

RENAISSANCE CAPITAL GROWTH & INCOME FUND III INC

Form 10-K

March 24, 2003

Securities and Exchange Commission  
Washington, D. C. 20549

Form 10-K

Mark One

- ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the Fiscal Year Ended December 31, 2002 or
- TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

Commission File No. 33-75758

RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.  
(Exact name of Registrant as specified in its charter)

Texas 75-2533518  
(State of incorporation or organizations) I.R.S. Employer Identification No.)

Suite 210, LB 59, 8080 North Central Expressway, Dallas, Texas 75206  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (214)891-8294

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
None	None

Securities Registered Pursuant to Section 12(g) of the Act:

Common Stock (\$1.00 par value)  
(Title of Class)

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 (X) No ( )

Indicate by check mark if disclosure by delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any statement to this Form 10-K. (X)

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).

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Yes ( )                      No (X)

As of June 30, 2002 and March 14, 2003, there were 4,361,618 and 4,351,718 shares of Registrant's stock outstanding, respectively. The aggregate market value of the stock held by non-affiliates, based on the closing price of such stock as of June 30, 2002, and March 14, 2003, was \$40,596,727 and \$30,940,677, respectively. The 301,945 and 307,185 shares of stock held by affiliates at June 30, 2002, and March 14, 2003, were valued at \$3,019,451 and \$2,349,964, respectively.

Documents Incorporated by Reference: Certain portions of the Registrant's Definitive Proxy Statement (the "Proxy Statement") for its Annual Meeting of Shareholders to be held on May 16 2003 pursuant to Regulation 14A are incorporated by reference in Items 10 through 13 of Part III of this Annual Report on Form 10-K.

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Part I

Certain of the statements included below, including those regarding future financial performance or results that are not historical facts, contain "forward-looking" information as that term is defined in the Securities Exchange Act of 1934, as amended. The words "expect," "believe," "anticipate," "project," "estimate," and similar expressions are intended to identify forward-looking statements. The Fund cautions readers that any such statements are not guarantees of future performance or events and that such statements involve risks, uncertainties and assumptions, including but not limited to industry conditions, general economic conditions, interest rates, competition, ability of the Fund to successfully manage its growth, and other factors discussed or included by reference in this Annual Report on Form 10-K. Should one or more of these risks or uncertainties materialize or should the underlying assumptions prove incorrect, those actual results and outcomes may differ materially from those indicated in the forward-looking statements.

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Item 1. Business.

### GENERAL

Renaissance Capital Growth & Income Fund III, Inc., (sometimes referred to as the "Fund" or the "Registrant") is a Texas corporation formed January 20, 1994, that has elected to operate as a Business Development Company (sometimes referred to herein as a "Business Development Company" or a "BDC") under the Investment Company Act of 1940, as amended (the "1940 Act").

The investment objective of the Fund is to provide its shareholders with current income and long-term capital appreciation by investing primarily in privately placed securities of small public companies ("Portfolio Companies").

Renaissance Capital Group, Inc. ("Renaissance Group" or the "Investment Adviser"), a Texas corporation, serves as the investment adviser to the Fund. In this capacity, Renaissance Group is primarily responsible for the selection, evaluation, structure, valuation, and administration of the Fund's investment portfolio. Renaissance Group is a registered investment adviser under the 1940 Act and the Texas Securities Act. Its activities are subject to the supervision of the Board of Directors of the Fund ("Board of Directors") who provide guidance with respect to the operations of the Fund.

Generally, investments are and will continue to be in companies that have their common stock registered for public trading under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or companies that in the opinion of the Investment Adviser have the ability to effect a public offering within three to five years. The Fund generally invests in privately placed preferred stock or debentures of a Portfolio Company, which securities typically are convertible into or exchangeable for common stock of the Portfolio Company. While such common stock of the Portfolio Company may be publicly traded, the common stock acquired by the Fund is often unregistered. Therefore, such securities are restricted from distribution or sale to the public except in compliance with certain holding periods and exemptions under the Securities Act of 1933, as amended (the "Securities Act"), or after registration pursuant to

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the Securities Act. The Fund also purchases shares of small and micro cap issuers in the secondary markets. These shares are freely tradeable and have no restrictions on resale.

From inception through December 31, 2002, the Fund had made investments in forty-six (46) different portfolio companies having an aggregate cost of \$69,445,007. The Fund had active investments in twenty-nine (29) portfolio companies at December 31, 2002, and is seeking additional investment opportunities. The Fund does not focus on particular industry segments. Instead, the Fund makes investment decisions using a bottoms-up analysis of the potential portfolio company, with no predetermined industry bias.

Under the provisions of the 1940 Act, a Business Development Company is required to invest 70% or more of its funds in "eligible portfolio investments," defined generally as direct placements to "eligible portfolio companies" and temporary investments in "cash items" pending other investments. Under and pursuant to the provisions of the 1940 Act, a Business Development Company may invest up to 30% of its funds in "Other Investments," or "non-eligible investments," that is, investments that do not qualify as "eligible portfolio

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investments." In the event the Fund has less than 70% of its assets in eligible portfolio investments, then it will be prohibited from making non-eligible investments until such time as the percentage of eligible investments again exceeds the 70% threshold.

Pending investment in convertible securities of eligible Portfolio Companies or other investments as provided under the 1940 Act, the Registrant's funds are invested in "Short-term Investments" consisting primarily of cash or U.S. Government and agency obligations.

At December 31, 2002, the Fund's investment assets were classified by amount as follows:

Classification	Value	Percentage Of Assets
Eligible Portfolio Investments (including cash and cash equivalents)	\$41,750,778	82.68%
Other Portfolio Investments	\$ 8,744,942	17.32%
	-----	-----
	\$50,495,721	100.00%
	=====	=====

### INVESTMENT OBJECTIVES

The investment objective of the Fund is to provide its shareholders with both current income and long-term capital appreciation.

The Fund seeks to provide returns to shareholders through cash dividends of net investment income and through distributions of realized gains or of securities that have appreciated in value. At December 31, 2002, the Fund had distributed \$7.66 per share to shareholders since inception. On November 5, 2002, the Fund announced an annual distribution policy (the "Policy") of \$0.40 per share with an initial quarterly cash distribution of \$0.10 per share that was paid December 12, 2002.

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The intent of the Policy is for the Fund to make distributions of \$0.10 per share in each of the first three quarters of the year with a final distribution in the fourth quarter equal to \$0.10 per share or a greater amount sufficient to satisfy the distribution requirements of the Internal Revenue Code. The Policy is subject to quarterly review and approval by the Fund's Board of Directors. According to the Policy, the distributions could be paid from interest or dividend income, capital gains income, or as a return of capital in the event there is insufficient income to satisfy the Policy. The distribution of \$0.10 per share made in December 2002 was classified as a return of capital.

### GENERAL INVESTMENT POLICIES

The Fund invests in emerging growth company securities that are generally not available to the public and which typically require substantial financial commitment. An emerging growth company is generally considered to have the following attributes: (1) either a publicly held company with a relatively small market capitalization or a privately held company; (2) an established operating history but of a limited period so as to not have fully developed its market potential for the products or services offered; and (3) a provider of a new or unique product or service that allows the company an opportunity for exceptional

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growth. Emerging growth companies typically require non-conventional sources of financing because the extent and nature of the market for their products or services is not fully known. Consequently, there is uncertainty as to the rate and extent of growth and also uncertainty as to the capital and human resources required to achieve the goals sought.

With respect to investments in emerging growth companies, the Fund emphasizes investing in convertible debentures or convertible preferred stock of publicly held companies that the Fund anticipates will be converted into common stock and registered for public sale within three to five years after the private placement. In addition, the Fund will invest in privately placed common stock of publicly traded issuers which are initially restricted from trading. To a lesser extent, the Fund may participate in bridge financings in the form of loans or other preferred securities which are convertible into common stock of the issuer or issued together with equity participation, or both, for companies which the Fund anticipates will complete a stock offering or other financing within one or more years from the date of the investment. The Fund may also make bridge loans, either secured or unsecured, intended to carry the borrower to a private placement or an initial public offering, or to a merger, acquisition, or other strategic transaction.

Generally, investments in Portfolio Companies will have an initial fixed term of seven (7) years, with no amortization of the principal amount for three (3) years. Further, investments in Portfolio Companies will be individually negotiated, non-registered for public trading, and will be subject to legal and contractual investment restrictions. Accordingly, the Portfolio Investment will generally be considered non-liquid.

The Fund has no fixed policy concerning the types of businesses or industry groups in which it may invest or as to the amount of funds that it will invest in any one issuer. However, the Fund will generally attempt to limit its investment in securities of any single Portfolio Company to approximately 15% of its net assets at the time of the investment. At December 31, 2002, none of the Fund's portfolio companies represented 15% or more of net assets.

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In the event the Fund elects to participate as a member of the Portfolio Company's Board of Directors, either through advisory or full membership, the Fund's nominee to the board will generally be selected from among the officers of Renaissance Group. When, at the discretion of Renaissance Group, a suitable nominee is not available from among its officers, Renaissance Group will select, as alternate nominees, outside consultants who have prior experience as an independent outside director of a public company.

### REGULATION UNDER THE INVESTMENT COMPANY ACT OF 1940

The 1940 Act was enacted to regulate investment companies. In 1980, the 1940 Act was amended by the adoption of the Small Business Investment Incentive Act. The purpose of the amendment was to remove regulatory burdens on professionally managed investment companies engaged in providing capital to smaller companies. The Small Business Investment Incentive Act established a new type of investment company specifically identified as a Business Development Company as a way to encourage financial institutions and other major investors to provide a new source of capital for small developing businesses.

### BUSINESS DEVELOPMENT COMPANY

A BDC:

- I. is a closed-end management company that generally makes 70% or more of its investments in "Eligible Portfolio Companies" and "cash items" pending other investment. Under the regulations established by the Securities and Exchange Commission (the "SEC") under the 1940 Act, only certain companies may qualify as "Eligible Portfolio Companies." To be an "Eligible Portfolio Company," the Company must satisfy the following:
  - A. it must be organized under the laws of, and has its principal place of business in, any state or states;
  - B. is neither an investment company as defined in Section 3 (other than a small business investment company which is licensed by the Small Business Administration to operate under the Small Business Investment Act of 1958 and which is a wholly-owned subsidiary of the business development company) nor a company which would be an investment company except for the exclusion from the definition of investment company in Section 3(c); and
  - C. satisfies one of the following:
    1. it does not have any class of securities with respect to which a member of a national securities exchange, broker, or dealer may extend or maintain credit to or for a customer pursuant to rules or regulations adopted by the Board of Governors of the Federal Reserve System under Section 7 of the Securities Exchange Act of 1934;
    2. it is controlled by a business development company, either alone or as part of a group acting together, and such business development company in fact exercises a controlling influence over the management or policies of such eligible portfolio company and, as a result of such control, has an affiliated person who is a director of such eligible portfolio company;
    3. it has total assets of not more than \$4,000,000, and capital and surplus (shareholders' equity less retained earnings) of not less than \$2,000,000, except that the Commission may adjust such amounts by rule, regulation, or order to reflect changes in one or more generally accepted indices or other indicators for small businesses; or
    4. it meets such other criteria as the Commission may, by rule, establish as consistent with the public interest, the protection of investors, and the purposes fairly intended by the policy and provisions of this title.

Therefore, the Investment Adviser believes that "Eligible Portfolio Companies" are, generally, those companies that, while being publicly held, may not have or do not have a broad based market for their securities, or the securities that they wish to offer are restricted from public trading until

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registered. Further, while the 1940 Act allows a BDC to "control" a Portfolio Company, it is not the general policy of the Fund to acquire a controlling position in its Portfolio Companies. The Fund only provides managerial assistance, and in certain circumstances seeks to limit its "control" position by contracting for the right to have a designee of the Fund be elected to the board of directors of the Portfolio Company, or be selected an advisory director. While these are the Fund's general policies, the application of these policies, of necessity, vary with each investment situation.

