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RENAISSANCE CAPITAL GROWTH & INCOME FUND III INC

Form 10-K

March 30, 2001

Securities and Exchange Commission
Washington, D. C. 20549

Form 10-K

Mark One

- (X) ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the Fiscal Year Ended December 31, 2000 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)

As of March 28, 2001 there were 4,341,618 shares of Registrant's stock outstanding. The aggregate market value of the stock held by non-affiliates, based on the closing price of such stock as of March 28, 2001 was \$38,503,832.50. 288,583 shares of stock held by affiliates were valued at \$2,741,538.50.

Documents Incorporated by Reference: Certain portions of the Registrant's Definitive Proxy Statement (the "Proxy Statement") for its Annual Meeting of

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Shareholders to be held on May 18, 2001 pursuant to Regulation 14A are

incorporated by reference in Items 10 through 13 of Part III of this Annual Report on Form 10-K.

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 Company 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 Company 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.

Item 1. Business.

GENERAL DEVELOPMENT OF BUSINESS

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"). Through December 31, 2000, the Fund has raised \$41,489,500 through capital contributions and the public sale of its common stock, par value \$1.00 per share.

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 preferred stock or debentures of a Portfolio Company, which securities 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 generally 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 the Securities Act.

From inception through December 31, 2000 the Fund had made investments in twenty eight (28) different portfolio companies having an aggregate cost of

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\$58,908,672. The Fund had active investments in twenty two (22) portfolio companies at December 31, 2000, and is seeking additional investment opportunities.

FINANCIAL INFORMATION ABOUT INDUSTRY SEGMENTS

The Fund has no concentrated industry segments. The Fund does not contemplate specializing in any particular industry but instead anticipates allocating its investments to a variety of industries.

NARRATIVE DESCRIPTION OF THE BUSINESS

The Fund, as a Business Development Company, is engaged primarily in investments in convertible securities of small public companies.

Under the provisions of the 1940 Act, a Business Development Company is to invest 70% or more of its funds in "eligible portfolio investments," such being generally defined 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 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 U.S. Government and agency debt.

At December 31, 2000, the Fund's investment assets were classified by amount as follows:

Classification	Value	Percentage Of Assets
-----	-----	-----
Eligible Portfolio Investments (including cash and cash equivalents)	\$55,678,317	86.89%
Other Portfolio Investments	\$ 8,399,283	13.11%
	-----	-----
	\$64,077,600	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. During 2000, no quarterly income dividends were paid as a result of conversions of debt instruments into underlying equity securities of portfolio companies. As the Fund's portfolio matures, it is expected that this trend will continue in order for the Fund to realize capital gains from the appreciation of Portfolio Company equity securities.

GENERAL INVESTMENT POLICIES

The Fund invests in Emerging Growth Company securities that are generally

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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 new product or service that allows the company an opportunity for exceptional growth. However, because the extent and nature of the market for such product or services is not fully known, 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 preferred stock or convertible debentures 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 anticipates participating in bridge financings in the form of loans 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 will make bridge loans, either secured or unsecured, intended to carry the borrower to a private placement, an initial public offering or a merger and acquisition transaction.

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 currently intends to limit its investment in securities of any single Portfolio Company to approximately 10% (8% to 12%) of its net assets at the time of the investment.

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:

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- 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 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 seeks to limit its "control" position by requiring only that 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;

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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;
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 Advisor 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 Advisor, including Renaissance US Growth and Income Trust PLC ("RUSGIT" or "Advisor Affiliate"). The order was granted on December 30, 1996.

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

- A. the Investment Advisor will determine if the investment is eligible for investment by the Funds;
- B. the Investment Advisor will determine an appropriate amount that the Funds should invest;
- C. the Investment Advisor will distribute written information, including the amount of the proposed investment, concerning all co-investment opportunities to the Board of Directors of both the Fund and RUSGIT. 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 investment if any Advisor Affiliate, the Investment Advisor, or a person controlling, controlled by, or under common control with the Advisor 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 Advisor 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;
- 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 Advisor Affiliate with the Fund co-investors.

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The Fund has made numerous investments with the Advisor Affiliate and anticipates making additional investments in the future.

INVESTMENT ADVISERS ACT OF 1940 AND INVESTMENT ADVISER'S 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") and 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 of 1.75% of the Fund's assets which is determined and payable on a quarterly basis. In addition to the management fee of 1.75% of the fund's assets, Renaissance Group is entitled to receive an incentive fee (the "incentive fee") in an amount equal to 20% of the Fund's realized capital gains computed net of all realized capital losses and unrealized depreciation. The incentive fee is 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 agreements and at all times be construed so as to comply with the Advisers Act and the 1940 Act.

FUND PORTFOLIO INVESTMENTS

At December 31, 2000 the Fund had active investments in the following Portfolio Companies.

Active Link Communications, Inc. (formerly Communications World International, Inc.) (ACVE)

Active Link Communications, Inc. markets a range of voice communications products and technical services to large communication companies and directly to large and small end users in the Denver, Houston and Dallas-Ft. Worth metropolitan areas.

In the fourth quarter, the Fund advanced the Company \$125,000 pursuant to an 8% Convertible Promissory Note. The Note is convertible at \$1.50 per share, calls for monthly interest payments and matures on the earlier to occur of September 30, 2002, or receipt by the Company of gross cash proceeds from an equity financing in excess of \$4,000,000, or the completion of a merger of the Company into another company in which the Company's shareholders receive a minimum of \$10,000,000. The Note also contains standard anti-dilution and registration provisions, and as additional consideration for advancing monies to the Company, the Fund received payment for all accrued and outstanding interest through October 13, 2000 on the Fund's \$250,000 Promissory Note, which represents the Fund's initial investment into the Company.

At December 31, 2000, the Fund owned \$375,000 in 8% Subordinated

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Convertible Promissory Notes (the \$125,000 note described above together with a \$250,000 note which constituted the Fund's initial investment in the Company when made in the fourth quarter of 1999), 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. Like the \$125,000 note, the Fund's \$250,000 note accrues interest at 8%, is unsecured, and matures on the earlier to occur of September 30, 2002, or receipt by the Company of gross cash proceeds from an equity financing in excess of \$4,000,000, or the completion of a merger of the Company into another company in which the Company shareholders receive a minimum of \$10,000,000. The Note is convertible into the Company's common stock at \$1.50 per share, and contains standard anti-dilution provisions which protect the Fund in the event that common stock is issued by the Company for a price per share below the conversion price, or where the common stock issuable upon conversion of the Note is changed into the same or different number of shares of any other classes of stock by capital reorganization, reclassification, or otherwise. The Company is entitled to pay the principal amount of the note without penalty at any time upon sixty days prior notice to the Fund so long as the average closing price of the common stock for the thirty trading days prior to the notice is \$3.75 and a registration statement is in effect covering the resale of the underlying shares of common stock. The Fund is entitled to limited shelf registration rights, and the Company has a duty to use "best efforts" to register the Fund's underlying shares once a conversion is effectuated.

At December 31, 2000, RUSGIT owned \$750,000 in 8% Subordinated Convertible Promissory Notes and had warrants to purchase 200,000 shares of the Company's common stock at \$0.60 per share. Except for the amounts invested and the number of warrants owned, the RUSGIT investments have the same terms and conditions as the Fund's investments.

Bentley Pharmaceuticals, Inc. (BNT)

Bentley Pharmaceuticals, Inc. is an emerging 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 first quarter, the Company called all of its outstanding 12% Convertible Senior Subordinated Debentures due February 13, 2006. Upon notice of the call, the Fund had the option to convert its debentures into common stock of the Company at a rate of \$2.50 per share or to have the debentures redeemed

at a value equal to 105% of par plus accrued interest, which equaled \$1,050 per \$1,000 worth of debentures plus accrued interest. The Fund chose to convert all of its debentures, having a principal amount of \$800,000, into 320,000 shares of common stock.

In the third quarter ended September 30, 2000, the Fund purchased 52,100 shares of the Company's common stock on the open market for \$411,082, a price per share of \$7.89.

At December 31, 2000, the Fund owned 917,200 shares of the Company's common stock and also owned options to purchase 19,791 shares of the Company's common stock. 7,779 of the options have vested and are exercisable at \$3.00 per share on or before June 30, 2009. 12,012 of the options vest in June 2001 and are exercisable at \$7.25 on or before June 9, 2010. The common stock underlying the options is subject to Rule 144 of the Securities Act. The Fund's options were obtained by assignment from Russell Cleveland, President of Renaissance Capital Group, Inc., who earned the options as a member of the Company's Board of Directors.

At December 31, 2000, RUSGIT owned 1,104,400 shares of the Company's common

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stock having a basis of \$2,080,468.

CaminoSoft Corporation (CMSF)

CaminoSoft Corporation is a creator of proprietary hardware and operating software solutions designed to store and manage the vast quantities of data constantly created in a wide range of businesses and industries which are required to maintain and access that data.

In the first quarter of 2000, the Fund exercised its 250,000 share warrant by paying the Company \$125,000 in exchange for 250,000 shares of common stock. In February 2000, the Fund participated in a private placement by purchasing an additional 250,000 shares of the Company's common stock for \$500,000. The shares are unregistered and are restricted from transfer pursuant to Rule 144 of the Securities Act.

At December 31, 2000, the Fund owned 2,250,000 shares of the Company's common stock having a basis of \$4,625,000 and warrants to purchase 500,000 shares of the Company's common stock at \$1.00 per share on or before April 18, 2001.

At December 31, 2000, RUSGIT owned 1,000,000 shares of the Company's common stock.

CareerEngine Network, Inc. (CNE)

CareerEngine Network, Inc. is a leading 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.

Effective June 28, 2000, the Fund made its initial investment in CareerEngine by advancing the Company \$250,000 pursuant to a 12% Convertible Subordinated Debenture due May 2010 and convertible into the Company's common stock at a rate of \$2.00 per share. The debenture contains standard anti-dilution provisions and entitles the Fund to demand and piggyback registration rights. The Company has the right to redeem the debenture with at least thirty days notice to the Fund so long as the reported closing price of the common stock equals or exceeds 2.154 times the conversion price in effect for a period of twenty consecutive trading days. In addition to the debenture, as consideration for making the investment the Fund received 125,000 warrants to purchase the Company's common stock. Half of the warrants are exercisable at \$4.00 per share on or before May 2003, and the remaining 62,500 warrants are exercisable at \$6.00 per share on or before May 2005.

In addition to the Fund's investment, RUSGIT also purchased \$250,000 worth of the Company's Convertible Subordinated Debentures and also received 125,000 warrants to purchase the Company's common stock all of which were purchased pursuant to the same terms and conditions as the Fund's investment.

Dexterity Surgical, Inc. (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 of 2000, the Fund had the conversion price on its convertible debenture reduced from \$1.60 per share to \$1.00 per share and also agreed to take payment of interest owing on the debentures in common stock of the Company at a rate of \$1.00 per share in consideration of the Fund's allowance of an investment into the Company by third party investors. The total shares received for the interest was 135,000 shares, and represents interest the

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Company was obligated to pay from February 1, 2000 through January 31, 2001. In the second quarter, the conversion price on the Fund's preferred stock investments was lowered from \$1.60 per share to \$1.56 per share in consideration of the Fund's allowance of an investment into the Company by third party investors.

At December 31, 2000, the Fund owned \$1,500,000 of the Company's 9% Convertible Debentures having a conversion price of \$1.00 per share which are secured by all of the assets of the parent and its subsidiary but which security is subordinate to certain senior lenders. The debentures have mandatory monthly principal installments beginning December 19, 2000 which installments continue on the first day of each successive month thereafter prior to maturity on December 19, 2004. In addition to the debentures, the Fund owns \$1,000,000 of the Company's Series A Cumulative Convertible Preferred Stock, which has an 8% cumulative dividend, is payable quarterly, is convertible into the Company's common stock at \$1.56 per share, and has a liquidation preference equal to 100% of the dollar amount invested by the Fund in the preferred shares. Finally, the Fund owns 260,000 shares of the Company's common stock which are restricted pursuant to Rule 144 of the Securities Act, and options to purchase 5,000 shares of the Company's common stock at \$0.75 per share. The options have vested and are exercisable on or before July 27, 2010. The Fund's options were obtained by assignment from Robert C. Pearson, Sr. Vice President of Renaissance Capital Group, Inc., who earned the options as a member of the Company's Board of Directors. Mr. Pearson has since resigned from the Company's Board.

