

RENAISSANCE CAPITAL GROWTH & INCOME FUND III INC

Form 10-Q

November 12, 2008

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

**FORM 10-Q**

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

For the quarterly period ended September 30, 2008

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)

**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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

☐ Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) ☒ Smaller reporting company

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, 2008 the issuer had 4,463,967 shares of common stock outstanding.

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**RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.**

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**PART I. FINANCIAL INFORMATION**

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

**Item 1. Financial Statements****ASSETS**

|                                                                                                                            | September 30,<br>2008 | December 31, 2007 |
|----------------------------------------------------------------------------------------------------------------------------|-----------------------|-------------------|
| Cash and cash equivalents                                                                                                  | \$ 3,050,161          | \$ 3,679,949      |
| Investments at fair value, cost of \$41,750,587 and \$43,820,011 at September 30, 2008 and December 31, 2007, respectively | 19,445,828            | 36,251,126        |
| Interest and dividends receivable                                                                                          | 162,374               | 141,402           |
| Prepaid and other assets                                                                                                   | 66,663                | 50,663            |
|                                                                                                                            | \$ 22,725,026         | \$ 40,123,140     |

**LIABILITIES AND NET ASSETS****Liabilities:**

|                                         |           |           |
|-----------------------------------------|-----------|-----------|
| Accounts payable                        | \$ 15,662 | \$ 57,726 |
| Dividend payable                        | 446,397   | 446,397   |
| Accounts payable - affiliate            | 94,648    | 374,734   |
| Taxes payable on behalf of stockholders | -         | 1,485,135 |
|                                         | 556,707   | 2,363,992 |

**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                                                                                | 27,070,858   | 27,925,813  |
| Treasury stock at cost, 209,900 shares                                                                    | (1,734,967)  | (1,734,967) |
| Net realized gain on investments retained                                                                 | 14,463,320   | 14,463,320  |
| Net unrealized depreciation of investments                                                                | (22,304,759) | (7,568,885) |

**Net assets, equivalent to \$4.97 and \$8.46 per share**

|                                                           |               |               |
|-----------------------------------------------------------|---------------|---------------|
| at September 30, 2008 and December 31, 2007, respectively | 22,168,319    | 37,759,148    |
|                                                           | \$ 22,725,026 | \$ 40,123,140 |

See accompanying notes

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

September 30, 2008

|                                        | Interest<br>Rate | Maturity<br>Date | Cost           | Fair<br>Value  | % of<br>Investment<br>Assets |
|----------------------------------------|------------------|------------------|----------------|----------------|------------------------------|
| Eligible Portfolio Investments-        |                  |                  |                |                |                              |
| Convertible Debentures and             |                  |                  |                |                |                              |
| Promissory Notes                       |                  |                  |                |                |                              |
| CaminoSoft Corp. -                     |                  |                  |                |                |                              |
| Debenture (2)                          | 7.00%            | 04/30/09         | \$ 250,000     | \$ 250,000     | 1.29%                        |
| iLinc Communications,<br>Inc. -        |                  |                  |                |                |                              |
| Convertible promissory note            | 12.00            | 03/29/12         | 500,000        | 500,000        | 2.57                         |
| Integrated Security<br>Systems, Inc. - |                  |                  |                |                |                              |
| Convertible debenture (2)              | 6.00             | 06/16/09         | 400,000        | 400,000        | 2.06                         |
| Debenture (2)                          | 8.00             | 09/30/09         | 525,000        | 525,000        | 2.70                         |
| Debenture (2)                          | 7.00             | 09/30/09         | 200,000        | 200,000        | 1.03                         |
| Debenture (2)                          | 8.00             | 09/30/09         | 175,000        | 175,000        | 0.90                         |
| Debenture (2)                          | 8.00             | 09/30/09         | 450,000        | 450,000        | 2.31                         |
| Convertible debenture (2)              | 8.00             | 12/14/09         | 500,000        | 500,000        | 2.57                         |
| Debenture (2)                          | 8.00             | 12/12/09         | 300,000        | 300,000        | 1.54                         |
| PetroHunter Energy Corp-               |                  |                  |                |                |                              |
| Convertible debenture                  | 8.50             | 11/05/12         | 1,000,000      | 1,000,000      | 5.14                         |
| Pipeline Data, Inc. -                  |                  |                  |                |                |                              |
| Convertible debenture                  | 8.00             | 06/29/10         | <u>500,000</u> | <u>500,000</u> | <u>2.57</u>                  |
|                                        |                  |                  | \$ 4,800,000   | \$ 4,800,000   | 24.68%                       |



See accompanying notes

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

September 30, 2008

|                                                     | Shares    | Cost      | Fair Value | % of Investment Assets |
|-----------------------------------------------------|-----------|-----------|------------|------------------------|
| Eligible Portfolio Investments-                     |           |           |            |                        |
| Common Stock, Preferred Stock,<br>and Miscellaneous |           |           |            |                        |
| Advance Nanotech, Inc. -                            |           |           |            |                        |
| Common stock                                        | 5,796     | \$ 11,199 | \$ 1,043   | 0.01%                  |
| AuraSound, Inc. -                                   |           |           |            |                        |
| Common stock                                        | 1,000,000 | 1,000,000 | 1,000,000  | 5.14                   |
| BPO Management Services,<br>Inc. -                  |           |           |            |                        |
| Series D preferred (2)                              | 104,167   | 1,000,000 | 183,333    | 0.94                   |
| Series D2 preferred (2)                             | 104,167   | 1,000,000 | 183,333    | 0.94                   |
| Business Process<br>Outsourcing, Inc. -             |           |           |            |                        |
| Common Stock (1)                                    | 18,349    | 20,000    | 79,268     | 0.41                   |
| CaminoSoft Corp. -                                  |           |           |            |                        |
| Common stock (2)                                    | 3,752,444 | 5,291,110 | 298,427    | 1.53                   |
| eOriginal, Inc. -                                   |           |           |            |                        |
| Series A preferred stock<br>(2)                     | 10,680    | 4,692,207 | 40,904     | 0.21                   |
| Series B preferred stock (2)                        | 25,646    | 620,329   | 98,224     | 0.51                   |
| Series C preferred stock (2)                        | 51,249    | 1,059,734 | 196,284    | 1.01                   |
| Series D preferred stock<br>(2)                     | 36,711    | 500,000   | 140,603    | 0.72                   |
| Global Axxess Corporation -                         |           |           |            |                        |
| Common stock                                        | 953,333   | 1,261,667 | 238,333    | 1.23                   |
| Hemobiotech, Inc. -                                 |           |           |            |                        |
| Common stock                                        | 1,200,000 | 1,284,117 | 1,200,000  | 6.17                   |
| i2 Telecom -                                        |           |           |            |                        |
| Common stock                                        | 4,165,316 | 711,200   | 395,705    | 2.04                   |