### 1940 ACT REQUIREMENTS

The BDC election exempts the Fund from some provisions of the 1940 Act. However, except for those specific provisions, the Fund will continue to be subject to all provisions of the 1940 Act not exempted, including the following:

1. restrictions on the Fund from changing the nature of business so as to cease to be, or to withdraw its election as, a BDC without the majority vote of the shares outstanding;
2. restrictions against certain transactions between the Fund and affiliated persons;
3. restrictions on issuance of senior securities, such not being prohibited by the 1940 Act but being restricted as a percentage of capital;

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4. compliance with accounting rules and conditions as established by the SEC, including annual audits by independent accountants;
5. compliance with fiduciary obligations imposed under the 1940 Act; and
6. requirement that the shareholders ratify the selection of the Fund's independent public accountants and the approval of the investment advisory agreement or similar contracts and amendments thereto.

On September 19, 1996, the Fund and the Investment Adviser filed their Application for an order pursuant to Sections 6(c) and 57(i) of the Investment Company Act of 1940 and Rule 17d-1 thereunder authorizing certain joint transactions otherwise prohibited by Section 57(a)(4) of the Act requesting an order from the SEC permitting the Fund to co-invest with companies that are affiliated with the Investment Adviser, including Renaissance US Growth Investment Trust PLC ("RUSGIT") and BFS US Special Opportunities Trust PLC ("BFS") (RUSGIT and BFS collectively referred to as "Adviser Affiliates"). The order was granted on December 30, 1996.

In order for the Fund and the Adviser Affiliates (together referred to as the "Investment Funds") to make co-investments in the same entity, the following conditions apply:

- A. the Investment Adviser will determine if the investment is eligible for investment by the Investment Funds;
- B. if eligible for co-investment, the private placement will be deemed a co-investment opportunity and the Investment Adviser will determine an appropriate amount that the Investment Funds should invest;

- C. the Investment Adviser will distribute written information, including the amount and terms of the proposed investment, concerning all co-investment opportunities to the Board of Directors of the Fund. The Fund will co-invest only if a required majority of the Fund's Independent Directors conclude, prior to the acquisition of the investment, that the investment should be made;
- D. the Fund will not make an initial investment in a portfolio company if any Adviser Affiliate, the Investment Adviser, or a person controlling, controlled by, or under common control with the Adviser is an existing investor in such issuer;
- E. the terms, conditions, price, class of securities, settlement date, and registration rights shall be the same for the Fund and the Adviser Affiliates, except that amounts may differ between the Fund's investment and that of an Adviser Affiliate;
- F. the Fund's Independent Directors will review quarterly all information concerning co-investment opportunities during the preceding quarter to determine whether the conditions set forth in the application were complied with;

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- G. the Fund will maintain the records required by section 57(f)(3) of the Act as if each of the investments permitted under these conditions were approved by the Fund's Independent Directors under section 57(f) of the Act; and
- H. no Independent Director of the Fund will be a director or general partner of any Adviser Affiliate with which the Fund co-invests.

The Fund has made numerous investments with the Adviser Affiliates and anticipates making additional investments in the future.

#### INVESTMENT ADVISERS ACT OF 1940 AND THE INVESTMENT ADVISORY AGREEMENT

Renaissance Group is the investment adviser to the Fund pursuant to the Investment Advisory Agreement dated and approved by the Board of Directors on February 15, 1994 (the "Investment Advisory Agreement"). The Investment Advisory Agreement was amended on March 24, 1998, and the Amendment was approved by the shareholders at the Annual Shareholders' Meeting for the Fund held on May 29, 1998. Renaissance Group is registered as an investment adviser under the Advisers Act and is subject to the reporting and other requirements thereof. The Advisers Act also provides restrictions on the activities of registered advisers to protect its clients from manipulative or deceptive practices, while the Advisers Act generally restricts performance compensation of up to 20% on realized capital gains computed net of all realized capital losses and unrealized capital depreciation.

The Investment Advisory Agreement provides that Renaissance Group is entitled to receive a management fee equal to a quarterly rate of 0.4375% (1.75% annually) of the Fund's Net Assets, as determined at the end of such quarter with each such payment to be due as of the last day of the calendar quarter. In addition to the quarterly management fee of 0.4375% of the fund's net assets, Renaissance Group is entitled to receive an incentive fee (the "incentive fee")

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in an amount equal to 20% of the Fund's realized capital gains in excess of realized capital losses of the Fund after allowance for any unrealized capital losses in excess of unrealized capital gains on the portfolio investments of the Fund. The incentive fee is calculated, accrued, and paid on a quarterly basis.

Investment advisory agreements are further subject to the 1940 Act, which requires that the agreement, in addition to having to be initially ratified by a majority of the outstanding shares, shall precisely describe all compensation to be paid, shall be approved annually by a majority vote of the Board of Directors, may be terminated without penalty on not more than 60 days notice by a vote of a majority of the outstanding shares, and shall terminate automatically in the event of assignment. The Board of Directors has determined that the Investment Advisory Agreement shall constitute the Fund's advisory agreement and at all times be construed so as to comply with the Advisers Act and the 1940 Act.

Renaissance Group is also an investment adviser or investment manager to two other investment companies: RUSGIT and BFS, closed-end trusts. Both RUSGIT and BFS are domiciled in the United Kingdom and trade on the London Stock Exchange under the respective symbols RUG and BSOU.

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### FUND PORTFOLIO INVESTMENTS

At December 31, 2002, the Fund had active investments in the following Portfolio Companies:

Active Link Communications, Inc. (OTC:ACVE)

Active Link Communications, Inc., through its Mobility Concepts, Inc., subsidiary, is a provider of wireless networking and mobile computing solutions for the mobile workforce.

On January 30, 2002, the Company paid down the principal balance of the convertible bridge loan by \$9,320 and additionally made a principal repayment of \$9,320 on February 12, 2002.

In the second quarter of 2002, the Company continued to pay down the principal balance of its convertible bridge loan with the Fund. In total, the Company repaid \$34,395 of principal outstanding on the convertible bridge loan during the second quarter.

In the third quarter of 2002, the Company repaid \$9,880 of principal outstanding on the convertible bridge loan.

In December 2002, the Company's notes were renegotiated, extending the maturity dates to September 30, 2003, and adjusting the conversion rate to \$0.25 per share. Also during December the Company made principal payments totaling \$12,272, reducing the bridge loan balance to \$41,480.

At December 31, 2002, the Fund owned \$41,480 in 12% Convertible Promissory Notes and \$375,000 in 8% Subordinated Convertible Promissory Notes. All of the Notes are convertible at \$0.25 per share. Additionally, the Fund owned warrants to purchase 70,000 shares of common stock at \$0.80 per share having a cost basis of zero and warrants to purchase 100,000 shares of common at \$0.60 per share on or before September 30, 2004 and having a cost basis of \$2,000.

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AirNet Systems, Inc. (NYSE:ANS)

AirNet Systems Inc., operates AirNet Express, an integrated national air transportation network that provides expedited air transportation and passenger charter services to banks, medical customers, the U.S. government, and other time-critical small package shippers in more than 100 cities nationwide. The AirNet airline has more than 120 aircraft, including 36 Learjets, located strategically throughout the United States. AirNet Express flies over half a million miles per week. AirNet's fleet departs most cities several hours after other major package delivery companies.

In December 2002, the Fund purchased 75,000 shares of the Company's common stock. At December 31, 2002, the Fund owned 75,000 shares of the Company's common stock having a basis of \$318,750 or \$4.25 per share. These shares are restricted pursuant to the provisions of Rule 144.

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Bentley Pharmaceuticals, Inc. (AMEX:BNT)

Bentley Pharmaceuticals, Inc., is an international pharmaceutical company focused on improving drugs through new drug delivery technologies and commercializing such drugs in the U.S. and other major markets. Bentley also manufactures and markets pharmaceutical products in Spain for the treatment of cardiovascular, gastrointestinal, neurological, infectious and other diseases.

In the second quarter of 2002, the Fund sold 265,000 shares of Bentley common stock in the open market realizing proceeds of \$3,016,629, representing a gain of \$2,081,317. Also in the second quarter, the Fund was informed that the options to purchase 12,012 common shares at \$7.25 that had been assigned to the Fund by Russell Cleveland had expired as a result of Mr. Cleveland's prior resignation from the Company's Board of Directors.

At December 31, 2002 the Fund owned 659,979 shares of the Company's common stock having a basis of \$1,035,168 or \$1.57 per share. The stock is freely tradeable.

Business Process Outsourcing (Private)

Business Process Outsourcing is a privately held business process outsourcing firm that specializes in finance and accounting services, other administrative functions, and high volume transaction processing services. The Company's services are designed to empower clients with a competitive advantage by enabling them to focus on their core activities.

In the third quarter of 2002, the Fund purchased a \$100,000, 12% promissory note maturing August 31, 2003, and a one-year warrant to purchase 4,587 shares of the common stock of Business Process Outsourcing ("BPO"), the parent of the Company. The promissory note is convertible into common shares of BPO at a rate equal to 85% of the price paid by investors in the Company's or BPO's next round of permanent financing (the "Financing"), and will entitle the Fund to hold the same class of securities as those issued in the Financing. The warrants are exercisable at a rate equal to 100% of the price paid by investors in the Financing, but if the Company does not complete the Financing by August 31, 2003, then the exercise price shall be \$4.36 per share.

In the fourth quarter of 2002, the Fund received \$2,000 from the Company

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representing a 2% Original Issue Discount on the purchase of the promissory note.

At December 31, 2002, the Fund owned a \$100,000, 12% promissory note having a basis of \$98,000 and a one-year warrant to purchase 4,587 shares as described above. The warrant has a zero cost basis.

CaminoSoft Corporation (OTC:CMSF)

CaminoSoft Corporation creates intelligent data storage and management infrastructures by facilitating data storage, retrieval, protection, and performance measurement and management.

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At December 31, 2002 the Fund owned 2,458,333 shares of the Company's common stock having a basis of \$4,875,000, warrants to purchase 500,000 shares of the Company's common stock at \$1.00 per share on or before August 31, 2003, and options to purchase 53,300 shares of the Company's common stock. Of the Fund's entire position, 1,750,000 shares of common are freely tradeable whereas the Fund's remaining shares, warrants, and options are restricted from trading pursuant to the Securities Act. The options vested in September 2000 and are exercisable at \$3.63 per share on or before September 28, 2004. The options were obtained by assignment from Robert C. Pearson, Vice-President of Renaissance Capital Group, Inc., who earned the options as a member of the Company's Board of Directors.

Canterbury Consulting Group (Nasdaq:CITID)

Canterbury provides broad-based information technology and management consulting services and training to both commercial and government clients. The Company's focus is to become an integral part of its clients' management and technical infrastructure, designing and applying the best products and services to help them achieve a competitive advantage.

During 2002, the Fund purchased 200,000 shares of the Company's common stock in the open market for \$193,473 or \$0.97 per share. This represented the Fund's entire position at December 31, 2002. All stock is freely tradeable.

Subsequent to December 31, 2002, the Company effected a one for seven reverse split of its common stock. Post-reverse, the Fund owned 28,572 shares of the Company's common stock having a new per-share basis of \$6.77.

Capital Senior Living Corp. (NYSE:CSU)

Capital Senior Living Corporation develops and operates senior living communities in the United States. The Company provides services such as independent living, assisted living, skilled nursing, and home care services to the elderly at its communities.

During the fourth quarter of 2002, the Fund purchased 44,500 shares of the Company's common stock in the open market. At December 31, 2002, the Fund owned 44,500 shares of freely tradeable common stock having a cost basis of \$110,975 or \$2.49 per share.

CareerEngine Network, Inc. (AMEX:CNE)

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CareerEngine Network, Inc., owns a network of category-specific career search destinations. Its Career Solutions division is an applications service provider that builds and maintains custom career portals for online and offline industries and their related web sites.

At December 31, 2002 the Fund owned a \$250,000, 12% convertible debenture of the Company due May 2007 and convertible into 125,000 shares of the Company's common stock, warrants to purchase 62,500 shares of the Company's common stock at an exercise price of \$4.00 per share, and warrants to purchase 62,500 shares of the company's common stock at an exercise price of \$6.00 per share.