In addition to the Fund's investments, at December 31, 2000, RUSGIT had invested \$1,500,000 in Convertible Debentures of the Company, \$1,000,000 in the Company's Series A Cumulative Convertible Preferred Stock, and owned 260,000 shares of the Company's common stock. The investments by RUSGIT were made under the same terms and conditions as the Fund's investments.

Display Technologies, Inc. (DTEK)

Display Technologies, Inc., through its subsidiaries, designs, manufactures, installs, and services hi-tech electronic computer-driven video displays, message centers, scoreboards, and business identity signs, and also manufactures a line of compressed air filter products. The Company has customers in the entertainment, institutional, sports, retail, banking, billboard, and outdoor media industries.

At December 31, 2000, the Fund owned \$1,750,000 in the Company's 8.75% Convertible Debentures, \$500,000 of 5.25% Cumulative Convertible Series A Preferred Stock, 266,414 shares of common stock, warrants to purchase 110,250 shares of common stock at \$3.92 on or before March 2, 2003, and warrants to purchase 15,750 shares of the Company's common stock at \$3.33 on or before July 30, 2004.

Subsequent to December 31, 2000, the Fund, together with RUSGIT and Raymond James Capital Partners, L.P. ("Raymond James"), another significant DTEK investor, consummated a transaction with the Company pursuant to an Agreement to Provide Guarantee ("Guarantee") dated January 17, 2001. Pursuant to the Guarantee, Raymond James guaranteed \$1,750,000 of Company debt and RUSGIT agreed to indemnify Raymond James with respect to a portion of any payments made by Raymond James pursuant to the Guarantee up to \$500,000. As consideration for the Guarantee, RUSGIT received warrants to purchase 857,000 shares of the Company's common stock at \$0.125 per share and the debentures and preferred stock instruments owned by both RUSGIT and the Fund had their respective conversion prices reduced to \$2.00 per share. Previously, the debentures for RUSGIT and the Fund were convertible at \$4.31 per share and the Series A Convertible Preferred Stock for both RUSGIT and the Fund had been convertible at \$3.33 per share. The Fund did not participate in the Guarantee because the Fund is fully invested.

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The Fund's debentures mature March 2, 2005 and have mandatory monthly principal repayments beginning March 2, 2001. The debentures are secured by the assets of the Company and are guaranteed by each of the Company's subsidiaries and our convertible as described above. The Preferred pays dividends at a rate of 5.25% per year from July 30, 1999, the date the Preferred was issued, which are payable quarterly on the last day of March, June, September, and December of each year commencing on the first such dividend payment following the issuance. The Preferred is now convertible into common stock of the Company at the rate of \$3.33 per share, subject to downward adjustments in the event the Company issues, sells, distributes, or otherwise transfers shares of its common stock, other than the result of exercise of options, warrants, or conversion rights outstanding on the original issuance date, for a consideration per share less than the conversion price in effect immediately prior to such issuance. The Preferred has a liquidation preference equal to 100% of the dollar amount invested by the Fund, has voting rights equal to the number of whole shares of common stock into which the Preferred is convertible at the conversion price then in effect, and further entitles the Preferred Shareholders to vote as a single class. The Preferred shall be redeemed on the fifth anniversary date of issuance or in the event of a "default" as defined in the Certificate of Designation of Series A Preferred Stock. Finally, the preferred will automatically be converted into the Company's common stock at the then prevailing conversion price if the closing price for the Company's common stock for a period of twenty consecutive trading days following the second anniversary of the original issuance date exceeds 200% of the conversion price then in effect. All of the Fund's debenture, preferred stock, and warrant positions have anti-dilution provisions and certain registration rights.

At December 31, 2000, RUSGIT had investments in the Company identical to the Fund, with the only exceptions being that RUSGIT owns 265,679 shares of the Company's common stock and that RUSGIT had received 857,000 warrants to purchase common at \$0.125 per share for participating in the Guarantee to the Company's senior lender up to \$500,000 (described above).

Dwyer Group, Inc. (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, Rainbow International, Glass Doctor, Mr. Electric, Mr. Appliance, and Aire Serv.

At December 31, 2000, the Fund owned 675,000 shares of the Company's common stock having a cost basis of \$1,966,632. RUSGIT does not have an investment in the Company.

eOriginal, Inc. (Private)

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

In the first quarter of 2000, the Fund invested an additional \$107,280 to purchase 447 shares of the Company's Series B-3 Cumulative Convertible Preferred Stock (the "Preferred"). The Preferred entitles the Fund to a 5% cumulative dividend as well as voting rights and a liquidation preference equal to 100% of the dollar amount invested by the Fund. The Preferred also contains anti-dilution provisions, provides for automatic conversion into the Company's common stock in the event of a qualified initial public offering, and may be redeemed by the Company at any time after December 31, 2000 in an amount equal to 125% of the Fund's liquidation preference. The Preferred is convertible into the Company's common stock at \$240 per share.

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On September 25, 2000, the Fund purchased 2,353 shares of the Company's Series C-1 Cumulative Convertible Preferred Stock for \$2,000,050, representing a price per share of \$850. The Series C-1 Preferred entitles the Fund to a 5% dividend which accrues quarterly on a cumulative basis and entitles the Fund to voting rights and a liquidation preference equal to 100% of the dollar amount invested by the Fund. The Preferred also contains anti-dilution provisions, provides for automatic conversion into the Company's common stock in the event of a qualified initial public offering and may be redeemed by the Company at any time after December 31, 2002 in an amount equal to 125% of the Fund's liquidation preference. The Preferred is convertible into the Company's common stock at \$850 per share.

At December 31, 2000, the Fund owned 2,353 shares of the Series C-1 Cumulative Convertible Preferred Stock having a cost basis of \$2,000,050, 447 shares of the Series B-3 Cumulative Convertible Preferred Stock having a cost basis of \$107,280, 1,785 shares of the Series B-1 Convertible Preferred Stock having a cost basis of \$392,700, 6,000 shares of the Company's Series A 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. All series of Preferred entitle the Fund to a 5% cumulative dividend as well as a liquidation preference equal to 100% of the dollar amount invested by the Fund. The Preferred also currently entitles the Fund to voting rights, contains anti-dilution provisions, provides for automatic conversion into the Company's common stock in the event of a qualified initial public offering, and may be redeemed by the Company in an amount equal to 125% of the Fund's liquidation preference. The warrants are exercisable on or before September 15, 2003 and contain anti-dilution provisions and certain registration rights.

At December 31, 2000, RUSGIT owned 1,765 shares of the Series C-1 Cumulative Convertible Preferred Stock, 446 shares of Series B-3 Cumulative Convertible Preferred Stock, 1,786 shares of the Company's Series B-1 Cumulative Convertible Preferred Stock, 6,000 shares of the Company's Series A Cumulative Convertible Preferred Stock, and warrants to purchase 659 shares of the Company's common stock having a cost basis of \$165.

Fortune Natural Resources Corporation (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 February 2000, the Fund agreed to convert all of its convertible debentures, having a cost basis of \$350,000, into 1,061,728 shares of the Company's common stock. As additional consideration for the Fund's willingness to convert, it received one year's worth of future interest payments on the debentures paid in common stock of the Company at \$0.75 per share, giving the Fund an additional 56,000 shares. Finally, the Fund agreed to convert interest that had accrued on the debentures in January 2000 into common stock of the Company at a rate of \$0.75 per share giving the Fund an additional 4,666 shares of common stock.

Also in February 2000, the Fund agreed to invest an additional \$150,000 to purchase 200,000 shares of the Company's common stock at \$0.75 per share and as additional consideration the Fund received warrants to purchase 200,000 shares of the Company's common stock on or before February 2003. Warrants on 100,000 shares are exercisable at \$1.50 per share while warrants on the second tranche of shares are exercisable at \$2.25 per share. These positions are all unregistered securities and are restricted from transfer pursuant to Rule 144 of the Securities Act.

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At December 31, 2000, the Fund owned 1,322,394 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, and warrants to purchase 100,000 shares of common stock at \$2.25 on or before March 2003.

At December 31, 2000, RUSGIT owned common stock and warrant positions in Fortune that were identical to the Fund's position in amount and terms.

Grand Adventures Tour & Travel Publishing Corp. (GATT)

Grand Adventures is a supplier of leisure travel information and travel-related services to niche markets that have reaches through the publication of focused magazine titles and web sites. The Company publishes Interline Adventures, the premier travel magazine for airline employees, and Destination Weddings and Honeymoons Magazine. In addition, the Company operates AgentPerx.com, a web site dedicated to providing discount travel packages to travel agents for their own travel.

On July 14, 2000, the Fund made a follow-on investment in the Company by purchasing \$500,000 in 8% Convertible Debentures convertible into the Company's common stock at \$3.10 per share. On September 14, 2000, the Fund made another follow-on investment in the Company by purchasing \$500,000 in 8% Convertible Debentures convertible into the Company's common stock at \$3.00 per share. Except for the different conversion prices, both sets of debentures carry identical terms. They have a four year term, accrue interest quarterly, and may be redeemed by the Company if the per share price of the common stock at the close of trading on each of the ten business days preceding the delivery date of the notice of redemption equals or exceeds \$8.50 per share and at least thirty days' notice is given to the Fund of the redemption. As consideration for making the investments, the Fund received piggyback registration rights for all of its investments.

At December 31, 2000, the Fund owned \$350,000 in a 10% debenture of the Company convertible at \$2.50 per share, \$500,000 in an 8% debenture convertible at \$3.00 per share, and \$500,000 in an 8% debenture convertible at \$3.10 per share. All the debentures carry terms identical to those described above. In addition, the Fund owns 45,500 shares of common having a cost of \$130,089.

At December 31, 2000, RUSGIT owned \$1,400,000 in convertible debentures of the Company and 55,500 shares of the Company's common stock. The debentures have identical terms as the Fund's debentures, except that RUSGIT owns \$400,000 of the 8% debentures that are convertible at \$2.50 per share.

Integrated Security Systems, Inc. (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 January 2000, the Fund agreed not to convert or receive scheduled principal repayments on the debenture obligations due from the Company for the period December 1999 through March 2000.

On May 5, 2000, the Fund advanced the Company \$150,000 pursuant to a 9% Promissory Note in which all accrued unpaid interest and principal on the note is due and payable on demand. The note is secured by the parent and its four subsidiaries which own all or substantially all the assets of the Company, and is also secured by a Stock Pledge Agreement between the parent company and the

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Fund. Also on May 5, 2000, the Fund renewed and extended its \$115,000 Promissory Note and amended its \$375,000 Convertible Promissory Note so that both became secured by all or substantially all the Company's assets.

In August 2000, the Fund agreed to advance the Company up to \$250,000 in Senior Secured Promissory Notes bearing interest at 9% and maturing ninety days from the date of initiation. The Senior Secured Notes are covered by the Security Agreement previously executed by the Company in favor of the Fund and entitles the Fund to be secured by all of the assets of the parent Company and all of its operating subsidiaries. The Fund advanced \$100,000 to the Company on August 25, 2000, \$100,000 on September 15, 2000, and the remaining \$50,000 was advanced to the Company on September 29, 2000, all advances being made pursuant to the Notes.

In the fourth quarter, the Company announced that it plans to submit to IZZI shareholders for approval a financial restructuring plan that involves many of the investment instruments owned by the Fund and RUSGIT. The Fund and RUSGIT have agreed to exchange all its convertible debentures, convertible notes, promissory notes, and accrued interest into a new class of preferred stock (the "Class E Preferred") that would carry a 5% dividend that accrues but is not paid until redemption, and would be convertible into shares of the Company's common stock at \$0.20 per share. The Class E Preferred would be redeemable in years three through five or earlier from proceeds of the sale of certain assets that currently make up a portion of the collateral security for the Fund's investment.

As an additional term of the restructuring plan, the Fund and RUSGIT agreed to advance up to \$1,000,000 to the Company (\$500,000 per Fund) in 120 day convertible promissory notes which will be exchangeable into an additional class of preferred stock of the Company (the "Class F Preferred"). The Class F Preferred will carry a 5% dividend which accrues for two years and will be convertible into common stock of the Company at \$0.20 per share. If the convertible promissory notes are not converted into the Class F Preferred in the first 120 days of the note period, then the notes will mature with interest at 8% and be secured by the Security Agreement previously executed by the Company in favor of the Fund. All advances were made pursuant to the convertible notes by January 2001.