Integrated Security Systems,  
Inc. -

|                                  |            |           |         |      |
|----------------------------------|------------|-----------|---------|------|
| Common stock (2)                 | 37,940,146 | 6,274,733 | 754,347 | 3.88 |
| Series D, preferred stock<br>(2) | 7,500      | 150,000   | 3,750   | 0.02 |

See accompanying notes

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

September 30, 2008

|                                                    | Shares    | Cost         | Fair Value   | % of Investment Assets |
|----------------------------------------------------|-----------|--------------|--------------|------------------------|
| Eligible Portfolio Investments-                    |           |              |              |                        |
| Common Stock, Preferred Stock,                     |           |              |              |                        |
| and Miscellaneous Securities, continued            |           |              |              |                        |
| Murdoch Security & Investigations, Inc. -          |           |              |              |                        |
| Common stock (1)                                   | 2,555,000 | 1,250,000    | 1,275,000    | 6.56                   |
| Narrowstep, Inc. -                                 |           |              |              |                        |
| Common stock                                       | 4,000,000 | 1,000,000    | 80,000       | 0.41                   |
| Riptide Worldwide, Inc. (Shea Development Corp.) - |           |              |              |                        |
| Common stock (2)                                   | 1,838,396 | 1,093,332    | 165,455      | 0.85                   |
| Symbollon Pharmaceuticals, Inc. -                  |           |              |              |                        |
| Common stock                                       | 607,143   | 500,000      | 17,000       | 0.09                   |
| Vertical Branding, Inc. -                          |           |              |              |                        |
| Common stock (2)                                   | 1,686,725 | 1,008,628    | 624,088      | 3.21                   |
| Miscellaneous Securities (3)                       |           | 8,878        | 93,586       | 0.48                   |
|                                                    |           | \$29,737,134 | \$ 7,068,683 | 36.36%                 |

See accompanying notes

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

September 30, 2008

|                                                                                 | Interest<br>Rate | Maturity<br>Date | Cost         | Fair<br>Value | % of<br>Investment<br>Assets |
|---------------------------------------------------------------------------------|------------------|------------------|--------------|---------------|------------------------------|
| Other Portfolio Investments -<br>Convertible Debentures and<br>Promissory Notes |                  |                  |              |               |                              |
| Dynamic Green Energy<br>Limited                                                 |                  |                  |              |               |                              |
| Promissory note (1)                                                             | 7.00%            | 06/10/2011       | \$ 1,000,000 | \$ 1,000,000  | 5.14%                        |
|                                                                                 |                  |                  | \$ 1,000,000 | \$ 1,000,000  | 5.14%                        |

See accompanying notes



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

September 30, 2008

|                                                                                                 | Shares        | Cost          | Fair Value | % of Investment Assets |
|-------------------------------------------------------------------------------------------------|---------------|---------------|------------|------------------------|
| Other Portfolio Investments -<br>Common Stock, Preferred Stock,<br>and Miscellaneous Securities |               |               |            |                        |
| Access Plans USA, Inc. (Precis)-<br>Common stock (2)                                            | 890,500       | \$2,139,777   | \$ 293,865 | 1.51 %                 |
| A-Power Energy Generation<br>Systems, Ltd. -<br>Common stock (2)                                | 48,000        | 409,256       | 430,080    | 2.21                   |
| Asian Financial, Inc. -<br>Common stock (1)                                                     | 130,209       | 500,000       | 500,000    | 2.57                   |
| Bovie Medical Corporation -<br>Common stock                                                     | 500,000       | 907,844       | 3,421,000  | 17.59                  |
| COGO Group, Inc. (Comtech) -<br>Common stock                                                    | 200,000       | 836,019       | 1,054,000  | 5.42                   |
| HLS Systems International, Ltd.<br>-<br>Common stock                                            | 58,500        | 498,557       | 234,000    | 1.20                   |
| Points International, Ltd. -<br>Common stock                                                    | 900,000       | 492,000       | 520,200    | 2.68                   |
| Silverleaf Resorts, Inc. -<br>Common stock                                                      | 100,000       | 430,000       | 124,000    | 0.64 %                 |
|                                                                                                 | 6,213,453     |               | 6,577,145  | 33.82 %                |
|                                                                                                 | \$ 41,750,587 | \$ 19,445,828 |            | 100.00 %               |

See accompanying notes

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

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

|                           | September 30, 2008 |               | % of Investment<br>Assets |
|---------------------------|--------------------|---------------|---------------------------|
|                           | Cost               | Fair Value    |                           |
| Private Securities (1)    | \$ 9,642,270       | \$ 3,330,283  | 17.13%                    |
| Restricted Securities (2) | \$ 19,664,248      | \$ 5,141,143  | 26.44%                    |
| Unrestricted Securities   | \$ 12,435,191      | \$ 10,880,816 | 55.95%                    |
| Other Securities (3)      | \$ 8,878           | \$ 93,586     | 0.48%                     |

(1) Securities in a privately owned company.

(2) Restricted securities due to the Fund's having a director on issuer's board or held less than 6 months.

(3) Includes Miscellaneous Securities, such as warrants and options.