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Creative Host Services, Inc. (Nasdaq:CHST)

Creative Host Services acquires and operates food, beverage, and other concessions at airports throughout the United States. The airport concession business is complemented by in-flight catering contracts awarded to the Company by major airlines at certain airports.

At December 31, 2002, the Fund owned 4,830 shares of the Company's common stock with a cost basis of \$7,921 or \$1.64 per share. All stock was purchased in the secondary market and is freely tradeable.

Daisytek International, Inc. (Nasdaq:DZTK)

Daisytek International is a global distributor of computer products, office supplies, and accessories. Daisytek sells its products and services in the United States, Europe, Canada, Australia, Mexico and South America, distributing more than 25,000 products from about 500 manufacturers.

During 2002, the Fund purchased 50,000 shares of the Company's common stock in the open market. At December 31, 2002, the Fund owned 49,600 shares of the Company's common stock having a cost basis of \$507,639 or \$10.23 per share. All stock is freely tradeable.

Dave & Busters, Inc. (NYSE:DAB)

Dave & Busters, Inc., owns and operates concept restaurants through 30 US locations. The Company also has international license agreements for the Pacific Rim, Canada, the Middle East, Mexico, and South Korea.

At December 31, 2002 the Fund owned 100,000 shares of the Company's common stock having a cost basis of \$653,259.

Dexterity Surgical, Inc. (OTC:DEXT)

Dexterity Surgical, Inc., is engaged in the development, manufacture, and distribution of instruments, equipment and surgical supplies used in minimally invasive surgery.

In the first quarter ended March 31, 2002, the Company made a principal repayment on the Fund's convertible debentures of \$5,477. In the second quarter, the Fund learned that the 5,000 options to purchase shares at \$0.75 per share that had been assigned to the Fund by Robert C. Pearson, who earned the options as a member of the Company's Board of Directors, expired as a result of his resignation from the Company's Board.

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Because of the Company's continuing operational and financial difficulties, in 2002 the Fund took an additional reserve on the debentures of \$250,000, leaving the Fund with a fair valuation at December 31, 2002, of \$1,066,282. Additionally, the Fund has fully reserved all of its preferred and common stock positions.

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At December 31, 2002, the Fund owned \$1,316,282 of the Company's 9% Convertible Debentures, \$1,000,000 of the Company's Cumulative Convertible Preferred Stock, and 260,000 shares of the Company's common stock which are restricted pursuant to Rule 144 of the Securities Act.

Display Technologies, Inc. (OTC:DTEK)

During the first quarter of 2002, the Fund wrote off its entire investment in the Company recognizing a loss in the amount of \$3,299,741.

Dwyer Group, Inc. (Nasdaq:DWYR)

The Dwyer Group, Inc., currently supports over 800 franchises in the United States and Canada and approximately 200 franchises in twenty-four other countries. The franchises deliver repair, installation and maintenance services to both residential and commercial consumers under the concepts Mr. Rooter(R), Rainbow International(R), Glass Doctor(R), Mr. Electric(R), Mr. Appliance(R), and Aire Serv(R).

At December 31, 2002, the Fund owned 675,000 shares of the Company's common stock having a cost basis of \$1,966,632. All stock is freely tradeable.

EDT Learning, Inc. (AMEX:EDT)

EDT Learning, Inc., is a leading provider of custom, comprehensive e-Learning business solutions for corporate clients seeking to train non-technical users.

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

In the third quarter of 2002, the Fund purchased an additional 16,666 shares of the Company's common stock in the open market for \$10,443.

At December 31, 2002, the Fund owned a total of 48,266 shares of freely tradeable common stock having a basis of \$27,033. In addition, the Fund owned a \$500,000 12% Convertible Subordinated Note and three-year warrants to purchase 500,000 shares of the Company's common stock at an exercise price of \$3.00.

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eOriginal, Inc. (Private)

eOriginal, Inc., has a patented process for creating, executing, storing and retrieving legal documents in a completely electronic format.

Throughout 2002, the Fund made follow-on investments by advancing \$639,683 to purchase Senior Secured Promissory Notes. Of this amount, \$75,000 was advanced in the first quarter, \$101,183 was advanced in the second quarter, \$348,500 was advanced in the third quarter, and \$115,000 was advanced in the fourth quarter. The Notes bear interest at 12%, are secured by all intellectual property and software owned by the Company, and came due at December 31, 2002. At this time, the Company is in default on the Notes. In 2002, the Fund reserved the value of the Convertible Preferred Stock by \$4,000,000.

At December 31, 2002, in the Fund owned \$1,139,683 of the 12% Senior Secured Promissory Notes discussed above, 2,353 shares of the Series C-1 5% Cumulative Convertible Preferred Stock having a cost basis of \$2,000,050, 447 shares of the Series B-3 5% Cumulative Convertible Preferred Stock having a cost basis of \$107,280, 1,785 shares of the Series B-1 5% Cumulative Convertible Preferred Stock having a cost basis of \$392,700, 6,000 shares of the Company's Series A 5% Cumulative Convertible Preferred Stock having a cost basis of \$1,500,000, and warrants to purchase 659 shares of the Company's common stock at \$169.75, which warrants have a cost basis of \$165. The warrants are exercisable on or before September 15, 2003.

Subsequent to December 31, 2002, the Company went through a tax-free reorganization (the "Reorganization") in which all the assets of eOriginal, Inc. were transferred to eOriginal Holdings ("Holdings"). As a result of the Reorganization, the Fund exchanged all of its positions in eOriginal, Inc. for the following securities of Holdings: 10,680 shares of Series A Convertible Preferred Stock, 25,646 shares of Series B Convertible Preferred Stock, 28,929 shares of Series C Convertible Preferred Stock, and 2,302 warrants to purchase shares of common stock of Holdings. Each series of Preferred is convertible one for one into common stock of Holdings, and the warrants have an exercise price of \$0.01 per share. The implied value of Holdings for purposes of the reorganization is \$72.13 per share, giving Holdings an enterprise value of \$64,919,848 and causing the Fund's new total ownership in Holdings to be valued at \$4,873,079 as of the date of reorganization.

Fortune Natural Resources Corporation (OTC:FPXA)

Fortune Natural Resources Corporation is an independent public oil and gas company whose primary focus is exploration and development of domestic oil and gas properties located primarily in onshore and offshore areas of Louisiana and Texas.

In the first quarter of 2002, the Fund invested \$120,000 to purchase Series B Preferred Stock of Fortune (the "Series B"). In the second quarter of 2002, the Company redeemed the Fund's Series B Preferred stock for \$121,545, of which \$120,000 represented repayment of principal and the remainder represented payment of dividends at 10% for the term that the Series B Preferred stock was outstanding. As consideration for the Preferred investment, the Fund received a

three-year warrant to purchase 36,000 shares of the Company's common stock at an exercise price of \$0.25 per share.

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In the fourth quarter of 2002, the Fund sold 60,000 shares of the Company's common stock in the open market at an average price of \$0.05 per share, netting proceeds of \$3,151 and resulting in a loss of \$41,849.

At December 31, 2002, the Fund owned 1,262,394 shares of the Company's common stock, warrants to purchase 100,000 shares of common stock at \$1.50 per share on or before March 2003, warrants to purchase 100,000 shares of common stock at \$2.25 on or before March 2003, and warrants to purchase 36,000 shares of the Company's common stock at \$0.25 on or before May 19, 2005. All positions are registered and freely tradeable.

Gasco Energy, Inc. (OTC:GASE)

Gasco Energy is an oil and gas company whose focus is exploration and development of domestic natural gas properties located primarily in the rocky Mountain regions of Colorado and Wyoming.

During the third quarter of 2002, the Fund purchased 250,000 shares of the Company's common stock in a private placement at a cost of \$250,000.

At December 31, 2002, the Fund owned 250,000 shares of the Company's common stock with a basis of \$250,000. These shares are restricted, but may be sold pursuant to the prospectus delivery requirements of a "shelf" registration filed by the Company.

I-Flow Corporation (Nasdaq:IFLO)

I-Flow Corporation designs, develops, and markets technically advanced drug delivery systems that provide life enhancing, cost-effective solutions for pain management and infusion therapy. The Company's products are used primarily in the home, hospital, and physician office.

Throughout 2002, the Fund purchased 100,000 shares of the Company's common stock in the open market for \$254,038, or \$2.54 per share.

At December 31, 2002, the Fund owned 100,000 shares of common stock. All stock is freely tradeable.

Inet Technologies (Nasdaq:INTI)

Inet Technologies is a global provider of communications software solutions that enable carriers to more effectively design, deploy, diagnose, monitor, and manage communications networks that carry signaling information used to control and deliver communications sessions and services. The solutions also address certain fundamental business needs of communications carriers, such as improved billing, targeted sales and marketing, fraud prevention, and enhanced routing.

During 2002, the Fund purchased 75,000 shares of the Company's common stock in the open market. At December 31, 2002, the Fund owned 75,000 shares having a basis of \$367,434 or \$4.90 per share. All shares are freely tradeable.

Subsequent to December 31, 2002, the fund purchased an additional 21,600 shares of the Company's common stock in the open market for \$162,904.

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Integrated Security Systems, Inc. (OTC:IZZI)

Integrated Security Systems, Inc., is a holding company which designs, develops, manufactures, sells and services commercial security and traffic control devices. In addition, the Company sells fully integrated turnkey security systems that control and monitor access to governmental, commercial and industrial sites.

In the first quarter of 2002, the Fund invested \$50,000 to purchase a 120-day promissory note bearing interest at 8% and secured by all the assets of the Company and its subsidiaries. As additional consideration for the investment, the Fund received 250,000 warrants to purchase the Company's common stock at \$0.20 per share.

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

In the second quarter of 2002, the Fund received 23,782 shares of the Company's common stock as payment in kind for dividends on the Fund's Series D Convertible Preferred stock. These shares were paid to the Fund at an average rate of \$0.28 per share.

In the third quarter of 2002, the Fund received 26,780 shares of the Company's common stock as payment in kind for interest due to the Fund on promissory notes. These shares were paid to the Fund at an average rate of \$0.25 per share.

Also in the third quarter, the Fund purchased a \$75,000, 8%, one-year note and, as part of the consideration for the loan, received five-year warrants to purchase 375,000 shares of the Company's common stock at \$0.20 per share. In conjunction with this purchase, the Fund agreed to extend the due dates of the existing promissory notes to September 4, 2003.

In the fourth quarter of 2002, the Fund received 9,472 shares of the Company's common stock as payment in kind for interest due to the Fund on promissory notes. These shares were paid to the Fund at an average rate of \$0.216 per share.

On November 17, 2002, warrants to purchase 12,500 shares of common stock at \$1.75 per share expired. These expired warrants had a cost basis of \$3,750.

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Also during the fourth quarter, the Fund received options to purchase 33,965 at exercise prices ranging from \$0.27 to \$0.49 per share and having expiration dates between May 10, 2006 and August 22, 2007. These options were granted to the Fund as a result of Russell Cleveland's service on the Company's Board of Directors.

At December 31, 2002, the Fund owned the following: \$325,000 in 8% Promissory Notes with no conversion feature; \$542,989 of Series F Preferred convertible into the Company's common stock at a rate of \$0.20 per share;

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\$3,666,951 of Series G Preferred convertible into common at a rate of \$0.20 per share; \$150,000 of Series D Preferred convertible into common at a rate of \$0.80 per share; 406,728 shares of common stock having a basis of \$219,265; warrants to purchase 364,299 shares of the Company's common stock at \$0.549 per share on or before March 8, 2004; warrants to purchase 312,500 shares of the Company's common stock at \$0.80 per share on or before October 2, 2003; warrants to purchase 125,000 shares of the Company's common stock at \$1.00 per share on or before October 11, 2004; warrants to purchase 1,625,000 shares of the Company's common stock at \$0.20 per share with term dates ranging from September 2006 to September 2007; and options to purchase 33,965 shares of common stock having strike prices ranging between \$0.27 and \$0.49 per share and term dates ranging from May 2006 to August 2007.