At December 31, 2000, the Fund owned the following: \$1,265,000 in 9% Promissory Notes, of which \$515,000 had no convertible feature, \$375,000 is convertible into common at \$0.20 per share, and \$375,000 is convertible into the Company's common stock at a rate of \$0.549 per share; 9% Convertible Debentures having a cost of \$2,084,101 and convertible into the Company's common stock at \$0.549 per share; \$150,000 of the Company's Series D Cumulative Convertible Preferred Stock convertible into common stock at a rate of \$0.80 per share; 393,259 shares of the Company's common stock having a cost basis of \$215,899; 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 187,500 shares of the Company's common stock at \$0.80 per share on or before October 1, 2003; warrants to purchase 125,000 shares of the Company's common stock at \$0.80 per share on or before October 2, 2003; warrants to purchase 12,500 shares of the Company's common stock at \$1.75 per share on or before November 17, 2002; and warrants to purchase 125,000 shares of the Company's common stock at \$1.00 per share on or before October 11, 2004.

At December 31, 2000 RUSGIT owned the following: \$1,115,000 in 9% Notes of which \$515,000 had no conversion feature, \$375,000 is convertible at \$0.20 per share, and \$225,000 is convertible at \$0.549 per share; a Convertible Debenture having a cost basis of \$2,084,101 and convertible into the Company's common stock at a rate of \$0.549 per share; 393,259 shares of the Company's common stock having a cost basis of \$215,899; warrants to purchase 181,818 shares of the Company's common stock at \$0.549 per share on or before January 14, 2004;

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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 125,000 shares of the Company's common stock at \$0.80 per share on or before October 2, 2003; and warrants to purchase 12,500 shares of the Company's common stock at \$1.75 per share on or before November 17, 2002.

JAKKS Pacific, Inc. (JAKK)

JAKKS Pacific, Inc. is a multi-brand toy company that designs, develops, produces and markets toys and related products, including: action figures and accessories featuring licensed characters, principally from the World Wrestling Federation; Flying Colors molded plastic activity sets, clay compound play sets and lunch boxes; Road Champs die-cast collectible and toy vehicles; Remco toy vehicles and roll-play toys and accessories; Child Guidance infant and preschool electronic toys, toy film puzzle mats and blocks, and activity sets and outdoor products; and fashion and many dolls and related accessories.

At December 31, 2000, the Fund owned 587,347 shares of the Company's common stock having a cost basis of \$3,324,126.

At December 31, 2000, RUSGIT owned 576,358 shares of the Company's common stock.

Laserscope (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.

Effective February 11, 2000, the Fund invested \$1,500,000 in 8% Convertible Debentures of the Company, maturing February 11, 2007, and convertible into the Company's common stock at \$1.25 per share. The debentures have mandatory monthly principal repayments beginning February 11, 2002 and continuing on the first day of each successive month thereafter prior to maturity, and are secured by substantially all of the assets of the Company. The debentures may be redeemed by the Company at 101% of par if certain price and volume thresholds are met, as defined, and other conditions are met relating to the market for the Company's shares including, but not limited to, a full registration of the underlying shares. The redemption right is subject to the Fund's right to convert the debentures into the Company's common stock. The debentures have standard anti-dilution provisions and also contain a one-time adjustment to the conversion price if the Company fails to meet its budgeted pretax income level for the year ending December 31, 2000, and the closing bid price of the common stock as defined is below the Fund's conversion price in effect at the time of the automatic reset.

In addition to the Fund's investment in the Company, RUSGIT also invested \$1,500,000 into the 8% Convertible Debentures of the Company, which investment was made under identical terms and conditions as the Fund's investment.

Medical Action Industries, Inc. (MDCI)

Medical Action Industries, Inc. is a developer, manufacturer, marketer, and distributor of disposable surgical-related products. The Company's most prominent products include sterile disposable laparotomy sponges and disposable operating room towels, which products are sold to a proprietary direct sales force, manufacturers representatives, and internal sales departments in the United States and certain international markets.

In the first quarter of 2000, the Fund purchased an additional 56,200 shares of the Company's common stock on the open market for \$202,268, or \$3.60

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per share.

At December 31, 2000, the Fund owned 160,000 shares of the Company's common stock having a cost basis of \$555,392.

At December 31, 2000 RUSGIT also owned 160,000 shares of the Company's common stock having a basis of \$555,392.

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

Play By Play Toys & Novelties, Inc. designs, develops, markets and distributes stuffed toys, sculpted toy pillows, and other products based upon licenses for children's entertainment characters and corporate trademarks. The toys are sold into the indoor and outdoor amusement and entertainment market, as well as the retail market.

In the third and fourth quarters of 2000, the Company repaid \$74,252 of the principal balance owed on the Fund's debentures. The Company now has an outstanding principal balance of \$2,425,748.

Subsequent to December 31, 2000, the Company defaulted on the Fund's debentures by failing to repay all outstanding principal and interest in full. All payments were originally due December 31, 2000. In February 2001, the Fund entered into a preliminary term sheet with the Company and the other holders of the debentures pursuant to which the Fund agreed it would extend the maturity of the Convertible Debentures to December 31, 2002 and cure all existing defaults at closing in consideration for the following: a payment for all past due principal and interest at closing; a new amortization schedule in which one half of the outstanding balance of the debentures are to be paid monthly in arrears beginning June 30, 2001 through and including July 31, 2001 with 1% of the original outstanding balance of the debentures to be paid monthly thereafter until maturity; additional security interests in certain assets of the Company and its subsidiaries; maintenance of the interest rate of the debentures at 10.5%; additional financial covenants requiring the Company to maintain a certain level of operations for the fiscal year ended July 31, 2001 and for each period quarterly thereafter until maturity; and 1,500,000 warrants to purchase shares of the Company's common stock at the weighted average closing price of the common stock for the thirty days leading up to the closing. In exchange for the above terms, the Fund agreed to relinquish all conversion rights associated with the Debentures and to give up any other equity rights it had received as a result of the Company's default at December 31, 2000. We expect to close the restructuring in the first or second quarter of the year.

At December 31, 2000, the Fund owned \$2,425,748 in convertible debentures.

At December 31, 2000, RUSGIT owned \$2,425,748 in convertible debentures having terms identical to the Fund's debentures. RUSGIT also entered into the same preliminary term sheet with the Company and the other holders of the debentures as the Fund's term sheet.

Poore Brothers, Inc. (SNAK)

Poore Brothers, Inc. is a regional salted snack food manufacturer, marketer, and distributor with manufacturing facilities in Arizona and Indiana.

The Company's primary emphasis is manufacturing unique snack food items including Poore Brothers brand potato chips, Bob's Texas Style brand potato chips, Tato Skins brand potato snacks, O'Boisies brand potato crisps, Pizzarias brand pizza chips, Braids brand pretzels and Knots brand pretzels. The Company also manufactures private label potato chips for major retailers and operates a direct store delivery distribution business and a snack food merchandising company.

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Pursuant to a letter agreement between the Fund and the Company dated November 11, 1999, the Fund agreed to convert half of its position in the Convertible Debentures of the Company into common stock of the Company, with the other half of the debentures to be converted on or before December 31, 2000. As a result of the letter agreement, the Fund converted \$859,047 worth of debentures into 859,047 shares of common stock, a rate of \$1.00 per share, and allowed the Company to refrain from making any mandatory principal redemption payments to the Fund on its remaining debenture position through December 31, 2000. In addition to the debenture conversion, the Fund agreed to take \$90,447 in accrued interest on the debentures through November 15, 1999 in the form of 30,000 shares of common stock and warrants to purchase 60,000 shares of the Company's common stock at \$1.50 per share on or before July 1, 2002.

Effective June 28, 2000, the Fund obtained options to purchase the Company's common stock pursuant to the Company's 1995 Stock Option Plan. In total, the Fund received options to purchase 15,000 shares of Poore Brothers common stock at a price of \$3.06 per share, which options were granted June 12, 1997, vested June 12, 1998, and must be exercised on or before June 12, 2002. In addition, the Fund obtained options to purchase 10,000 shares of the Company's common stock at \$1.31 per share, which options were granted May 14, 1998, vested May 14, 1999, and must be exercised on or before May 14, 2003. These options were obtained by assignment from Robert C. Pearson, Senior Vice President of Renaissance Capital Group, Inc., who earned the options as a member of the Board of Directors of the Company.

At December 31, 2000, the Fund owned 1,931,357 shares of the Company's common stock having a cost of \$1,963,170, warrants to purchase 60,000 shares at \$1.50 on or before July 2002, warrants to purchase 25,000 shares at \$1.00 per share on or before July 2002, and three tranches of options to purchase a total of 33,650 shares (described above).

RUSGIT owned 853,625 shares of Poore Brothers common stock at December 31, 2000.

RailAmerica, Inc. (RAIL)

RailAmerica, Inc., the world's largest short line and regional railroad operator, owns or has equity interests in fifty short line and regional railroads operating more than 12,500 route miles in the United States, Canada, Australia, and the Republic of Chile.

At December 31, 2000, the Fund owned \$500,000 in RailAmerica convertible debentures. The Debentures bear interest at 6%, are due and payable on or before July 31, 2004, and are convertible into the Company's common stock at \$10.00 per share, which conversion price is subject to certain anti-dilution provisions. The Company may, at its option, redeem the outstanding principal amount of the Debentures in whole or in part if the closing price per share of common stock as reported on the NASDAQ National Market is above 200% of the conversion price for ten consecutive trading days, subject to adjustment as set forth in the Convertible Debenture Agreement. In addition to the debentures, the Fund owns warrants to purchase 15,000 shares of the Company's common stock at \$10.50 per share on or before August 5, 2004.

At December 31, 2000, RUSGIT owned \$500,000 in 6% debentures of the Company and warrants to purchase 15,000 shares of the Company's common stock under the same terms and conditions as the Fund's investments.

Simtek Corporation (SRAM)

Simtek Corporation develops, produces, and markets the world's fastest reprogrammable nonvolatile static random access memory chips. The Company

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markets its products through an international network of distributors and sales representatives.

In the first quarter of 2000, the Fund converted its entire \$750,000 debenture position into 3,846,154 shares of the Company's common stock. Also in the first quarter, the Fund sold 2,846,154 shares of the Company's common stock and realized proceeds of \$8,565,675, representing a gain to the Fund before incentive fees of \$8,010,675.

At December 31, 2000, the Fund owned 1,000,000 shares of common stock having a cost of \$195,000.

At December 31, 2000, RUSGIT owned 1,000,000 shares of common stock having a cost of \$195,000.

SiVault, Inc. (Private)

SiVault, Inc. is a service bureau that specializes in the value loading of applications software and other programs onto "Smart Cards" for a variety of clientele.

At December 31, 2000, the Fund owned 140,000 shares of common stock having a cost of \$350,000.

RUSGIT also owned 140,000 shares of the Company's common stock having a cost of \$350,000 at December 31, 2000.

ThermoView Industries, Inc. (THV)

ThermoView Industries, Inc. manufactures, designs, markets, and installs custom vinyl new and replacement windows and doors, primarily for the existing home market.

At December 31, 2000, the Fund owned 37,500 shares of ThermoView common stock having a cost of \$500,000.

At December 31, 2000, RUSGIT owned 265,834 shares of the Company's common stock having a cost of \$2,059,898.

Verso Technologies, Inc. (VRSO)

Verso Technologies, Inc. is a full service provider ("FSP") of application and outsourced IT solutions that seek to add value for clients by giving them the edge they need to stay competitive. Verso's solutions include application hosting, application and network integration, enterprise management services and outsourced customer resource center services.

In the first quarter of 2000, the Fund invested \$512,500 to purchase 102,500 shares of Verso common stock and also received warrants to purchase 102,500 shares of the Company's common stock. The common stock position is unregistered and restricted from transfer pursuant to Rule 144 of the Securities Act. The warrants are exercisable on or before February 2003 and are subject to a provision allowing the Company to call the warrants at any time following the date of issuance if the Company's common stock is bid at a 100% premium to the exercised price of the warrant for twenty consecutive business days. The warrant call provision will not take effect until after one year from the February 2000 issuance date unless a registration statement covering the shares of common stock underlying the warrants is then in effect. The Fund does have piggyback registration rights with regard to both the common stock and the warrants.

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On September 29, 2000, the Company announced it had completed a merger with Eltrax Systems, Inc. Pursuant to the plan of merger, Verso shareholders received 1.75 shares of Eltrax common stock for each share of Verso common stock, giving the Fund 179,375 shares of Verso common stock and also entitling the Fund to warrant coverage equal to the number of shares of common owned by the Fund. The warrants are now exercisable at \$5.71 per share. Verso trades under the symbol VRSO on the NASDAQ National Market.

At December 31, 2000, RUSGIT owned 179,375 shares of common stock of the Company and warrants to purchase 179,375 shares of the Company's common stock under the same terms and conditions as the Fund's investments.