See accompanying notes

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

December 31, 2007

|                                                                                    | Interest<br>Rate | Maturity<br>Date | Cost         | Fair<br>Value | % of<br>Investment<br>Assets |
|------------------------------------------------------------------------------------|------------------|------------------|--------------|---------------|------------------------------|
| Eligible Portfolio Investments -<br>Convertible Debentures and<br>Promissory Notes |                  |                  |              |               |                              |
| CaminoSoft Corp. -                                                                 |                  |                  |              |               |                              |
| Promissory note (2)                                                                | 7.00%            | 01/19/08         | \$ 250,000   | \$ 250,000    | 0.69%                        |
| iLinc Communications, Inc. -                                                       |                  |                  |              |               |                              |
| Convertible promissory note                                                        | 12.00            | 03/29/12         | 500,000      | 500,000       | 1.38                         |
| Integrated Security Systems, Inc. -                                                |                  |                  |              |               |                              |
| Convertible promissory note (2)                                                    | 6.00             | 09/30/08         | 400,000      | 400,000       | 1.10                         |
| Promissory note (2)                                                                | 8.00             | 09/30/08         | 525,000      | 525,000       | 1.45                         |
| Promissory note (2)                                                                | 7.00             | 09/30/08         | 200,000      | 200,000       | 0.55                         |
| Promissory note (2)                                                                | 8.00             | 09/30/08         | 175,000      | 175,000       | 0.48                         |
| Promissory note (2)                                                                | 8.00             | 09/30/08         | 450,000      | 450,000       | 1.24                         |
| Convertible promissory note (2)                                                    | 8.00             | 12/14/08         | 500,000      | 500,000       | 1.38                         |
| Promissory note (2)                                                                | 8.00             | 12/12/08         | 300,000      | 300,000       | 0.83                         |
| PetroHunter Energy Corp-                                                           |                  |                  |              |               |                              |
| Convertible debenture (1)                                                          | 8.50             | 11/05/12         | 1,000,000    | 1,466,667     | 4.05                         |
| Pipeline Data, Inc. -                                                              |                  |                  |              |               |                              |
| Convertible debenture                                                              | 8.00             | 06/29/10         | 500,000      | 500,000       | 1.38                         |
| Simtek Corporation -                                                               |                  |                  |              |               |                              |
| Convertible debenture (2)                                                          | 7.50             | 06/28/09         | 700,000      | 738,182       | 2.04                         |
|                                                                                    |                  |                  | \$ 5,500,000 | \$ 6,004,849  | 16.57%                       |



See accompanying notes

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

|                                 | December 31, 2007 |           |            |                        |
|---------------------------------|-------------------|-----------|------------|------------------------|
|                                 | Shares            | Cost      | Fair Value | % of Investment Assets |
| Eligible Portfolio Investments- |                   |           |            |                        |
| Common Stock, Preferred Stock,  |                   |           |            |                        |
| and Miscellaneous               |                   |           |            |                        |
| Advance Nanotech, Inc. -        |                   |           |            |                        |
| Common stock                    | 5,796             | \$ 11,199 | \$ 1,652   | 0.00%                  |
| AuraSound, Inc. -               |                   |           |            |                        |
| Common stock                    | 1,000,000         | 1,000,000 | 1,100,000  | 3.03                   |
| BPO Management Services, Inc. - |                   |           |            |                        |
| Series D, preferred (2)         | 104,167           | 1,000,000 | 716,667    | 1.98                   |
| Series D2, preferred (2)        | 52,084            | 500,000   | 358,333    | 0.99                   |
| CaminoSoft Corp. -              |                   |           |            |                        |
| Common stock (2)                | 3,539,414         | 5,275,000 | 283,153    | 0.78                   |
| eOriginal, Inc. -               |                   |           |            |                        |
| Series A preferred stock (2)    | 10,680            | 4,692,207 | 145,462    | 0.40                   |
| Series B preferred stock (2)    | 25,646            | 620,329   | 349,299    | 0.96                   |
| Series C preferred stock (2)    | 51,249            | 1,059,734 | 698,011    | 1.93                   |
| Series D preferred stock (2)    | 36,711            | 500,000   | 500,004    | 1.38                   |
| Gaming & Entertainment Group -  |                   |           |            |                        |
| Common stock                    | 112,500           | 50,625    | 788        | 0.00                   |
| Gasco Energy, Inc. -            |                   |           |            |                        |
| Common stock                    | 775,586           | 465,352   | 1,543,416  | 4.26                   |
| Global Axxess Corporation -     |                   |           |            |                        |
| Common stock                    | 953,333           | 1,261,667 | 324,133    | 0.89                   |
| Hemobiotech, Inc. -             |                   |           |            |                        |
| Common stock                    | 1,200,000         | 1,284,117 | 1,680,000  | 4.63                   |

i2 Telecom -

|                  |           |         |         |      |
|------------------|-----------|---------|---------|------|
| Common stock     | 237,510   | 36,200  | 17,814  | 0.05 |
| Common stock (1) | 3,927,806 | 675,000 | 294,585 | 0.81 |

See accompanying notes

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

|                                           | December 31, 2007 |              |               |                        |
|-------------------------------------------|-------------------|--------------|---------------|------------------------|
|                                           | Shares            | Cost         | Fair Value    | % of Investment Assets |
| Eligible Portfolio Investments-           |                   |              |               |                        |
| Common Stock, Preferred Stock,            |                   |              |               |                        |
| and Miscellaneous, continued              |                   |              |               |                        |
| Integrated Security Systems, Inc. -       |                   |              |               |                        |
| Common stock (2)                          | 30,733,532        | 5,661,058    | 2,766,018     | 7.63                   |
| Common stock (1)(2)                       | 2,175,559         | 400,734      | 195,800       | 0.54                   |
| Series D, preferred stock (2)             | 7,500             | 150,000      | 16,875        | 0.05                   |
| Murdoch Security & Investigations, Inc. - |                   |              |               |                        |
| Common stock (1)                          | 2,000,000         | 1,000,000    | 1,000,000     | 2.76                   |
| Narrowstep, Inc. -                        |                   |              |               |                        |
| Common stock (1)                          | 4,000,000         | 1,000,000    | 440,000       | 1.21                   |
| Nutradyne Group, Inc.                     |                   |              |               |                        |
| Common Stock                              | 13,917            | 12,500       | 21,571        | 0.06                   |
| Shea Development Corp.                    |                   |              |               |                        |
| Common stock (1)(2)                       | 1,838,396         | 1,093,332    | 643,439       | 1.78                   |
| Simtek Corp. -                            |                   |              |               |                        |
| Common stock (2)                          | 640,763           | 1,799,294    | 1,486,570     | 4.10                   |
| Common stock (1)(2)                       | 90,909            | 200,000      | 210,909       | 0.58                   |
| Symbollon Pharmaceuticals, Inc. -         |                   |              |               |                        |
| Common stock                              | 607,143           | 500,000      | 391,607       | 1.08                   |
| Vertical Branding, Inc. -                 |                   |              |               |                        |
| Common stock (1) (2)                      | 1,666,667         | 1,000,000    | 666,667       | 1.84                   |
| Miscellaneous Securities (3)              |                   | -            | 187,727       | 0.52                   |
|                                           |                   | \$31,248,348 | \$ 16,040,500 | 44.24%                 |

