/29/12	500,000	500,000	1.25
Integrated Security Systems, Inc. - Promissory note (4)	8.00	09/30/06	525,000	525,000	1.32
Promissory note (4)	7.00	09/30/06	200,000	200,000	0.50
Promissory note (4)	8.00	09/30/06	175,000	175,000	0.44
Convertible promissory note (2)	8.00	12/14/08	500,000	500,000	1.25
Simtek Corporation - Convertible debenture (2)	7.50	06/28/09	1,000,000	1,340,909	3.36
			\$ 3,150,000	\$ 3,490,909	8.75%

See accompanying notes

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

	Interest Rate	Due Date	June 30, 2006 Cost	Fair Value	% of Net Investments
Other Portfolio Investments - Convertible Debentures and Promissory Notes					
Integrated Security Systems, Inc. - Convertible debenture (4)	6.00%	06/16/09	\$ 400,000	\$ 400,000	1.00%
Pipeline Data, Inc. - Convertible debenture (2)	8.00	06/29/10	500,000	573,077	1.44
			\$ 900,000	\$ 973,077	2.44%

See accompanying notes

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

	June 30, 2006			
	Shares	Cost	Fair Value	% of Net Investments
Eligible Portfolio Investments - Common Stock, Preferred Stock, and Miscellaneous Securities				
CaminoSoft Corp. - Common stock (2)	3,539,414	\$ 5,275,000	\$ 1,415,766	3.55
eOriginal, Inc. -				
Series A, preferred stock (1)(2)(3)	10,680	4,692,207	332,575	0.83
Series B, preferred stock (1)(2)(3)	25,646	620,329	798,616	2.00
Series C, preferred stock (1)(2)(3)	51,249	1,059,734	1,595,894	4.01
Series D, preferred stock (1)(2)(3)	16,057	500,000	500,015	1.25
Gaming & Entertainment Group - Common stock (2)				
	612,500	550,625	122,500	0.31
Gasco Energy, Inc. - Common stock				
	1,541,666	1,250,000	6,690,830	16.77
Global Axxess Corporation - Common stock (2)				
	953,333	1,261,667	524,333	1.31
Hemobiotech, Inc. - Common stock (2)				
	1,137,405	1,143,882	1,649,237	4.13
Integrated Security Systems, Inc. - Common stock (2)				
	31,071,164	5,891,757	6,214,233	15.58
Series D, preferred stock (2)	187,500	150,000	37,500	0.09
Inyx, Inc. - Common stock				
	300,000	300,000	780,000	1.96
PracticeXpert, Inc. - Common stock (2)				
	4,166,667	500,000	58,333	0.15

See accompanying notes

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

	June 30, 2006			
	Shares	Cost	Fair Value	% of Net Investments
Eligible Portfolio Investments - Common Stock, Preferred Stock, and Miscellaneous Securities, continued				
Simtek Corp. - Common stock (2)	4,687,257	1,199,294	1,382,741	3.47
Symbollon Pharmaceuticals, Inc. - Common stock (2)	250,000	250,000	387,500	0.97
Miscellaneous Securities		-	1,452,251	3.64
		\$ 24,644,495	\$ 23,942,324	60.02%

See accompanying notes

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

	June 30, 2006			
	Shares	Cost	Fair Value	% of Net Investments
Other Portfolio Investments - Common Stock, Preferred Stock, and Miscellaneous Securities				
AdStar, Inc. - Common stock	269,231	\$ 350,000	\$ 261,154	0.65%
Advance Nanotech, Inc. - Common stock (2)	170,796	330,000	174,212	0.44
Bovie Medical Corporation - Common stock (2)	500,000	907,845	3,400,000	8.52
Comtech Group, Inc. - Common stock (2)	240,000	840,000	2,671,200	6.70
Common stock	60,000	346,019	667,800	1.67
Hemobiotech, Inc. - Common stock	62,595	140,235	90,763	0.23
i2 Telecom - Convertible Preferred (2)	625	618,750	39,063	0.10
Information Intellect - Common stock (1)(2)(3)	666,666	999,999	999,999	2.51
iLinc Communications, Inc. - Common stock	23,266	13,908	12,098	0.03
Medical Action Industries, Inc. - Common stock	20,100	237,209	444,009	1.11
Metasolv, Inc. - Common stock	100,000	210,838	282,000	0.71