Voice It Worldwide, Inc. (Liquidation)

Effective January 19, 2000, the Bankruptcy Court approved a joint liquidation plan for the Company. Throughout 2000, the Liquidation Trustee distributed \$681,611 to the Fund on behalf of the estate. The remainder of the Fund's investment has been fully reserved, and it is anticipated that the estate will be discharged from bankruptcy in the first quarter of 2001.

Valuation of Investments

On a quarterly basis, Renaissance Group prepares a valuation of the assets of the Fund including Temporary Investments, Eligible Portfolio Investments, and Other Portfolio Investments, subject to the approval of the Board of Directors. The valuation principles are described below.

Generally, pursuant to the procedures established by the Investment Adviser, the fair value of each investment is initially based upon its original cost to the Fund. Costs are the primary factor used to determine fair value until significant developments affecting the Portfolio Company (such as results of operations or changes in general market conditions) provide a basis for use in the fair value determination.

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 closing price or the closing bid and ask prices, as the case may be, 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

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from such trading restrictions. The fair value of investments for which no market exists are determined on the basis of appraisal procedures established in good faith by the Investment Adviser. Fair value determinations are based upon such factors as the Portfolio Company's earnings and net worth, market prices for similar securities of comparable companies and an assessment of the Portfolio Company's future financial prospectus. In the case of unsuccessful operations, the appraisal may be based upon liquidation value. Appraisal valuations are necessarily subjective.

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 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.

The Investment Advisor currently serves as the Investment Advisor to RUSGIT. RUSGIT is a public limited company registered in England and Wales, listed on the London Stock Exchange, which invests in privately placed convertible debentures issued by companies similar to the investments of the Fund. RUSGIT will invest primarily pari-passu with the Fund. In 1996, RUSGIT raised net investment capital of approximately \$30,789,000. From inception to December 31, 2000, RUSGIT had made investments in twenty eight (28) portfolio companies, having an aggregate cost value of \$47,106,535. Twenty three (23) of the investments were active at December 31, 2000. In addition, Renaissance Group may, from time to time, provide investment advisory services, management consulting services and investment banking services to other clients.

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.

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

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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.

Part II

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

TRADING

As of December 31, 1995 there was no trading in the shares of the Fund and no established market existed for those shares. On April 30, 1996, the Fund's common stock began trading on the NASDAQ National Market under the trading symbol RENN.

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

	High	Low
Year ended December 31, 1999		
First quarter	\$8.38	\$6.69
Second quarter	\$9.88	\$7.06
Third quarter	\$10.88	\$8.75
Fourth quarter	\$10.25	\$8.81
Year ended December 31, 2000		
First quarter	\$15.38	\$8.75
Second quarter	\$14.56	\$12.50
Third quarter	\$13.75	\$11.25
Fourth quarter	\$13.50	\$8.38

NUMBER OF HOLDERS

As of December 31, 2000, there were approximately 877 beneficial holders of common stock.

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 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 representing their pro rata portion of income earned by the Fund in 1994. For

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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 as some debenture positions have been converted into equity. Although income dividends were not paid in 2000, the Fund did pay \$1.54 per share in capital gains dividends in the second quarter of 2000.

Item 6. Selected Financial Data. (unaudited)

The following selected financial data for the period from January 1, 1995 through December 31, 2000, 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.

	2000	1999	1998	1997	1996
Gross Income, (including realized gain)	\$9,750,577	\$12,768,575	\$5,956,344	\$8,512,374	\$3,843,726
Net Unrealized Appreciation (Depreciation) on Investments	(1,507,015)	4,465,591	(1,222,151)	(4,832,658)	7,779,315
Net Income	5,032,203	13,535,928	2,794,004	1,146,733	10,060,620
Net Income per share	1.18	3.27	0.66	0.26	2.32
Total Assets	64,077,600	46,725,122	42,322,725	48,356,570	50,688,180
Net Assets	47,346,067	45,934,306	41,475,701	44,497,360	49,130,320
Net Assets Per Share	10.86	11.09	10.01	10.25	11.32

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 size public companies whose ability to service the securities is sufficient to provide a quarterly return to the shareholders and whose growth potentials are sufficient to provide opportunity for above average capital appreciation.

Sources of Operating Income

Generally, 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 anticipates generating income through capital gains. The Fund generally structures investments to obtain a current return that is competitive with other long term finance sources available to potential Portfolio Companies. Further, the Fund may in some cases receive placement fees, draw-down fees and similar types of income. It might also receive management fee income.

Generally, management fees received by Renaissance Group (or its personnel) for services to a Portfolio Company will be paid to the account of the Fund. The exception to this rule would apply to payments to Renaissance Group or affiliate or designee thereof for unusual services performed for the Portfolio Company, which are unrelated to and not required by the Portfolio Investment in such Portfolio Company and that are beyond the fund's contemplated management

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assistance to Portfolio companies (i.e., beyond providing for director designees and limited consultation services in connection therewith). These payments would be made to Renaissance Group or such other person only with the approval of the Board of Directors based, in part, on the determination that payments for such services are no greater than fees for comparable services charged by unaffiliated third parties, and subject to limitations and requirements imposed by the 1940 Act.

While it will be the general principle that Renaissance Group and its officers and directors occupy a fiduciary relationship to the Fund and shall not receive outside compensation or advantage in conflict with that relationship, neither Renaissance Group nor its officers and directors are prohibited from receiving other income from non-conflicting sources.

Other Investment Funds

Renaissance Group has formed other investment funds to make investments in similar Portfolio Companies and may, in the future, form additional similar investment funds. Specifically, in the Spring of 1996 Renaissance Group formed RUSGIT, which invests in privately placed convertible debentures issued by companies similar to the investments of the Fund. RUSGIT invests primarily pari-passu with the Fund. In 1996, RUSGIT raised investment capital of approximately \$30,789,000 million, and as of December 31, 2000, had made twenty eight (28) total investments having an aggregate cost value of \$47,106,535. Twenty three (23) of the investments were active at December 31, 2000.

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.

Regular Quarterly Dividends

It is intended that cash dividends from operations be made to all shareholders each quarter that the Fund realizes net investment income in order to provide a cash return and also to enable the Fund to maintain its RIC status under Subchapter M of the Code. Quarterly dividends may be increased or decreased from time to time to reflect increases or decreases in current rates of investment income. The Fund's intention is to provide each shareholder a current return compatible with the then present economic condition of the Fund. Generally, this dividend is made from profits and investment income from the previous quarter. However, in the event that net profits are not adequate from time to time, the dividends may be made from capital, so long as capital is sufficient to assure repayment of all obligations of the Fund and such capital distributions are permitted by applicable corporate law and the 1940 Act.

In 2000, the Fund did not make income distributions as certain debt positions had been converted into equity with some of these positions being sold to realize capital gains. This specifically occurred in 2000 with respect to part of the Fund's investment in Simtek Corporation, in which the Fund converted and sold equity having a basis of \$555,000 and realized gains of \$8,055,675, enabling the Fund to distribute a \$1.54 dividend to shareholders in the second quarter. In certain circumstances, debt may also be converted to equity in order to facilitate a restructuring or other similar event. In such a case, the transaction may not result in capital gains on the position and in such a situation would not produce distributions to shareholders.

The accounting records are maintained on a calendar quarter basis with the fiscal year ending on December 31. Accordingly, in the event quarterly distributions are declared, they will be made to shareholders of record as of the end of each quarter and mailed to each shareholders address of record within 120 days of the end of the quarter. It is not anticipated that quarterly

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distributions of income will be resumed until certain large stock positions are sold and the bases reinvested in coupon-bearing instruments.

Optional Distributions of Capital Gains

In addition to the regular quarterly dividends, it is intended that the Fund shall dividend out net realized capital gains. Also, capital gains dividends may replace the regular quarterly dividend where the Investment Adviser deems appropriate. Further, when deemed appropriate by the Board of Directors and subject to registration requirements, the Fund may make in-kind distribution of securities of Portfolio Companies. The timing and payment of distributions, including in-kind distributions, is at the discretion of the Board of Directors. In 2000, the Fund distributed \$1.54 per share in capital gains to the Shareholders.

Pursuant to its Investment Advisory Agreement and the amendments thereto, Renaissance Group shall be paid quarterly and at the final dissolution or liquidation of the Fund, a management incentive fee of 20% of the realized capital gains net of realized and unrealized losses. Notwithstanding the foregoing, no payment of the management incentive fee shall be made which is not permitted by the Securities Act or other applicable law.

The performance distributions cannot be adjusted without the consent of all of the shareholders, except if required by order of a regulatory agency.

Liquidity and Capital Resources

During the year ended December 31, 2000, the Fund invested \$2,262,500 in three (3) new portfolio investments and invested an additional \$5,576,211 in follow-on investments to eight (8) portfolio companies. Dividends paid to investors in 2000 amounted to \$6,380,130 or \$1.54 per share. Net income from operating activities and interest income on funds invested in U.S. Government and agency obligations, pending investment in portfolio companies, net of operating expenses and management fees, amounted to \$5,032,203. The net cash provided by operating activities was \$17,206,660. The Fund also received \$10,366,539 upon the sale of portfolio investments. Dividend reinvestments were zero. The Fund issued no shares for the dividend reinvestment plan as dividend reinvestment shares were purchased in the open market. At December 31, 2000,

the Fund was fully invested as it had just under \$1.5 million in cash and cash equivalents net of all liabilities, which is approximately 3% of net assets. Renaissance Capital Group, Inc. believes that current cash levels are sufficient to pay expenses as they come due and also to make follow-on investments if necessary.

Generally, investments in Portfolio Companies will have an initial fixed term of seven years, with payments of interest or dividends for that period. 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.

Another possible source of available capital is debt, however, the Fund does not presently intend to make leveraged investments. Therefore, a lack of liquidity will generally only affect the ability to make new investments and make distributions to shareholders.

RESULTS OF OPERATIONS

2000 Compared to 1999

During the year ended December 31, 2000, the Fund made additional portfolio

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investments aggregating \$10,366,539 compared to \$5,263,278 in 1999. The Fund's realized net income of \$5,032,203 for 2000 is due primarily to a net realized gain on investments of \$8,055,679 which resulted from the Fund's conversion of its entire investment in Simtek Corp. from debentures to common stock and the sale of 74% of that position in the open market. The net realized gain on investments from Simtek outweighed the net unrealized depreciation on investments of \$1,507,015 resulting from lower asset values for portfolio investments as well as a net investment loss of \$1,516,461. The net investment loss arose primarily due to incentive fees booked as a result of the gains realized on the Simtek investment. Absent the incentive fee, the Fund would have realized positive net investment income for the year 2000.

Interest income increased 7.77% for the year in comparison to 1999 due primarily to a higher concentration of the portfolio in interest paying debenture instruments. Dividend income in 2000 decreased 70% from \$381,498 in 1999 to \$114,455 in 2000 due primarily to a lower concentration of the Fund's investments in preferred stock instruments for the entire year. Commitment and other fee income increased from \$(24,251) in 1999 to \$112,375 in 2000 due to increased director and advisory fees, increased commitment and closing fees associated with a new investment in Laserscope, and other fees related to conversions of debentures into common stock.

General and administrative expenses increased 7.58% in comparison to 1999 due to increases in accounting and professional fees, legal expenses, and directors fees. Incentive fees decreased 30.37% from \$2,313,841 in 1999 to \$1,611,135 in 2000 due to lower realized gains achieved on investments throughout 2000. Management fees increased 20.19% to \$1,056,483 due to the increase in the value of the overall portfolio throughout the year. Net investment loss for 2000 narrowed from \$(1,978,824) for 1999 to \$(1,516,461) for 2000, a reduction of 23.37%, due primarily to lower overall expenses and slightly lower income levels.

Net income for 2000 was \$5,032,203, a decrease of 62.82% from net income for 1999. In 1999, realized gains were \$11,049,161 in comparison to realized gains for 2000 of \$8,055,679. In addition, the Fund's net unrealized depreciation on investments for 2000 was \$(1,507,015) in comparison to a net unrealized appreciation on investments for 1999 of \$4,465,591.

1999 Compared to 1998

During the year ended December 31, 1999, the Fund made additional portfolio investments aggregating \$5,263,278 compared to \$13,094,416 in 1998. The Fund's 1999 total income was \$17,234,166 consisting of the following components: (i) interest income of \$1,362,167; (ii) dividend income of \$381,498; (iii) fee income of \$(24,251); (iv) realized gains on investments of \$11,049,161; and (v) unrealized appreciation on investments of \$4,465,591.