Subsequent to December 31, 2002, the Fund received 89,920 shares of common stock from the Company as payment in kind for interest and dividend obligations on debt and preferred stock instruments held by the Fund. The cost basis of these shares of \$18,859. In total, 52,109 shares having a basis of \$8,761 were received for interest obligations and 37,811 shares having a basis of \$10,098 were received for dividend obligations. Also subsequent to December 31, 2002, the Fund received five-year options to purchase 7,069 shares of common stock at \$0.21 per share as a result of Mr. Cleveland's position on the Company's Board of Directors.

Interpool, Inc. (NYSE:IPX)

Interpool is one of the world's leading suppliers of equipment and services to the transportation industry. It is the largest lessor of intermodal container chassis and a world-leading lessor of cargo containers used in international trade. Interpool operates from more than 240 locations throughout the world.

In the fourth quarter of 2002, the Fund purchased \$375,000 of 9.25% Convertible Redeemable, Subordinated Debentures in a rights offering by the Company. The Debentures are convertible at \$25 per share and mature December 27, 2022.

JAKKS Pacific, Inc. (Nasdaq:JAKK)

JAKKS Pacific, Inc., is a multi-brand toy company that designs, develops, produces and markets toys and related products under various brand names in multiple product categories.

In 2002, the Fund sold 27,500 shares of the Company's common stock in the open market at \$13.96 per share, netting proceeds of \$383,861 and representing a gain of \$219,777.

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At December 31, 2002, the Fund owned 59,847 shares of common stock having a basis of \$357,088. All shares are freely tradeable.

Laserscope (Nasdaq:LSCP)

Laserscope designs, manufactures, sells, and services on a worldwide basis an advanced line of medical laser systems and related energy delivery devices for the office, outpatient surgical center, and hospital markets.

On June 21, 2002, Robert C. Pearson became a member of the Company's Board

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of Directors and was granted options to purchase common shares of the Company's stock. The Fund received through assignment from Mr. Pearson the following options: 10,000 shares vesting January 1, 2003, and expiring June 21, 2010; 10,000 shares vesting January 1, 2004, and expiring June 21, 2011; and 10,000 shares vesting January 1, 2005, and expiring June 21, 2012. All options have an exercise price of \$4.19.

At December 31, 2002 the Fund owned \$1,500,000 in 8% Convertible Debentures of the Company having a conversion rate of \$1.25 per share and options to purchase 30,000 common shares at \$4.19.

Northwestern Steel and Wire Corp. (Bankruptcy)

Northwestern Steel & Wire Corp is liquidating its steel operation in bankruptcy. The Company was formerly a mini-mill producer of structural steel components.

In the second quarter of 2002, the Fund wrote off its investment in this Company resulting in a net realized loss to the Fund of \$127,500.

Omnivision Technologies, Inc. (Nasdaq:OVTI)

Omnivision Technologies designs, develops, and markets integrated single chip semiconductor imaging devices for various applications in computing, communications, and consumer electronics.

In the third quarter of 2002, the Fund purchased 25,000 shares of the Company's common stock in the open market at a cost of \$244,532 or \$9.78 per share.

In the fourth quarter of 2002, the Fund sold its entire position in the Company's common stock in the open market for \$467,321 or \$18.69 per share, realizing a gain of \$222,789.

Play By Play Toys & Novelties, Inc. (OTC:PBYP)

Play By Play Toys & Novelties, Inc., formerly designed, developed, marketed, and distributed stuffed toys, sculpted toy pillows, and other products based upon licenses for children's entertainment characters and corporate trademarks. The Company is liquidating in bankruptcy.

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In the second quarter of 2002, the Fund received \$422,767 in proceeds from the Company's liquidation. Following the application of these proceeds, the Fund wrote off its remaining investment in Play by Play resulting in a net realized loss to the Fund of \$2,002,981.

Poore Brothers, Inc. (Nasdaq:SNAK)

With facilities in Indiana and Arizona, Poore Brothers is a marketer and manufacturer of "Intensely Different"(TM) salted snack foods under a variety of owned or licensed brands, including T.G.I. Friday's(TM), Poore Brothers(R), Bob's Texas Style(R), Boulder Potato Company(TM), and Tato Skins(R).

In the second quarter of 2002, the Fund exercised warrants to purchase 85,000 shares of the Company's common stock for a total of \$115,000, or an

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average of \$1.35 per share. Also in the second quarter of 2002, options to purchase 15,000 common shares at \$3.0625 were allowed to expire without exercise.

At December 31, 2002, the Fund owned 2,016,357 shares of the Company's common stock having a cost of \$2,078,170 and three tranches of options to purchase a total of 18,650 shares, having exercise prices ranging from \$1.31 per share to \$1.50 per share.

Precis, Inc. (Nasdaq:PCIS)

Precis is a national membership marketing company that provides membership programs to a variety of industries including: healthcare, retail, banking, consumer finance and member based associations. Its leading program, Care Entree, is marketed as a membership based healthcare savings program designed to significantly reduce out-of-pocket medical expenses at affordable rates to the consumer while helping the medical community receive accelerated payment for their services.

Throughout 2002, the Fund purchased 94,500 shares of the Company's common stock in the open market for \$988,306, a cost of \$10.46 per share.

At December 31, 2002, the Fund owned a total of 100,700 shares of the Company's common stock having a basis of \$1,025,047 or \$10.18 per share. The Fund's stock in the Company is freely tradeable.

RailAmerica, Inc. (NYSE:RRA)

RailAmerica, Inc., is a short line and regional railroad operator, with a presence in the United States, Canada, Australia, and the Republic of Chile.

In the first quarter of 2002, the Fund sold its entire position in RailAmerica and realized proceeds of \$924,513, resulting in a loss of \$75,487.

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Simtek Corporation (OTC:SRAM)

Simtek Corporation is a fabless semiconductor company, supplying innovative products to a worldwide marketplace. The Company has design and manufacturing expertise in a variety of technologies, including high performance non-volatile memory, application specific integrated circuits, and data communications.

In June 2002, the Fund made a follow-on investment in the Company by purchasing \$1,000,000 of 7.5% Convertible Debentures. The debentures accrue interest quarterly, are due June 28, 2009, and are convertible into shares of the Company's common stock at a rate of \$0.312 per share. The debentures contain the Fund's standard anti-dilution provisions and also entitle the Fund to certain registration rights.

At December 31, 2002, in addition to the Convertible Debenture discussed above, the Fund owned 1,000,000 shares of common stock having a cost of \$195,000. The common shares are restricted pursuant to the provisions of Rule 144.

ThermoView Industries, Inc. (AMEX:THV)

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ThermoView Industries, Inc., is a national company that designs, manufactures, markets, and installs high-quality replacement windows and doors as part of a full-service array of home improvements for residential homeowners.

During the fourth quarter of 2002, the Fund purchased 103,100 shares of the Company's common stock in the open market for a total of \$82,448 or \$0.80 per share.

At December 31, 2002, the Fund owned 134,951 shares of ThermoView common stock having a cost of \$497,832. All shares are freely tradeable.

US Home Systems (Nasdaq:USHS)

US Home Systems is engaged in the manufacture, design, sale, and installation of quality specialty home improvement products with specific emphasis on kitchen and bath improvements, and also provides consumer financing services to the home improvement and remodeling industry. The Company's home improvement product lines include replacement kitchen cabinetry, kitchen cabinet refacing and counter top products utilized in kitchen remodeling, bathroom refacing and related products utilized in bathroom remodeling, and replacement windows. The Company provides through its wholly owned subsidiary, First Consumer Credit, Inc., consumer financing to the home improvement and remodeling industry.

In the second quarter of 2002, the Fund purchased 110,000 shares of the Company's common stock in the open market. At December 31, 2002, the Fund owned 110,000 shares of the Company's common stock having a basis of \$535,587 or \$4.87 per share. All stock is freely tradeable.

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Verso Technologies, Inc. (Nasdaq:VRSO)

Verso Technologies provides integrated switching and solutions for communications service providers who want to develop IP-based services with scalability and quality of service. Verso's unique, end-to-end capabilities enable customers to leverage existing investments by ensuring carrier-to-carrier interoperability and rich billing features. Verso's complete VoIP migration solutions include state of the art hardware and software, OSS integration, the industry's most widely used applications and technical training and support.

In the fourth quarter of 2002, the Fund sold 179,375 shares of the Company's common stock for \$112,052, realizing a loss of \$400,448.

At December 31, 2002, the Fund owned 179,375 warrants to purchase 179,375 shares of Verso common stock at \$5.71 per share. These warrants have a zero cost basis.

### VALUATION OF INVESTMENTS

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

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

in default.

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

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

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

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

#### COMPETITION FOR INVESTMENTS

The Fund has significant competition for investment proposals. 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 is contemplated will be 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 company and its willingness to provide management assistance. In some instances, the Fund's requirements as to provision of management assistance will cause it to be non-competitive.

#### PERSONNEL

The Fund has no direct employees, but instead has contracted Renaissance Group pursuant to the Investment Advisory Agreement to provide all management and operating activities. Renaissance Group currently has eight employees who are engaged in performing the duties and functions required by the Fund. At the present time, a substantial portion of Renaissance Group's staff time is devoted to activities of the Fund. However, because of the diversity of skills required, the Fund cannot afford to employ all these persons solely for its own needs, and therefore, these employees are not engaged solely in activities of the Fund.

No accurate data or estimate is available as to the percentage of time, individually or as a group, that will be devoted to the affairs of the Fund. Initially, and while the Fund's assets are in the process of being invested, a majority of the staff time of Renaissance Group is employed in functions and activities of the Fund. Thereafter, the officers and employees have and will devote such time as is required, in their sole discretion, for the conduct of business, including the provision of management services to Portfolio Companies.

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#### OTHER INVESTMENT FUNDS

Renaissance Group currently serves as the Investment Manager to Renaissance US Growth Investment Trust PLC ("RUSGIT"). RUSGIT is a public limited company registered in the United Kingdom and listed on the London Stock Exchange, which invests in privately placed convertible securities issued by companies similar to the investments of the Fund. RUSGIT will invest pari-passu with the Fund on all relevant terms, except that amounts may differ. In 1996, RUSGIT raised net capital of approximately \$30,789,000.

Renaissance Group also serves as the Investment Adviser to BFS US Special Opportunities Trust PLC ("BFS") and is specifically responsible for managing the Growth Portfolio for BFS ("BFS Growth"). BFS is a public limited company registered in the United Kingdom and listed on the London Stock Exchange. BFS Growth invests in publicly traded equities, fixed-income and convertible securities of publicly traded issuers, and also invests in privately placed convertible instruments issued by companies similar to the investments of the Fund. For privately placed investments, BFS Growth will invest on a pari-passu basis with the Fund as to all relevant terms of the investment, except that amounts invested may differ. In 2001, BFS raised net investment capital of approximately \$140,711,000, of which \$83,555,000 was allocated to BFS Growth.

In addition, Renaissance Group may, from time to time, provide investment advisory services, management consulting services and investment banking services to other clients. The determination regarding the existence of conflict of interest between these affiliated investment funds and the Registrant, and the resolution of any such conflict, vests in the discretion of the Board of Directors, subject to the requirements and resolution of the 1940 Act.

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## Item 2. Properties

The Fund's business activities are conducted from the offices of Renaissance Group, which offices are currently leased until July 31, 2005 in a multi-story general office building in Dallas, Texas. The use of such office facilities, including office furniture, phone services, computer equipment, and files are provided by Renaissance Group at its expense pursuant to the Investment Advisory Agreement.

## Item 3. Legal Proceedings

There are no legal proceedings currently pending with regard to the Fund.

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

None.

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## Part II

### Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

#### TRADING

The Fund's common stock is traded on the Nasdaq National Market System ("NMS") under the trading symbol RENN and reported on Bloomberg.

The following table sets forth, for the periods indicated, the high and low prices for the Common Stock as quoted on the NMS.

