RENAISSANCE CAPITAL GROWTH & INCOME FUND III INC
Form 10-K
March 30, 2009

**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, 2008 or

o 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 organization) | (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:

Name of each exchange

| Title of each class | on which registered |
|---|---|
| **Common** | **NYSE Amex** |

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 is a well-known seasoned issuer as defined in Rule 405 of the Securities Act.

Yes o No x

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes o No x

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 o

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. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. (Check one):

Large Accelerated Filer o Accelerated Filer o Non-accelerated filer x

Indicate by check mark whether the Registrant is a shell company as defined in Rule 12b-2 of the Act.

x No o Yes

The aggregate market value of the voting and non-voting common equity held by non-affiliates, based on the closing price of such the Registrant's Common Stock as of June 30, 2008, was $ 20,625,003.52. As of March 18, 2009, there were 4,463,967 shares of Registrant's Common Stock outstanding.

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## Part I

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

### Item 1. Business.

GENERAL

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

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

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

Our Internet website address is www.rencapital.com. You can review the filings we have made with the U.S. Securities and Exchange Commission ("SEC"), free of charge, by linking to the Electronic Data Gathering, Analysis, and Retrieval System of the SEC ("EDGAR") at www.sec.gov. From EDGAR, you should be able to access our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934.

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 "1934 Act"), or companies that in the opinion of the Investment Adviser have the ability to effect a public offering within three to five years. The Fund generally invests in privately placed convertible preferred stock, common stock, and warrants and debentures of a company to be held in the Fund's portfolio ("Portfolio Company"). The convertible preferred stock, warrants and debentures securities typically are convertible into, or exchangeable for, the common stock of the Portfolio Company. While such common stock of the Portfolio Company may be publicly traded, the common stock acquired by the Fund is often unregistered. Therefore, such securities are restricted from distribution or sale to the public except in compliance with certain holding periods and exemptions under the Securities Act of 1933, as amended (the "1933 Act"), or after registration pursuant to the 1933 Act. Typically, the Fund receives registration rights for shares to be registered within a certain period of time. The Fund also purchases shares of small and micro-cap issuers in the open markets. These shares are freely tradable and have no restrictions on resale.

From inception through December 31, 2008, the Fund had made investments in eighty-five (85) different Portfolio Companies having an aggregate cost of $108,285,380. At December 31, 2008, the Fund had active investments in thirty (30) Portfolio Companies. The Fund does not focus on particular industry segments. Instead, the Fund makes investment decisions using a bottom-up analysis of the potential Portfolio Company, with no predetermined industry bias.

Under the provisions of the 1940 Act, a Business Development Company generally is required to invest at least 70% of its assets directly in “Eligible Portfolio Companies” and temporary investments in “cash items” pending other investments. The term “Eligible Portfolio Company” is defined below under the section entitled “Business Development Company”. The Fund determines whether any prospective investment is an Eligible Portfolio Company at the time the investment is made, and the calculation of the requisite percentage is also made at that time and is based on the most recent valuation of the Fund’s assets. Under the 1940 Act, a Business Development Company may invest up to 30% of its funds in companies that do not qualify as Eligible Portfolio Companies. In the event the Fund has less than 70% of its assets in the securities of Eligible Portfolio Companies, then the Fund will be prohibited from making investments in companies that are not Eligible Portfolio Companies until such time as the percentage of eligible investments again is at least equal to the 70% threshold.

Pending investment in securities of Eligible Portfolio Companies or other Portfolio Companies, the Registrant’s funds are invested in short-term investments consisting primarily of cash or U.S. Government and agency obligations.

At December 31, 2008, the Fund’s investment assets were classified by amount as follows:

| Classification | | Fair Value | Percentage of Net BDC Assets |
|---|---|---|---|
| Investments in Eligible Portfolio Companies | $ | 9,337,410 | 50.25% |
| Cash and Cash Equivalents | | 2,558,630 | 13.77% |
| Interest and Dividends Receivable | | 91,428 | 0.49% |
| | | 11,987,468 | 64.51% |
| Investments in Other Portfolio Companies | | 6,594,515 | 35.49% |
| Net BDC Assets | $ | 18,581,983 | 100.00% |
| Prepaid and Other Assets | | 37,178 | |
| Total Assets | $ | 18,619,161 | |

Throughout the 2008 year the Fund remained in compliance with the BDC "70% Rule", that is, it did not invest in Ineligible Portfolio Companies while its holdings of Eligible Portfolio Companies was below 70%.

Please see the enclosed financial statements for further financial information regarding the Fund.

## INVESTMENT OBJECTIVE

The investment objective of the Fund is to provide its stockholders with long-term capital appreciation by investing primarily in privately placed convertible debt and equity securities of emerging growth public companies. The Fund seeks to provide returns to stockholders through cash dividends of net investment income and through distributions of realized gains.

## GENERAL INVESTMENT POLICIES

The Fund invests in the securities of emerging growth companies that are generally not available to the public and which typically require substantial financial commitment. An "emerging growth company" is generally considered to have the following attributes: (1) either a publicly held company with a relatively small market capitalization or a privately held company; (2) an established operating history, but of a limited period so as to not have fully developed its market potential for the products or services offered; and (3) a provider of a new or unique product or service that allows the company an opportunity for exceptional growth. Emerging growth companies typically require non-conventional sources of financing because the extent and nature of the market for their products or services is not fully known. Consequently, there is uncertainty as to the rate and extent of growth and also uncertainty as to the capital and human resources required to achieve the goals sought.

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

secured or unsecured, intended to carry the borrower to a private placement or an initial public offering, or to a merger, acquisition, or other strategic transaction.

Generally, the debt securities of Portfolio Companies have an initial fixed term of five to seven years, with no amortization of the principal amount for the initial two to three years. Further, privately-placed 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 Fund's securities of Portfolio Companies are generally considered non-liquid.

The Fund has no fixed policy concerning the types of businesses or industry groups in which it may invest or as to the amount of funds that it will invest in any one issuer. However, the Fund will generally seek to limit its investment in securities of any single Portfolio Company to approximately 15% of the Portfolio Company's 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 RENN Group. When, at the discretion of RENN Group, a suitable nominee is not available from among its officers, RENN Group will select, as alternate nominees, outside consultants who have prior experience as an independent outside director of a public company. At December 31, 2008, officers of the Fund served as directors of seven of the Fund's portfolio companies. The Fund makes available significant managerial assistance to its portfolio companies through participating in discussions with management and review of various management reports.

The Fund's current investment objectives are non-fundamental, (that is, they may be changed without a vote of the holders of a majority of the Fund's common stock). The Fund is in the process of withdrawing the Fund's election to be treated as a business development company ("BDC") pursuant to Section 54(c) of the 1940 Act, and to continue operations as a registered closed-end investment company. If approved, it will be able to more freely invest in companies that do not meet the restrictive definition of "Eligible Portfolio Company," as currently required by the BDC rules. The Fund intends to continue to restrict its investments to issuers which are either U.S. Domiciled or U.S–listed companies. It will also continue to avoid investing more that 25% of its total assets in any one industry so as to continue its qualification for taxation benefits as a Regulated Investment Company under Subchapter M of the Internal Revenue Code.

It is the policy of the Fund not to structure off-balance-sheet arrangements.

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 business development company ("BDC") is a closed-end management investment company that generally makes 70% or more of its investments in "Eligible Portfolio Companies" and "cash items" pending other investment. 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:

- it must be organized under the laws of, and have its principal place of business in, any state or states of the United States of America;

- it is neither an investment company as defined in Section 3 of the 1940 Act (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 under the 1940 Act except for the exclusion from the definition of investment company in Section 3(c) of the 1940 Act; and

- it satisfies one of the following:

1) it does not have any class of securities listed on a national securities exchange; or

2) it has no class of securities on which a broker, dealer or national exchange member will extend credit; or

3) it is controlled by a BDC (singly or in a group), in general terms, by virtue of the BDC's ownership of 25% or more of the company's voting securities and having a representative of the BDC on the company's board of directors; or

4) it has total assets of not more than $4 million and capital and surplus of not less than $2 million.

"Eligible Portfolio Companies" are, generally, those companies that, while being publicly held, might 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. The Fund provides or offers to provide managerial assistance, and in certain circumstances contracts for the right to have a designee of the Fund elected to the board of directors of the Portfolio Company, or be designated as an advisory director. While these are the Fund's general policies, the application of these policies, of necessity, varies 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 otherwise exempted, including the following:

- restrictions on the Fund from changing the nature of the Fund's business so as to cease to be, or to withdraw its election to be, a BDC without the affirmative votes of the lesser of the majority of the outstanding voting shares present in person or by proxy or 67% of the outstanding shares present at the meeting if more than 50% of the outstanding shares are present.

- restrictions against certain transactions between the Fund and affiliated persons;

- restrictions on issuance of senior securities;

- compliance with accounting rules and conditions as established by the SEC, including annual audits by independent accountants;

- compliance with fiduciary obligations imposed under the 1940 Act; and
- requirement that the stockholders ratify the selection of the Fund's independent public accountants and the approval of the Fund's Advisory Agreement with the Investment Adviser or similar contracts and amendments thereto.

CO-INVESTMENTS WITH ADVISER-AFFILIATED FUNDS

In accordance with the conditions of an exemptive order of the SEC permitting co-investments (the "Co-investment Order"), many of the Fund's acquisitions and dispositions of investments are made in joint participation with funds that are also advised or managed by RENN Group ("Adviser-Affiliated Funds").

The Co-investment Order provides that the Investment Adviser will review private placement investment opportunities on behalf of the Fund, including investments being considered on behalf of its Adviser-Affiliated Funds. If the Investment Adviser determines that any such investment is an eligible co-investment opportunity, the Fund must be offered the opportunity to invest in such investment in an amount recommended by the Adviser. Securities purchased by the Fund in a co-investment transaction with Adviser-Affiliated Funds will consist of the same class of securities and will have the same rights, price, terms and conditions. Any such co-investment transaction must be approved by the Fund's Board of Directors, including a majority of its independent directors. The Fund will not make any direct investment in the securities of any issuers in which the other Adviser-Affiliated Funds already hold an interest, except for follow-on investments in entities under a previous co-investment in which the Fund also participated. To the extent that the amount of a follow-on investment opportunity is not based on the amount of the Fund's and the Adviser-Affiliated Funds' initial investments, the relative amount of investment by the Adviser-Affiliated Funds and the Fund will first be based on the ratio of the Fund's remaining funds available for investment to the aggregate of the Fund's and the Adviser-Affiliated Funds' remaining funds available for investment. To the extent that the Fund or any Adviser Affiliated Fund declines any portion of its ratable opportunity, the declined portion will be likewise prorated among those who wish to acquire an amount greater than their original ratio.

The Fund will bear no more than its own transaction costs.

INVESTMENT ADVISERS ACT OF 1940 AND THE ADVISORY AGREEMENT

RENN Group is the Investment Adviser to the Fund pursuant to the Advisory Agreement (the "Advisory Agreement"). RENN Group is registered as an Investment Adviser under the Advisers Act and is subject to its filing and other requirements. The Advisers Act also provides restrictions on the activities of registered advisers in order to protect clients from manipulative or deceptive practices.

The Advisory Agreement is further subject to the 1940 Act, which requires that the Advisory Agreement, in addition to having to be initially ratified by the holders of a majority of the outstanding shares of the Fund, must precisely describe all compensation to be paid to RENN Group, must be approved annually by a majority vote of the Independent Directors of the Board of Directors of the Fund, and who are not a party to the agreement may be terminated without penalty on at least 60 days notice by a vote of the holders of a majority of the outstanding shares of the Fund or by the vote of the Funds' directors or the Adviser, and must automatically terminate in the event of assignment.