Interest income decreased 40% in comparison to 1998 due primarily to conversions of debenture instruments into common stock. Although the conversions lowered the Fund's interest income, it enabled the Fund to increase net realized gains on investments by 253% from \$3,130,743 in 1998 to \$11,049,161 in 1999. Dividend income in 1999 rose 1,227% to \$381,498 in comparison to the 1998 period, due primarily to a higher concentration of preferred stock instruments held by the fund. Fee income decreased from \$511,988 in 1998 to \$(24,251) in 1999 primarily as a result of a reduction in the dollar value of new investments.

Aggregate 1999 income of \$17,234,166 rose 264% in comparison to aggregate 1998 income of \$4,734,193, primarily as a result of unrealized appreciation in the invested portfolio and capital gains realized on some investments in 1999. The Fund's operating expenses incurred in 1999 were \$3,698,238, an increase of

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91% as compared to \$1,940,189 in 1998. Operating expenses increased almost exclusively due to the incentive fee paid to the Manager due to the success of the Fund in realizing gains on portfolio investments. In total, operating expense increased by a value of \$1,758,049, of which \$1,687,692, or 96% of the increase, was attributable to the incentive fee. General and administrative expenses rose less than 1% in 1999 relative to the 1998 period, and management fees rose 8% to \$878,987, due to the increase in the value of the overall portfolio.

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.

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

A portion of the Fund's portfolio consists of equity investments in private companies. The Fund would anticipate no impact on this 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.

A portion of the Fund's investment portfolio also consists of common stocks and warrants 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.

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 18, 2001 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.

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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.

Part IV

Item 14. 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

3.1 Renaissance Capital Growth & Income Fund Amended Articles of Incorporation and By-laws (1)

10.1 Investment Advisory Agreement as of February 15, 1994 (1)

10.2 Dividend Reinvestment Plan (1)

10.3 Amendment No. 1 to Investment Advisory Agreement

10.4 Custodial Agreement

(1) Incorporated by reference from Form N-2 as filed with the Securities and Exchange Commission on February 25, 1994 (Registration No. 33-75758).

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.

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Date: March 30, 2001 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 30, 2001
/S/ Barbe Butschek ----- Barbe Butschek	Secretary and Treasurer	March 30, 2001
/S/ Ernest C. Hill ----- Ernest C. Hill	Director	March 30, 2001
/S/ Peter Collins ----- Peter Collins	Director	March 30, 2001
/S/ Edward O. Boshell, Jr. ----- Edward O. Boshell, Jr.	Director	March 30, 2001

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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 statements of assets and liabilities of Renaissance Capital Growth & Income Fund III, Inc., including the statements of investments, as of December 31, 2000 and 1999, and the related statement of operations, changes in net assets, and cash flows for the years then ended. 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. The financial statements of Renaissance Capital Growth & Income Fund III, Inc. for the year ended December 31, 1998 were audited by other auditors whose report dated February 12, 1999, expressed an unqualified opinion on those statements.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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. 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 2000 and 1999 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, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

ERNST & YOUNG LLP

Dallas, Texas
February 28, 2001

Independent Auditors' Report

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

We have audited the statements of operations, changes in net assets, and cash flows of Renaissance Capital Growth & Income Fund III, Inc. for the year ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a

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test basis, evidence supporting the amounts and disclosures in the financial statements. 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of Renaissance Capital Growth & Income Fund III, Inc. for the year ended December 31, 1998, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Dallas, Texas
February 12, 1999

Renaissance Capital Growth & Income Fund III, Inc.

Statements of Assets and Liabilities

December 31, 2000 and 1999

Assets	2000	1999
Cash and cash equivalents	\$18,206,540	\$ 5,086,040
Investments at fair value, cost of \$39,985,786 and \$34,457,935 in 2000 and 1999 respectively (note 4)	45,367,138	41,346,302
Interest receivable	464,110	224,283
Other assets	39,812	68,497
	-----	-----
	\$64,077,600	\$46,725,122
	=====	=====

Liabilities and Net Assets

Liabilities:

Securities sold under agreements to repurchase	16,482,024	-
Accounts payable	14,082	111,708
Accounts payable - affiliate (note 3)	235,427	213,390
Dividends payable	-	465,718
	-----	-----
	16,731,533	790,816
	-----	-----

Net assets (note 6):

Common stock, \$1 par value; authorized 20,000,000 shares; 4,561,618 and 4,342,942 issued in 2000 and 1999 respectively; 4,361,618 shares outstanding in 2000 and 4,142,942 shares outstanding in 1999	4,561,618	4,342,942
Additional paid-in-capital	38,799,907	36,258,896
Treasury stock at cost, 200,000 shares at December 31, 2000, and at December 31, 1999	(1,665,220)	(1,665,220)
Undistributed net investment income	5,649,762	6,997,688
	-----	-----

Net assets, equivalent to \$10.86 and \$11.09 per share on the shares outstanding in 2000

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and 1999, respectively	47,346,067	45,934,306
Commitments and contingencies (notes 3 and 4)	-	-
	-----	-----
	\$64,077,600	\$46,725,122
	=====	=====

Renaissance Capital Growth & Income Fund III, Inc.

Statements of Investments

December 31, 2000 and 1999

	2000				
	Interest Rate	Due Date	Cost	Fair Value	% of Net Assets
	-----	-----	-----	-----	-----
Eligible Portfolio					
Investments - Convertible Debentures and Promissory Notes (1)					
Active Link Communications, Inc. -					
Convertible debentures (2)	8.00%	9/30/02	\$ 250,000	\$ 250,000	.53
Convertible notes (2)	8.00	9/30/02	125,000	125,000	.26
Dexterity Surgical, Inc. -					
Convertible debentures (2)	9.00	12/19/04	1,500,000	1,500,000	3.17
Display Technologies, Inc. -					
Convertible debentures (4)	8.75	3/2/05	1,750,000	1,750,000	3.70
Grand Adventures Tour & Travel -					
Convertible debentures (2)	8.00	7/14/04	500,000	500,000	1.06
Convertible debentures (2)	8.00	9/14/04	500,000	500,000	1.06
Integrated Security Systems, Inc. -					
Convertible debentures (4)	9.00	12/1/03	2,084,101	1,453,750	3.07
Promissory notes (4)	9.00	On demand	890,000	890,000	1.88
Convertible promissory notes (4)	8.00	On demand	375,000	375,000	.79
Laserscope -					
Convertible debentures (2)	8.00	2/11/07	1,500,000	1,500,000	3.17
Voice It Worldwide, Inc. - (3)					
Convertible debentures (2)	8.00	11/1/02	1,768,389	-	.00
			-----	-----	-----
			\$11,242,490	\$ 8,843,750	18.69
			-----	-----	-----

Renaissance Capital Growth & Income Fund III, Inc.

Statements of Investments (continued)

December 31, 2000 and 1999

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	2000				
	Interest Rate	Due Date	Cost	Fair Value	% of Net Assets
Other Portfolio Invest- ments - Convertible Debentures and Promissory Notes (1)					
CareerEngine Network, Inc. - Convertible debentures	12.00%	3/31/10	\$ 250,000	\$ 250,000	.53
Grand Adventures Tour & Travel - Convertible debentures (2)	10.00	9/27/03	350,000	350,000	.74
Play By Play Toys & Novelties (4) - Convertible debentures (2)	10.50	12/31/00	2,425,748	2,425,748	5.12
RailAmerica, Inc. - Convertible debentures (2)	6.00	7/31/04	500,000	500,000	1.06
			\$ 3,525,748	\$ 3,525,748	7.45

	2000			
	Shares	Cost	Fair Value	% of Net Assets
Eligible Portfolio Investments - Common Stock, Preferred Stock, and Miscellaneous Securities (1)				
Bentley Pharmaceuticals, Inc. - Common stock	400,000	\$ 500,000	\$ 2,326,500	4.91
CaminoSoft Corp. - Common stock	2,250,000	4,625,000	4,630,312	9.78
Dexterity Surgical, Inc. - Common stock (2)	260,000	635,000	-	.00
Preferred stock-A (2)	500	500,000	53,846	.11
Preferred stock-B (2)	500	500,000	53,846	.11
Display Technologies, Inc. - Common stock	127,604	500,000	23,687	.05

Renaissance Capital Growth & Income Fund III, Inc.

Statements of Investments (continued)

December 31, 2000 and 1999

	2000			
	Shares	Cost	Fair Value	% of Net Assets

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	-----	----	-----	-----
Eligible Portfolio Investments - Common Stock, Preferred Stock, and Miscellaneous Securities (1)				
eOriginal, Inc. -				
Series A, preferred stock	6,000	1,500,000	4,794,000	10.13
Series B-1, preferred stock	1,785	392,700	1,426,215	3.01
Series B-3, preferred stock	447	107,280	357,153	.75
Series C-1, preferred stock	2,353	2,000,050	2,000,050	4.22
Fortune Natural Resources Corp. -				
Common stock	1,322,394	545,500	490,939	1.04
Integrated Security Systems, Inc. -				
Preferred stock (2)	7,500	150,000	-	.00
Common stock	393,259	215,899	-	.00
JAKKS Pacific, Inc. -				
Common stock	587,347	3,324,126	5,305,946	11.21
Poore Brothers, Inc. -				
Common stock (2)	1,931,357	1,963,170	4,829,091	10.20
Simtek Corp. -				
Common stock	1,000,000	195,000	279,000	.59
SiVault, Inc. -				
Common stock	140,000	350,000	350,000	.74
ThermoView Industries, Inc. -				
Common stock (2)	37,500	500,000	-	.00
Verso Technologies, Inc. -				
Common stock	179,375	512,500	202,918	.43

 Renaissance Capital Growth & Income Fund III, Inc.

 Statements of Investments (continued)

 December 31, 2000 and 1999

	2000			
	-----	-----	-----	-----
	Shares	Cost	Fair Value	% of Net Assets
Eligible Portfolio Investments - Common Stock, Preferred Stock, and Miscellaneous Securities (1)				
Voice It Worldwide, Inc. - (3)				
Common stock (2)	940,000	1,046,400	-	.00
Miscellaneous Securities		5,915	1,000,600	2.11
		-----	-----	-----
		\$20,068,540	\$28,124,103	59.39
		-----	-----	-----

 Renaissance Capital Growth & Income Fund III, Inc.

 Statements of Investments (continued)

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December 31, 2000 and 1999

	2000			
	Shares	Cost	Fair Value	% of Net Assets
Other Portfolio Investments - Common Stock, Preferred Stock, and Miscellaneous Securities (1)				
Bentley Pharmaceuticals, Inc. - Common stock	517,200	\$ 1,447,142	\$ 3,008,163	6.35
Display Technologies, Inc. - Preferred stock (2)	5,000	500,000	33,784	.07
Common stock	138,810	549,741	25,767	.05
Dwyer Group, Inc. - Common stock	675,000	1,966,644	1,252,969	2.65
Grand Adventures Tour & Travel - Common stock	45,500	130,089	28,154	.06
Medical Action Industries, Inc. - Common stock	160,000	555,392	524,700	1.11
Miscellaneous Securities		-	-	.00
		-----	-----	-----
		\$ 5,149,008	\$ 4,873,537	10.29
		-----	-----	-----
		\$39,985,786	\$45,367,138	95.82
		=====	=====	=====

Renaissance Capital Growth & Income Fund III, Inc.

Statements of Investments

December 31, 2000 and 1999

	1999				
	Interest Rate	Due Date	Cost	Fair Value	% of Net Assets
Eligible Portfolio Investments - Convertible Debentures and Promissory Notes (1)					
Communications World Intl., Inc. - Convertible debentures (2)	8.00%	9/30/02	\$ 250,000	\$ 250,000	.54
Dexterity Surgical, Inc. - Convertible debentures (2)	9.00	12/19/04	1,500,000	1,500,000	3.27
Display Technologies, Inc. - Convertible debentures	8.75	3/2/05	1,750,000	1,750,000	3.81
Fortune Natural Resources Corp. -					

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Convertible debentures	12.00	12/31/07	350,000	656,847	1.43
Integrated Security Systems, Inc. -					
Convertible debentures	9.00	12/1/03	2,084,101	2,263,051	4.93
Convertible promissory note	9.00	5/12/00	115,000	115,000	.25
Convertible promissory note (2)	9.00	On demand	375,000	403,802	.88
Interscience Computer Corp. -					
Convertible promissory note (2)	8.00	10/31/00	500,000	500,000	1.09
Poore Brothers, Inc. -					
Convertible debentures (2)	9.00	7/1/02	859,047	1,186,062	2.58
Simtek Corp. -					
Convertible debentures (2)	9.00	6/12/05	750,000	893,615	1.95
Voice It Worldwide, Inc. -					
Convertible debentures (2)	8.00	11/1/02	2,450,000	750,000	1.63
			-----	-----	-----
			\$10,983,148	\$10,268,377	22.36
			-----	-----	-----

Renaissance Capital Growth & Income Fund III, Inc.