See accompanying notes

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

|                                                                                                 | December 31, 2007 |              |            |                        |
|-------------------------------------------------------------------------------------------------|-------------------|--------------|------------|------------------------|
|                                                                                                 | Shares            | Cost         | Fair Value | % of Investment Assets |
| Other Portfolio Investments -<br>Common Stock, Preferred Stock,<br>and Miscellaneous Securities |                   |              |            |                        |
| Access Plans USA, Inc. (Precis)-                                                                |                   |              |            |                        |
| Common stock (2)                                                                                | 890,500           | \$ 2,139,777 | \$ 952,835 | 2.63%                  |
| AdStar, Inc. -                                                                                  |                   |              |            |                        |
| Common stock                                                                                    | 253,500           | 330,718      | 96,330     | 0.27                   |
| Asian Financial, Inc. -                                                                         |                   |              |            |                        |
| Common stock (1)                                                                                | 130,209           | 500,000      | 500,000    | 1.38                   |
| Bovie Medical Corporation -                                                                     |                   |              |            |                        |
| Common stock                                                                                    | 500,000           | 907,844      | 3,185,000  | 8.79                   |
| Chardan South China Acquisition Corp. -                                                         |                   |              |            |                        |
| Common stock                                                                                    | 48,000            | 409,256      | 640,800    | 1.77                   |
| Comtech Group, Inc. -                                                                           |                   |              |            |                        |
| Common stock                                                                                    | 200,000           | 836,019      | 3,222,000  | 8.89                   |
| HLS Systems International, Ltd. -                                                               |                   |              |            |                        |
| Common stock                                                                                    | 58,500            | 498,557      | 521,820    | 1.44                   |
| iLinc Communications, Inc.-                                                                     |                   |              |            |                        |
| Common stock                                                                                    | 23,266            | 13,908       | 12,564     | 0.03                   |
| Medical Action Industries, Inc. -                                                               |                   |              |            |                        |
| Common stock                                                                                    | 30,150            | 237,209      | 628,628    | 1.73                   |

See accompanying notes

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

|                                                                                                            | December 31, 2007 |              |              |                        |
|------------------------------------------------------------------------------------------------------------|-------------------|--------------|--------------|------------------------|
|                                                                                                            | Shares            | Cost         | Fair Value   | % of Investment Assets |
| Other Portfolio Investments -<br>Common Stock, Preferred Stock,<br>and Miscellaneous Securities, continued |                   |              |              |                        |
| Points International, Ltd. -                                                                               |                   |              |              |                        |
| Common stock                                                                                               | 900,000           | 492,000      | 3,735,000    | 10.30                  |
| Silverleaf Resorts, Inc. -                                                                                 |                   |              |              |                        |
| Common stock                                                                                               | 100,000           | 430,000      | 416,000      | 1.15                   |
| US Home Systems, Inc. -                                                                                    |                   |              |              |                        |
| Common stock                                                                                               | 55,000            | 276,375      | 294,800      | 0.81                   |
|                                                                                                            |                   | 7,071,663    | 14,205,777   | 39.19%                 |
|                                                                                                            |                   | \$43,820,011 | \$36,251,126 | 100.00%                |

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

|                              |              |              |        |
|------------------------------|--------------|--------------|--------|
| Restricted Securities (1)(2) | \$33,766,465 | \$17,229,476 | 47.54% |
| Unrestricted Securities      | \$10,053,546 | \$18,833,923 | 51.94% |
| Other Securities (3)         | \$ -         | \$ 187,727   | 0.52%  |

(1) Restricted securities from a non-public company, or not fully registered, or held less than 1 year.

(2) Restricted securities due to the Fund's having a director on issuer's board and having to comply with Rule 144 as an affiliate.

(3) Includes Miscellaneous Securities, such as warrants and options.

See accompanying notes

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

(Unaudited)

|                                                        | Three Months Ended<br>September 30, |                |
|--------------------------------------------------------|-------------------------------------|----------------|
|                                                        | 2008                                | 2007           |
| Investment income:                                     |                                     |                |
| Interest income                                        | \$ 112,640                          | \$ 85,979      |
| Dividend income                                        | 3,429                               | 106,209        |
| Other income                                           | 51,335                              | -              |
|                                                        | 167,404                             | 192,188        |
| Expenses:                                              |                                     |                |
| General and administrative                             | 82,245                              | 91,082         |
| Interest expense                                       | 10,978                              | -              |
| Legal and professional fees                            | 65,813                              | 66,348         |
| Management fee to affiliate                            | 99,374                              | 196,411        |
|                                                        | 258,410                             | 353,841        |
| Net investment loss                                    | (91,006)                            | (161,653)      |
| Realized and unrealized gain (loss)<br>on investments: |                                     |                |
| Net unrealized (depreciation)<br>of investments        | (5,756,759)                         | (6,259,982)    |
| Net realized gain (loss) on investments                | (188,802)                           | 2,386,440      |
| Net loss on investments                                | (5,945,561)                         | (3,873,542)    |
| Net loss                                               | \$ (6,036,567)                      | \$ (4,053,195) |
| Net loss per share                                     | \$ (1.35)                           | \$ (0.90)      |
| <u>Weighted average shares outstanding</u>             | 4,463,967                           | 4,463,967      |