Pursuant to the Advisory Agreement, RENN Group receives a management fee equal to a quarterly rate of 0.4375% of the Fund's net assets, as determined at the end of such quarter with each such payment to be due on the last day of the calendar quarter. In addition, under the Advisory Agreement, RENN Group receives an incentive fee in an amount equal to 20% of the Fund's realized capital gains in excess of realized capital losses of the Fund after allowance for any unrealized capital losses in the portfolio investments of the Fund. The incentive fee is calculated and paid on an annual basis. If the process of ceasing to be a BDC is properly approved by the Shareholders, the basic management fee is expected to continue without change, but the incentive fee will be eliminated.

FUND PORTFOLIO INVESTMENTS

At December 31, 2008, the Fund had active investments in the following companies:

***Access Plans USA, Inc. (NASDAQ:AUSA)***

4929 West Royal Lane, Irving, TX 75063

Access Plans USA, Inc. develops and distributes various health insurance products and non-insurance health are discount programs to individuals, families, affinity groups and employer groups in the United States.

At December 31, 2008, the Fund owned a total of 890,500 shares of the company's common stock, options to purchase 3,659 shares of common stock at $2.30 per share and options to purchase 2,439 shares of common stock at $2.25 per share. These securities have a cost basis of $2,139,777.

***A-Power Energy Generation Systems, Ltd. (NASDAQ:APWR)***

No. 64 Huanghai Road, Yuhong District, Shenyang, Lianoning Province 110141

A-Power Energy Generation Systems, Ltd. designs, constructs, and tests distributed power generation and micro power grids to factories and users in the People's Republic of China. Its target customers include companies operating in various industries, including steel, chemical, cement, food processing and ethanol, and municipal governments, as well as state-owned Chinese power companies. The company was founded in 2003.

At December 31, 2008, the Fund owned 48,000 shares of common stock with a cost basis of $409,256.

***Asian Financial, Inc. (Duoyuan Digital Printing Technology) (Private)***

No. 3 Jinyuan Road, Daxing District Industrial Development Zone, Beijing, China, 102600

Duoyuan Digital Printing Technology engages in the design, development, and manufacture of offset printing equipment and solutions in the People's Republic of China. Duoyuan Digital Printing Technology is in the process of going through a reverse merger with a public shell known as Asian Financial, Inc.

During the first quarter of 2008, the Fund received warrants to purchase 15,924 shares of common stock at $5.76 per share. The warrants were issued as a penalty for failure to timely register the Fund's securities for resale under applicable securities laws.

At December 31, 2008, the Fund owned 130,209 shares of common stock and warrants to purchase 15,924 shares of common stock at $5.76 per share. These securities have a cost basis of $500,000.

***AuraSound, Inc. (OTCBB:ARAU)***

11839 East Smith Avenue, Santa Fe Springs, CA 70670

AuraSound, Inc. engages in the development, commercialization and sale of audio products, sound systems and audio components using its patented and proprietary electromagnetic technology. Its products include micro-audio speakers, speaker component products, such as (loudspeaker transducers) and home and professional audio products, including home audio systems, home theater systems and subwoofers.

At December 31, 2008, the Fund owned 1,000,000 shares of common stock and warrants to purchase 1,000,000 shares of common stock at $1.50 per share. These securities have a cost basis of $1,000,000.

***Bovie Medical Corporation (AMEX:BVX)***

734 Walt Whitman Road, Melville, NY 11747

Bovie Medical Corporation engages in the manufacture and marketing of medical products and the development of related technologies. The company offers electrosurgery products, which include desiccators, generators, electrodes, electrosurgery pencils, and various ancillary disposable products used in surgery for the cutting and coagulation of tissue, Bovie/Aaron 800 and 900 High Frequency Desiccators, which are designed for dermatology and plastic surgery for removing small skin lesions and growths, Bovie/Aaron 950 that is developed for outpatient surgical procedures used in various specialties, including dermatology, gynecology, and plastic surgery, Bovie/Aaron 1250, an electrosurgery generator, and Bovie/Aaron 2250/IDS 300, which is a multipurpose digital electrosurgery generator for the surgi-center market.

At December 31, 2008, the Fund owned 500,000 shares of common stock in the company, having a cost basis of $907,845.

***BPO Management Services, Inc. (AMEX:HAXS)***

1290 North Hancock Street, Suite 202, Anaheim, CA 92807

BPO Management Services, Inc. provides business process outsourcing (BPO) services in the United States and Canada. It offers a range of services, including human resources, information technology, enterprise content management, and finance and accounting to support the back-office functions of middle-market enterprises on an outsourced basis.

During the second quarter, the Fund exercised warrants to purchase 52,083 shares of Series D-2 preferred stock for $500,000.

During the fourth quarter, the company restructured its balance sheet, consolidating a number of warrants and multiple classes of preferred stock into a single class of preferred stock.

As a result, at December 31, 2008, the Fund owned 1,685,886 shares of Series B preferred stock. Such shares are convertible into 1,685,886 common shares and have a cost basis of $2,000,000.

***Business Process Outsourcing (Outsource Partners International) (Private)***

11150 Santa Monica Boulevard, Suite 350, Los Angeles, CA 90025

Business Process Outsourcing aka Outsource Partners International is the largest professional services firm dedicated exclusively to the provision of finance, accounting and tax outsourcing services.

In the quarter ended September 30, 2008, the Fund exercised warrants to purchase 18,349 shares of common stock for $20,000.

At December 31, 2008, the Fund owned 18,349 shares of common stock, having a cost basis of $20,000.

***CaminoSoft Corporation (OTC:CMSF)***

600 North Hampshire Road, Suite 105, West Lake Village, CA 91361

CaminoSoft Corp. engages in the development and marketing of enterprise data management software for small and medium-sized organizations. It offers software solutions that store, manage, and safeguard data created in a business and application settings.

During the year, the Fund received 273,907 common shares as payment in kind for interest on promissory notes held by the Fund.

At December 31, 2008, the Fund held a $250,000 promissory note. The Fund also owned 3,813,321 shares of common stock in the company having a basis of $5,295,521. Additionally, the Fund owned warrants to purchase 521,698 shares of common stock at exercise prices ranging from $0.53 per share to $0.86 per share, with varying expiration dates, and options to purchase 94,200 shares common with strike prices ranging from $0.41 per share to $0.61 per share.

***Cogo Group, Inc. (NASDAQ:COGO)***

Room 1001 Tower C Skyworth Building High-Tech Industrial Park Nanshan, Shenzhen, China 518057

Cogo Group, Inc. provides customized module design solutions to electronic manufacturers in China.

At December 31, 2008, the Fund held 200,000 shares of the company’s common stock, with a cost basis of $836,019.

***Dynamic Green Energy Limited (Private)***

Room 2001, Development Center Building, Renmin Road South, Shenzhen, China 518057

Dynamic Green Energy, Ltd. is one of China's most experienced and largest photovoltaic ("PV") module assemblers for the solar power industry. Among its customers are some of the world's most technologically advanced solar companies, including SunPower Corporation and GE Energy to name a few.

In the quarter ended June 30, 2008, the Fund invested $1,000,000 in a 7% convertible promissory note.

At December 31, 2008, the Fund held a $1,000,000 convertible promissory note.

***eOriginal, Inc. (Private)***

351 West Camden Street, Suite 800, Baltimore, MD 21201

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

At December 31, 2008, the Fund owned 10,680 shares of Series A Convertible Preferred Stock; 25,646 shares of Series B Convertible Preferred Stock; 51,249 shares of Series C Convertible Preferred Stock; 36,711 shares of Series D Convertible Preferred Stock; warrants to purchase 1,142 shares of Series A Convertible Preferred Stock at an exercise price of $16.12 per share and warrants to purchase 14,861 shares of common stock at exercise prices ranging from $3.83 to $20.97 per share. The aggregate cost basis is $6,872,270.

**Gasco Energy, Inc. (AMEX:GSX)**

8 Inverness Drive East, Suite 100, Englewood, CO 80112

Gasco Energy, Inc. operates as a natural gas and petroleum exploration, development and production company in the western United States.

In the quarter ended March 31, 2008, the Fund sold 775,586 shares of common stock for $1,800,348, realizing a gain of $1,334,996.

At December 31, 2008, the Fund held options to buy 18,750 shares of the company’s common stock at exercise prices ranging from $1.00 per share to $2.15 per share.

***Global Axcess Corporation (OTCBB:GAXC)***

14 Inverness Drive East, Suite H-236, Englewood, CO 80112

Global Axcess Corporation owns and operates automated teller machines (ATM) with locations primarily in the eastern and southwestern United States.

At December 31, 2008, the Fund owned 953,333 shares of common stock having a cost basis of $1,261,667 and warrants to purchase 1,486,667 shares of common stock at prices ranging from $1.75 per share to $5.00 per share.

***Hemobiotech, Inc. (OTCBB:HMBT)***

5001 Spring Valley Road, Suite 1040 West, Dallas, TX 75244

Hemobiotech, Inc. is a biopharmaceutical company engaged in the research and development of human blood substitute technology licensed from Texas Tech University Health Science Center School of Medicine (TTUHSC) in Texas. It focuses primarily on the production of HemoTech, an oxygen-carrying solution that performs like red blood cells.

At December 31, 2008, the Fund owned 1,200,000 shares of common stock. The stock had a cost basis of $1,284,117.

***HLS Systems International, Inc. (NASDAQ:HOLI)***

625 Broadway, Suite 1111, San Diego, CA 92101

HLS Systems International, Inc. operates as a holding company for Beijing HollySys Company Ltd. and Hangzhou HollySys Automation Co., Ltd. Those companies manufacture and market industrial automation and control systems.

At December 31, 2008, the Fund owned 58,500 shares of common stock. The stock had a cost basis of $498,557.

***i2Telecom International, Inc. (OTCBB:ITUI)***

1200 Abernathy Road, Suite 1800, Atlanta, GA 30328

i2Telecom International, Inc. provides telecommunications services employing voice over Internet protocol (VoIP) technology.

At December 31, 2008, the Fund owned 4,165,316 shares of common stock. The stock had a cost basis of $711,200.

***iLinc Communications, Inc. (AMEX:ILC)***

2999 North 44th Street, Suite 650, Phoenix, AZ 85018

iLinc Communications, Inc. provides Web conferencing software and services.

In the quarter ended September 30, 2008, the Fund sold 23,266 shares of common stock for $4,127, realizing a loss of $9,781.

At December 31, 2008, the Fund owned a $500,000 12% Convertible Subordinated Note convertible into ILC common at a rate of $1.00 per share.

***Integrated Security Systems, Inc. (OTCBB:IZZI)***

2009 Chenault Drive, Suite 114, Carrollton, TX 75006

Integrated Security Systems, Inc. engages in the design, development, manufacture, distribution and servicing of security and traffic control products used in the commercial, industrial and government sectors.

In the first quarter of 2008, the Fund received 976,622 shares of common stock as payment in kind for interest on promissory notes held by the Fund. Russell Cleveland received 102,170 shares of common stock for compensation as a member of the company's board of directors. Mr. Cleveland's stock was assigned to the Fund.

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

In the fourth quarter of 2008, the Fund received 1,638,222 shares of common stock as payment in kind for interest on promissory notes held by the Fund. Russell Cleveland received 48,062 shares of common stock for compensation as a member of the company's board of directors. Mr. Cleveland's stock was assigned to the Fund.

At December 31, 2008, the Fund owned a $200,000 7% promissory note, four 8% promissory notes aggregating $1,450,000, one $500,000 8% convertible promissory note, one $400,000 6% convertible promissory note, 7,500 shares of 9% preferred stock convertible into 187,500 shares of common stock, with a cost basis of $150,000, 39,626,430 shares of common stock with a cost basis of $6,325,113, and warrants to purchase 514,706 shares of common stock at $0.34 per share.