Statements of Investments (continued)

December 31, 2000 and 1999

			1999		
	Interest Rate	Due Date	Cost	Fair Value	% of Net Assets
	-----	----	----	-----	-----
Other Portfolio Investments					
- Convertible Debentures and Promissory Notes (1)					
Bentley Pharmaceuticals, Inc. -					
Convertible debentures	12.00%	2/13/06	\$ 744,800	\$ 1,896,840	4.13
Grand Adventures Tour & Travel -					
Convertible debentures (2)	10.00	9/27/03	350,000	373,000	.81
Optical Security Group, Inc. -					
Convertible debentures (2)	8.00	5/31/05	500,000	500,000	1.09
Play By Play Toys & Novelties (4) -					
Convertible debentures (2)	10.50	12/31/00	2,500,000	2,500,000	5.44
RailAmerica, Inc. -					
Convertible debentures (2)	6.00	7/31/04	500,000	500,000	1.09
			-----	-----	-----
			\$ 4,594,800	\$ 5,769,840	12.56
			-----	-----	-----

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	1999			
	Shares	Cost	Fair Value	% of Net Assets
Eligible Portfolio Investments - Common Stock, Preferred Stock, and Miscellaneous Securities (1)				
Bentley Pharmaceuticals, Inc. - Common stock	400,000	\$ 500,000	\$ 2,450,250	5.33
Dexterity Surgical, Inc. - Common stock (2)	125,000	500,000	162,422	.35
Preferred stock-A (2)	500	500,000	492,188	1.07
Preferred stock-B (2)	500	500,000	492,188	1.07
Display Technologies, Inc. - Common stock	127,604	500,000	509,266	1.11

Renaissance Capital Growth & Income Fund III, Inc.

Statements of Investments (continued)

December 31, 2000 and 1999

	1999			
	Shares	Cost	Fair Value	% of Net Assets
Eligible Portfolio Investments - Common Stock, Preferred Stock, and Miscellaneous Securities (1)				
eOriginal, Inc. - Series A, preferred stock	6,000	1,500,000	1,500,000	3.27
Series B-1, preferred stock	1,785	392,700	392,700	.85
Integrated Security Systems, Inc. - Preferred stock (2)	7,500	150,000	141,503	.31
Common stock	393,259	215,899	244,848	.53
Interscience Computer Corporation - Common stock	1,750,000	4,000,000	1,949,063	4.25
JAKKS Pacific, Inc. - Common stock	587,347	3,324,126	10,866,287	23.67
Poore Brothers, Inc. - Common stock (2)	1,072,310	1,104,123	1,430,508	3.11
SiVault, Inc. - Common stock	140,000	350,000	350,000	.76
ThermoView Industries, Inc. - Common stock (2)	37,500	500,000	103,383	.23

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Voice It Worldwide, Inc. - Common stock (2)	940,000	1,046,400	-	.00
Miscellaneous Securities		5,915	236,041	.51
		-----	-----	-----
		\$15,089,163	\$21,320,647	46.42
		-----	-----	-----

Renaissance Capital Growth & Income Fund III, Inc.

Statements of Investments (continued)

December 31, 2000 and 1999

	1999			
	Shares	Cost	Fair Value	% of Net Assets
	-----	-----	-----	-----
Other Portfolio Investments - Common Stock, Preferred Stock, and Miscellaneous Securities (1)				
Bentley Pharmaceuticals, Inc. - Common stock	145,100	\$ 291,229	\$ 888,828	1.93
Display Technologies, Inc. - Preferred stock (2)	5,000	500,000	518,982	1.13
Common stock	138,810	549,741	553,989	1.21
Dwyer Group, Inc. - Common stock	675,000	1,966,644	1,503,563	3.27
Grand Adventures Tour & Travel - Common stock	45,500	130,086	152,027	.33
Medical Action Industries, Inc. - Common stock	103,800	353,124	359,667	.78
Miscellaneous Securities		-	10,382	.02
		-----	-----	-----
		\$ 3,790,824	\$ 3,987,438	8.67
		-----	-----	-----
		\$34,457,935	\$41,346,302	90.01
		=====	=====	=====

Renaissance Capital Growth & Income Fund III, Inc.

Statements of Operations

Years ended December 31, 2000, 1999 and 1998

	2000	1999	1998
	----	----	----
Income:			
Interest	\$1,468,068	\$ 1,362,167	\$2,284,873
Dividend Income	114,455	381,498	28,740
Commitment and other fees	112,375	(24,251)	511,988
	-----	-----	-----

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	1,694,898	1,719,414	2,825,601
	-----	-----	-----
Expenses (note 3):			
General and administrative	543,741	505,410	501,984
Incentive fee	1,611,135	2,313,841	626,149
Management fees	1,056,483	878,987	812,056
	-----	-----	-----
	3,211,359	3,698,238	1,940,189
	-----	-----	-----
Net investment income (loss)	(1,516,461)	(1,978,824)	885,412
Realized and unrealized gain (loss) on investments:			
Net unrealized appreciation (depreciation) on investments	(1,507,015)	4,465,591	(1,222,151)
Net realized gain on investments	8,055,679	11,049,161	3,130,743
	-----	-----	-----
Net gain on investments	6,548,664	15,514,752	1,908,592
	-----	-----	-----
Net income	\$ 5,032,203	\$13,535,928	\$2,794,004
	=====	=====	=====
Net income per share (note 2(e))	\$ 1.18	\$ 3.27	\$ 0.66
	=====	=====	=====

Renaissance Capital Growth & Income Fund III, Inc.

Statement of Changes in Net Assets

Years ended December 31, 2000, 1999 and 1998

Net assets, December 31, 1997	\$44,497,360
Purchase of 199,494 shares of treasury stock	(1,661,439)
Net income	2,794,004
Dividends	(4,154,224)

Net assets, December 31, 1998	41,475,701
Purchase of 506 shares of treasury stock	(3,781)
Net income	13,535,928
Dividends	(9,073,542)

Net assets, December 31, 1999	45,934,306
Proceeds from issuance of 218,676 shares	2,759,688
Net income	5,032,203
Dividends	(6,380,130)

Net assets, December 31, 2000	\$47,346,067
	=====

[FN]

See accompanying notes.

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Renaissance Capital Growth & Income Fund III, Inc.

Statement of Cash Flows

Years ended December 31, 2000, 1999 and 1998

	2000 ----	1999 ----	1998 ----
Cash flows from operating activities:			
Net income	\$ 5,032,203	\$13,535,928	\$ 2,794,004
Adjustments to reconcile net income to net cash provided by (used in) operation activities:			
Net unrealized (appreciation) depreciation on investments	1,507,015	(4,465,591)	1,222,151
Net realized gain on investments	(8,055,679)	(11,049,161)	(3,130,743)
Purchase of investments	(7,838,711)	(5,263,278)	(13,094,416)
Proceeds from sale of investments	10,366,539	18,683,236	3,631,244
Repayment of debentures	-	-	70,477
Amortization of organization cost	-	83,820	124,709
Decrease in receivable from sale of investment	-	-	4,200,000
(Increase) decrease in interest receivable	(239,827)	137,090	(374,723)
(Increase) decrease in other assets	28,685	(15,617)	(14,134)
Increase (decrease) in accounts payable	(97,626)	(102,392)	182,902
Increase (decrease) in accounts payable - affiliate	22,037	(4,689)	(1,222,810)
Increase in securities sold under agreements to repurchase	16,482,024	-	-
	-----	-----	-----
Net cash provided by (used in) operating activities	17,206,660	11,539,346	(5,611,339)
Cash flows from financing activities:			
Net proceeds from issuance of shares	2,759,688	-	-
Purchase of treasury shares	-	(3,781)	(1,661,439)
Cash dividends	(6,845,848)	(9,022,669)	(6,126,502)
	-----	-----	-----
Net cash used in financing activities	(4,086,160)	(9,026,450)	(7,787,941)
	-----	-----	-----
Net increase (decrease) in cash and cash equivalents	13,120,500	2,512,896	(13,399,280)
Cash and cash equivalents at beginning of the year	5,086,040	2,573,144	15,972,424
	-----	-----	-----
Cash and cash equivalents at end of the year	\$18,206,540	\$ 5,086,040	\$ 2,573,144
	=====	=====	=====

Renaissance Capital Growth & Income Fund III, Inc.

Statement of Cash Flows (continued)

Years ended December 31, 2000, 1999 and 1998

Noncash investing and financing activities:

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.

Fourth quarter dividends of \$465,718 and \$414,845 were accrued as of December 31, 1999 and 1998 respectively.

During 1999, the Fund received common stock in settlement of amounts due from interest totaling \$19,450 and received common stock in prepayment of interest totaling \$90,447.

During 1999, the Fund wrote down two portfolio investments in the amount of \$3,000,000.

During 1998, the Fund received common stock in settlement of amounts due from interest totaling \$154,628.

[FN]

See accompanying notes.

RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.

Notes to Financial Statements

December 31, 2000, 1999 and 1998

(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 offered to sell shares in the Fund until closing of the offering on December 31, 1994. The Prospectus of the Fund required minimum aggregate capital contributions by shareholders of not less than \$2,500,000 and allowed for maximum capital contributions of \$100,000,000. 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 Advisor) believes offers the opportunity for growth. The Fund is a non-diversified close-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 Advisor (note 4). 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.

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(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) Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase are treated as collateralized financing transactions and are recorded at their contracted repurchase or resale amounts plus accrued interest. The Fund is required to deliver, as collateral, securities sold under agreements to repurchase. Collateral is valued daily, and additional collateral is delivered when appropriate.

RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.

Notes to Financial Statements (continued)

December 31, 2000, 1999 and 1998

(2) Summary of Significant Accounting Policies (continued)

(e) Federal Income Taxes

The Fund has elected the special income tax treatment available to "regulated investment companies" under Subchapter M of the Internal Revenue Code (IRC) in order to be relieved of federal income tax on that part of its net investment income and realized capital gains that it pays out to its shareholders. The Fund's policy is to comply with the requirements of the IRC that are applicable to regulated investment companies. Such requirements include, but are not limited to certain qualifying income tests, asset diversification tests and distribution of substantially all of the Fund's taxable investment income to its shareholders. It is the intent of management to distribute all of its taxable investment income and long term capital gains within the defined period under the IRC to qualify as a regulated investment company. Therefore, no federal income tax provision is included in the accompanying financial statements.

(f) Net income per share

Net income per share is based on the weighted average of shares outstanding of 4,253,475 during 2000, 4,143,040 during 1999, and 4,246,163 during 1998.

(g) 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.

(h) Organization Costs

Costs of organizing the Fund were capitalized and were being amortized on a straight-line basis over five years beginning with the commencement of the Fund's activities. These costs were fully amortized as of December 31, 1999.

(3) Management and Organization Fees

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

RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.

Notes to Financial Statements (continued)

December 31, 2000, 1999 and 1998

(3) Management and Organization Fees (continued)

The Investment Adviser receives a fee equal to .4375% (1.75% annually) of the Net Assets each quarter. The Fund incurred \$1,056,483, \$878,987, and \$812,056, for 2000, 1999, and 1998, respectively, for such management fees. Amounts payable for such fees at December 31, 2000 and 1999 were \$208,049 and \$204,030, respectively.

The Investment Adviser was reimbursed by the Fund for administrative expenses paid by the Investment Adviser on behalf of the Fund. Such reimbursements were \$101,929, \$130,679, and \$187,988, for 2000, 1999 and 1998, respectively, and are included in general and administrative expenses in the accompanying statements of operations.

The Investment Adviser is to receive an incentive fee in an amount equal to 20% of any of the Fund's realized capital gains computed net of all realized capital losses and cumulative unrealized depreciation. At the Annual Shareholders' Meeting for the Fund held in May 1999, the shareholders approved an amendment to the Investment Advisory Agreement allowing the incentive fee to be accrued and paid on a quarterly basis in an effort to better reflect the operating results and financial position of the Fund on a quarterly basis. The Fund incurred \$1,611,135, \$2,313,841, and \$626,149 during the years ended 2000, 1999 and 1998, respectively, for such incentive fees.

(4) Investments

In the normal course of business the Fund conducts certain of its investment activities with brokers. The depository operations of these investing activities are performed pursuant to an agreement with a custodial bank.