See accompanying notes

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

	June 30, 2006			
	Shares	Cost	Fair Value	% of Net Investments
Other Portfolio Investments - Common Stock, Preferred Stock, and Miscellaneous Securities, continued				
Precis, Inc. - Common stock (2)	800,000	1,998,894	1,320,000	3.31
US Home Systems, Inc. - Common stock	110,000	535,587	1,057,100	2.65
Vaso Active Pharmaceuticals, Inc. - Common stock	150,000	250,000	63,000	0.16
		7,779,284	11,482,398	28.79%
		\$ 36,473,779	\$ 39,888,708	100.00%
Allocation of Investments - Restricted Shares, Unrestricted Shares, and Other Securities				
Restricted Securities (2)		\$ 23,417,714	\$ 22,310,604	55.93%
Unrestricted Securities		\$ 3,633,796	\$ 10,348,754	25.95%
Other Securities (5)		\$ 9,422,269	\$ 7,229,350	18.12%

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

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

(3) Securities in a privately owned company.

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

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

See accompanying notes

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

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

See accompanying notes

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

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

See accompanying notes

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

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

See accompanying notes

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

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

See accompanying notes

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

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

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

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

(3) Securities in a privately owned company.

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

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

See accompanying notes

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

	Three Months Ended June 30,	
	2006	2005
Income:		
Interest income	\$ 54,278	\$ 87,874
Dividend income	67,758	43,689
Other income	8,668	16,946
	130,704	148,509
Expenses:		
General and administrative	111,017	27,524
Interest expense	32,378	29,143
Legal and professional fees	175,124	47,749
Management fee to affiliate	246,715	274,731
	565,234	379,147
Net investment loss	(434,530)	(230,638)
Realized and unrealized gain (loss) on investments:		
Net change in unrealized appreciation of investments	(14,928,440)	908,113
Net realized gain on investments	17,623,044	96,311
Net gain in investments	2,694,604	1,004,424
Net income	\$ 2,260,074	\$ 773,786
Net income per share	\$ 0.51	\$ 0.17
Weighted average shares outstanding	4,463,967	4,463,967

See accompanying notes

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

	Six Months Ended June 30,	
	2006	2005
Income:		
Interest income	\$ 119,333	\$ 171,762
Dividend income	110,223	61,044
Other income	23,777	67,571
	253,333	300,377
Expenses:		
General and administrative	172,240	101,186
Interest expense	60,188	39,021
Legal and professional fees	343,147	179,602
Management fee to affiliate	485,462	548,024
	1,061,037	867,833
Net investment loss	(807,704)	(567,456)
Realized and unrealized gain (loss) on investments:		
Net change in unrealized appreciation of investments	(15,154,090)	(16,351,876)
Net realized gain on investments	18,811,236	4,189,394
Net gain (loss) in investments	3,657,146	(12,162,482)
Net income (loss)	\$ 2,849,442	\$ (12,729,938)
Net income (loss) per share	\$ 0.64	\$ (2.86)
Weighted average shares outstanding	4,463,967	4,445,259

See accompanying notes

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

	Six Months Ended June 30,	
	2006	2005
From operations:		
Net investment loss	\$ (807,704)	\$ (567,456)
Net realized gain on investments	18,811,236	4,189,394
Net decrease in unrealized appreciation on investments	(15,154,090)	(16,351,876)
Net income (loss)	2,849,442	(12,729,938)
From distributions to stockholders:		
Common dividends from realized capital gains	(892,794)	(892,794)
From capital transactions:		
Sale of common stock	--	1,561,383
Total increase (decrease) in net assets	1,956,648	(12,061,349)
Net assets:		
Beginning of period	54,188,943	74,582,499
End of period	\$ 56,145,591	\$ 62,521,150

See accompanying notes

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

	Six Months Ended June 30,	
	2006	2005
Cash flows from operating activities:		
Net income (loss)	\$ 2,849,442	\$ (12,729,938)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operation activities:		
Net decrease in unrealized appreciation on investments	15,154,090	16,351,876
Net realized gain on investments	(18,811,236)	(4,189,394)
Increase in interest and dividends receivable	(81,666)	(43,591)
(Increase) decrease in prepaid and other assets	82,352	(187,668)
Decrease in accounts payable	(9,337)	(46,188)
Increase in accounts payable-affiliate	527,419	239,612
Decrease in due to broker	(2,075,975)	(24,869,650)
Purchase of investments	(1,966,699)	(2,466,284)
Proceeds from sale of investments	19,737,637	7,303,699
Net cash provided by (used in) operating activities	15,406,027	(20,637,526)
Cash flows from financing activities:		
Cash dividends	(5,038,480)	(12,947,053)
Sale of common stock	--	1,561,383
Net cash used in financing activities	(5,038,480)	(11,385,670)
Net increase (decrease) in cash and cash equivalents	10,367,547	(32,023,196)
Cash and cash equivalents at beginning of the period	8,396,052	37,278,871
Cash and cash equivalents at end of period	\$ 18,763,599	\$ 5,255,675
Cash paid during the period Interest	\$ 60,188	\$ 39,021

See accompanying notes

RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.