***Murdoch Security & Investigations, Inc. (Private)***

2777 Summer Street, Stamford, CT 06905

Murdoch Security & Investigations, Inc. is a full service security company providing uniformed guard services and other custom security solutions to private and public sector clients throughout the northeastern United States.

In the first quarter of 2008, the Fund purchased 500,000 shares of common stock and warrants to purchase 500,000 shares of common stock at $0.70 per share for $250,000.

During the year, the Fund received 112,500 shares of common stock as compensation for the company not going public by a specified date.

At December 31, 2008, the Fund owned 2,612,500 shares of common stock and warrants to purchase 2,500,000 shares of common stock at $0.70 per share. These securities have a cost basis of $1,250,000.

***Narrowstep, Inc. (OTCBB:NRWS)***

116 Village Boulevard, Suite 200, Princeton, NJ 08540

Narrowstep, Inc. operates in the field of Internet-based video content delivery. The company develops, produces, transmits, and manages streaming video broadcasts via the Internet and television (TV) channels in Europe, Asia and the United States.

At December 31, 2008, the Fund owned 4,000,000 shares of common stock and warrants to purchase 2,000,000 shares of common stock at $0.50. The cost basis of these securities is $1,000,000.

***PetroHunter Energy Corporation (OTCBB:PHUN)***

1600 Stout Street, Suite 200, Denver, CO 80202

PetroHunter Energy Corporation engages in the exploration and production of oil and gas properties. It owns interests in the Buckskin Mesa project comprising 20,000 net acres in Rio Blanco County, Colorado, the Piceance II project consisting of 27 producing nonoperated wells and 16 nonproducing operated wells, the South Bronco project and the Gibson Gulch project, in Colorado. The company also holds various interests in Australia, including the Beetaloo project comprising 7 million net contiguous acres and the Northwest Shelf project, which consists of an exploration permit with 20,000 acres in Western Australia.

During the year, the Fund received warrants to purchase 533,333 shares of common stock at $0.255 per share. The warrants were received in consideration for a waiver of penalties and for an extension on the interest payments on a promissory note held by the Fund.

At December 31, 2008, the Fund owned a $1,000,000 8.5% convertible debenture and warrants to purchase 7,200,000 shares of common stock at $0.255 per share.

***Pipeline Data, Inc. (OTCBB:PPDA)***

1515 Hancock Street Suite 301, Quincy, MA 02169

Pipeline Data, Inc. provides merchant payment processing services and related software products in the United States. The Company delivers credit and debit card-based payment processing solutions primarily to small to medium-sized merchants that operate in physical 'brick and mortar' business environments, over the Internet, or in mobile or wireless settings through cellular-based wireless devices.

During the fourth quarter, the Fund exchanged warrants to purchase 150,000 shares of common stock at $1.40 per share for an additional $69,000 senior secured note.

At December 31, 2008, the Fund held a $569,000 senior secured convertible 10% note.

***Points International Ltd. (OTCBB:PTSEF)***

179 John Street 8th Floor, Toronto, ON, Canada M5T 1X4

Points International, Ltd. owns and operates Points.com, an online loyalty program management portal that enables consumers to earn, buy, share, redeem, swap and redeem miles and points with various loyalty programs and retail partners.

At December 31, 2008, the Fund owned a total of 900,000 shares of common stock having a cost basis of $492,000.

***Riptide Worldwide, Inc. (OTCBB:RTWW )***

1351 Dividend Drive, Suite G, Marietta, GA 30067

Riptide Worldwide, Inc. provides business process management and information technology services in the United States and internationally. It offers custom programming services to build configurable enterprise software solutions for revenue and financial management systems, enterprise application integration, user-interface frameworks, middle-tier frameworks, military and commercial modeling and simulation, and military C3 centers (Command, Control and Communications).

During the fourth quarter, the Fund sold 896,434 shares of common stock for $9,453, realizing a loss of $329,491.

At December 31, 2008, the Fund owned 941,962 shares of the company's common stock having a cost basis of $754,387.

***Silverleaf Resorts, Inc. (NASDAQ:SVLF)***

1221 River Bend Drive, Suite 120, Dallas, TX 75247

Silverleaf Resorts, Inc. engages in the development, marketing and operation of timeshare resorts in the United States. It operates resorts under the brands ‘getaway resorts’ and ‘destination resorts’. The company markets and sells vacation intervals in its resorts, which also offer amenities, such as fishing, boating, horseback riding, swimming, tennis and golf.

At December 31, 2008, the Fund owned 100,000 shares of common stock. The stock had a cost basis of $430,000.

***Symbollon Pharmaceuticals, Inc. (NASDAQ:SYMBA)***

37 Loring Drive, Framingham, MA 01702

Symbollon Pharmaceuticals, Inc. is a specialty pharmaceutical company focused on the development and commercialization of proprietary products based on its molecular iodine technology for women's healthcare and antimicrobials uses.

At December 31, 2008, the Fund owned 607,143 shares of common stock having a basis of $500,000. The Fund also owned warrants to purchase 607,143 shares at $1.00 per share.

***Vertical Branding, Inc. (OTCBB:VBDG)***

16000 Ventura Boulevard, Suite 301, Encino, CA 91436

Vertical Branding, Inc. is a consumer product branding, marketing and distribution company in the United States. The company offers personal care, fitness, beauty and household products. It sells its products through its retail distribution business, catalogues, international distribution channels and other non-electronic distribution outlets.

During the year, the Fund received 20,058 shares of common stock and options to purchase 30,087 shares of common stock at strike prices ranging from $0.37 to $0.49. These securities were received in connection with Robert C. Pearson's compensation as a member of Vertical Branding's board of directors. These securities have an aggregate cost basis of $ 17,506.

At December 31, 2008, the Fund owned 1,686,725 shares of common stock, warrants to purchase 1,666,666 shares of common stock at prices ranging from $1.00 to $1.50 per share and options to purchase 30,087 shares of common stock at prices ranging from $0.37 to $0.49, with an aggregate cost basis of $1,017,506.

VALUATION OF INVESTMENTS

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

- Unrestricted common stock of companies listed on an exchange, NASDAQ or in the over-the-counter market is valued at the closing price on the date of valuation.

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

- The unlisted preferred stock of companies with common stock listed on an exchange, NASDAQ or in the over-the-counter market is valued at the closing price of the common stock into which the preferred stock is convertible on the date of valuation.

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

- The unlisted in-the-money warrants or options of companies with the underlying common stock listed on an exchange, NASDAQ or in the over-the-counter market are valued at fair value (the positive difference between the closing price of the underlying common stock and the strike price of the warrant or option). An out-of-the money warrant or option has no value; thus, we assign no value to it.

- Investments in privately held entities are valued at fair value. If there is no independent and objective pricing authority (i.e. a public market) for such investments, fair value is based on the latest sale of equity securities to independent third parties. If a private entity does not have an independent value established over an extended period of time, then the Investment Adviser will determine fair value on the basis of appraisal procedures established in good faith and approved by the Board of Directors.

PERSONNEL

The Fund has no employees, but instead has contracted RENN Group pursuant to the Advisory Agreement to provide all management and operating activities. As of December 31, 2008 RENN Group had eleven employees engaged in performing the duties and functions required by the Fund. At the present time, a substantial portion of RENN Group's staff time is devoted to activities of the Fund. However, because of the diversity of skills required, the Fund cannot afford to employ all these persons solely for its own needs, and therefore, these employees are not engaged solely in activities of the Fund.

No accurate data or estimate is available as to the percentage of time, individually or as a group, that will be devoted to the affairs of the Fund. 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.

RENN Group currently serves as the Investment Manager to Renaissance US Growth Investment Trust PLC ("RUSGIT"). RUSGIT is a public limited company registered in the United Kingdom and listed on the London Stock Exchange. RUSGIT invests in privately placed convertible securities issued by companies similar to the investments of the Fund. RUSGIT invests pari-passu with the Fund on all relevant terms, except that amounts invested may differ.

RENN Group also serves as the Investment Adviser to Global Special Opportunities Trust PLC ("GSOT") and is specifically responsible for managing its growth portfolio. G SOT is a public limited company registered in the United Kingdom and listed on the London Stock Exchange. GSOT invests in publicly traded equities, fixed-income and convertible securities of publicly traded issuers, and also invests in privately placed convertible instruments issued by companies similar to the investments of the Fund. For privately placed investments, GSOT invests on a pari-passu basis with the Fund as to all relevant terms of the investment, except that amounts invested may differ.

RENN Group also serves as the Investment Adviser to Premier RENN Entrepreneurial Fund Limited ("PRENN"). PRENN is an open-end investment company registered with limited liability in Guernsey. PRENN invests primarily in privately placed equity and convertible debt securities issued by companies similar to the investments of the Fund. PRENN invests pari-passu with the Fund on all relevant terms, except that amounts invested may differ.

RENN Group also serves as the Investment Adviser to Premier China Opportunities Fund ("CHOPPS") and manages its US-listed investments. CHOPPS is an open-end investment company registered with limited liability in Guernsey, and invests primarily in publicly traded equities. As regarding its U.S. listed investments, CHOPPS invests pari-passu with the Fund on all relevant terms, except that amounts invested may differ.

CODE OF ETHICS

The Fund and RENN Group have adopted a Code of Ethics pursuant to Rule 17j-1 under the 1940 Act applicable to all of their respective officers and employees. The Code of Ethics is on public file with, and is available from, the Securities and Exchange Commission's Public Reference Room in Washington, D.C. Information on the operation of the Public Reference Room may be obtained by calling the Commission at (202)-942-8090, and this Code of Ethics is available on the EDGAR database as an exhibit to the Fund's Form 8-K (File No. 001-11701), which is found on the Commission internet site at www.sec.gov. A copy of this Code of Ethics may be obtained, after paying a duplicating fee, by electronic request at the following e-mail address: publicinfo@sec.gov, or by writing the Commission's Public Reference Section, Washington, D.C. 20549-0102. We have made the Fund's Code of Ethics available on our website at www.renncapital.com and will post any future amendments to the Code on our website as soon as practicable after its adoption by the Board by Directors.

**Item 1A. Risk Factors.**

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

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

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

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

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

*We will be particularly sensitive to the risks associated with equity investments in small-cap and micro-cap companies.* Our equity investments are focused on common stocks of small-cap and micro-cap companies. We will therefore be particularly sensitive to the risks associated with smaller companies. The general risks associated with equity securities are particularly pronounced for securities issued by companies with small market capitalizations. Micro-cap and other small capitalization companies may offer greater opportunities for capital appreciation than larger companies, but may also involve certain special risks. They are more likely than larger companies to have limited product lines, markets or financial resources, or to depend on a small management group. Securities of smaller companies may trade less frequently and in lesser volume than more widely held securities and their values may fluctuate more sharply than other securities. They may also trade in the over-the-counter market or may otherwise have limited liquidity. These securities may therefore be more vulnerable to adverse developments than securities of larger companies. In addition, we may have difficulty establishing or closing out our securities positions in smaller companies at prevailing market prices. Also, there may be less publicly-available information about smaller companies or less market interest in their securities as compared to larger companies, and it may take longer for the prices of the securities to reflect the full value of the issuers' earnings potential or assets.

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

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

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

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

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

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

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

*Failure to Qualify for Favorable Tax Treatment*. We may not qualify for pass-through tax treatment as a regulated investment company ("RIC") if we are unable to comply with the requirements of Subchapter M of the Internal Revenue Code. Failure to qualify as a regulated investment company would subject the Fund to federal income tax as if it were an ordinary corporation, which would result in a substantial reduction in both the Fund's net assets and the amount of income available for distribution to stockholders. The loss of this pass-through tax treatment could have a material adverse effect on the total return, if any, obtainable from an investment in our common stock.