	High	Low
Year ended December 31, 2001		
First quarter	\$11.00	\$ 8.81
Second quarter	\$11.00	\$ 8.75
Third quarter	\$11.00	\$ 9.85
Fourth quarter	\$11.45	\$10.03
Year ended December 31, 2002		
First quarter	\$10.93	\$10.25
Second quarter	\$11.95	\$ 9.96
Third quarter	\$10.00	\$ 8.94
Fourth quarter	\$ 8.59	\$ 6.75

#### NUMBER OF HOLDERS

As of December 31, 2002, there were approximately 618 record holders of common stock. This total does not include shareholders with shares held under beneficial ownership in nominee name or within clearinghouse positions of brokerage firms or banks.

#### DIVIDEND POLICY AND REGULATED INVESTMENT COMPANY STATUS

The investment objective of the Fund is current income and long term capital appreciation. The Fund intends to elect the special income tax treatment available to a regulated investment company ("RIC") under Subchapter M of the

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Internal Revenue Code (the "Code") in order to be relieved of federal income tax on that part of its net investment income and realized capital gains that it pays out to shareholders. If a RIC meets certain diversification and distribution requirements under the Code, it qualifies for pass-through tax treatment. The Fund would be unable to qualify for pass-through tax treatment if it were unable to comply with these requirements. Failure to qualify as a RIC would subject the Fund to federal income tax as if the Fund were an ordinary corporation, which could result in a substantial reduction in both the Fund's net assets and the amount of income available for distributions to shareholders.

Since the Fund was in an offering phase for all of 1994, no dividends were paid; however, the Fund paid shareholders a dividend on April 25, 1995

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representing their pro rata portion of income earned by the Fund in 1994. For the period from April 25, 1995 to December 31, 1999, the Fund paid out income dividends on a quarterly basis. Income dividends have not been paid since that time due to the absence of net investment income. The Fund did pay capital gains dividends in both 2000 and 2001. A return of capital of \$0.10 per share was made in December 2002 pursuant to the Fund's annual dividend distribution policy, which was announced in November 2002 (see Item 1. Business. INVESTMENT OBJECTIVES). Since inception, the Fund has distributed a total of \$7.66 per share as of December 31, 2002. The payment dates and amounts of cash dividends per share since January 1, 2000, are as follows:

Payment Date	Cash Distribution	Type of Distribution
June 9, 2000	\$1.54	Capital Gain
August 16, 2001	\$0.54	Capital Gain
December 12, 2002	\$0.10	Tax Return of Capital

### Item 6. Selected Financial Data.

The following selected financial data for the period from January 1, 1998, through December 31, 2002, is derived from the Fund's audited Financial Statements and should be read in conjunction with the Fund's Financial Statements and Notes thereto and "Management's discussion and Analysis of Financial Condition and Results of Operations" included in Item 7 of this Annual Report on Form 10-K.

	2002	2001	2000	1999	1998
Gross income (loss), including realized gain (loss)	\$( 3,051,938)	\$2,676,702	\$ 9,750,577	\$12,768,575	\$ 5,956,344
Net unrealized appreciation (depreciation) on investments	( 8,205,633)	9,365,167	( 1,507,015)	4,465,591	( 1,222,151)
Net income (loss)	(12,773,524)	9,546,715	5,032,203	13,535,928	2,794,004
Net income (loss) per share	(2.93)	2.19	1.18	3.27	0.66
Total assets	50,495,721	77,016,668	64,077,600	46,725,122	42,322,725
Net assets	41,259,066	54,537,508	47,346,067	45,934,306	41,475,701
Net assets Per Share	9.48	12.50	10.86	11.09	10.01

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	Selected Per Share Data				
	2002	2001	2000	1999	1998
Investment Income	0.09	0.14	0.40	0.42	0.67
Operating Expenses	(0.33)	(0.54)	(0.75)	(0.89)	(0.46)
Interest Expense	(0.01)	(0.03)	(0.00)	(0.00)	(0.00)
Net Investment					
Income (Loss)	(0.26)	(0.43)	(0.36)	(0.48)	0.21
Tax return of capital	(0.10)	(0.00)	(0.03)	(0.08)	(0.30)
Distributions from					
net capital gains	(0.00)	(0.54)	(1.47)	(2.11)	(0.68)
Net realized gain					
(loss) on					
investments	(0.79)	0.47	1.89	2.67	0.74
Net increase					
(decrease)					
in unrealized					
appreciation					
of investments	(1.89)	2.14	(0.35)	1.08	(0.29)
Increase (decrease)					
in net asset					
value	(3.05)	1.64	(0.32)	1.08	(0.32)
Capital stock					
transactions	(0.01)	0.00	0.09	0.00	0.08
Net Asset Value:					
Beginning of year	12.50	10.86	11.09	10.01	10.25
End of year	\$ 9.48	\$12.50	\$10.86	\$11.09	\$10.01

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

GENERAL

The purpose of the Fund is to provide growth capital to small- and medium-sized public companies whose ability to service the securities is sufficient to provide a quarterly return to the shareholders and whose growth potential is sufficient to provide opportunity for above-average capital appreciation.

SOURCES OF OPERATING INCOME

The major source of operating income for the Fund is investment income, either in the form of interest on debentures, dividends on stock, or interest on securities held pending investment in Portfolio Companies. However, the Fund also generates income through capital gains. Further, the Fund in some cases receives due diligence, commitment, and closing fees, as well as other similar types of revenue. Director's compensation received by Renaissance Group (or its personnel) for services to a Portfolio Company is paid to the account of the Fund.

LIQUIDITY AND CAPITAL RESOURCES

During the year ended December 31, 2002, the Fund invested \$3,270,526 in twelve (12) new portfolio investments and invested an additional \$3,605,834 in follow-on investments to eight (8) portfolio companies. Distributions made to investors in 2002 amounted to \$435,171 or \$0.10 per share, which was a return of capital. During 2002, gains were realized from the sale of securities of Bentley Pharmaceuticals, Inc., JAKKS Pacific, Inc., and OmniVision Technologies, Inc., offset by realized losses taken on investments in Daisytek, Display Technologies, Fortune Natural Resources Corp., Northwestern Steel & Wire, Play By Play Toys & Novelties, RailAmerica, and Verso Technologies. Net loss for 2002 was (\$12,773,524) due to unrealized depreciation on portfolio investments. The net cash used in operating activities was (\$14,345,832). The Fund issued no new shares for the dividend reinvestment plan, as dividend reinvestment shares were purchased in the open market. At December 31, 2002, the Fund had approximately \$1.7 million in cash and cash equivalents net of all liabilities. Renaissance Group believes that current cash levels are sufficient to pay expenses as they come due and also to make a limited amount of follow-on investments if necessary.

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 Portfolio Investments are generally considered non-liquid. This lack of liquidity primarily affects the ability to make new investments and distributions to shareholders.

From time to time, funds 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. These investments qualify for investment as permitted in Section 55(a)(1) through (5) of the 1940 Act.

RESULTS OF OPERATIONS

2002 Compared to 2001

During the year ended December 31, 2002, the Fund made additional portfolio investments aggregating \$6,851,707 compared to \$3,509,674 in 2001. The Fund

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realized proceeds from the sale of investments in the amount of \$4,911,282 compared to \$10,364,052 in 2001. The Fund's realized net loss of (\$12,773,524) is due to a combination of a net investment loss of (\$1,138,298), net unrealized depreciation on investments of (\$8,205,633), and net realized loss on investments of (\$3,429,593).

Interest income decreased 34.14% for the year in comparison to 2001 primarily due to the conversion of debt positions into equity. In addition, reserves were taken on interest accruals for some of the Fund's investments. Dividend income decreased 63.86% from \$195,453 in 2001 to \$70,640 in 2002 due primarily to smaller custodial cash balances earning dividends and decreased dividends declared and paid by portfolio investments. Commitment and other fee income increased from \$3,100 in 2001 to \$28,442 in 2002 primarily as a result of increased loan closing fees.

General and administrative expenses, including interest expense and legal fees, but excluding incentive and management fees, decreased 1.17% from \$662,872 in 2001 to \$655,119. No incentive fee was incurred in 2002 compared to an incentive fee expense of \$919,429 in 2001 because there were no net realized capital gains achieved on investments during 2002. Management fees decreased from \$912,544 in 2001 to \$860,834 in 2002, a decrease of 5.67% due to lower portfolio values during 2002. Net investment loss decreased 39.24% to (\$1,138,298) in 2002 down from (\$1,873,288) in 2001 due primarily to the absence of an incentive fee in 2002, combined with the decrease in interest expense, legal fees, and management fees, partially offset by the increase in general and administrative expenses.

Net income decreased from \$9,546,715 in 2001 to a net loss of (\$12,773,524) in 2002. In 2001, the Fund had realized gains of \$2,054,836 compared to a net realized loss on investments of (\$3,429,593) in 2002. Likewise, the Fund experienced net unrealized appreciation on investments in 2001 of \$9,365,167 compared to the 2002 net unrealized depreciation on investments in the amount of (\$8,205,633).

### 2001 Compared to 2000

During the year ended December 31, 2001, the Fund realized proceeds from the sale of investments \$10,364,052 compared to \$10,366,539 in 2000. The Fund expended \$3,509,674 in 2001 for the purchase of investments compared to purchases of \$7,838,711 in 2000. The Fund's net income of \$9,546,715 for 2001 is due primarily to a net unrealized appreciation on investments of \$9,365,167 and a net realized gain on investments of \$2,054,836.

Interest income decreased 71.19% for the year in comparison to 2000 primarily because many of the Fund's debt positions were converted to equity positions. Dividend income in 2001 increased 70.77% from \$114,455 in 2000 to \$195,453 in 2001 due primarily to the previously described conversion from debt to equity positions and a change in the custodial arrangements whereby short-

term treasury funds now earn a dividend rather than interest. Commitment and other fee income decreased from \$112,375 in 2000 to \$3,100 in 2001 due to fewer investments being originated together with a reduction in outside directors fees and advisory fees as a result of the Fund's officers holding fewer outside board positions.

General and administrative expenses decreased 2.65% from \$422,554 in 2000

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to \$411,348 in 2001. Incentive fees decreased 42.93% from \$1,611,135 in 2000 to \$919,429 in 2001 due to lower net realized gains achieved on investments throughout 2001. Management fees decreased 13.62% to \$912,544 due to a lower net asset value throughout the year. Net investment loss for 2001 increased to (\$1,873,288) in 2001, compared to (\$1,516,461) for 2000, an increase of 23.53%, due primarily to lower interest income as a result of converting debt positions to equity, offset somewhat by reduced expense levels.

Net income for 2001 was \$9,546,715, an increase of 89.71% over \$5,032,203 in 2000. In 2000, realized gains were \$8,055,679 in comparison to realized gains for 2001 of \$2,054,836. Realized gains decreased in 2001 from 2000 due to higher levels of realized losses taken on portfolio investments. In addition, the Fund's net unrealized appreciation on investments in 2001 was \$9,365,167 in comparison to a net unrealized depreciation on investments for 2000 of (\$1,507,015) due to higher market values for Fund holdings.

### Item 7A. 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.

Approximately 48% 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.

Approximately 36% 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, 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.

Approximately 11% of the Fund's net assets consists of equity investments in private companies. The Fund would anticipate no impact on these investment 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.

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### Item 8. Financial Statements and Supplementary Data.

For the Index to Financial Statements, see "Financial Statements" on page F-1.

### Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Part III

Certain information required by Part III is omitted from this Annual Report on Form 10-K in that the Registrant will file its definitive Proxy Statement (the "Proxy Statement") for its Annual Meeting of Shareholders to be held on May 16, 2003, pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, not later than 120 days after the end of the fiscal year covered by this Report, and certain information included in the Proxy Statement is incorporated herein by reference.

Item 10. Directors and Executive Officers of Registrant.

Information required by this item is incorporated by reference from the Proxy Statement pursuant to Regulation 14A of the General Rules and Regulations under the Exchange Act.

Item 11. Executive Compensation.

Information required by this item is incorporated by reference from the Proxy Statement pursuant to Regulation 14A of the General Rules and Regulations under the Exchange Act.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

Information required by this item is incorporated by reference from the Proxy Statement pursuant to Regulation 14A of the General Rules and Regulations under the Exchange Act.