Notes to Unaudited Financial Statements

June 30, 2006

Note 1 - Organization and Business Purpose

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

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

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

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

Valuation of Investments

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

Other

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

Cash and Cash Equivalents

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

Federal Income Taxes

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

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

RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.

Notes to Unaudited Financial Statements

June 30, 2006

Note 2 - Summary of Significant Accounting Policies, continued

Use of Estimates

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

Note 3 - Due to Broker

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

Note 4 - Management and Incentive Fees

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

- The Investment Adviser receives a management fee equal to a quarterly rate of 0.4375% of the Fund's net assets, as determined at the end of such quarter with each such payment to be due as of the last day of the calendar quarter. The Fund incurred \$485,462 and \$548,024 for management fees during the six months ended June 30, 2006 and 2005, respectively.
- The Investment Adviser receives an incentive fee in an amount equal to 20% of the Fund's cumulative realized capital gains in excess of cumulative realized capital losses of the Fund after allowance for any unrealized capital depreciation on the portfolio investments of the Fund at the end of the period being calculated less cumulative incentive fees previously accrued. Unrealized capital depreciation equals net unrealized capital loss on each class of security without netting net unrealized capital gains on other classes of securities. Because the incentive fee is calculated, accrued, and paid on an annual basis as of each year end and no probability or estimate of the ultimate fee can be ascertained (see note 8), no incentive fee was recorded during the six months ended June 30, 2006 and 2005.
- The Investment Adviser was reimbursed by the Fund for administrative expenses paid by the Investment Adviser on behalf of the Fund. Such reimbursements were \$11,215 and \$90,824 during the six months ended June 30, 2006 and 2005, respectively, and are included in general and administrative expenses in the accompanying statements of operations.

As of June 30, 2006 and December 31, 2005, the Fund had an accounts payable of \$2,578,408 and \$2,050,989, respectively, for the amount due for the fees and expense reimbursements above.

RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.

Notes to Unaudited Financial Statements

June 30, 2006

Note 5 - Eligible Portfolio Companies and Investments

Eligible Portfolio Companies

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

Investments

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

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

- The common stock of companies listed on an exchange, Nasdaq or in the over-the-counter market is valued at the closing price on the date of valuation.
- The unlisted preferred stock of companies with common stock listed on an exchange, Nasdaq or in the over-the-counter market is valued at the closing price of the common stock into which the preferred stock is convertible on the date of valuation. If the preferred stock is redeemable, the preferred stock is valued at the greater of cost or market.
- The unlisted in-the-money options or warrants of companies with the underlying common stock listed on an exchange, Nasdaq or in the over-the-counter market are valued at the positive difference between the closing price of the underlying common stock and the strike price of the warrant or option. An out-of-the money warrant or option has no intrinsic value; thus, we assign no value to it.

RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.

Notes to Unaudited Financial Statements

June 30, 2006

Note 6 - Valuation of Investment, continued

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

As of June 30, 2006 and December 31, 2005, the net unrealized appreciation associated with investments held by the Fund was \$3,414,929 and \$18,569,019, respectively. As of June 30, 2006 and December 31, 2005, the Fund had gross unrealized gains of \$15,045,446 and \$28,008,507, respectively, and gross unrealized losses of \$11,630,517 and \$9,439,488, respectively.

Note 7 - Restricted Securities

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

Note 8 - Commitments and Contingencies

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

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

Note 9 - Financial Highlights - unaudited

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

	2006	2005
Net asset value, beginning of period	\$ 12.14	\$ 16.71
Net investment loss	(.18)	(.13)
Net realized and unrealized gain on investments	.82	(2.72)
Total return from investment operations	.64	(2.85)
Capital share transactions	--	.35
Distributions	(.20)	(.20)
Net asset value, end of period	12.58	14.01
Per share market value, end of period	\$ 10.65	\$ 11.55
Portfolio turnover rate	3.98%	3.89%
Quarterly return (a)	(3.18%)	(10.81%)
Ratio to average net assets (b):		
Net investment income (loss)	(1.47%)	0.85%
Expenses	1.93%	1.31%

(a) Six month return (not annualized) was calculated by comparing the common stock price on the first day of the period to the common stock price on the last day of the period, in accordance with American Institute of Certified Public Account guidelines.