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

*Our Common Stock Often Trades at a Discount*. The Fund's stock frequently trades at a discount from net asset value. Stockholders desiring liquidity usually sell their shares at current market value, and therefore may not realize the full net asset value of their shares. This is a risk separate and distinct from the risk that a fund's performance may cause its net asset value to decrease.

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

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

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

**Item 2. Properties**

The Fund’s business activities are conducted from the offices of RENN Group, which offices are currently leased until November 30, 2010 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 RENN Group at its expense pursuant to the Advisory Agreement.

**Item 3. Legal Proceedings**

None

**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

The Fund’s common stock is traded on the NSYE Amex Exchange under the ticker RCG. The following table sets forth, for the periods indicated, the high and low closing sale prices for the Common Stock as: (i) reported on Bloomberg; and (ii) adjusted for distributions. The prices listed as “adjusted for distributions” were derived by adding to the share price all distributions paid and the taxes paid in connection with the distributions deemed to have been paid from the inception of the Fund in 1994 through the relevant date.

| | As Stated | | Adjusted For Distributions | |
|---|---|---|---|---|
| | Low | High | Low | High |
| First quarter 2008 | $ 5.18 | $ 6.48 | $ 20.83 | $ 22.13 |
| Second quarter 2008 | $ 5.07 | $ 6.25 | $ 20.82 | $ 22.00 |
| Third quarter 2008 | $ 3.64 | $ 5.10 | $ 19.49 | $ 20.95 |
| Fourth quarter 2008 | $ 1.90 | $ 4.10 | $ 17.85 | $ 20.05 |
| | | | | |
| First quarter 2007 | $ 9.00 | $ 10.15 | $ 24.62 | $ 25.77 |
| Second quarter 2007 | $ 8.85 | $ 9.50 | $ 24.47 | $ 25.12 |
| Third quarter 2007 | $ 7.75 | $ 9.05 | $ 23.37 | $ 24.67 |
| Fourth quarter 2007 | $ 5.90 | $ 7.98 | $ 21.62 | $ 23.60 |

The following section contains more information regarding the distributions the Fund has paid since inception.

DIVIDENDS/DISTRIBUTIONS

In the past, the Fund has provided returns to stockholders through cash distributions and deemed dividends of its net investment income, realized gains and return of capital. At December 31, 2008, the Fund has declared a total of $14.21 per share in cash distributions to its stockholders since inception in 1994. Since inception the fund has declared deemed dividends of $4.98 per share and paid taxes of $1.74 per share on behalf of stockholders on these dividends for a net deemed dividend of $3.24 per share deemed paid to stockholders.

The Fund has no fixed dividend policy. The Fund's Board of Directors will periodically consider the declaration of either a cash dividend and/or a deemed dividend. "Deemed dividends" are declared dividends of realized capital gains that are retained in the Fund for investment and are deemed by the IRS to be distributed to the Fund's stockholders if the Fund transmits 35% of the deemed dividends to the IRS as tax deposits on behalf of the stockholders and advises the stockholders how to apply the tax deposit to their personal taxes for that year. Under the Internal Revenue Code the Fund must withhold taxes at the maximum corporate rate of 35% and the remainder of the dividend is retained by the Fund for investment. The stockholders are allowed to increase their basis in their holdings by their share of the amount retained for investment, and to claim as a tax credit the portion of the withholdings remitted by the Fund to the IRS on their behalf. Any stockholder who has no tax liability may apply for refund of the tax credit.

During the year ended December 31, 2008, the Fund paid a total of $0.30 per share in distributions to shareholders. From this $0.30, $0.18 per share, or $803,515, was realized taxable net long term capital gains. All of the net capital gains were distributed in cash in March and July of 2008. Also from the $0.30 per share the Fund distributed $0.12 per share, or $535,677, designated as return of capital, paid in cash, during July and October of 2008.

DIVIDEND REINVESTMENT PLAN

Pursuant to the Dividend Reinvestment Plan (the "Reinvestment Plan") any stockholders whose shares are registered in their own names will be deemed to have elected to have all dividends and distributions automatically reinvested in Fund shares pursuant to the Reinvestment Plan unless and except for each such stockholder who individually elects to receive such on a current basis in lieu of reinvestment. In the case of stockholders such as banks, brokers or nominees that hold shares for others who are beneficial owners ("Nominee Stockholders"), the Plan Agent, American Stock Transfer & Trust Co. (the "Plan Agent") will administer the Reinvestment Plan on the basis of the number of shares certified by such Nominee Stockholders as registered for stockholders that have not elected to receive dividends and distributions in cash.

Investors that own shares registered in the name of a Nominee Stockholder should consult with such nominee as to participation or withdrawal from such plan.

All communications regarding the Reinvestment Plan should be directed to the Plan Agent.

NUMBER OF HOLDERS

As of December 31, 2008, there were approximately 614 record holders of the Fund's common stock. This total does not include stockholders with shares held under beneficial ownership in nominee name or within clearinghouse positions of brokerage firms or banks, which represent 49% of the outstanding shares of the Fund.

**Item 6. Selected Financial Data.**

The following selected financial data for the period January 1, 2004 through December 31, 2008 is derived from the Fund's audited financial statements and should be read in conjunction with the Fund's financial statements and notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Item 7 of this Annual Report on Form 10-K.

| | Selected Financial Data | | | | |
|---|---|---|---|---|---|
| | 2008 | 2007 | 2006 | 2005 | 2004 |
| Gross income (loss), including net realized gain (loss) | $ 1,376,837 | $ 4,215,319 | $ 14,444,683 | $ 6,569,365 | $ 14,514,741 |
| Net unrealized appreciation (depreciation) on investments | (18,023,424) | (12,797,981) | (13,339,923) | (19,537,884) | 9,397,996 |
| Net income (loss) | (17,992,940) | (10,161,897) | (4,035,913) | (16,023,666) | 18,971,481 |
| Net income (loss) per share | (4.03) | (2.28) | (0.90) | (3.60) | 4.36 |
| Total assets | 18,619,161 | 40,123,140 | 58,649,555 | 62,548,375 | 117,387,109 |
| Net assets | 18,427,016 | 37,759,148 | 48,367,442 | 54,188,943 | 74,582,499 |
| Net assets per share | 4.13 | 8.46 | 10.84 | 12.14 | 17.14 |

| | Selected Financial Data | | | | |
|---|---|---|---|---|---|
| | 2008 | 2007 | 2006 | 2005 | 2004 |
| Investment income | $ 0.13 | $ 0.19 | $ 0.21 | $ 0.14 | $ 0.15 |
| Operating expenses | $ (0. 29) | $ (0.36) | $ (1.14) | $ (0.66) | $ (1.12) |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Interest expense | $ | (0. 01) | $ | 0.00 | $ | ( 0.01) | $ | (0.02) | $ | (0.02) |
| Net investment loss | $ | (0. 17) | $ | (0.17) | $ | (0.94) | $ | (0.54) | $ | (0.98) |
| Cash distributions from return of capital | $ | (0. 12) | | - | | - | | - | | - |
| Cash distributions from net capital gains | $ | (0. 18) | $ | (0.10) | $ | (0.40) | $ | (1.33) | $ | (3.17) |
| Net realized gain on investments | $ | 0.18 | $ | 1.09 | $ | 4.43 | $ | 1.33 | $ | 3.18 |
| Taxes paid on behalf of stockholders | | - | $ | (0.33) | $ | (1.41) | | - | | - |
| Net increase (decrease) in unrealized appreciation of investments | $ | (4. 04) | $ | (2.87) | $ | (2.99) | $ | (4.38) | $ | 2.16 |
| Increase (decrease) in net asset value | $ | (4. 33) | $ | (2.38) | $ | (1.30) | $ | (5.00) | $ | 1.19 |
| Capital stock transactions | | - | | - | | - | $ | 0.35 | | - |
| Effect of share change | | - | | - | | - | $ | (0.43) | | - |
| Net Asset Value: | | | | | | | | | | |
| Beginning of year | $ | 8.46 | $ | 10.84 | $ | 12.14 | $ | 17.14 | $ | 15.95 |
| End of year | $ | 4.13 | $ | 8.46 | $ | 10.84 | $ | 12.14 | $ | 17.14 |

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

GENERAL

The primary purpose of the Fund is to provide capital to emerging growth public companies whose ability to service the securities is sufficient to provide income to the Fund and whose growth potential is sufficient to provide opportunity for long-term capital appreciation.

AMENDMENT TO ADVISORY AGREEMENT

On March 1, 2007, the Fund and RENN Group entered into an amendment to the Advisory Agreement. The amendment clarified that the Fund will pay RENN Group an incentive fee in an amount equal to 20% of all net realized capital gains, if any, computed net of all realized capital losses and unrealized capital depreciation of the Fund. The calculation of the incentive fee does not incorporate any offset of unrealized capital depreciation by unrealized capital appreciation. The effect of the use of this method to calculate the incentive fee is that each year, the cumulative performance of the Fund since its inception will provide the basis for the calculation of the incentive fee.

The Agreement also clarified that the base management fee paid to RENN Group will be assessed following the assessment of the incentive fee. Thus, the base management fee will be calculated net of any incentive fee payable.

SOURCES OF OPERATING INCOME

The 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. The Fund primarily generates income through capital gains. Furthermore, the Fund in some cases receives due diligence, commitment, and closing fees, as well as other similar types of revenue. Director’s compensation received by RENN Group (or its personnel) for services to a Portfolio Company on behalf of the Fund is paid to the Fund.

LIQUIDITY AND CAPITAL RESOURCES

During the year ended December 31, 2008, the Fund invested $1,000,000 in one (1) new portfolio investment and invested a total of an additional $1,141,220 in follow-on investments in eight (8) portfolio companies. Cash distributions paid to stockholders in 2008 amounted to $1,785,589. During 2008, gains were realized from the sale of securities of Gasco Energy, Inc., Medical Action Industries, Inc., Nutradyne Group, Inc., Pipeline Data, Inc., and Simtek Corporation, offset by realized losses from the sale of securities of AdStar, Inc., Advance Nanotech, Inc., Gaming & Entertainment Group, Inc., iLinc Communications, Inc., Riptide Worldwide, Inc., and US Home Systems, Inc. Net operating loss for 2008 was $17,992,940, and net cash provided by operating activities was $664,270. The Fund did not issue any new shares pursuant to the Dividend Reinvestment Plan during the year ended December 31, 2008. However, those stockholders who participated in the dividend reinvestment plan had 101,449 shares purchased on their behalf in the open market from cash distributions paid in 2008.

At December 31, 2008, the Fund had $2,558,630 in cash and cash equivalents and $192,145 in liabilities. The Fund believes that current cash and securities levels are sufficient to pay expenses as they come due and to make investments.

The majority of the Fund's investments in Portfolio Companies are individually negotiated, are initially not registered for public trading, and are subject to legal and contractual investment restrictions. Accordingly, many of the Portfolio Investments are considered non-liquid. This lack of liquidity primarily affects the ability of the Fund to exit from certain of its existing investments, and therefore its ability to make new investments.

From time to time, funds or securities are deposited in margin accounts and invested in government securities. Government securities used as cash equivalents typically consist of U. S. Treasury securities or other U. S. Government and Agency obligations having slightly higher yields and maturity dates of three months or less when purchased. These investments qualify for investment as permitted in Section 55(a)(1) through (5) of the 1940 Act. These securities are generally valued at market price as market prices are generally available for these securities. At December 31, 2008, the Fund had no margin balances.

RESULTS OF OPERATIONS

2008 Compared to 2007

During the year ended December 31, 2008, the Fund made additional portfolio investments aggregating $2,141,220 compared to $9,326,046 in 2007. During 2008, the Fund realized proceeds from the sale of investments in the amount of $5,238,491 compared to $8,792,947 in 2007. The Fund's 2008 net loss of $17,992,940 is due to a combination of a net investment loss of $771,010, net increase in unrealized depreciation on investments of $18,023,424, and net realized gain on investments of $801,494.