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 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. These investments are carried in the statements of assets and liabilities as of December 31, 2000 and 1999, at fair value, as determined 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 any time 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

RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.

Notes to Financial Statements (continued)

December 31, 2000, 1999 and 1998

(4) Investments (continued)

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.

The Prospectus and the original offering document specify that investments held by the Fund shall be valued as follows:

Generally, pursuant to procedures established by the Investment Advisor, the fair value of each investment will be initially based upon its original cost to the Fund. Costs will be the primary factor used to determine fair value until significant developments affecting the investee company (such as results of operations or changes in general market conditions) provide a basis for use in an appraisal valuation.

Portfolio investments for which market quotations are readily available and which are freely transferable will be valued as follows:

(i) securities traded on a securities exchange or the NASDAQ will be 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 will be valued at the average of the closing bid and asked prices for the last trading day on, or prior to, the date of valuation. Convertible debt and/or warrants associated with such investments will be deemed to be investments for which market quotations are readily available and priced accordingly.

Securities for which market quotations are readily available but are restricted from free trading in the public securities markets (such as Rule 144 stock) will be valued by discounting the closing price or the closing bid and asked prices, as the case may be, for the last trading day on, or prior to, the date of valuation to reflect the illiquidity caused by such restrictions, but taking into consideration the existence, or lack thereof, of any contractual right to have the securities registered and freed from such trading restrictions.

The fair value of investments for which no ready market exists will be determined on the basis of appraisal procedures established in good faith by the Investment Advisor. Appraisal valuations will be based upon such factors as the company's earnings and net worth, the market prices for similar securities of comparable companies and an assessment of the company's future financial prospects. In the case of unsuccessful operations, the appraisal may be based upon liquidation value. Appraisal valuations are necessarily subjective.

At December 31, 2000 and 1999, all the Fund's investments, totaling \$45,367,138 (69% of total assets) and \$41,346,302 (88% of total assets), respectively, have been valued by the Investment Advisor in the absence of

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readily ascertainable market values. Because of the inherent uncertainty of valuation, those estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material.

RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.

Notes to Financial Statements (continued)

December 31, 2000, 1999 and 1998

(4) Investments (continued)

As of December 31, 2000 and 1999, the net unrealized appreciation associated with investments held by the Fund was \$5,381,352 and \$6,888,367, respectively. For 2000, the Fund had gross unrealized gains of \$13,902,385 and gross unrealized losses of (\$8,521,033). For 1999, the Fund had gross unrealized gains of \$12,907,099 and gross unrealized losses of (\$6,018,732).

(5) Restricted Securities

As indicated on the statement of investments as of December 31, 2000 and 1999, the Fund holds investments in shares of common stock, the sale of which is restricted. These securities have been valued by the Investment Advisor after considering certain pertinent factors relevant to the individual securities (note 4).

(6) Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase are collateralized by \$17,972,695 in Freddie Mae securities and \$2,361,250 in equity securities held by the broker and are included in cash and cash equivalents and investments on the statement of assets and liabilities as of December 31, 2000, respectively.

(7) 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 1999 or 1998 under the dividend reinvestment plan.

Exhibit 10.3

AMENDMENT NO. 1
TO
INVESTMENT ADVISORY AGREEMENT

THIS AMENDMENT NO. 1 (the "Amendment"), dated as of March 24, 1998, to the Investment Advisory Agreement (the "Agreement"), dated as of February 15, 1994, between Renaissance Capital Growth & Income Fund III, Inc., a Texas corporation (the "Fund"), and Renaissance Capital Group, Inc., a Texas corporation (the "Adviser").

RECITALS

- A. The Fund and the Adviser desire to amend the Agreement, as set forth in this Amendment.
- B. The amendments to the Agreement set forth herein have been approved by the Fund's Independent Outside Directors and the shareholders of the Fund, in

accordance with Section 18 of the Agreement.

AGREEMENT

NOW, THEREFORE, the parties hereby agree to amend the Agreement as follows:

1. Section 7(a)(ii) is hereby amended and restated to read as follows:

"following the Final Closing, for all subsequent quarters, at a quarterly rate of 0.4375% of Net Assets, as determined at the end of such quarter, and each such payment to be due as of the last day of the calendar quarter during the term of this Agreement. The Management Fee shall be payable no later than the day after which filings with the Securities and Exchange Commission are made by the Fund for such prior calendar quarter (the "Payment Date")."

2. Section 7(d) is hereby amended and restated to read as follows:

"Management Incentive Fee. The Fund agrees, in addition to the Management Fee, to pay the Adviser quarterly and at the final dissolution or liquidation of the Fund, as additional compensation for the services to be provided under this Agreement, an incentive fee (the "Management Incentive Fee") in an amount (the "Payment Amount") equal to twenty percent (20%) of any 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, calculated on a quarterly basis. The Management Incentive Fee shall be paid to the Adviser in cash (or in the event of a distribution of securities, in kind concurrent with distributions to the Shareholders). Any portion of the Management Incentive Fee not paid in any quarter because of regulatory restrictions shall accumulate and be paid at such time as such restriction is no longer applicable. Notwithstanding the foregoing, no payment shall be made of the Management Incentive Fee which is not permitted by the Act or other applicable law. In the event that a payment of the Management Incentive Fee is determined to have been made in excess of that permitted by the Act or in excess of that provided herein, such excess Management Incentive Fee payments shall be repaid to the Fund,

and repayment will be due, in cash (or in the event of a distribution of securities, at the option of the Adviser, in kind) on or before 30 days of the date of receipt of notice by the Adviser from the Fund that such over payment occurred."

3. Section 7(f) is hereby amended and restated to read as follows:

"Effect of Termination. If this Agreement is terminated as of any date not the last day of a calendar quarter, the Management Fee and the Management Incentive Fee shall be calculated as of the effective date of termination and shall be paid as soon as possible after such date of termination. All unrealized capital gains in excess of unrealized capital losses on the portfolio investments of the Fund at the date of termination of this Agreement shall be deemed realized on such date and shall be valued and paid in accordance with Section 12 and 13."

4. Except as expressly amended by this Amendment, all provisions of the Agreement shall remain in full force and effect. IN WITNESS WHEREOF, the parties have duly executed this Amendment as of the date written hereinabove.

RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.

By: /s/ Russell Cleveland

Russell Cleveland, President

RENAISSANCE CAPITAL GROUP, INC.

By: /s/ Russell Cleveland

Russell Cleveland, President

Exhibit 10.4

Custodial Agreement

This Agreement, dated as of January 1, 2001, between The Frost National Bank, ("FNB"), a national banking association, and Renaissance Capital Growth and Income Fund III, Inc. ("Ren III"), a Texas corporation.

Witnesseth:

Whereas Ren III is a registered investment company that has elected to be treated as a business development company under the Investment Company Act of 1940, as amended (the "Investment Act").

Whereas Ren III has appointed Renaissance Capital Group, Inc. as its registered investment advisor ("Investment Advisor").

Whereas pursuant to the Investment Act, Ren III is required to maintain its cash, securities and other assets with a qualified custodian and wishes to appoint FNB as its custodian on the terms and subject to the conditions set forth in this Agreement.

Pursuant to due authorization, Ren III hereby appoints FNB as custodian of its assets, and FNB hereby accepts such appointment, for the following purposes and upon the following conditions:

Section 1. Appointment of Custodian.

FNB shall act as custodian for all of Ren III's cash, securities and other assets which are transferred to FNB or its nominees, as custodian, and shall maintain those control policies and procedures specified herein to ensure the safekeeping of Ren III assets. FNB shall maintain accurate records regarding the acquisition and disposition of Ren III assets in its custody. Except as otherwise provided herein, FNB shall perform its duties as custodian as soon as operationally possible in accordance with the written instructions or directions submitted from time to time by the Authorized Parties (as hereinafter defined). This Agreement sets forth the exclusive duties of FNB with respect to any and all matters pertinent hereto and no implied duties or obligations of FNB shall be read into this Agreement. FNB may act relative hereto upon the written advice of counsel in reference to any matter connected herewith and shall not be liable for any mistake of fact, error of judgment, or any acts or omissions of any kind while acting in good faith and exercising reasonable judgment. FNB shall not have any obligations hereunder with respect to any cash, securities or other assets until such time as same have actually been received by FNB. FNB shall never have any obligation to pursue collection of any assets to be held in its custody under this Agreement.

Section 2. Authorization and Signatures.

Ren III has sole power, authority, and duty to manage, invest, and reinvest the custodial assets. The Board of Directors of Ren III shall vest such authority in Authorized Parties, who shall be those individuals or persons whose names are provided to FNB from time to time in a certified resolution of the Board of Directors of Ren III. Any additions to such list of Authorized Parties shall be made only pursuant to certified resolution of the Board of Directors of Ren III. Deletions to such list of Authorized

Parties may be made upon a directive executed by two (2) Authorized Parties. Notwithstanding any other provision herein, FNB shall not execute any transaction without having two (2) signatures of duly Authorized Parties. FNB shall have no discretionary authority or control with respect to the management, investment or disposition of custodial assets. Authorized Parties shall deliver written instructions to FNB specifying all details of any action to be taken by FNB, and FNB shall execute all directives as soon as operationally possible; provided, however, with respect to any directives received by FNB by 12:00 o'clock noon on a weekday that it is open for business, directing FNB to either purchase securities, wire transfer funds, or sell or deliver any securities, FNB shall use its best efforts to initiate such purchase, wire transfer or deliver out the subject securities, as the case may be, by the close of that business day. FNB shall act in accordance with such written instructions, provided FNB is in possession of sufficient assets in Ren III's account to accomplish such instructions. Ren III will designate to FNB, in a written direction signed by two or more Authorized Persons, money market mutual funds available to FNB, or other short-term investments into which cash assets, including proceeds of securities sales and interest and dividend payments shall be placed. Ren III will designate to FNB, in a written direction signed by two or more Authorized Persons, one or more custodial brokerage accounts to which custodial securities may be transferred by FNB, and Authorized Persons may direct the purchase or sale of such securities held in such custodial brokerage accounts.

Section 3. Receipt and Disbursement of Money.

- A. FNB shall open and maintain a separate account or accounts in the name of Ren III, subject only to draft or order by FNB acting pursuant to the terms of this Agreement. FNB shall hold in such account or accounts, subject to the provisions hereof, all cash received by it from or for the account of Ren III. FNB shall make payments of such cash to, or for the account of, Ren III only (a) for the purchase of portfolio securities, (b) for the purchase or redemption of shares of the capital stock of Ren III upon delivery thereof to FNB, (c) for the payment of interest, dividends, taxes, management or supervisory fees or operating expenses (including, without limitation, fees for legal, accounting and auditing services, (d) for payments in connection with the conversion, exchange or surrender of securities owned or subscribed to by Ren III held by or to be delivered to FNB, (e) the purchase of government securities, or (f) for other proper corporate purposes. Before making any such payment, FNB shall receive (and may rely upon) an officer's certificate requesting such payment and stating that it is for a purpose permitted under the terms of items (a), (b), (c), (d) or (e) of this subsection A, and also, in respect of item (f), upon receipt of an officers' certificate and a certified copy of a resolution of the Board of Directors of Ren III signed by an officer of Ren III and certified by its Secretary or an Assistant Secretary, specifying the amount of such payment, setting forth the purpose for which such payment is to be made, declaring such purpose to be a proper corporate purpose, and naming the person or persons to whom such payment is to be made.
- B. FNB is hereby authorized to endorse and collect all checks, drafts or other orders for the payment of money received by FNB for the account of

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Ren III.

Section 4. Receipt of Securities.

FNB shall hold in a separate account in San Antonio, Texas, or such other location that is mutually agreeable to FNB and Ren III, and physically segregated at all times from those of any other persons, firms or corporation, pursuant to the provisions hereof, all securities received by it for or for the account of Ren III. All such securities are to be held or

disposed of by FNB for, and subject at all times to the instructions of, Ren III pursuant to the terms of this Agreement. FNB shall have no power or authority to assign, hypothecate, pledge or otherwise dispose of any such securities and investments, except pursuant to the directive of Ren III and only for the account of Ren III as set forth in Sec. 5 of this Agreement.

Section 5. Transfer, Exchange, Redelivery, of Securities.