See accompanying notes





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

(Unaudited)

|                                                        | Nine Months Ended<br>September 30, |                |
|--------------------------------------------------------|------------------------------------|----------------|
|                                                        | 2008                               | 2007           |
| Investment income:                                     |                                    |                |
| Interest income                                        | \$ 354,076                         | \$ 244,616     |
| Dividend income                                        | 29,289                             | 386,696        |
| Other income                                           | 66,048                             | 14,587         |
|                                                        | 449,413                            | 645,899        |
| Expenses:                                              |                                    |                |
| General and administrative                             | 330,524                            | 345,792        |
| Interest expense                                       | 40,841                             | -              |
| Legal and professional fees                            | 302,562                            | 274,685        |
| Management fee to affiliate                            | 374,032                            | 624,662        |
|                                                        | 1,047,959                          | 1,245,139      |
| Net investment loss                                    | (598,546)                          | (599,240)      |
| Realized and unrealized gain (loss)<br>on investments: |                                    |                |
| Net unrealized (depreciation)<br>of investments        | (14,735, 873)                      | (7,490, 972)   |
| Net realized gain on investments                       | 1,082,780                          | 4,420,209      |
| Net loss on investments                                | (13,653, 093)                      | (3,070,763)    |
| Net loss                                               | \$ (14,251,639)                    | \$ (3,670,003) |
| Net loss per share                                     | \$ (3.19)                          | \$ (0.82)      |
| Weighted average shares outstanding                    | 4,463,967                          | 4,463,967      |

See accompanying notes



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

(Unaudited)

|                                            | Nine Months Ended<br>September 30, |                |
|--------------------------------------------|------------------------------------|----------------|
|                                            | 2008                               | 2007           |
| From operations:                           |                                    |                |
| Net investment loss                        | \$ (598,546)                       | \$ (599,240)   |
| Net realized gain on investments           | 1,082,780                          | 4,420,209      |
| Net unrealized depreciation of investments | (14,735, 873)                      | (7,490, 972)   |
| Net income (loss)                          | (14,251, 639)                      | (3,670,003)    |
| From distributions to stockholders:        |                                    |                |
| Cash dividends declared                    | (1,339,190)                        | -              |
| Total decrease in net assets               | (15,590, 829)                      | (3,670,003)    |
| Net assets:                                |                                    |                |
| Beginning of period                        | 37,759,148                         | 48,367,442     |
| End of period                              | \$ 22,168, 319                     | \$ 44,697, 439 |

See accompanying notes



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

(Unaudited)

|                                                                                           | Nine Months Ended<br>September 30, |                |
|-------------------------------------------------------------------------------------------|------------------------------------|----------------|
|                                                                                           | 2008                               | 2007           |
| Cash flows from operating and investing activities:                                       |                                    |                |
| Net loss                                                                                  | \$ (14,251,639)                    | \$ (3,670,003) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: |                                    |                |
| Net decrease in unrealized depreciation of investments                                    | 14,735,873                         | 7,490,972      |
| Net realized gain on investments                                                          | (1,082,780)                        | (4,420,209)    |
| Increase in due from broker                                                               | -                                  | (644,091)      |
| (Increase) decrease in interest and dividend receivables                                  | (20,972)                           | 57,949         |
| Increase in prepaid and other assets                                                      | (16,000)                           | (41,232)       |
| Decrease in accounts payable                                                              | (42,064)                           | (99,422)       |
| Increase in due to broker                                                                 | -                                  | 664,117        |
| Decrease in accounts payable-affiliate                                                    | (280,086)                          | (3,102,019)    |
| Decrease in taxes payable on behalf of shareholders                                       | (1,485,135)                        | (6,302,806)    |
| Purchase of investments                                                                   | (2,017,428)                        | (6,012,549)    |
| Proceeds from sale of investments                                                         | 5,169,633                          | 7,035,362      |
| Net cash provided by (used in) operating and investing activities                         | 709,402                            | (9,043,931)    |
| Cash flows from financing activities:                                                     |                                    |                |
| Cash dividends paid                                                                       | (1,339,190)                        | -              |
| Net decrease in cash and cash equivalents                                                 | (629,788)                          | (9,043,931)    |
| Cash and cash equivalents at beginning of the period                                      | 3,679,949                          | 14,835,500     |
| Cash and cash equivalents at end of the period                                            | \$ 3,050,161                       | \$ 5,791,569   |

See accompanying notes



Renaissance Capital Growth & Income Fund III, Inc.  
Notes to Unaudited Financial Statements

September 30, 2008

Note 1 Organization and Business Purpose

Renaissance Capital Growth & Income Fund III, Inc., (the “Fund” or the “Registrant”) is a non-diversified, closed-end fund that has elected to be treated as a business development company (a “BDC”) under the Investment Company Act of 1940, as amended (the “1940 Act”). The Fund, a Texas corporation, was organized and commenced operations in 1994.

The investment objective of the Fund is to provide its stockholders long-term capital appreciation by investing primarily in privately placed convertible securities and equity securities of emerging growth companies.

RENN Capital Group, Inc. (“RENN Group” or the “Investment Advisor”), a Texas corporation, serves as the Investment Advisor to the Fund. In this capacity, RENN Group is primarily responsible for the selection, evaluation, structure, valuation, and administration of the Fund’s investment portfolio, subject to the supervision of the Board of Directors. RENN Group is a registered investment advisor under the Investment Advisers Act of 1940, as amended (the “Advisers 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, 2007.

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).

**Other**

The Fund follows industry practice and 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. As of September 30, 2008, cash and cash equivalents are at risk to the extent that they exceed Federal Deposit Insurance Corporation insured amounts. To minimize this risk, the Fund places its cash and cash equivalents with major U.S. financial institutions.



Renaissance Capital Growth & Income Fund III, Inc.  
Notes to Unaudited Financial Statements (continued)

September 30, 2008

Note 2 Summary of Significant Accounting Policies, continued

**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”), which allows the Fund 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 stockholders. 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 stockholders. 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 realized 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 cash available for distribution to stockholders. Continued qualification as a RIC requires management to satisfy certain investment diversification requirements in future years. There can be no assurance that the Fund will qualify as a RIC in subsequent years.

Federal income taxes payable on behalf of stockholders on realized gains that the Fund elects to retain are accrued and reflected as tax expense paid on behalf of stockholders on the last day of the tax year in which such gains are realized.

**Net Loss Per Share**

Net loss per share is based on the weighted average number of shares outstanding of 4,463,967 during the three and nine months ended September 30, 2008 and 2007.

**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/from 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 unsettled purchase transactions and “due from broker” represents unsettled sales transactions. 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. At September 30, 2008 there was not a “due to broker” or “due from broker” balance.