Interest income increased from $345,510 during 2007 to $454,420 primarily due to additional interest bearing investments during 2008. Dividend income during 2008 was $33,193 compared to $432,478 for 2007. The decrease in dividend income was primarily due to fewer dividends being earned on lower cash equivalent balances and fewer dividends being earned on certain investments. Other income increased to $87,730 in 2008 from $48,601 in 2007 as a result of the receipt of additional fee income for service on the boards of portfolio companies.

Legal and professional fees increased 15.7%, from $354,127 in 2007 to $409,836 for 2008, primarily due to an increase in legal services during 2008 offset by a reduction in professional fees relating to Sarbanes-Oxley compliance. There are no incentive fees due to the Adviser for the years ended December 31, 2008 and 2007. Management fees decreased to $455,005 in 2008 from $792,545 in 2007, a decrease of 42.6% due to the reduction in net asset values in 2008 primarily as a result of lower portfolio values in 2008.

The Fund experienced net loss of $17,992,940 in 2008 compared to a net loss of $10,161,897 in 2007. The Fund had a net realized gain on investments of $801,494 in 2008 compared to $3,388,730 (net of income tax paid on behalf of the stockholders of $1,485,135) in 2007. In 2008 the Fund's net change in unrealized depreciation on investments was $18,023,424, compared to $12,791,981 in 2007. The variance is primarily attributable to lower portfolio market values on investments held at year end.

2007 Compared to 2006

During the year ended December 31, 2007, the Fund made additional portfolio investments aggregating $9,326,046 compared to $4,116,806 in 2006. The Fund realized proceeds from the sale of investments in the amount of $8,792,947 compared to $20,932,760 in 2006. The Fund's 2007 net loss of $10,161,897 is due to a combination of a net investment loss of $752,646, net decrease in unrealized appreciation on investments of $12,797,981, and net realized gain on investments (net of income tax paid on behalf of the stockholders of $1,485,135) of $3,388,730.

Interest income increased from $340,145 during 2006 to $345,510 during 2007. Dividend income during 2007 was $432,478 compared to $584,139 for 2006. The decrease was primarily due to fewer dividends being earned on the lower cash equivalent balances. Commitment and other fee income increased to $48,601 in 2007 from $27,684 in 2006.

Legal and professional fees decreased 45.7%, from $651,701 in 2006 to $354,127 for 2007, primarily due to a reduction in audit and consulting services during 2007 (the Fund's 2003 through 2005 audits were completed during 2006). There is no incentive fee due to the Adviser for 2007 compared to $3,157,367 in 2006, primarily due to aggregate net realized gains being offset by capital unrealized depreciation in 2007. Management fees decreased to $792,545 in 2007 from $935,776 in 2006, a decrease of 15.3% due to the reduction in net asset values in 2007 as a result of capital gains dividends and lower portfolio values in 2007.

A net loss of $4,035,913 in 2006 increased to a net loss of $10,161,897 in 2007. The Fund had a net realized gain on investments (net of income tax paid on behalf of the stockholders of $1,485,135) of $3,388,730 in 2007, compared to $13,492,715 in 2006. In 2006 the Fund's net change in unrealized depreciation on investments was $13,339,923, compared to $12,797,981 in 2007. The variance is due to lower portfolio market values on investments held at year end.

CONTRACTUAL OBLIGATIONS

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

Because the Fund does not enter into other long-term debt obligations, capital lease obligations, operating lease obligations, or purchase obligations that would otherwise be reflected on the Fund's Statement of Assets and Liabilities, a table of contractual obligations has not been presented.

**Item 7A. Quantitative and Qualitative Disclosure About Market Risk.**

The Fund is subject to significant financial market risks, including changes in the price of the securities of the Fund's portfolio companies and (to a lesser extent) changes in interest rates. The Fund does not use derivative financial instruments to mitigate any of these risks. The return on the Fund's investments is generally not affected by foreign currency fluctuations.

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

A majority of the Fund's portfolio of investments consists of the common stock and warrants and options to purchase the common stock of publicly traded companies that may be considered small-cap and micro-cap companies, in that the total equity valuation of such companies is typically under $250 million. Publicly traded securities of smaller companies tend to be extremely volatile. In a general stock market decline (such as occurred in late 2008 and early 2009), the stock of smaller companies may be expected to decline by a relatively greater percentage than the stocks of larger companies. Therefore, in a general stock market decline, the net asset value of the Fund's portfolio (and therefore the Fund's stock price) may decline by a greater percentage than the decline of publicly traded stocks generally.

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

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

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

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

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

None.

**Item 9A(T). Controls and Procedures.**

***Evaluation of Disclosure Controls and Procedures***

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(3) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") required by Exchange Act Rules 13a-15(b) or 15d-15(e)), as of the end of the period covered by this report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of that date to provide reasonable assurance that the information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and include controls and procedures designed to ensure that information required to be disclosed by us in such reports is accumulated and communicated to our management, including the principal executive officer and principal financial officer, as appropriate to allow timely decision regarding required disclosure.

***Management's Annual Report on Internal Control Over Financial Reporting***

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we assessed the effectiveness of our internal control over financial reporting as of the end of the period covered by this report based on the framework in "Internal Control—Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that assessment, our Chief Executive Officer and Chief Financial Officer concluded that our internal control over financial reporting was effective to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of our financial statement for external purposes in accordance with United States generally accepted accounting principles.

This annual report does not include an attestation report of the Fund's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Fund's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Comminssion that permit the Fund to provide only management's report in this annual report.

***Evaluation of Changes in Internal Control Over Financial Reporting***

During the fourth quarter of fiscal 2008, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B. Other Information.**

None.

**Part III**

**Item 10. Directors and Executive Officers of Registrant.**

***Directors***

Pursuant to the Fund's Articles of Incorporation and Bylaws, the Board of Directors consists of five directors and is divided into three classes, with each class to serve for a three-year term or until a successor is elected. The term of office of the Class One directors will expire at the annual meeting of stockholders to be held in 2011, the term of office of the Class Two directors will expire at the annual meeting of stockholders to be held in 2009, and the term of office of the Class Three directors will expire at the annual meeting of stockholders to be held in 2010.

Because the Board of Directors is divided into classes, only those directors in a single class may be changed in any one year. Consequently, changing a majority of the Board of Directors would require two years (although under Texas law, procedures exist to remove directors, even if they are not then standing for reelection and, under SEC regulations, procedures exist for including appropriate stockholder proposals in the annual proxy statement). Having a classified Board of Directors, which may be regarded as an "anti-takeover" provision, may make it more difficult for stockholders of the Fund to change the majority of directors, thus having the effect of maintaining the continuity of management.

**Class One Directors - Term expires at the Annual Meeting to be held in 2011**

***Peter Collins***, age 64, has been a financial and management consultant to closely-held businesses for more than ten years in the USA, the UK, and Europe, in areas of finance, start-ups, joint ventures, and mergers and acquisitions. He has advised companies in every segment of industry (including manufacturing, distribution, service, agriculture, construction, and multimedia) and in all stages of development (from start-up to bankruptcy). Mr. Collins was educated in England, where he received a B.Sc. in Civil Engineering from Liverpool University and a M.Sc. in Business Administration from The City University, London. He has served as a Class One Director since 1994.

***J. Philip McCormick***, age 66, has been an independent investor and corporate advisor since 1999; He served as Executive Vice President and Chief Financial Officer of Highway Master Communication, Inc. from 1997 to 1998; Senior Vice President and Chief Financial Officer of Enserch Exploration, Inc. from 1995 to 1997; Senior Vice President - Transmission of Lone Star Gas Company, a division of Enserch Corporation, from 1993 to 1995; Senior Vice President — Finance of Lone Star Gas Company from 1991 to 1993; and Audit Partner, member of senior management and member of the Board of Directors of KPMG and KMG Main Hurdman from 1973 to 1991. Mr. McCormick is also a director of Quest Energy Partners L.P. He has served as a Class One Director since 2006.

**Class Two Director - Term expires at the Annual Meeting to be held in 2009**

***Charles C. Pierce, Jr.***, age 74, is the retired Vice-Chairman of Dain Rauscher, Inc., and he worked in the securities industries for 42 years. Mr. Pierce was a former president on the Texas Stock & Bond Dealers Association, an organization that advised the Texas Legislature on certain industry matters. He was also chairman of the South Central District of the Security Industry Association covering Texas, Oklahoma, New Mexico, Kansas and Colorado. He is a private investor. He has served as a Class Two Director since 2002.

**Class Three Directors - Term Expires at the Annual Meeting to be held in 2010**

***Russell Cleveland***, age 70, is the Chairman of the Board, President, Chief Executive Officer, and Director of the Fund since 1994. He is a Chartered Financial Analyst with more than 35 years experience as a specialist in investments in smaller capitalization companies. A graduate of the Wharton School of Business, Mr. Cleveland has served as President of the Dallas Association of Investment Analysts. Mr. Cleveland is also the President, Chief Executive Officer, sole Director, and the majority stockholder of RENN Group, the Investment Adviser to the Fund. RENN Group is also the Investment Manager of Renaissance US Growth Investment Trust PLC ("RUSGIT"), and the Investment Adviser to Global Special Opportunities Trust PLC, investment trusts listed on the London Stock Exchange, Premier RENN Entrepreneurial Fund Limited, an open-end investment company registered with limited liability in Guernsey, and Premier China Opportunities Fund Limited, an open-end collective Class B investment scheme under §235 of the UK Financial Services and Markets Act 2000, with A shares listed on the Channel Islands Stock Exchange.. Mr. Cleveland also serves on the Boards of Directors of RUSGIT, CaminoSoft Corp., Cover-All Technologies, Inc., Integrated Security Systems, Inc., BPO Management Services Inc. and Access Plans USA, Inc. He has served as a Class Three Director since 1994.

***Ernest C. Hill***, age 68, has a broad background in convertible securities analysis with major NYSE brokerage firms and institutional investors. He specializes in computer-aided investment analysis and administrative procedures. Mr. Hill was awarded a Ford Fellowship to the Stanford School of Business, where he received an MBA, with honors, in Investment and Finance. Mr. Hill's prior experience includes service as Assistant Professor of Finance, Southern Methodist University and Associate Director of the Southwestern Graduate School of Banking. He has served as a Class Three Director since 1994.

The Board of Directors has determined that all of the Fund's directors, other than Russell Cleveland, the President and Chief Executive Officer of the Fund, are independent directors. Certain information concerning the Fund's directors is set forth below:

| **Name, Address[1] and Age** | **Positions Held with Fund** | **Director's Term of Office and Length of Time Served** | **Principal Occupation(s) During Past 5 Years** | **Number of Portfolios in Fund Complex Overseen by Director (3)** | **Other Director-ships in Public Companies Held by Director** |
|---|---|---|---|---|---|
| Peter Collins<br>Age 6 4 | Director | Class One Director since 1994. Term expires at the Annual Meeting held in 2011 . | Consultant and private investor | 1 | None |
| J. Philip McCormick<br>Age 66 | Director | Class One Director since 2006. Term expires at the Annual Meeting held in 2011 . | Consultant and private investor | 1 | None |
| Charles C. Pierce, Jr.<br>Age 7 4 | Director | Class Two Director since 2002. Term expires at the Annual Meeting held in 2009 . | Retired Vice-Chairman of Dain Rauscher and private investor | 1 | None |
| Ernest C. Hill<br>Age 68 | Director | Class Three Director since 1994. Term expires at the Annual Meeting held in 2010 . | Consultant | 1 | None |
| ***Interested Director:*** | | | | | |
| Russell Cleveland[2]<br>Age 70 | Chairman of the Board, President, Chief Executive Officer, and Director | Class Three Director since 1994. Term expires at the Annual Meeting held in 2010 . | President & Chief Executive Officer of RENN Group | 5 | BPO Management Services, Inc., CaminoSoft Corp., Cover-All Technologies, Inc., Integrated Security Systems, Inc., Access Plans USA, Inc. |

(1) The address of all such persons is c/o RENN Capital Group, Inc., 8080 N. Central Expressway, Suite 210, LB-59, Dallas, TX 75206.
(2) Mr. Cleveland is also President and CEO of RENN Capital Group, Inc. See "information About the Fund's Officers and the Investment Adviser."
(3) The term "Fund Complex" means all funds which share a common investment adviser.