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

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

Material Changes in Portfolio Investments

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

Advanced Refractive Technologies, Inc. (formerly VisiJet) (OTCPK:ARFR): During the second quarter of 2006, the Fund received \$64,416 in proceeds from the sale of debt securities of the company which had previously been written-off.

Hemobiotech, Inc. (OTCBB:HMBT): During the second quarter of 2006, the Fund purchased in the open market 52,595 shares of common stock for \$118,015.

Integrated Security Systems, Inc. (OTCBB:IZZI): In the second quarter of 2006, the Fund received 160,294 shares of common stock as payment in kind for interest on promissory notes held by the Fund. The Fund also purchased a 6% convertible debenture for \$400,000.

Laserscope, Inc. (Nasdaq:LSCP): During the second quarter of 2006, the Fund sold 600,000 shares of the company's common stock realizing proceeds of \$18,371,129 representing a gain of \$17,621,129.

Pipeline Data, Inc. (OTCBB:PPDA): During the second quarter of 2006, the Fund purchased a \$500,000 8% convertible debenture and received warrants to purchase 150,000 shares of the company's common stock at \$1.40 per share.

Simtek Corporation (OTCBB:SRAM): In the quarter ended June 30, 2006, the Fund received warrants to purchase 17,175 shares of common stock at \$0.33 per share as compensation for entering into a waiver to allow the company to extend the term of the debenture owned by the Fund. The Fund also received warrants to purchase 68,701 shares of common stock at \$0.33 per share as compensation for signing a subordination agreement. Additionally, Robert Pearson, a vice president of the Fund, received 11,596 shares of common stock as payment in kind for his service as a director of the company. Mr. Pearson assigned those shares to the Fund.

Symbollon Pharmaceuticals, Inc. (OTCBB:SYMBA): In the quarter ended June 30, 2006, the Fund purchased 250,000 shares of common stock and warrants to purchase another 250,000 shares of common stock at \$1.00 per share for \$250,000.

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

For the quarter ended June 30, 2006, the Fund had a net investment loss of \$434,530 compared to a net investment loss of \$230,638 for the second quarter of 2005. This change was due in part to a decrease in investment income from \$148,509 for the second quarter of 2005 to \$130,704 for the comparable period of 2006. This decrease in investment income was partially attributable to fewer investment fees being earned in 2006. In addition, interest income decreased from \$87,874 for the three months ended June 30, 2005, to \$54,278 for the same period of 2006 as a result of debt investments being converted to equity or realized as losses in 2005. Dividend income for the three-month period ended June 30, 2006, was \$67,758 versus \$43,689 for the same period in 2005 as a result of higher balances in 2006 of short-term treasury investments that earn dividends.

Expenses increased from \$379,147 for the quarter ended June 30, 2005 to \$565,234 for the second quarter of 2006. General and administrative expenses increased for the second quarter of 2006 to \$111,017 from \$27,524 for the second quarter of 2005 primarily due to increased travel, investor relations, printing, and insurance expenses in 2006. Interest expense increased from \$29,143 for the second quarter of 2005 to \$32,378 for the comparable period of 2006 as a result of higher margin balances and interest rates during the quarter ended June 30, 2006. Legal and professional fees increased from \$47,749 for the second quarter of 2005 to \$175,124 in the same period 2006 as a result of higher audit and consulting fees for the second quarter of 2006. These increased fees were a result of the Fund completing the 2003, 2004 and 2005 audits during 2006. Management fees decreased from \$274,731 for the second quarter of 2005 to \$246,715 for the second quarter of 2006 as a result of lower market values for portfolio investments at June 30, 2006.

Net change in unrealized appreciation of \$908,113 for the quarter ended June 30, 2005 decreased to an unrealized change in appreciation of \$14,928,440 for the quarter ended June 30, 2006 as a result of fluctuations in market values of securities at each quarter end and the realization of gains or losses upon disposition of investments (primarily Laserscope).

Realized gains increased from \$96,311 for the quarter ended June 30, 2005 to \$17,623,044 for the same period in 2006 as a result of gains earned from the sale of investments (primarily Laserscope) during the quarter ended June 30, 2006.