Note 4 Management Fees and Incentive Fees and Reimbursement

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



Renaissance Capital Growth & Income Fund III, Inc.  
Notes to Unaudited Financial Statements (continued)

September 30, 2008

Note 4 Management Fees and Incentive Fees and Reimbursement, continued

Investment Adviser is reimbursed by the Fund for certain directly allocable administrative expenses. A summary of fees and reimbursements paid by the Fund under either the Agreement or the prospectus is as follows:

The Investment Adviser receives a management fee equal to a quarterly rate of 0.4375% of the Fund's net assets, as determined at the end of such quarter, each payment to be due as of the last day of the calendar quarter. The Fund incurred management fees totaling \$374,032 and \$624,662 during the nine months ended September 30, 2008 and 2007, 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 losses on each class of security without netting net unrealized capital gains on other classes of securities. The incentive fee is calculated, accrued, and paid on an annual basis as of year-end. 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 prior to year end, no incentive fee was recorded during the nine months ended September 30, 2008 and 2007.

The Investment Adviser was reimbursed by the Fund for directly allocable administrative expenses paid by the Investment Adviser on behalf of the Fund. Such reimbursements were \$31,837 and \$144,122 during the nine months ended September 30, 2008 and 2007, respectively.

As of September 30, 2008 and December 31, 2007, the Fund had an account payable of \$94,648 and \$374,734, respectively, for the amount due for the fees and expense reimbursements disclosed above.

Note 5 Eligible Portfolio Companies and Investments

**Eligible Portfolio Companies**

The Fund invests primarily in convertible securities and equity investments of companies that qualify as Eligible Portfolio Companies as defined in Paragraph 2(a)(46) of the 1940 Act or in securities that otherwise qualify for investment as permitted in Paragraphs 55(a)(1) through (7) of the 1940 Act. Under the provisions of the 1940 Act at least 70% of the Fund's assets, as defined under Section 55 of the 1940 Act, must be invested in securities listed in Paragraphs 55(a)(1) through (6) of the 1940 Act ("Eligible Portfolio

Investments"). In the event the Fund has less than 70% of its assets invested in Eligible Portfolio Investments, then the Fund will be prohibited from making non-eligible investments until such time as the percentage of Eligible Portfolio Investments again exceeds the 70% threshold. The Fund was in compliance with these provisions at September 30, 2008.

Renaissance Capital Growth & Income Fund III, Inc.  
Notes to Unaudited Financial Statements (continued)

September 30, 2008

Note 5 Eligible Portfolio Companies and Investments, continued

**Investments**

Investments are carried in the statements of assets and liabilities, at fair value, as determined in good faith by the Investment Adviser, subject to the approval of the Fund's Board of Directors. The convertible debt securities held by the Fund generally have maturities between five and seven years and are convertible (at the discretion of the Fund) into the common stock of the issuer at a set conversion price. The common stock underlying these securities is generally unregistered and thinly-to-moderately traded. Generally, the Fund negotiates registration rights at the time of purchase and the companies are required to register the shares within a designated period and the cost of registration is borne by the portfolio company. Interest on the 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, and other factors.

Note 6 Valuation of Investments

Effective January 1, 2008, the Fund adopted FAS 157, *Fair Value Measurements* ("FAS 157"), which establishes a framework for measuring fair value and applies to existing accounting pronouncements that require or permit fair value measurements. A fair value hierarchy is established within FAS 157 that prioritizes the sources ("inputs") used to measure fair value into three broad levels: inputs based on quoted market prices in active markets (Level 1 inputs); observable inputs based on corroboration with available market data (Level 2 inputs); and unobservable inputs based on uncorroborated market data or a reporting entity's own assumptions (Level 3 inputs). The adoption of FAS 157 has not had significant impact on the Fund's financial statements and has not resulted in any significant changes in the valuation of investments. The Fund's valuation policies are as follows:

On a weekly basis, RENN Group prepares a valuation to determine fair value of the investments of the Fund. The Board of Directors of the Fund approves the valuation on a quarterly basis. Interim board involvement may occur if material issues arise before quarter end. The valuation principles are described below.

- Unrestricted 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.
  
- Restricted common stock of companies listed on an exchange, Nasdaq or in the over-the-counter market is valued based on the quoted price for an otherwise identical unrestricted security of the same issuer that trades in a public market, adjusted to reflect the effect of any significant restrictions.

- 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.
  
- Debt securities are valued at fair value. The Fund considers, among other things, whether a debt issuer is in default or bankruptcy. It also considers the underlying collateral. Fair value is generally determined to be the greater of the face value of the debt or the market value of the underlying common stock into which the instrument may be converted.

Renaissance Capital Growth & Income Fund III, Inc.  
Notes to Unaudited Financial Statements (continued)

September 30, 2008

Note 6 Valuation of Investments, continued

- Unlisted in-the-money options or warrants of companies with underlying common stock listed on an exchange, Nasdaq or in the over-the-counter market are valued at fair value (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 value; thus, the Fund assigns no value to it.
  
- Investments in privately held entities are valued at fair value. If there is no independent and objective pricing authority (i.e. a public market) for such investments, fair value is based on the latest sale of equity securities to independent third parties. If 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 Board of Directors.

The following table shows a summary of investments measured at fair value on a recurring basis classified under the appropriate level of fair value hierarchy as of September 30, 2008:

| <u>Description</u> | <u>September 30,<br/>2008</u> | Quoted Prices in<br>Active Markets<br>for Identical<br>Assets | Significant<br>Other<br>Observable<br>Inputs | Significant<br>Unobservable Inputs |
|--------------------|-------------------------------|---------------------------------------------------------------|----------------------------------------------|------------------------------------|
|                    |                               | <u>(Level 1)</u>                                              | <u>(Level 2)</u>                             | <u>(Level 3)</u>                   |
| Investments        | 19,445,828                    | \$ 10,783,401                                                 | \$ 8,662,427                                 | \$ -                               |

As of September 30, 2008 and December 31, 2007, the net unrealized depreciation associated with investments held by the Fund was \$(22,304,759) and \$(7,568,885), respectively. As of September 30, 2008 and December 31, 2007, the Fund had gross unrealized gains of \$3,005,252 and \$11,002,265, respectively, and gross unrealized losses of \$25,310,011 and \$18,571,150, respectively.

Note 7 Income Taxes

-

During December 2007, and March, June and September 2008, the Board of Directors declared a cash dividend of \$0.10 per share, \$446,397, which was estimated and designated as a distribution of realized capital gains and return of capital in accordance with the IRC which assured that any Federal income tax on such realized capital gains, if any, is paid by the Fund's stockholders. These dividends were paid to the stockholders during January, March, July and October 2008, respectively.