**Committees and Meetings**

The Board of Directors held twenty-two (22) meetings or executed consent actions in lieu of meetings during 2008, and each director attended or executed at least seventy-five per cent (75%) of these meetings and consent actions.

**The Audit Committee**

During 2008, the Audit Committee consisted of Ernest C. Hill, Chairman, Peter Collins, Charles C. Pierce, Jr. and J. Philip McCormick. The Audit Committee held five (5) meetings in 2008. The Audit Committee is comprised entirely of independent directors, and is appointed by the Board of Directors to assist the Board in fulfilling its oversight responsibilities. The Audit Committee's primary duties and responsibilities are to:

- appoint and approve the compensation of the Fund's independent auditors, including those to be retained for the purpose of preparing or issuing an audit report or performing other audit review or attestation services for the Fund;
- review the scope of the audit services of the Fund's independent auditors, and the annual results of their audits;
- monitor the independence and performance of the Fund's independent auditors;
- generally oversee the accounting and financial reporting processes of the Fund and the audits of its financial statements;
- review the reports and recommendations of the Fund's independent auditors;
- provide an avenue of communication among the independent auditors, management and the Board of Directors; and
- address any matters between the Fund and its independent auditors regarding financial reporting.

The Fund's independent auditors must report directly to the Audit Committee.

The Board of Directors has determined that J. Philip McCormick satisfies the standard for "audit committee financial expert" within the meaning of the rules of the SEC. The SEC rules provide that audit committee financial experts do not have any additional duties, obligations or liabilities and are not considered experts under the U.S. Securities Act of 1933.

**The Nominating and Corporate Governance Committee**

The Nominating and Corporate Governance Committee was created in January 2004 and is responsible for nominating individuals to serve as directors. The Nominating and Corporate Governance Committee is composed entirely of independent Fund directors**.** Its members are Chairman Charles C. Pierce, Jr., Ernest C. Hill, and Peter Collins.

The Committee considers and recommends nominees for election as directors of the Fund. Stockholders wishing to recommend qualified candidates for consideration by the Fund may do so by writing to the Secretary of the Fund at the address shown in the Notice providing the candidate's name, biographical data and qualifications. In its assessment of each potential candidate, the Committee reviews the nominee's judgment, experience, independence, financial literacy, knowledge of emerging growth companies, understanding of the Fund and its investment objectives, and such other factors as the Committee may determine. The Committee also takes into account the ability of a director to devote the time and effort necessary to fulfill his or her responsibilities. At the direction of the Board of Directors, the Committee also considers various corporate governance policies and procedures.

*Officers*

***Russell Cleveland***, age 70, has served as Chairman of the Board, President, Chief Executive Officer, and a Class Three director of the Fund since 1994. He has also served as the President, Chief Executive Officer, sole Director, and the majority stockholder of RENN Group since 1994. He is a Chartered Financial Analyst with more than 35 years experience as a specialist in investments for smaller capitalization companies. A graduate of the Wharton School of Business, Mr. Cleveland has served as President of the Dallas Association of Investment Analysts. Mr. Cleveland also serves on the Boards of Directors of Renaissance US Growth Investment Trust PLC, BPO Management Services, Inc., CaminoSoft Corp., Cover-All Technologies, Inc., Integrated Security Systems, Inc., and Access Plans USA, Inc.

***Barbe Butschek***, age 54, has served as the Secretary and Treasurer of the Fund since 1994. She currently serves as Senior Vice-President, Secretary and Treasurer of RENN Group and has served with RENN Group with responsibilities for financial reporting and various other duties since 1977 and has been the minority shareholder of RENN Group since 1991.

***Robert C. Pearson***, age 73, has served as Vice President of the Fund since April 1997. He joined RENN Group in April 1997 and is Senior Vice-President - Investments. Mr. Pearson brought more than thirty years of experience to RENN Group's corporate finance function. From May 1994 to May 1997, Mr. Pearson was an independent financial management consultant. From May 1990 to May 1994, he served as Chief Financial Officer and Executive Vice-President of Thomas Group, Inc., a management consulting firm, where he was instrumental in moving a small privately held company from a start-up to a public company with more than $40 million in revenues. Prior to 1990, Mr. Pearson was responsible for all administrative activities for the Superconducting Super Collider Laboratory. In addition, from 1960 to 1985, Mr. Pearson served in a variety of positions at Texas Instruments in financial planning and analysis, holding such positions as Vice-President - Controller and Vice-President - Finance. Mr. Pearson holds a BS in Business from the University of Maryland and was a W.A. Paton Scholar with an MBA from the University of Michigan. He is a director of *e*Original, Inc., CaminoSoft Corp., and Vertical Branding.

***Scott E. Douglass*****,** age 50, has served as a Vice President of the Fund since November 2004. He has worked for three sell-side firms in the roles of institutional sales and investment banking. Prior to that he was a commercial loan officer for the First National Bank of Boston and Fleet Financial Group which are now part of Bank of America. He holds a Masters Degree in Business Administration from the Olin Graduate School of Business at Babson College.

***Z. Eric Stephens***, age 40, has served as a Vice President of RENN Group since January 2006 and a Vice President of the Fund since August 2006. His responsibilities with RENN Group include due diligence, portfolio monitoring and portfolio selection. Previously, Mr. Stephens was a director with CBIZ Valuation Group, a national valuation consulting firm. While with CBIZ, he valued public and private companies, performed purchase price allocations and goodwill impairment tests, wrote fairness opinions and solvency opinions and acted as an expert witness. Prior to working for CBIZ, Mr. Stephens was a staff accountant with the U.S. Securities and Exchange Commission. While with the SEC, he conducted on-site examinations of investment companies and investment advisers. Mr. Stephens has a BA in economics and finance from Southwestern Oklahoma State University and an MBA from Texas A&M University and is a Chartered Financial Analyst.

## SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Fund's officers and directors and persons who own more than 10% of a registered class of the Fund's equity securities to file reports of ownership and changes in ownership with the SEC. Officers, directors, and greater-than-10% beneficial owners are required by SEC regulations to furnish the Fund with copies of all Section 16(a) forms they file. The Fund believes that during the fiscal year ended December 31, 2008, all Section 16(a) filings relating to the Fund's Common Stock applicable to its officers, directors, and greater-than-10% beneficial owners were timely filed.

**Item 11. Executive Compensation.**

The Fund has no employees, and therefore does not compensate any employees. Officers of the Fund receive no compensation from the Fund. The Fund has never issued options or warrants to officers or directors of the Fund. The Fund does not have any stock option plan or similar plan, retirement or pension plan, or any other form of compensatory plan for employees. As a result, the Fund does not have a compensation committee. Instead, the Fund has contracted with RENN Group pursuant to the Advisory Agreement to provide all management and operating activities.

## DIRECTOR COMPENSATION

Directors who are not employees of either the Fund or RENN Group receive a monthly fee of $2,000 ($3,000 per month for the Chairman of the Audit Committee), plus $750 and out-of-pocket expenses for each quarterly valuation meeting attended. The Fund does not pay any fees to, or reimburse expenses of, its directors who are considered “interested persons” of the Fund. The aggregate compensation for the period from January 1 to December 31, 2008, that the Fund paid each director, and the aggregate compensation paid to each director for the most recently completed fiscal year by other funds to which RENN Group provided investment advisory services is set forth below:

| Name | Fees Earned or Paid in Cash | Stock Awards | Option Awards | Non-Equity Incentive Plan Compensation | Change in Pension Value and Nonqualified Deferred Compensation Earnings | All Other Compensation | Total |
|---|---|---|---|---|---|---|---|
| Russell Cleveland (1) | $ -- | $ -- | $ -- | $ -- | $ -- | $ -- | $ -- |
| Peter Collins | $ 27,000 | $ -- | $ -- | $ -- | $ -- | $ -- | $ 27,000 |
| Ernest C. Hill | $ 39,000 | $ -- | $ -- | $ -- | $ -- | $ -- | $ 39,000 |
| Charles C. Pierce, Jr. | $ 27,000 | $ -- | $ -- | $ -- | $ -- | $ -- | $ 27,000 |
| J. Philip McCormick | $ 26,250 | $ -- | $ -- | $ -- | $ -- | $ -- | $ 26,250 |

(1) Mr. Cleveland is President and Chief Executive Officer of RENN Group and a more than 5% beneficial owner of the Fund.

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

The Fund has no equity compensation plans. The following table sets forth certain information known to the Fund with respect to beneficial ownership of the Fund's Common Stock as of December 31, 2008: (i) for all persons who are beneficial owners of more than 5% of the outstanding shares of the Fund's Common Stock; (ii) each director and nominee for director of the Fund; and (iii) all executive officers and directors of the Fund as a group:

| Name of Beneficial Owner | Number of Shares Beneficially Owned or Directly or Indirectly | Percent of Class |
|---|---|---|
| Russell Cleveland, Chairman, President, Chief Executive Officer, and Director (1) | 415,484 (2) | 9.31% |
| Peter Collins, Director | 2, 502 (3) | 0.05% |
| Charles C. Pierce, Jr., Director | 2,299 | 0.05% |
| Ernest C. Hill, Director | -- | 0.00% |
| J. Philip McCormick, Director | 3,500 | 0.08% |
| | 423,785 | 9.43% |
| other officers | 11,861 | 0.27% |
| All directors and officers of the Fund as a group (9 persons) | 435,646 | 9.70% |

(1) "Interested person" as defined by the 1940 Act.
(2) Consists of 36,216 shares owned by the Cleveland Family Limited Partnership and 335,468 shares owned by RENN Investment Limited Partnership and 43,800 shares owned by RENN Capital Group, Inc.
(3) Includes 130 shares owned by Hilary Collins, Mr. Collin's spouse
*as of December 31, 2008

**Item 13. Certain Relationships and Related Transactions and Director Independence.**

In 2008, the Fund incurred a management fee to RENN Group of $455,005 of which $374,033 was paid in 2008. There was no incentive fee incurred for 2008. The Fund also received directors' fees from portfolio companies with respect to Mr. Cleveland's and Mr. Pearson's services as directors. Russell Cleveland and Barbe Butschek own 80% and 20%, respectively, of the Common Stock of RENN Group. The sole director of RENN Group is Russell Cleveland.

**Item 14. Principal Accountant Fees and Services.**

The following table presents fees paid by the Fund for professional services rendered by KBA Group LLP and accounting consultants for the fiscal years ended December 31, 2008 and 2007.

| Fee Category | Fiscal 2008 Fees | Fiscal 2007 Fees |
|---|---|---|
| Audit Fee | $ 136,850 | $ 148,575 |
| Audit-Related Fees | $ - | $ - |
| Tax Fees | $ - | $ - |
| All Other Fees | $ - | $ - |
| Total Fees | $ 136,850 | $ 148,575 |

**Audit Fees** were for professional services rendered for the audit of the Fund's annual financial statements and review of the Fund's quarterly financial statements. No non-audit fees were paid to the independent audit firm of KBA Group LLP.