Results of Operations for the Six Months Ended June 30, 2006

For the six months ended June 30, 2006, the Fund experienced net investment loss in the amount of \$807,704, compared to a net investment loss in the amount of \$567,456 for the same six-month period in 2005. This change was due in part to a decrease in investment income from \$300,377 for the six months ended June 30, 2005 to \$253,333 for the comparable period of 2006. This decrease in investment income was partially attributable to fewer investment fees being earned in 2006. In addition, interest income decreased from \$171,762 for the six months ended June 30, 2005 to \$119,333 for the same period of 2006, primarily due to debt investments being converted to equity or realized as losses in 2005. Dividend income for the six-month period ended June 30, 2006 was \$110,223 versus \$61,044 for the same period in 2005 as a result of higher balances in 2006 of short-term treasury investments that earn dividends.

Expenses increased from \$867,833 for the six months ended June 30, 2005 to \$1,061,037 for the same period in 2006. General and administrative expenses increased from \$101,186 in the six months ended June 30, 2005, to \$172,240 for the same period in 2006, primarily due to higher investor relations, printing, and bank charge expenses in 2006. Interest expense increased from \$39,021 for the six months ended June 30, 2005 to \$60,188 for the comparable period of 2006 as a result of higher margin balances and interest rates during the six months ended June 30, 2006. Legal and professional fees also increased from \$179,602 for the six months ended June 30, 2005 to \$343,147 for the six months ended June 30, 2006 as a result of higher audit and consulting fees for the six months ended June 30, 2006. These increased fees were a result of the Fund completing the 2003, 2004 and 2005 audits during 2006. Management fees decreased from \$548,024 for the six months ended June 30, 2005, to \$485,462 for the same period in 2006, due to lower market values for portfolio investments at the quarter end on June 30, 2006.

Change in unrealized appreciation of \$16,351,877 for the six months ended June 30, 2005, decreased to \$15,154,090 for the six months ended June 30, 2006, as a result of fluctuations in market values of securities at each quarter end and the realization of gains or losses upon disposition of investments.

Realized gains increased from \$4,189,395 for the six months ended June 30, 2005 to \$18,811,236 for the same period in 2006, as a result of gains earned from the sale of investments (primarily Laserscope) during the six months ended June 30, 2006.

Liquidity and Capital Resources

For the six months ended June 30, 2006, net assets increased from \$54,145,591 at December 31, 2005, to \$56,145,591 at June 30, 2006. This increase is primarily attributable to an increase in the cash distributable to shareholders from proceeds from the sale of investments, and a decrease in accounts payable-brokerage, due to the repayment of a margin loan. This increase was partially offset by the net investment loss and increased expenses in the second quarter of 2006.

At the end of the second quarter of 2006, the Fund had cash and cash equivalents of \$18,763,599 versus cash and cash equivalents of \$8,396,052 at December 31, 2005. This increase is primarily attributable to the receipt of proceeds from the sale of Laserscope common stock. The Fund's interest and dividends receivable increased from \$48,226 at December 31, 2005 to \$129,892 at June 30, 2006, due primarily to the accrual of expected proceeds from the sale of one of the securities of one of the Fund's portfolio companies, Advanced Refractive Technologies, Inc.

Accounts payable decreased from \$86,782 at December 31, 2005 to \$77,445 at June 30, 2006 primarily due to expense payments made during the second quarter of 2006. Finally, accounts payable to affiliate increased from \$2,050,989 at December 31, 2006 to \$2,578,408 at June 30, 2006, reflecting an accrual of first and second quarter management fee payable to the Fund's investment adviser.

During the six months ended June 30, 2006 the Fund paid \$5,038,480 of dividends to shareholders of which \$4,145,686 was capital gains dividend payable at December 31, 2005 and \$892,794 of dividends declared and payable during the six months ended June 30, 2006.

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

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

Contractual Obligations

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

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

Item 3. Quantitative and Qualitative Disclosure About Market Risk

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

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

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

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

Item 4. Controls and Procedures.

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

PART II

Item 1. Legal Proceedings

None

Item 1A. Risk Factors

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

None

Item 3. Defaults Upon Senior Securities

None

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

None

Item 5. Other Information

None

Item 6. Exhibits

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

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

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

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

SIGNATURES

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

RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.

/s/ Russell Cleveland November 3, 2006

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

/s/ Barbe Butschek November 3, 2006

Barbe Butschek, Chief Financial Officer
(Principal Financial Officer)