During December 2007, the Board of Directors, in accordance with rules under Subchapter M of the IRC, declared a deemed dividend for 2007 on net taxable long-term capital gains of \$4,243,244 that remained after the cash dividend

noted above. The Fund recorded a liability of \$1,485,135 (which was paid during the first month of 2008) for taxes payable on behalf of its stockholders as of December 31, 2007. This amount was also recorded as an income tax expense paid on behalf of stockholders in the statement of operations for the year ended December 31, 2007. Stockholders of record at December 31, 2007 received a tax credit of \$0.33 per share. The balance of \$2,758,108 was retained by the Fund during 2007.

Note 8 Commitments and Contingencies

As disclosed in Note 4, the Fund is obligated to pay to the Investment Adviser an incentive fee equal to 20% of the Fund's cumulative realized capital gains in excess of cumulative realized capital losses of the



Renaissance Capital Growth & Income Fund III, Inc.  
Notes to Unaudited Financial Statements (continued)

September 30, 2008

Note 8 Commitments and Contingencies, continued

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 Adviser 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 \$0 and \$2,058,485 as of September 30, 2008 and December 31, 2007, respectively.





Renaissance Capital Growth & Income Fund III, Inc.  
Notes to Unaudited Financial Statements (continued)

September 30, 2008

Note 9 Financial Highlights - Unaudited

Selected per-share data and ratios for each share of common stock outstanding throughout the nine months ended September 30, 2008, and 2007 are as follows:

|                                                | 2008      | 2007      |
|------------------------------------------------|-----------|-----------|
| Net investment loss                            | (0.13 )   | (0.14)    |
| Net realized and unrealized loss on investment | (3.06 )   | (0.69)    |
| Total return from investment operations        | (3.19)    | (0.83)    |
| Distributions:                                 |           |           |
| From net capital gains                         | (0.24)    | -         |
| From return of capital                         | (0.06)    | -         |
| Net asset value, end of period                 | \$ 4.97   | \$ 10.01  |
| Per-share market value, end of period          | \$ 4.26   | 7.95      |
| Portfolio turnover rate                        | 7.03 %    | 10.80 %   |
| Quarterly return (a)                           | (30.73) % | (24.26) % |
| Ratio to average net assets (b):               |           |           |
| Net investment loss                            | (1.96) %  | (1.26) %  |
| Expenses                                       | 3.44 %    | 2.61 %    |

(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 American Institute of Certified Public Accountant guidelines.

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







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

### Material Changes in Portfolio Investments

The following material portfolio transactions occurred during the quarter ended September 30, 2008:

**Adstar, Inc.** (OTCBB:ADST): During the third quarter of 2008, the Fund sold 164,000 shares of common stock for \$3,350, realizing a loss of \$209,849. The Fund is no longer invested in Adstar, Inc.

**Business Process Outsourcing** (Private): In the quarter ended September 30, 2008, the Fund exercised warrants to purchase 18,349 shares of common stock for \$20,000.

**CaminoSoft Corporation** (OTCBB:CMSF): In the quarter ended September 30, 2008, the Fund received 60,117 shares of common stock as payment in kind for interest on promissory notes held by the Fund. The shares had a cost basis of \$4,363.

**iLinc Communications, Inc.** (AMEX:ILC): In the quarter ended September 30, 2008, the Fund sold 23,266 shares of common stock for \$4,127, realizing a loss of \$9,781.

**Integrated Security Systems, Inc.** (OTCBB:IZZI): In the third quarter of 2008, the Fund received 3,626,508 shares of common stock as payment in kind for interest on promissory notes held by the Fund. The shares had a cost basis of \$129,200. During the third quarter of 2008, the Fund received an additional 110,755 shares of common stock. The shares were received in connection with Russell Cleveland's compensation as a member of Integrated Security Systems' board of directors. The shares had a cost basis of \$4,242. The Fund also received 215,000 shares of common stock as compensation for extending the maturity date of certain promissory notes held by the Fund. The shares had a cost basis of \$21,500.

**Murdoch Security and Investigations, Inc.** (Private): In the third quarter of 2008, the Fund received 37,500 shares of common stock as compensation for the company not going public by a specified date.

**PetroHunter Energy Corporation** (OTCBB:PHUN): In the third quarter of 2008, the Fund received warrants to purchase 133,333 shares of common stock at \$0.255 per share. The warrants were received as payment in kind for interest on a promissory note held by the Fund.

**Simtek Corporation** (Nasdaq:SMTK): During the third quarter of 2008, the Fund tendered its 1,050,047 shares for \$2,730,122, realizing a gain of \$30,509. This was done in connection with Cypress Semiconductor Corporation's acquisition of Simtek. The Fund is no longer invested in Simtek Corporation.

**Vertical Branding, Inc.** (OTCBB:VBDG): In the third quarter of 2008, the Fund received 20,058 shares of common stock, options to purchase 15,000 shares of common stock at \$0.37 per share and options to purchase 15,087 shares of common stock at \$0.49 per share. These securities were received in connection with Robert C. Pearson's compensation as a member of Vertical Branding's board of directors. The securities had an aggregate cost basis of \$17,506.

### Results of Operations for the Three Months Ended September 30, 2008

For the three months ended September 30, 2008, the Fund had a net investment loss in the amount of \$91,006 compared to a net investment loss in the amount of \$161,653 for the same three month period in 2007. This change was due in part to a decrease in investment



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income from \$192,188 for the third quarter of 2007 to \$167,404 for the comparable period of 2008. This decrease in investment income was primarily attributable to less dividend income being earned in 2008. Dividend income for the three month period ended September 30, 2008 was \$3,429 compared to \$106,209 for the same period in 2007. Also, interest income increased from \$85,979 for the third quarter of 2007 to \$112,640 for the same period of 2008, primarily due to interest earnings on additional investments during 2008. Other income for the three months ended September 30, 2008 was \$51,335 versus \$0 for the same period of 2007. The other income for the quarter was comprised of investment income earned from the extension of debentures and from compensation for service as board members of portfolio companies.

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During the third quarter of 2008, the Fund incurred interest expense of \$10,978 on its margin balance carried by brokerage. There was no interest expense for the same period of 2007. Management fees decreased from \$196,411 for the three months ended September 30, 2007, to \$99,374 for the same period in 2008, due to a decline in net asset values.