Item 13. Certain Relationships and Related Transactions.

Information required by this item is incorporated by reference from the Proxy Statement pursuant to Regulation 14A of the General Rules and Regulations under the Exchange Act.

Item 14. Controls and Procedures.

Within 90 days prior to the date of this report, the Fund's President and Chief Executive Officer along with the Fund's Chief Financial Officer evaluated the effectiveness of the design and operation of the Fund's disclosure controls and procedures pursuant to Exchange Act Rule 13a-14(c). Based upon that evaluation, the Fund's President and Chief Executive Officer along with the Fund's Chief Financial Officer concluded that the Fund's disclosure controls and procedures are effective in timely alerting them to material information relating to the Fund required to be included in the Fund's periodic SEC filings. There have been no significant changes in the Fund's internal controls or in other factors which could significantly affect internal controls subsequent to the date of their evaluation.

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Part IV

Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8 K.

DOCUMENTS FILED AS PART OF THIS FORM 10K

Financial Statements:

The financial statements filed as part of this report are listed in "Index to Financial Statements" on page F-1 hereof.

Financial Schedules:

There are no schedules presented since none are applicable.

REPORTS ON FORM 8K

None.

EXHIBITS

99-1 Certification of Russell Cleveland, President and CEO

99-2 Certification of Barbe Butschek, Chief Financial Officer

Item 16. Principal Accountant Fees and Services.

Information required by this item is incorporated by reference from the Proxy Statement pursuant to Regulation 14A of the General Rules and Regulations under the Exchange Act.

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, there unto duly authorized.

Date: March 24, 2003

Renaissance Capital Growth & Income Fund III, Inc.  
(Registrant)

By: /S/ Russell Cleveland  
Russell Cleveland, Chairman and President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Fund in the capacities and on the date indicated Signatures.

Signature	Capacity in Which Signed	Date
/S/ Russell Cleveland Russell Cleveland	Chairman, President and Director	March 20, 2003
/S/ Barbe Butschek Barbe Butschek	Secretary and Treasurer	March 20, 2003
/S/ Ernest C. Hill Ernest C. Hill	Director	March 20, 2003
/S/ Peter Collins Peter Collins	Director	March 20, 2003
/S/ Edward O. Boshell, Jr. Edward O. Boshell, Jr.	Director	March 20, 2003
/S/ Charles C. Pierce, Jr. Charles C. Pierce, Jr.	Director	March 20, 2003

CERTIFICATION

I, Russell Cleveland, certify that:

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

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controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/S/ Russell Cleveland  
Russell Cleveland  
President and CEO  
March 20, 2003

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CERTIFICATION

I, Barbe Butschek, certify that:

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

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registrant's auditors and to the audit committee of the registrant's board of directors:

- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the issuer's ability to record, process, summarize, and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal

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subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/S/ Barbe Butschek  
Barbe Butschek  
Chief Financial Officer  
March 20, 2003

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### INDEX TO FINANCIAL STATEMENTS

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## Report of Independent Auditors

The Board of Directors and Stockholders  
Renaissance Capital Growth & Income Fund III, Inc.:

We have audited the accompanying statements of assets and liabilities of Renaissance Capital Growth & Income Fund III, Inc., including the schedules of investments, as of December 31, 2002 and 2001, and the related statements of operations, changes in net assets, and cash flows for the years ended December 31, 2002, 2001, and 2000. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of December 31, 2002, by correspondence with the custodian and broker. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Renaissance Capital Growth & Income Fund III, Inc. as of December 31, 2002 and 2001, and the results of its operations, changes in its net assets, and its cash flows for the years ended

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December 31, 2002, 2001, and 2000, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

February 25, 2003

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Renaissance Capital Growth & Income Fund III, Inc.  
Statements of Assets and Liabilities  
December 31, 2002 and 2001

Assets	2002	2001
Cash and cash equivalents	\$10,968,001	\$27,125,926
Investments at fair value, cost of \$32,918,344 and \$35,015,807 in 2002 and 2001, respectively (Note 5)	39,459,243	49,762,340
Interest receivable, net of reserves	28,409	114,539
Prepaid expenses	40,069	13,863
	-----	-----
	\$50,495,721	\$77,016,668
	=====	=====
Liabilities and Net Assets		
Liabilities:		
Due to broker (Note 3)	9,001,163	22,197,146
Accounts payable	12,106	13,472
Accounts payable - affiliate (Note 4)	223,386	268,542
	-----	-----
	9,236,655	22,479,160
Commitments and contingencies		
Net assets:		
Common stock, \$1 par value; authorized 20,000,000 shares; 4,561,618 issued; 4,351,718 shares outstanding at December 31, 2002, 4,361,618 shares outstanding at December 31, 2001	4,561,618	4,561,618
Additional paid-in-capital	35,642,954	37,125,714
Treasury stock at cost, 209,900 shares at December 31, 2002, and 200,000 shares at December 31, 2001	( 1,734,966)	( 1,665,220)
Distributable earnings	( 3,715,440)	( 231,137)
Net unrealized appreciation of investments	6,540,900	14,746,533
	-----	-----
Net assets, equivalent to \$9.48 and \$12.50 per share at December 31, 2002 and 2001, respectively	41,259,066	54,537,508
	-----	-----

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\$50,495,721                      \$77,016,668  
 =====

See accompanying notes.

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Renaissance Capital Growth & Income Fund III, Inc.  
 Schedules of Investments  
 December 31, 2002 and 2001

	2002				
	Interest Rate	Due Date	Cost	Fair Value	% of Net Assets
Eligible Portfolio Investments -					
Convertible Debentures and Promissory Notes					
Active Link Communications, Inc. -					
Convertible bridge note (2)	12.00	09/30/03	\$ 41,480	\$ 41,789	0.10
Convertible note (2)	8.00	09/30/03	125,000	126,000	0.31
Convertible note (2)	8.00	09/30/03	250,000	252,000	0.61
Business Process Outsourcing -					
Convertible debenture (1) (3)	12.00	08/31/03	98,000	100,000	0.24
Dexterity Surgical, Inc. -					
Convertible debenture (2)	9.00	12/19/04	1,316,282	1,066,282	2.58
EDT Learning, Inc. -					
Convertible redeemable note (2)	12.00	03/29/12	500,000	500,000	1.21
eOriginal, Inc. -					
Promissory note (3)	12.00	12/31/02	1,139,683	1,139,683	2.76
Integrated Security Systems, Inc. -					
Promissory notes (4)	8.00	09/05/03	325,000	325,000	0.79
Laserscope -					
Convertible debenture (2)	8.00	02/11/07	1,500,000	5,026,000	12.18
Simtek Corporation -					
Convertible debenture (2)	7.50	06/28/09	1,000,000	1,000,000	2.42
			\$ 6,295,445	\$ 9,576,754	23.21%

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

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December 31, 2002 and 2001

	2002				
	Interest Rate	Due Date	Cost	Fair Value	% of Net Assets
Other Portfolio Investments - Convertible Debentures and Promissory Notes					
CareerEngine Network, Inc. - Convertible debenture (2)	12.00	03/31/10	\$ 250,000	\$ 250,000	0.61
Interpool, Inc. - Convertible debenture (2)	9.25	12/27/22	375,000	375,000	0.91
			\$ 625,000	\$ 675,000	1.51%

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

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Renaissance Capital Growth & Income Fund III, Inc.  
Schedules of Investments (continued)  
December 31, 2002 and 2001

	2002			
	Shares	Cost	Fair Value	% of Net Assets
Eligible Portfolio Investments - Common Stock, Preferred Stock, and Miscellaneous Securities				
Bentley Pharmaceuticals, Inc. - Common stock	400,000	\$ 500,000	\$ 3,187,800	7.73
CaminoSoft Corp. - Common stock	1,750,000	4,000,000	1,559,250	3.78
Common stock (2)	708,333	875,000	549,250	1.33
Dexterity Surgical, Inc. - Preferred stock - A (2)	500	500,000	0	0.00
Preferred stock - B (2)	500	500,000	0	0.00
Common stock (2)	260,000	635,000	0	0.00

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eOriginal, Inc. -				
Series A, preferred stock (1)	6,000	1,500,000	794,000	1.92
Series B-1, preferred stock (1)	1,785	392,700	1,426,215	3.46
Series B-3, preferred stock (1)	447	107,280	357,153	0.87
Series C-1, preferred stock (1)	2,353	2,000,050	2,000,050	4.85
Fortune Natural Resources Corp. -				
Common stock	1,262,394	500,500	81,235	0.20
Gasco Energy, Inc. -				
Common stock	250,000	250,000	112,150	0.27
Integrated Security Systems, Inc. -				
Common stock	393,259	215,899	93,438	0.23
Common stock - PIK (2)	104,787	28,319	23,640	0.06
Series D, preferred stock (2)	187,500	150,000	54,000	0.13
Series F, preferred stock (2)	2,714,945	542,989	612,492	1.48
Series G, preferred stock (2)	18,334,755	3,666,951	4,086,321	9.90

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Renaissance Capital Growth & Income Fund III, Inc.  
Schedules of Investments (continued)  
December 31, 2002 and 2001

	2002			
	Shares	Cost	Fair Value	% of Net Assets
Eligible Portfolio Investments - Common Stock, Preferred Stock, and Miscellaneous Securities				
JAKKS Pacific, Inc. -				
Common stock	59,847	\$ 357,088	\$ 798,078	1.93
Poore Brothers, Inc. -				
Common stock (2)	2,016,357	2,078,170	4,669,485	11.32
Simtek Corp. -				
Common stock (2)	1,000,000	195,000	150,400	0.36
ThermoView Industries, Inc. -				
Common stock	134,951	497,832	120,241	0.29
Miscellaneous Securities		2,165	462,349	1.12
		-----	-----	-----
		\$19,494,943	\$21,103,733	51.15%

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

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Renaissance Capital Growth & Income Fund III, Inc.  
Schedules of Investments (continued)  
December 31, 2002 and 2001

	2002			
	Shares	Cost	Fair Value	% of Net Assets
Other Portfolio Investments - Common Stock, Preferred Stock, and Miscellaneous Securities				
AirNet Systems, Inc. - Common stock	75,000	\$ 318,750	\$ 296,860	0.72
Bentley Pharmaceuticals, Inc. - Common stock	259,979	535,168	2,071,902	5.02
Canterbury Consulting Group, Inc. - Common stock	200,000	193,473	51,480	0.12
Capital Senior Living Corp - Common stock	44,500	110,975	112,340	0.27
Creative Host Services, Inc. - Common stock	4,830	7,921	9,085	0.02
Daisytek International, Inc. - Common stock	49,600	507,639	389,395	0.94
Dave & Busters, Inc. - Common stock	100,000	653,259	856,350	2.08
Dwyer Group, Inc. - Common stock	675,000	1,966,632	2,559,397	6.20
EDT Learning, Inc. - Common stock	48,266	27,033	14,335	0.03
I-Flow Corporation - Common stock	100,000	254,038	154,440	0.37

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Renaissance Capital Growth & Income Fund III, Inc.  
Schedules of Investments (continued)  
December 31, 2002 and 2001

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2002				
	Shares	Cost	Fair Value	% of Net Assets
Other Portfolio Investments - Common Stock, Preferred Stock, and Miscellaneous Securities				
Inet Technologies, Inc. - Common stock	75,000	\$ 367,434	\$ 452,925	1.10
Precis, Inc. - Common stock	100,700	1,025,047	550,305	1.33
US Home Systems, Inc. - Common stock	110,000	535,587	601,128	1.46
Miscellaneous Securities		0	0	0.00
		\$ 6,502,956	\$ 8,119,942	19.68%
		-----	-----	-----
		\$32,918,344	\$39,459,243	95.64%
		=====	=====	=====
Allocation of Investments - Restricted Shares, Unrestricted Shares, and Other Securities				
Restricted Securities (2)		\$15,097,941	\$19,191,669	46.52%
Unrestricted Securities		\$12,255,525	\$13,663,124	33.12%
Other Securities (5)		\$ 5,564,878	\$ 6,604,450	16.01%

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

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Renaissance Capital Growth & Income Fund III, Inc.  
Schedules of Investments (continued)  
December 31, 2002 and 2001

2001						
	Interest Rate	Due Date	Cost	Fair Value	% of Net Assets	
Eligible Portfolio Investments - Convertible Debentures and Promissory Notes						
Active Link Communications, Inc. - Convertible bridge note (2)	12.00	05/02	\$ 116,667	\$ 150,792	0.28	

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Convertible note (2)	8.00	09/30/02	125,000	161,563	0.30
Convertible note (2)	8.00	09/30/02	250,000	288,125	0.53
Dexterity Surgical, Inc. -					
Convertible debenture (2)	9.00	12/19/04	1,329,577	1,329,577	2.44
Display Technologies, Inc. -					
Convertible debenture (2) (4)	8.75	03/02/05	1,750,000	0	0.00
eOriginal, Inc. -					
Promissory note (1)	12.00	06/30/02	500,000	500,000	0.92
Integrated Security Systems, Inc. -					
Promissory notes (2)	8.00	01/25 - 05/14/02	200,000	200,000	0.37
Laserscope -					
Convertible debenture (2)	8.00	02/11/07	1,500,000	2,770,000	5.08
Northwestern Steel & Wire Corp. -					
Debt (3)	N/A	N/A	127,500	127,500	0.23
			-----	-----	-----
			\$ 5,898,744	\$ 5,527,557	10.14

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

(2) Restricted securities under Rule 144 (Note 7).