**No Other Fees** were paid by the Fund to KBA Group LLP for the fiscal years ended December 31, 2008 or 2007.

**Part IV**

**Item 15. Exhibits, Financial Statement Schedules.**

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.

EXHIBITS

| | |
|---|---|
| 3.1 | Restated Articles of Incorporation[1] |
| 3.2 | Bylaws[2] |
| 10.1 | Dividend Reinvestment Plan[3] |
| 10.2 | Amendment No. 1 to Dividend Reinvestment Plan[4] |
| 10.3 | Amended Investment Advisory Agreement[5] |
| 10.5 | Custodial Agreement with The Frost National Bank[6] |
| 14 | Code of Ethics[7] |
| 31.1 | Certification of the principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of the principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification of the principal executive officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2 | Certification principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

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

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

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

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

5 Incorporated by reference from Form 10-K for the year ended December 31, 2006 as filed with the Securities and Exchange Commission (File No. 033-75758).

6 Incorporated by reference from Form 10-K for the year ended December 31, 2000 as filed with the Securities and Exchange Commission (File No. 001-11701).

7 Incorporated by reference from Form 8-K as filed with the Securities and Exchange Commission (File No. 001-11701).

**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, thereunto duly authorized.

Date: March 18, 2009

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

/s/ Russell Cleveland
By: 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<br>Russell Cleveland | Chairman, President and Director | March 18, 2009 |
| /s/ Barbe Butschek<br>Barbe Butschek | Secretary and Treasurer | March 18, 2009 |
| /s/ Ernest C. Hill<br>Ernest C. Hill | Director | March 18, 2009 |
| /s/ Peter Collins<br>Peter Collins | Director | March 18, 2009 |
| /s/ J. Philip McCormick<br>J. Philip McCormick | Director | March 18, 2009 |
| /s/ Charles C. Pierce, Jr.<br>Charles C. Pierce, Jr. | Director | March 18, 2009 |

**INDEX TO FINANCIAL STATEMENTS**

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Stockholders and Board of Directors

Renaissance Capital Growth & Income Fund III, Inc.

We have audited the accompanying statements of assets and liabilities of Renaissance Capital Growth & Income Fund III, Inc. (the "Fund") including the schedules of investments as of December 31, 2008 and 2007 and the related statements of operations, changes in net assets and cash flows for the years ended December 31, 2008, 2007 and 2006 and financial highlights for the years ended December 31, 2008 and 2007. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. The Fund is not required to have nor were we engaged to perform, audits of their internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Renaissance Capital Growth & Income Fund III, Inc. as of December 31, 2008 and 2007 and the results of its operations and its cash flows for the years ended December 31, 2008, 2007 and 2006 and the financial highlights for the years ended December 31, 2008 and 2007 in conformity with accounting principles generally accepted in the United States of America.

/s/ KBA GROUP LLP
KBA Group LLP

Dallas, TX

March 18, 2009

Renaissance Capital Growth & Income Fund III, Inc.

Statements of Assets and Liabilities

December 31, 2008 and 2007

| | 2008 | 2007 |
|---|---|---|
| ASSETS | | |
| Cash and cash equivalents | $ 2,558,630 | $ 3,679,949 |
| Investments at fair value, cost of $41,524,234 and $43,820,011 at December 31, 2008 and 2007, respectively | 15,931,925 | 36,251,126 |
| Interest and dividends receivable | 91,428 | 141,402 |
| Prepaid and other assets | 37,178 | 50,663 |
| | $ 18,619,161 | $ 40,123,140 |
| LIABILITIES AND NET ASSETS | | |
| Liabilities: | | |
| Accounts payable | $ 105,273 | $ 57,726 |
| Dividends payable | - | 446,397 |
| Accounts payable - affiliate | 86,872 | 374,734 |
| Taxes payable on behalf of stockholders | - | 1,485,135 |
| | 192,145 | 2,363,992 |
| Commitments and contingencies | | |
| Net assets: | | |
| Common stock, $1 par value; 20,000,000 shares authorized ; 4,673,867 shares issued; 4,463,967 shares outstanding | 4,673,867 | 4,673,867 |
| Additional paid-in-capital | 26,617,105 | 27,925,813 |
| Treasury stock at cost, 209,900 shares | (1,734,967) | (1,734,967) |
| Net realized gain on investments retained | 14,463,320 | 14,463,320 |
| Net unrealized depreciation of investments | (25,592,309) | (7,568,885) |
| Net assets, equivalent to $4.13 and $8.46 per share at December 31, 2008 and 2007, respectively | 18,427,016 | 37,759,148 |
| | $ 18,619,161 | $ 40,123,140 |

See accompanying notes

Renaissance Capital Growth & Income Fund III, Inc.

Schedules of Investments

December 31, 2008 and 2007

| | 2008 | | | | |
|---|---|---|---|---|---|
| | **Interest Rate** | **Maturity Date** | **Fair Value** | **Cost** | **% of Investment Assets** |
| Eligible Portfolio Investments - Convertible Debentures and Promissory Notes | | | | | |
| CaminoSoft Corp. - | | | | | |
| Promissory note (2) | 7 % | 4/30/2009 | $ 250,000 | $ 250,000 | 1.57 % |
| Integrated Security Systems, Inc. - | | | | | |
| Convertible Promissory note (2) | 6 | 9/30/2009 | 400,000 | 400,000 | 2.51 |
| Convertible Promissory note (2) | 8 | 9/30/2009 | 750,000 | 750,000 | 4.71 |
| Promissory note (2) | 7 | 9/30/2009 | 200,000 | 200,000 | 1.26 |
| Promissory note (2) | 8 | 9/30/2009 | 1,200,000 | 1,200,000 | 7.52 |
| iLinc Communications, Inc. - | | | | | |
| Convertible debenture | 12 | 3/29/2012 | 500,000 | 500,000 | 3.14 |
| PetroHunter Energy Corp - | | | | | |
| Convertible debenture | 8..5 | 11/5/2012 | 1,000,000 | 1,000,000 | 6.27 |
| Pipeline Data, Inc. - | | | | | |
| Convertible debenture | 8 | 6/29/2010 | 569,000 | 569,000 | 3.57 |
| | | | $ 4,869,000 | $ 4,869,000 | 30.55 % |

See accompanying notes

Renaissance Capital Growth & Income Fund III, Inc.

Schedules of Investments (continued)

December 31, 2008 and 2007

| | 2008 | | | |
|---|---|---|---|---|
| | Shares | Cost | Fair Value | % of Investment Assets |
| Eligible Portfolio Investments - Common Stock, Preferred Stock, and Miscellaneous Securities | | | | |
| AuraSound, Inc. | | | | |
| Common stock | 1,000,000 | $ 1,000,000 | $ 20,000 | 0 .13% |
| BPO Management Services, Inc. | | | | |
| Series F, preferred (2) | 1,685,886 | 2,000,000 | 270,111 | 1 .69 |
| Business Process Outsourcing Ltd. - | | | | |
| Common stock (1) | 18,349 | 20,000 | 79,268 | 0 .50 |
| | 3,813,321 | 5,295,521 | 38,050 | 0 .24 |
| CaminoSoft Corp. - | | | | |
| Common stock (2) | | | | |
| eOriginal, Inc. - | | | | |
| Series A, preferred stock (2) | 10,680 | 4,692,207 | 40,904 | 0 .26 |
| Series B, preferred stock (2) | 25,646 | 620,329 | 98,224 | 0 .26 |
| Series C, preferred stock (2) | 51,249 | 1,059,734 | 196,284 | 1 .23 |
| Series D, preferred stock (2) | 36,711 | 500,000 | 140,603 | 0 .88 |
| Global Axcess Corporation - | | | | |
| Common stock | 953,333 | 1,261,667 | 123,933 | 0 .78 |
| i2 Telecom - | | | | |
| Common stock | 4,165,316 | 711,200 | 208,266 | 1 .31 |
| Integrated Security Systems, Inc. - | | | | |
| Common stock (2) | 39,626,430 | 6,325,113 | 789,309 | 4 .95 |
| Series D, preferred stock (2) | 7,500 | 150,000 | 3,750 | 0 .02 |
| Hemobiotech, Inc. - | | | | |
| Common stock | 1,200,000 | 1,284,117 | 876,000 | 5 .50 |

See accompanying notes

Renaissance Capital Growth & Income Fund III, Inc.

Schedules of Investments (continued)

December 31, 2008 and 2007

| | 2008 | | | |
|---|---|---|---|---|
| | Shares | Cost | Fair Value | % of Investment Assets |
| Eligible Portfolio Investments - Common Stock, Preferred Stock, and Miscellaneous Securities, continued | | | | |
| Murdoch Security & Investigations, Inc.- Common stock (1) | 2,612,250 | 1,250,000 | 1,306,250 | 8.20 |
| Narrowstep, Inc - Common stock | 4,000,000 | 1,000,000 | 28,000 | 0.18 |
| Riptide Worldwide, Inc. (Shea Development Corp). - Common stock | 941,962 | 754,387 | 9,419 | 0.06 |
| Symbollon Pharmaceuticals, Inc. - Common stock | 607,143 | 500,000 | 4,250 | 0.03 |
| Vertical Branding, Inc.- Common stock (2) | 1,686,725 | 1,008,628 | 235,789 | 1.48 |
| Miscellaneous Securities (3) | | 8,877 | - | - |
| | | $ 29,441,780 | $ 4,468,410 | 28.06 % |

See accompanying notes

Renaissance Capital Growth & Income Fund III, Inc.

Schedules of Investments (continued)

December 31, 2008 and 2007

| | 2008 | | | | |
|---|---|---|---|---|---|
| | Interest Rate | Maturity Date | Cost | Fair Value | % of Investment Assets |
| Other Portfolio Investments - Convertible Debentures and Promissory Notes | | | | | |
| Dynamic Green Energy Limited. - Convertible Promissory note (1) | 7% | 6/10/2011 | $ 1,000,000 | $ 1,000,000 | 6.27% |
| | | | $ 1,000,000 | $ 1,000,000 | 6.27% |

See accompanying notes

Renaissance Capital Growth & Income Fund III, Inc.

Schedules of Investments (continued)

December 31, 2008 and 2007

| | 2008 | | | | | |
|---|---|---|---|---|---|---|
| | Shares | | Cost | | Fair Value | % of Investment Assets |
| Other Portfolio Investments - Common Stock, Preferred Stock, and Miscellaneous Securities | | | | | | |
| Access Plans (Precis) - Common stock (2) | 890,500 | $ | 2,139,777 | $ | 204,815 | 1.29% |
| A-Power Energy Generation Systems, Ltd. . - Common stock | 48,000 | | 409,256 | | 206,400 | 1.30 |
| Asian Financial, Inc. - Common stock (1) | 130,209 | | 500,000 | | 500,000 | 3.14 |
| Bovie Medical Corporation - Common stock | 500,000 | | 907,845 | | 3,120,000 | 19.58 |
| COGO Group, Inc. (Comtech Group, Inc). - Common stock | 200,000 | | 836,019 | | 972,000 | 6.10 |
| HLS Systems International, Ltd. - Common stock | 58,500 | | 498,557 | | 163,800 | 1.03 |
| Points International, Ltd. - Common stock | 900,000 | | 492,000 | | 355,500 | 2.23 |
| Silverleaf Resorts, Inc. - Common stock | 100,000 | | 430,000 | | 72,000 | 0.45 |
| Miscellaneous Securities | - | | - | | - | - |
| | | | 6,213,454 | | 5,594,515 | 35.12% |
| | | $ | 41,524,235 | $ | 15,931,925 | 100.00% |

See accompanying notes

Renaissance Capital Growth & Income Fund III, Inc.