The net change in unrealized depreciation on investments for the quarter ended September 30, 2008 increased by \$5,756,759 compared to an increase of \$6,259,982 for the quarter ended September 30, 2007. This increase in unrealized depreciation was due to the decline of market values and the realization of gains or losses upon the disposition of investments.

Net realized losses on investments for the quarter ended September 30, 2008 were \$188,802 compared to net realized gains on investments of \$2,386,440 for the same period of 2007.

### Results of Operations for the Nine Months Ended September 30, 2008

The Fund had a decrease in investment income from \$645,899 for the nine months ended September 30, 2007 to \$449,413 for the comparable period of 2008. This decrease in investment income was primarily attributable to less dividend income being earned in 2008. Dividend income for the nine-month period ended September 30, 2008 was \$29,289 versus \$386,696 for the same period in 2007 as a result of dividends earned on portfolio investments and greater cash balances which earned dividends during the nine-month period in 2007. Interest income increased from \$244,616 for the nine months ended September 30, 2007 to \$354,076 for the same period of 2008, primarily due to interest earnings on additional investments during 2008.

During the nine-month period ended September 30, 2008, the Fund incurred interest expense of \$40,841 on its margin balance carried by brokerage. There was no interest expense for the same period of 2007. Legal and professional fees increased from \$274,685 for the nine months ended September 30, 2007 to \$302,562 for the nine months ended September 30, 2008 as a result of an increase in legal services provided for portfolio company matters and SEC filings during the nine months ended September 30, 2008. Management fees decreased from \$624,662 for the nine months ended September 30, 2007, to \$374,032 for the same period in 2008, due to a decline in net asset values.

The net change in unrealized depreciation on investments for the nine months ended September 30, 2008 increased \$14,735,873 compared to an increase of \$7,490,972 for the nine months ended September 30, 2007. This change in unrealized depreciation was due to the decline of market values and the realization of gains or losses upon the disposition of investments.

Net realized gains on investments for the nine months ended September 30, 2008 were \$1,082,780 compared to net realized gains of \$4,420,209 for the same period of 2007.

### Liquidity and Capital Resources

Net assets decreased from \$37,759,148 at December 31, 2007 to \$22,168,319 at September 30, 2008. This decline is primarily attributable to the decline of market values of investments during 2008. Additionally, the Fund had net realized gains totaling \$1,082,780 offset by a net investment loss of \$598,546 during the nine months ended September 30, 2008. Finally, the Fund declared cash dividends totaling \$1,339,190 during the same period.

At the end of the third quarter of 2008, the Fund had cash and cash equivalents of \$3,050,161 versus \$3,679,949 at December 31, 2007.

Accounts payable decreased from \$57,726 at December 31, 2007 to \$15,662 at September 30, 2008. Accounts payable to affiliate decreased from \$374,734 at December 31, 2007 to \$94,648 at September 30, 2008, reflecting the decrease and payment of management fees and expenses for 2007 and the first two quarters of 2008, offset by accrued management fees for the three month period ended September 30, 2008.

The majority of the Fund's investments in portfolio companies are individually negotiated, are initially not registered for public trading, and are subject to legal and contractual investment restrictions. Accordingly, many of the portfolio investments are considered non-liquid. This lack of liquidity primarily affects the Fund's ability to make new investments.

From time to time, funds or securities are deposited in margin accounts and invested in government securities. Government securities used as cash equivalents 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 when purchased. These securities are generally valued at market price as market prices are generally available for these securities.

#### Contractual Obligations

The Fund has one contract for the purchase of services under which it will have future commitments: the Investment Advisory Agreement, pursuant to which RENN Group 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 that would otherwise be reflected on the Fund's Statement of Assets and Liabilities, a table of contractual obligations has not been presented.

### **Item 3. Quantitative and Qualitative Disclosures 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 consists 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, because the Fund generally assumes that the debt instruments will be held to maturity, and the fair value of the debt instruments is 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**

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) required by Exchange Act Rules 13a-15 and 15d-15, as of the end of the period covered by this report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of that date to provide reasonable assurance that the information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and includes controls and procedures designed to ensure that information required to be disclosed by us in such reports is accumulated and communicated to our management, including the principal executive officer and principal financial officer, as appropriate to allow timely decision regarding required disclosure.

There were no changes in our internal control over financial reporting during our most recent quarter that have materially affected, or are reasonably likely to materially affect our internal controls 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.

*We May be Unable to Participate in Certain Investment Opportunities.* As a Business Development Company, we are required to invest at least 70% of our assets directly in Eligible Portfolio Investments. As a result, we will be unable to make new investments that are not considered Eligible Portfolio Investments if at any time we have less than 70% of our portfolio invested in Eligible Portfolio Investments.

*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.* The Fund has significant competition for investment opportunities. Competitive sources for growth capital for the industry include insurance companies, banks, equipment leasing firms, investment bankers, venture capital and private equity funds, money managers, hedge funds, and private investors. Many of these sources have substantially greater financial resources than are available to the Fund. Therefore, the Fund will have to compete for investment opportunities based on its ability to respond to the needs of the prospective portfolio company and its willingness to provide management assistance. In some instances, the Fund's requirement that it provide management assistance will cause the Fund to be non-competitive.

*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 or 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 pass-through 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. Failure to qualify as a regulated investment company would subject the Fund to federal income tax as if it were an ordinary corporation, which would result in a substantial reduction in both the Fund's net assets and the amount of income available for distribution to stockholders. 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 requires 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.* The Fund's stock frequently trades at a discount from net asset value. Stockholders desiring liquidity usually sell their shares at current market value, and therefore may not realize the full net asset value of their shares. This is a risk separate and distinct from the risk that a fund's performance may 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.

*Failure to Meet Listing Standards.* We are current in our SEC filings, and we believe we have met all our listing requirements on the American Stock Exchange. However, there can be no assurance that we will continue to meet the American Stock Exchange listing standards or any other listing standards and the stock could be delisted.

**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 of the 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 registrant 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  
\_\_\_\_\_  
Russell Cleveland, President and  
Chief Executive Officer  
(Principal Executive Officer)

November 12, 2008

/s/ Barbe Butschek  
\_\_\_\_\_  
Barbe Butschek, Chief Financial Officer  
(Principal Financial Officer)

November 12, 2008