(3) Company is liquidating in bankruptcy.

(4) Interest payments under the terms of the convertible debentures are delinquent as of December 31, 2001.

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Renaissance Capital Growth & Income Fund III, Inc.  
Schedules of Investments (continued)  
December 31, 2002 and 2001

	2001					
	Interest	Due		Fair	% of Net	
	Rate	Date	Cost	Value	Assets	
Other Portfolio Investments -						
Convertible Debentures and						
Promissory Notes						
CareerEngine Network, Inc. -						
Convertible debenture (2)	12.00	03/31/10	\$ 250,000	\$ 250,000	0.46	
Play by Play Toys & Novelties -						
Convertible debenture (3) (4)	10.50	12/31/00	2,425,748	500,000	0.92	
RailAmerica, Inc. -						
Convertible debenture	6.00	07/31/04	500,000	715,770	1.31	
			-----	-----	-----	
			\$ 3,175,748	\$ 1,465,770	2.69	

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

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- (2) Restricted securities under Rule 144 (Note 7).  
 (3) Company is liquidating in bankruptcy.  
 (4) Interest payments under the terms of the convertible debentures are delinquent as of December 31, 2001.

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Renaissance Capital Growth & Income Fund III, Inc.  
 Schedules of Investments (continued)  
 December 31, 2002 and 2001

	2001			
	Shares	Cost	Fair Value	% of Net Assets
Eligible Portfolio Investments - Common Stock, Preferred Stock, and Miscellaneous Securities				
Bentley Pharmaceuticals, Inc. - Common stock	400,000	\$ 500,000	\$ 4,035,240	7.40
CaminoSoft Corp. - Common stock	1,750,000	4,000,000	2,858,625	5.24
Common stock (2)	708,333	875,000	1,048,625	1.92
Dexterity Surgical, Inc. - Preferred stock - A (2)	500	500,000	5,769	0.01
Preferred stock - B (2)	500	500,000	5,769	0.01
Common stock (2)	260,000	635,000	0	0.00
Display Technologies, Inc. - Common stock (2)	127,604	500,000	0	0.00
eOriginal, Inc. - Series A, preferred stock (1)	6,000	1,500,000	4,794,000	8.79
Series B-1, preferred stock (1)	1,785	392,700	1,426,215	2.62
Series B-3, preferred stock (1)	447	107,280	357,153	0.65
Series C-1, preferred stock (1)	2,353	2,000,050	2,000,050	3.67
Fortune Natural Resources Corp. - Common stock	1,322,394	545,500	209,467	0.38

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Renaissance Capital Growth & Income Fund III, Inc.  
 Schedules of Investments (continued)  
 December 31, 2002 and 2001

2001

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	Shares	Cost	Fair Value	% of Net Assets
Eligible Portfolio Investments - Common Stock, Preferred Stock, and Miscellaneous Securities				
Integrated Security Systems, Inc. -				
Common stock	393,259	215,899	159,624	0.29
Common stock - PIK (2)	13,463	3,366	5,189	0.01
Series D, preferred stock (2)	187,500	150,000	92,250	0.17
Series F, preferred stock (2)	2,714,945	542,989	1,046,339	1.92
Series G, preferred stock (2)	18,334,755	3,666,951	7,016,215	12.86
JAKKS Pacific, Inc. -				
Common stock	87,347	521,172	1,638,674	3.00
Poore Brothers, Inc. -				
Common stock (2)	1,931,357	1,963,170	4,488,689	8.23
Simtek Corp. -				
Common stock (2)	1,000,000	195,000	394,800	0.72
ThermoView Industries, Inc. -				
Common stock (2)	31,851	415,384	27,433	0.05
Verso Technologies, Inc. -				
Common stock (2)	179,375	512,500	219,196	0.40
Miscellaneous Securities		5,915	1,040,722	1.91
		-----	-----	-----
		\$20,247,876	\$32,870,044	60.27

- (1) Valued at fair value as determined by the Investment Adviser (Note 6).  
(2) Restricted securities under Rule 144 (Note 7).  
(3) Company is liquidating in bankruptcy.  
(4) Interest payments under the terms of the convertible debentures are delinquent as of December 31, 2001.

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Renaissance Capital Growth & Income Fund III, Inc.  
Schedules of Investments (continued)  
December 31, 2002 and 2001  
2001

	2001			
	Shares	Cost	Fair Value	% of Net Assets
Other Portfolio Investments - Common Stock, Preferred Stock, and Miscellaneous Securities				
Bentley Pharmaceuticals, Inc. -				
Common stock	524,979	\$ 1,470,478	\$ 5,296,037	9.71
Dave & Busters, Inc. -				
Common stock	100,000	653,259	621,720	1.14
Display Technologies, Inc. -				

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Common stock (2)	13,880	549,741	0	0.00
Preferred stock (2)	5,000	500,000	0	0.00
Dwyer Group, Inc. - Common stock	675,000	1,966,631	3,307,838	6.07
EDT Learning, Inc. - Common stock	31,600	16,590	45,988	0.08
Precis, Inc. - Common stock	6,200	36,740	74,884	0.14
RailAmerica, Inc. - Common stock	40,000	500,000	493,696	0.91
Miscellaneous Securities		0	58,806	0.11
		-----	-----	-----
		\$ 5,693,439	\$ 9,898,969	18.15
		-----	-----	-----
		\$35,015,807	\$49,762,340	91.24
		=====	=====	=====

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Renaissance Capital Growth & Income Fund III, Inc.  
Schedules of Investments (continued)  
December 31, 2002 and 2001

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

Restricted Securities Under Rule 144	\$17,030,345	\$19,500,331	35.76
Unrestricted Securities	13,352,018	19,957,562	36.59
Other Securities (5)	4,633,444	10,304,447	18.89

- (1) Valued at fair value as determined by the Investment Adviser (Note 6).
- (2) Restricted securities under Rule 144 (Note 7).
- (3) Company is liquidating in bankruptcy.
- (4) Interest payments under the terms of the convertible debentures are delinquent as of December 31, 2001. (5) Includes Miscellaneous Securities, securities of privately owned companies; and securities for which there is no market.
- (5) Includes Miscellaneous Securities, securities of privately owned companies; and securities for which there is no market.

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Renaissance Capital Growth & Income Fund III, Inc.  
Statements of Operations  
Years ended December 31, 2002, 2001, and 2000

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	2002	2001	2000
Income:			
Interest	\$ 278,573	\$ 423,002	\$ 1,468,068
Dividends	70,640	195,453	114,455
Commitment and other fees	28,442	3,100	112,375
	-----	-----	-----
	377,655	621,555	1,694,898
	-----	-----	-----
Expenses (Note 4):			
General and administrative	484,121	411,348	422,554
Incentive fee	-	919,429	1,611,135
Interest expense	61,071	123,199	-
Legal expense	109,927	128,323	121,187
Management fees	860,834	912,544	1,056,483
	-----	-----	-----
	1,515,953	2,494,843	3,211,359
	-----	-----	-----
Net investment loss	( 1,138,298)	( 1,873,288)	( 1,516,461)
	-----	-----	-----
Realized and unrealized gain (loss) on investments:			
Net change in unrealized appreciation (depreciation) on investments	( 8,205,633)	9,365,167	( 1,507,015)
Net realized gain (loss) on investments	( 3,429,593)	2,054,836	8,055,679
	-----	-----	-----
Net gain (loss) on investments	( 11,635,226)	11,420,003	6,548,664
	-----	-----	-----
Net income (loss)	(\$12,773,524)	\$ 9,546,715	\$ 5,032,203
	=====	=====	=====
Net income (loss) per share (Note 2(e))	(\$ 2.93)	\$ 2.19	\$ 1.18
	=====	=====	=====

See accompanying notes.

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Renaissance Capital Growth & Income Fund III, Inc.  
Statements of Changes in Net Assets  
Years ended December 31, 2002, 2001, and 2000

	2002	2001	2000
From operations:			
Net investment loss	\$( 1,138,298)	\$( 1,873,288)	\$( 1,516,461)
Net realized gain (loss) on investments	( 3,429,593)	2,054,836	8,055,679
Increase (decrease) in unrealized appreciation on investments	( 8,205,633)	9,365,167	( 1,507,015)

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Net increase (decrease) in net assets resulting from operations	(12,773,524)	9,546,715	5,032,203
From distributions to stockholders:			
Common dividends from net investment income	-	-	( 140,900)
Common dividends from realized gains	( 2,355,274)	( 6,239,230)	
Tax return of capital	( 435,172)	-	-
Net decrease in net assets resulting from distributions	( 435,172)	( 2,355,274)	( 6,380,130)
From capital transactions:			
Shares issued	-	-	2,759,688
Purchase of treasury stock	( 69,746)	-	-
Net increase (decrease) in net assets resulting from capital transactions	( 69,746)	-	2,759,688
Total increase (decrease) in net assets	(13,278,442)	7,191,441	1,411,761
Net assets:			
Beginning of year	54,537,508	47,346,067	45,934,306
End of year	\$41,259,066	\$54,537,508	\$47,346,067

See accompanying notes.

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Renaissance Capital Growth & Income Fund III, Inc.  
Statements of Cash Flows  
Years ended December 31, 2002, 2001, and 2000

	2002	2001	2000
Cash flows from operating activities:			
Net income (loss)	\$(12,773,524)	\$ 9,546,715	\$ 5,032,203
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Net change in unrealized (appreciation) depreciation on investments	8,205,633	( 9,365,167)	1,507,015
Net realized gain (loss) on investments	3,429,593	( 2,054,836)	( 8,055,679)

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(Increase) decrease in interest receivable	61,177	349,571	( 239,827)
(Increase) decrease in other assets	( 26,206)	25,949	28,685
Increase (decrease) in accounts payable	( 1,366)	( 610)	( 97,626)
Increase (decrease) in accounts payable - affiliate	( 45,156)	33,115	22,037
Increase (decrease) in due to broker	(13,195,983)	5,715,122	16,482,024
	-----	-----	-----
Net cash provided by (used in) operating activities	(14,345,832)	4,249,859	14,678,832
	-----	-----	-----
Cash flows from investing activities:			
Purchase of investments	( 6,851,707)	( 3,509,674)	( 7,838,711)
Proceeds from sale of investments	4,911,282	10,364,052	10,366,539
Repayment of debentures	633,250	170,423	-
	-----	-----	-----
Net cash provided by (used in) investing activities	( 1,307,175)	7,024,801	2,527,828
	-----	-----	-----
Cash flows from financing activities:			
Net proceeds from issuance of shares	-	-	2,759,688
Purchase of treasury shares	( 69,746)	-	-
Cash distributions	( 435,172)	( 2,355,274)	( 6,845,848)
	-----	-----	-----
Net cash used in financing activities	( 504,918)	( 2,355,274)	( 4,086,160)
	-----	-----	-----

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Renaissance Capital Growth & Income Fund III, Inc.  
 Statements of Cash Flows (continued)  
 Years ended December 31, 2002 2001 and 2000

	2002	2001	2000
Net increase (decrease) in cash and cash equivalents	(16,157,925)	8,919,386	13,120,500
Cash and cash equivalents at beginning of the year	27,125,926	18,206,540	5,086,040
	-----	-----	-----
Cash and cash equivalents at end of the year	\$ 10,968,001	\$ 27,125,926	\$ 18,206,540
	=====	=====	=====
Cash paid during the year for interest	\$ 61,071	\$ 123,199	-

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Cash paid during the year for income/excise taxes	\$	1,671	\$	23,068	\$	24,297
--	----	-------	----	--------	----	--------

### Noncash investing and financing activities:

During 2002, the Fund received common stock in settlement of amounts due from interest totaling \$18,148 and from dividends totaling \$6,805.