FNB shall have sole power to release or deliver any securities of Ren III held by it pursuant to this Agreement. FNB agrees to transfer, exchange, or deliver securities held by it hereunder only (a) for sales of such securities for the account of Ren III, (b) when such securities are called, redeemed or retired or otherwise become payable, (c) for examination by any broker selling any such securities in accordance with "street delivery" custom, (d) in exchange for or upon conversion into other securities alone or other securities and cash whether pursuant to any plan or merger, consolidation, reorganization, recapitalization or readjustment, or otherwise, (e) upon conversion of such securities pursuant to their terms into other securities, (f) upon exercise of subscription, purchase or other similar rights represented by such securities, (g) for the purpose of exchanging interim receipts or temporary securities for definitive securities, (h) for the purpose of redeeming in kind shares of capital stock of Ren III upon delivery thereof to FNB, (i) for the purpose of facilitating the purchase and/or sale of government securities, or (j) for other proper corporate purposes. As to any deliveries made by FNB pursuant to items (b), (d), (e), (f), (g), and (i), securities or cash receivable in exchange therefor shall be deliverable to FNB or at its direction. Before making any such transfer, exchange or delivery, FNB shall receive an officer's certificate authorizing such transfer, exchange or delivery and stating that it is for a purpose permitted under the terms of items (a), (b), (c), (d), (e), (f), (g), (h) or (i) of this Sec. 5 and also upon receipt of an officers' certificate and a certified copy of a resolution of the Board of Directors signed by an officer of Ren III and certified by its Secretary or an Assistant Secretary, specifying the securities to be delivered, setting forth the purpose for which such delivery is to be made, declaring such purposes to be proper corporate purposes, and naming the person or persons to whom delivery of such securities shall be made in respect of item (j).

Section 6. FNB's Acts Without Instructions.

Unless and until FNB receives an officer's certificate to the contrary, FNB shall:

(a) present for payment all coupons and other income items held by it for the account of Ren III which call for payment upon presentation and hold the cash received by it upon such payment for the account of Ren III; (b) receive interest and cash dividends received, with notice to Ren III, to the account of Ren III; (c) hold for the account of Ren III hereunder all stock dividends, rights and similar securities issued with respect to any securities held by it hereunder; and (d) execute as agent on behalf of Ren III all necessary ownership certificates required by the Internal Revenue Code or the Income Tax Regulations of the United States Treasury Department

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or under the laws of any State now or hereafter in effect, inserting Ren III's name on such certificate as the owner of the securities covered thereby, to the extent it may lawfully do so.

Section 7. Nominees.

FNB may hold all or any of the property in its name, in the name of its nominee, and in such form as will permit title thereto to pass by delivery, in the name "Frost National Bank FBO Renaissance Capital Growth and Income Fund III, Inc." or in the name of Ren III. No such holding shall relieve FNB

of liability for any loss resulting from an improper act of such nominee in connection with the property so held. At FNB's option, FNB may act through its nominees or custodians having accounts with the Depository Trust Company (DTC) as a depositor for all monies, dividends, interest, and other income earned upon the Ren III assets held by it and maintain proper records pertaining to such income.

Section 8. Voting and Other Action.

Neither FNB nor any nominee of FNB shall vote any of the securities held hereunder by or for the account of Ren III, except in accordance with the instructions contained in an officer's certificate. FNB shall deliver or cause to be executed and delivered in a commercially prompt manner, to Ren III all notices, proxies and proxy soliciting materials with relation to such securities, such proxies to be executed by the registered holder of such securities (if registered otherwise than in the name of Ren III), but without indicating the manner in which such proxies are to be voted.

FNB shall, in a commercially prompt manner, transmit to Ren III all written information (including, without limitation, pendency of calls and maturities of securities and expirations of rights in connection therewith) received by FNB from issuers of the securities being held for Ren III. With respect to tender or exchange offers, FNB shall, in a commercially prompt manner, transmit to Ren III all written information received by the FNB from issuers of the securities whose tender or exchange is sought and from the party (or his agents) making the tender or exchange offer. As used herein, the phrase "commercially prompt manner" shall mean within five (5) business days.

Section 9. Tax Reports and Returns.

FNB shall be under no duty to file, on behalf of Ren III, or the officers, directors, or shareholders in Ren III, tax returns, reports or statements with any governmental authority. FNB is authorized, however, in the name of and on behalf of Ren III, to execute any certificates of ownership or other reports which may be required by the United States, or any state or other jurisdiction with respect to any property being held pursuant to this Agreement. It shall be Ren III's responsibility to ensure compliance with any applicable tax reporting and withholding tax requirements. FNB shall deliver to Ren III all Forms 1099 it receives with respect to the custodial assets.

Section 10. Custodial Statements.

FNB shall furnish to the Investment Advisor a statement of account as of the last day of each quarter and the last day of each fiscal year, consisting of a statement of account including cash receipts and disbursements and a list of assets held pursuant to this Agreement. Such statements shall be furnished to the Investment Advisor within thirty (30) business days after the later of the last day of each such quarter or fiscal year or within five (5) business days after receipt of the valuation supplied by the Board of Directors of Ren III. FNB shall also prepare such other special reports and

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statements as may be reasonably requested by Ren III or the Investment Advisor from time to time. In the preparation of such statements, FNB shall use the value of the assets of Ren III as determined by its Board of Directors.

Section 11. Exchange of Temporary Certificates.

FNB is authorized to exchange securities in temporary form for securities in definitive form or to effectuate other transitional changes such as a change in the par value or share denomination or the issue of replacement or renewal certificates or securities to effect exchanged certificates.

Section 12. Independent Audit.

FNB shall furnish to Ren III a SAS 70 Report as prepared annually by independent audit of the FNB Trust Functions within five (5) days after FNB's receipt of same from its auditors.

Section 13. Termination of Agreement.

This Agreement may be terminated by Ren III, or by FNB, on sixty days' notice, given in writing and sent by registered mail to FNB or to Ren III as the case may be. Upon any termination of this Agreement, pending appointment of a successor to FNB or a vote of the shareholders of Ren III to dissolve or to function without a custodian of its cash, securities and other property, FNB shall not deliver cash, securities or other property of Ren III to Ren III, but may, with the consent of the Board of Directors, deliver them to a bank or trust company in Dallas, Texas having an aggregate capital, surplus and undivided profits, as shown by its last published report of not less than five hundred thousand dollars (\$500,000) as a custodian for Ren III to be held under terms similar to those of this Agreement; provided, however, that FNB shall not be required to make any such delivery or payment until full payment shall have been made by Ren III of all liabilities constituting a charge on or against the properties then held by FNB or on or against FNB, and until full payment shall have been made to FNB of all its fees, compensation, costs and expenses, subject to the provisions of this Agreement. In the event Ren III's Board of Directors has not appointed a successor custodian or otherwise consented to FNB's delivery of the assets held hereunder to a bank or trust company meeting the requirements set forth above upon the expiration of sixty (60) days from the date notice of termination is given by either party, FNB's obligations hereunder shall terminate and FNB may, at its election, interplead such assets with a court of competent jurisdiction in Dallas County, Texas, and FNB shall be entitled to recover from Ren III and/or the assets deposited with the court, its attorneys' fees and costs in connection with such interpleader. Upon the delivery by FNB of any assets to a successor custodian, bank or trust company, or a Dallas County District Court, FNB shall be released of any further responsibility or liability with respect to such assets.

Section 14. Concerning Custodian.

A. FNB shall be paid as compensation for its services pursuant to this Agreement such compensation pursuant to the fee schedule attached as Exhibit I. Ren III shall also pay for all out of pocket expenses incurred by FNB in the performance of its duties hereunder, including without limitation, the reasonable attorneys' fees it incurs as a result of such duties and/or the negotiation and preparation of this Agreement. The cash, securities and other assets held by FNB hereunder shall serve as security for all amounts owing hereunder to FNB by Ren III.

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B. FNB may rely and shall not be liable to any party for such reliance, upon any instrument or certificate herein described or certified copy of any resolution of the Board of Directors reasonably believed by FNB to be genuine, sufficient and properly presented. FNB shall not be liable in any respect on account of the authenticity, identity, authority or rights of the parties executing or delivering or purporting to execute or deliver this Agreement or any documents or papers or notices deposited or called for hereunder.

C. Ren III agrees to indemnify and hold harmless FNB and its nominees from all taxes, charges, expenses, assessments, claims and liabilities (including reasonable counsel fees) incurred or assessed against FNB or its nominees in connection with the performance of this Agreement, except such as may arise from FNB's or its nominee's own gross negligence or willful misconduct. In the event of any advance of cash for any purpose made by FNB resulting from orders or instructions of Ren III, or in the event that FNB or its nominee shall incur or be assessed any taxes, charges, expenses, assessments, claims or liabilities in connection with the performance of this Agreement, except such as may arise from FNB's or its nominee's own gross negligence or willful misconduct, any property at any time held for the account of Ren III shall be security therefor.

Section 15. Inspection.

Ren III, or its designee, shall have the right to physically inspect the tangible assets held in FNB's custody, during normal business hours, upon reasonable notice. Ren III acknowledges that it will not be able to physically inspect any assets held by DTC.

Section 16. Notice.

Unless otherwise provided, all notices and other communications required or permitted under this Agreement shall be in writing and shall be mailed by United States first-class mail, postage prepaid, sent by facsimile or delivered personally by hand or by a nationally recognized courier addressed if to Investment Advisor: 8080 N. Central Expressway, Suite 210 LB-59, Dallas, Texas 75206, facsimile number (214) 891-8106, Attention: Barbe Butschek or if to FNB: 8201 Preston Road, Dallas, Texas 75225, facsimile number [(214) 515-4939, Attention: Thomas Welch, or at such other address or facsimile number as such party may designate by ten (10) days' advance written notice to the other parties hereto. All such notices and other written communications, if properly addressed as above provided, shall be effective upon receipt.

Section 17. Assignment.

This Agreement may not be assigned by FNB without the consent of Ren III, authorized or approved by a resolution of its Board of Directors. Ren III shall not assign this Agreement without the consent of FNB.

Section 18. Compliance with Investment Company Act of 1940.

Ren III agrees to file three (3) copies of this Agreement with the Securities Exchange Commission (the "Commission") pursuant to Section 26(c) of the Investment Company Act of 1940 (the "Act"). In the event any portion of this Agreement is ever determined by the Commission not to comply with the Act, the parties agree to amend the Agreement in such a manner so as to bring this Agreement into compliance.

Section 19. Dispute Resolution.

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In order to facilitate an efficient and economical resolution of any disputed matter arising under this Agreement, FNB and Ren III agree that prior to the instigation of litigation by either of the parties, they will use their best efforts to resolve such dispute by first mediating the dispute in good faith. In the event a dispute cannot be resolved through mediation, upon the written request of either party hereto, such dispute shall be submitted to binding arbitration to be administered by the American Arbitration Association in Dallas, Texas, and determined in accordance with

the Commercial Arbitration Rules of the American Arbitration Association. Judgment upon any arbitration award may be entered in any court having jurisdiction.

Section 20. Miscellaneous.

This Agreement constitutes the entire agreement of the parties and supersedes all prior agreements and understandings, both written and oral, among the parties with respect to the subject matter hereof and may not be modified or amended except in writing signed by both parties hereto. This Agreement may be executed in several counterparts, each of which shall be deemed an original, and all of which shall constitute one and the same instrument. This Agreement shall be governed in all respects, including validity, interpretation, and effect, by the laws of the state of Texas, applicable to contracts made and to be performed in Texas. The rights and obligations contained in this Agreement are solely for the benefit of the parties hereto and are not intended to benefit or be enforceable by any other party, under the third party beneficiary doctrine or otherwise. If any provision of this Agreement shall be held or deemed to be or shall, in fact, be inoperative or unenforceable as applied to any particular case because it conflicts with any other provision or provisions hereof or any constitution or statute or rule of public policy or for any other reason, such circumstances shall not have the effect of rendering the provision in question inoperative or unenforceable in any other case or circumstance, or of rendering any other provision or provisions herein contained invalid, inoperative, or unenforceable. Facsimile signatures on any documents shall have the same legal effect as original signatures.

EXECUTED as of the date and year written above.

RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.

By: /S/ Russell Cleveland

Russell Cleveland, President and CEO

FROST NATIONAL BANK

By: /S/ Thomas M. Welch

Name: Thomas M. Welch

Title: Vice President

EXHIBIT I

RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.
("Ren III")

CUSTODY FEE SCHEDULE

5 basis points (.05%) annually, prorated and paid monthly, on market value of the custodial assets held by FNB as determined by the Board of Directors in its quarterly and annual valuation statements (up to a maximum of \$50 million in market value)

\$35 per transaction (not to include deposits or transfers of cash or payments made on behalf of Ren III at its direction)

Collateral Maintenance: As each separate collateral file is established, a \$35 set up charge will be assessed. Thereafter, a \$35 annual fee will be charged for each collateral file maintained.