During 2001, the Fund received common stock in settlement of amounts due from dividends totaling \$3,366.

During 2000, the Fund received common stock in settlement of amounts due from interest totaling \$3,500 and received common stock in prepayment of interest totaling \$135,000. The Fund also received common stock totaling \$42,000 as a commitment fee.

See accompanying notes.

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

Notes to Financial Statements  
December 31, 2002, 2001, and 2000

#### (1) Organization and Business Purpose

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

#### (2) Summary of Significant Accounting Policies

##### (a) Valuation of Investments

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

##### (b) Other

The Fund follows industry practice and records security transactions on the trade date. Dividend income is recorded on the ex-dividend

date. Interest income is recorded as earned on the accrual basis.

(c) Cash and Cash Equivalents

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

(d) Federal Income Taxes

The Fund has elected the special income tax treatment available to "regulated investment companies" ("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

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RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.  
Notes to Financial Statements (Continued)  
December 31, 2002, 2001, and 2000

limited to certain qualifying income tests, asset diversification tests and distribution of substantially all of the Fund's taxable investment income to its shareholders. It is the intent of management to comply with all IRC requirements as they pertain to a RIC and to distribute all of the Fund's taxable investment income and long-term capital gains within the defined period under the IRC to qualify as a RIC. Failure to qualify as a RIC would subject the Fund to federal income tax as if the Fund were an ordinary corporation, which could result in a substantial reduction in the Fund's net assets as well as the amount of income available for distribution to shareholders.

(e) Net income per share

Net income per share is based on the weighted average number of shares outstanding of 4,359,748 during 2002, 4,361,618 during 2001, and 4,253,475 during 2000.

(f) Use of Estimates

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

(3) Due to Broker

The Fund conducts business with one prime broker for its investment activities. The clearing and depository operations for the investment activities are performed pursuant to agreements with this prime broker. Due to broker represents a margin loan payable to the prime broker, which is secured by investments in securities maintained with the prime broker. Cash and cash equivalents related to the margin loan payable are held by the prime broker. The Fund is subject to credit risk to the extent the prime broker is unable to deliver cash balances or securities, or clear security

transactions on the Fund's behalf. The Investment Adviser actively monitors the Fund's exposure to the broker and believes the likelihood of loss under those circumstances is remote.

(4) Management and 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

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RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.  
Notes to Financial Statements (Continued)  
December 31, 2002, 2001, and 2000

services, including certain management, investment advisory and administrative services necessary for the operation of the Fund. In addition, under the Agreement, the Investment Adviser is reimbursed by the Fund for certain administrative expenses. A summary of fees and reimbursements paid by the Fund under the Agreement, the prospectus and the original offering document are as follows:

- o The Investment Adviser receives a management fee equal to a quarterly rate of 0.4375% (1.75% annually) of the Fund's Net Assets, as determined at the end of such quarter with each such payment to be due as of the last day of the calendar quarter. The Fund incurred \$860,834, \$912,544, and \$1,056,483 for 2002, 2001, and 2000, respectively, for such management fees. Amounts payable for such fees at December 31, 2002, 2001 were \$191,651 and \$239,650, respectively.
- o The Investment Adviser receives an incentive fee in an amount equal to 20% of the Fund's realized capital gains in excess of realized capital losses of the Fund after allowance for any unrealized capital losses in excess of unrealized capital gains on the portfolio investments of the Fund. The incentive fee is calculated, accrued, and paid on a quarterly basis. The Fund incurred \$0, \$919,429 and \$1,611,135 during the years ended 2002, 2001, and 2000, respectively, for such incentive fees.
- o The Investment Adviser was reimbursed by the Fund for administrative expenses paid by the Investment Adviser on behalf of the Fund. Such reimbursements were \$83,443, \$117,894, and \$101,929, for 2002, 2001, and 2000, respectively, and are included in general and administrative expenses in the accompanying statements of operations.

(5) Eligible Portfolio Companies and Investments

(a) Eligible Portfolio Companies.

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

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

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RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.  
Notes to Financial Statements (Continued)  
December 31, 2002, 2001, and 2000

(b) Investments.

Investments are carried in the statements of assets and liabilities as of December 31, 2002, and December 31, 2001, at fair value, as determined in good faith by the Investment Adviser. The convertible debt securities held by the Fund generally have maturities between five and seven years and are convertible into the common stock of the issuer at a set conversion price at the discretion of the fund. The common stock underlying these securities is generally unregistered and thinly to moderately traded but is not otherwise restricted. The Fund may register and sell such securities at anytime with the Fund paying the costs of registration. Interest on the convertible securities are generally payable monthly. The convertible debt securities generally contain embedded call options giving the issuer the right to call the underlying issue. In these instances, the Fund has the right of redemption or conversion. The embedded call option will generally not vest until certain conditions are achieved by the issuer. Such conditions may require that minimum thresholds be met relating to underlying market prices, liquidity, and other factors.

(6) Valuation of Investments

On a quarterly basis, the Investment Adviser prepares a valuation of the assets of the Fund subject to the approval of the Fund's Board of Directors. The valuation principles are as follows:

- o Generally, the guiding principle for valuation is application of objective standards. The objective standards for determining market prices and applying valuation methodologies govern in all situations except where a debt issuer is in default.
- o Generally, the fair value of debt securities and preferred securities convertible into common stock is the sum of (a) the value of such securities without regard to the conversion feature, and (b) the value, if any, of the conversion feature. The fair value of debt securities without regard to conversion features is determined on the basis of the terms of the debt security, the interest yield, and the financial condition of the issuer. The fair value of preferred securities without regard to conversion features is determined on the basis of the terms of the preferred security, its dividend, and its liquidation and redemption rights and absent special circumstances will typically be equal to the lower of cost or 120% of the value of the underlying common stock. The fair value of the conversion features of a security, if any, are based on fair values of the derivative securities as of the relevant date less an allowance, as appropriate, for costs of registration, if any, and selling expenses.

RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.  
Notes to Financial Statements (Continued)  
December 31, 2002, 2001, and 2000

- o Portfolio investments for which market quotations are readily available and which are freely transferable are valued as follows: (i) securities traded on a securities exchange or the Nasdaq or in the over-the-counter market are valued at the closing price on, or the last trading day prior to, the date of valuation, and (ii) securities traded in the over-the-counter market that do not have a closing price on, or the last trading day prior to, the date of valuation are valued at the average of the closing bid and ask price for the last trading day on, or prior to, the date of valuation. Securities for which market quotations are readily available but are restricted from free trading in the public securities markets (such as Rule 144 stock) are valued by discounting the value for the last trading day on, or prior to, the date of valuation to reflect the liquidity caused by such restriction, but taking into consideration the existence, or lack thereof, of any contractual right to have the securities registered and freed from such trading restrictions.
- o Because there is no independent and objective pricing authority (i.e. a public market) for investments in privately held entities, the latest sale of equity securities by the entity governs the value of the enterprise. This valuation method causes the Fund's initial investment in the private entity to be valued at cost. Thereafter, new issuances of equity or equity-linked securities by a portfolio company will be used to determine enterprise value as they will provide the most objective and independent basis for determining the worth of the issuer.

There can be no assurance that stated market rates for private equity valuations will stay constant, or that future equity raises will value the portfolio company at levels equal to or greater than the prior equity financing for the issuer. As a result, the Fund's valuation of a privately held portfolio company may be subject to downward adjustment that would directly impact the Fund's net asset value and which could result in a substantial reduction in the fund's net assets.

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

RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.  
 Notes to Financial Statements (Continued)  
 December 31, 2002, 2001, and 2000

As of December 31, 2002, and December 31, 2001, the net unrealized appreciation associated with investments held by the Fund was \$6,540,900, and \$14,746,533 respectively. For 2002, the Fund had gross unrealized gains of \$13,970,011 and gross unrealized losses of (\$7,429,111) for book and federal income tax purposes. For 2001, the Fund had gross unrealized gains of \$23,730,567 and gross unrealized losses of (\$8,984,034) for book and federal income tax purposes.

(7) Restricted Securities

As indicated on the schedule of investments as of December 31, 2002, and December 31, 2001, the Fund holds investments in shares of common stock, the sale of which is restricted. These securities have been valued by the Investment Adviser after considering certain pertinent factors relevant to the individual securities (Note 6).

(8) Purchase of Additional Shares

In accordance with Fund guidelines, certain shareholders reinvested their dividends in the Fund, purchasing 218,676 Fund shares issued directly by the Fund in 2000. The Fund issued no shares in 2002 or 2001 under the dividend reinvestment plan.

(9) Distributions to Shareholders

The tax character of distributions paid by the Fund was as follows:

2002 -- Tax return of capital	\$ 435,172
2001 -- Capital gain dividends	\$2,355,274

There were no undistributed earnings on a federal tax basis at the end of both 2002 and 2001. The capital loss carryover of \$3,429,593 will expire in 2010. The tax cost of securities is identical to the book cost.

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RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.  
 Notes to Financial Statements (Continued)  
 December 31, 2002, 2001, and 2000

(10) Financial Highlights

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

	2002	2001
Net asset value, beginning of year	\$ 12.50	\$ 10.86
Net investment loss	( .26)	( .43)

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Net realized and unrealized gain (loss) on investments	( 2.66)	2.61
	-----	-----
Total return from investment operations	( 2.92)	2.18
Distributions:		
From net capital gains	0	( .54)
Tax return of capital	( .10)	0
	-----	-----
Net asset value, end of year	\$ 9.48	\$ 12.50
Per share market value, end of year	\$ 7.86	\$ 10.31
Portfolio turnover rate	12.13%	6.72%
Annual return (a)	(23.76%)	14.56%
Ratio to average net assets (b):		
Net investment loss	( 2.31%)	( 3.69%)
Expenses, excluding incentive fees	3.07%	3.10%
Expenses, including incentive fees	3.07%	4.91%

(a) Annual return was calculated by comparing the common stock price on the first day of the year to the common stock price on the last day of the year.

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

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RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.  
Notes to Financial Statements (Continued)  
December 31, 2002, 2001, and 2000

EXHIBIT 99-1

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

Pursuant to 18 U.S.C. ss.1350, the undersigned officer of Renaissance Capital Growth & Income Fund III, Inc. (the "Company"), hereby certifies, to such officer's knowledge, that the Company's Annual Report on Form 10-K for the year ended December 31, 2002 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 20, 2003

/S/ Russell Cleveland  
Russell Cleveland  
President & CEO

RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.  
Notes to Financial Statements (Continued)  
December 31, 2002, 2001, and 2000  
EXHIBIT 99-2

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

Pursuant to 18 U.S.C. ss.1350, the undersigned officer of Renaissance Capital Growth & Income Fund III, Inc. (the "Company"), hereby certifies, to such officer's knowledge, that the Company's Annual Report on Form 10-K for the year ended December 31, 2002 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 20, 2003

/s/ Barbe Butschek  
Barbe Butschek  
Chief Financial Officer