Schedules of Investments (continued)

December 31, 2008 and 2007

Allocation of Investments -
Restricted Shares, Unrestricted Shares, Miscellaneous Securities, and Cash and Cash Equivalents

| | 2008 | | |
|---|---|---|---|
| | Cost | Fair Value | % of Investement Assets |
| Private Securities (1) | $ 2,770,000 | $ 2,885,518 | 18.11% |
| Restricted Securities (2) | $ 26,591,309 | $ 4,817,839 | 30.24% |
| Unrestricted Securities | $ 12,154,048 | $ 8,228,568 | 51.65% |
| Miscellaneous Securities (3) | $ 8,877 | $ - | 0.00% |
| | $ 41,524,234 | $ 15,931,925 | 100.00% |

(1) Securities in a privately owned company.
(2) Restricted securities due to the Fund's having a director on issuer's board or held less than 6 months.
(3) Other securities such as warrants and options.

See accompanying notes

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Renaissance Capital Growth & Income Fund III, Inc.

Schedules of Investments (continued)

December 31, 2008 and 2007

| | 2007 | | | | |
|---|---|---|---|---|---|
| | Interest Rate | Maturity Date | Cost | Fair Value | % of Investment Assets |
| Eligible Portfolio Investments - Convertible Debentures and Promissory Notes | | | | | |
| CaminoSoft Corp. - | | | | | |
| Promissory note (2) | 7 % | 1/19/2008 | $ 250,000 | $ 250,000 | 0.69% |
| Integrated Security Systems, Inc. - | | | | | |
| Convertible Promissory note (2) | 6 | 9/30/2008 | 400,000 | 400,000 | 1.10 |
| Promissory note (2) | 8 | 9/30/2008 | 525,000 | 525,000 | 1.45 |
| Promissory note (2) | 7 | 9/30/2008 | 200,000 | 200,000 | 0.55 |
| Promissory note (2) | 8 | 9/30/2008 | 175,000 | 175,000 | 0.48 |
| Promissory note (2) | 8 | 9/30/2008 | 450,000 | 450,000 | 1.24 |
| Convertible promissory note (2) | 8 | 12/14/2008 | 500,000 | 500,000 | 1.38 |
| Promissory note (2) | 8 | 12/12/2008 | 300,000 | 300,000 | 0.83 |
| iLinc Communications, Inc. - | | | | | |
| Convertible debenture | 12 | 3/29/2012 | 500,000 | 500,000 | 1.38 |
| PetroHunter Energy Corp - | | | | | |
| Convertible debenture (2) | 8.5 | 11/5/2012 | 1,000,000 | 1,466,667 | 4.05 |
| Pipeline Data, Inc. - | | | | | |
| Convertible debenture | 8 | 6/29/2010 | 500,000 | 500,000 | 0.37 |
| Simtek Corporation - | | | | | |
| Convertible debenture (2) | 7.5 | 6/28/2009 | $ 700,000 | $ 738,182 | 2.04 |
| | | | $ 5,500,000 | $ 6,004,849 | 16.57% |

See accompanying notes

Renaissance Capital Growth & Income Fund III, Inc.

Schedules of Investments (continued)

December 31, 2008 and 2007

| | 2007 | | | |
|---|---|---|---|---|
| | Shares | Cost | Fair Value | % of Investment Assets |
| Eligible Portfolio Investments - Common Stock, Preferred Stock, and Miscellaneous Securities | | | | |
| Advance Nanotech, Inc. - | | | | |
| Common stock | 5,796 | $ 11,199 | $ 1,652 | 0.00% |
| AuraSound, Inc. | | | | |
| Common stock | 1,000,000 | 1,000,000 | 1,100,000 | 3.03 |
| BPO Management Services, Inc. | | | | |
| Series D, preferred (2) | 104,167 | 1,000,000 | 716,667 | 1.98 |
| Series D2, preferred (2) | 52,084 | 500,000 | 358,333 | 0.99 |
| CaminoSoft Corp. - | | | | |
| Common stock (2) | 3,539,414 | 5,275,000 | 283,153 | 0.78 |
| eOriginal, Inc. - | | | | |
| Series A, preferred stock (1) | 10,680 | 4,692,207 | 145,462 | 0.40 |
| Series B, preferred stock (1) | 25,646 | 620,329 | 349,299 | 0.96 |
| Series C, preferred stock (1) | 51,249 | 1,059,734 | 698,011 | 1.93 |
| Series D, preferred stock (1) | 36,711 | 500,000 | 500,004 | 1.38 |
| Gaming & Entertainment Group, Inc. - | | | | |
| Common stock | 112,500 | 50,625 | 788 | 0.00 |
| Gasco Energy, Inc. - | | | | |
| Common stock | 775,586 | 465,352 | 1,543,416 | 4.26 |
| Global Axcess Corporation - | | | | |
| Common stock | 953,333 | 1,261,667 | 324,133 | 0.89 |
| i2 Telecom - | | | | |
| Common stock | 237,510 | 36,200 | 17,814 | 0.05 |
| Common stock (2) | 3,927,806 | 675,000 | 294,585 | 0.81 |

See accompanying notes

Renaissance Capital Growth & Income Fund III, Inc.

Schedules of Investments (continued)

December 31, 2008 and 2007

| | 2007 | | | |
|---|---|---|---|---|
| | Shares | Cost | Fair Value | % of Investment Assets |
| Eligible Portfolio Investments - Common Stock, Preferred Stock, and Miscellaneous Securities, continued | | | | |
| Integrated Security Systems, Inc. | | | | |
| Common stock (2) | 30,733,532 | 5,661,058 | 2,766,018 | 7.63 |
| Common stock (2) | 2,175,559 | 400,734 | 195,800 | 0.54 |
| Series D, preferred stock (2) | 7,500 | 150,000 | 16,875 | 0.05 |
| Hemobiotech, Inc. - | | | | |
| Common stock | 1,200,000 | 1,284,117 | 1,680,000 | 4.63 |
| Murdoch Security & Investigations, Inc.- | | | | |
| Common stock (1) | 2,000,000 | 1,000,000 | 1,000,000 | 2.76 |
| Narrowstep, Inc - | | | | |
| Common stock (2) | 4,000,000 | 1,000,000 | 440,000 | 1.21 |
| Nutradyne Group, Inc. - | | | | |
| Common stock | 13,917 | 12,500 | 21,571 | 0.06 |
| Shea Development Corp. - | | | | |
| Common stock (2) | 1,838,396 | 1,093,332 | 643,439 | 1.78 |
| Simtek Corp. - | | | | |
| Common stock (2) | 640,763 | 1,799,294 | 1,486,570 | 4.10 |
| Common stock (2) | 90,909 | 200,000 | 210,909 | 0.58 |
| Symbollon Pharmaceuticals, Inc. - | | | | |
| Common stock | 607,143 | 500,000 | 391,607 | 1.08 |
| Vertical Branding, Inc.- | | | | |
| Common stock (2) | 1,666,667 | 1,000,000 | 666,667 | 1.84 |
| Miscellaneous Securities (3) | | - | 187,727 | 0.52 |
| | | $ 31,248,348 | $ 16,040,500 | 44.24% |

See accompanying notes

Renaissance Capital Growth & Income Fund III, Inc.

Schedules of Investments (continued)

December 31, 2008 and 2007

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

See accompanying notes

Renaissance Capital Growth & Income Fund III, Inc.

Schedules of Investments (continued)

December 31, 2008 and 2007

| | 2007 | | | |
|---|---|---|---|---|
| | Shares | Cost | Fair Value | % of Investment Assets |
| Other Portfolio Investments - Common Stock, Preferred Stock, and Miscellaneous Securities | | | | |
| Points International, Ltd. - Common stock | 900,000 | 492,000 | 3,735,000 | 0.10 |
| Silverleaf Resorts, Inc. - Common stock | 100,000 | 430,000 | 416,000 | 0.01 |
| US Home Systems, Inc. - Common stock | 55,000 | 276,375 | 294,800 | 0.01 |
| Miscellaneous Securities | | - | - | 0.00 |
| | | 7,071,663 | 14,205,777 | 39.19% |
| | | $ 43,820,011 | $ 36,251,126 | 100.00% |

| | Cost | Fair Value | % of Investment Assets |
|---|---|---|---|
| Allocation of Investments - Restricted Shares, Unrestricted Shares, and Other Securities | | | |
| Private Securities (1) | $ 8,372,270 | $ 3,192,776 | 8.81% |
| Restricted Securities (2) | $ 25,394,195 | $ 14,036,700 | 38.73% |
| Unrestricted Securities | $ 10,053,546 | $ 18,833,923 | 51.94% |
| Miscellaneous Securities (3) | $ - | $ 187,727 | 0.52% |
| | $ 43,820,011 | $ 36,251,126 | 100.00% |

(1) Securities in a privately owned company.
(2) Restricted securities due to the Fund’s having a director on issuer’s board or held less than 1 year.
(3) Other securities such as warrants and options.

See accompanying notes

Renaissance Capital Growth & Income Fund III, Inc.

Statements of Operations

December 31, 2008, 2007 and 2006

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Investment income: | | | |
| Interest income | $ 454,420 | $ 345,510 | $ 340,145 |
| Dividend income | 33,193 | 432,478 | 584,139 |
| Other income | 87,730 | 48,601 | 27,684 |
| | 575,343 | 826,589 | 951,968 |
| Expenses: | | | |
| General and administrative | 440,671 | 432,563 | 335,641 |
| Incentive fee to affiliate | - | - | 3,157,367 |
| Interest expense | 40,841 | - | 60,188 |
| Legal and professional fees | 409,836 | 354,127 | 651,701 |
| Management fee to affiliate | 455,005 | 792,545 | 935,776 |
| | 1,346,353 | 1,579,235 | 5,140,673 |
| Net investment loss | (771,010) | (752,646) | (4,188,705) |
| Realized and unrealized gain (loss) on investments: | | | |
| Net unrealized depreciation of investments | (18,023,424) | (12,797,981) | (13,339,923) |
| Net realized gain on investments | 801,494 | 4,873,865 | 19,795,521 |
| Income tax expense paid on behalf of stockholders | - | (1,485,135) | (6,302,806) |
| Net gain (loss) on investments | (17,221,930) | (9,409,251) | 152,792 |
| Net loss | $ (17,992,940) | $ (10,161,897) | $ (4,035,913) |
| Net loss per share | $ (4.03) | $ (2.28) | $ (0.90) |
| Weighted average shares outstanding | 4,463,967 | 4,463,967 | 4,463,967 |

See accompanying notes

# Renaissance Capital Growth & Income Fund III, Inc.

## Statements of Changes in Net Assets

## Years Ended December 31, 2008 , 2007 , and 2006

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| From operations: | | | |
| Net investment loss | $ (771,010) | $ (752,646) | $ (4,188,705) |
| Net realized gain on investments | 801,494 | 4,873,865 | 19,795,521 |
| Income tax expense paid on behalf of stockholders | -- | (1,485,135) | (6,302,806) |
| Net unrealized (depreciation) of investments | (18,023,424) | (12,797,981) | (13,339,923) |
| Net loss | (17,992,940) | (10,161,897) | (4,035,913) |
| From distributions to stockholders: | | | |
| Cash dividends declared from realized gains | (1,339,192) | (446,397) | (1,785,588) |
| Total decrease in net assets | (19,332,132) | (10,608,294) | (5,821,501) |
| Net assets: | | | |
| Beginning of period | 37,759,148 | 48,367,442 | 54,188,943 |
| End of period | $ 18,427,016 | $ 37,759,148 | $ 48,367,442 |

See accompanying notes

Renaissance Capital Growth & Income Fund III, Inc.

Statements of Cash Flows

Years Ended December 31, 2008 , 2007 , and 2006

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Net loss | $ (17,992,940) | $ (10,161,897) | $ (4,035,913) |
| Adjustments to reconcile net loss | | | |
| to net cash provided by (used in) operating activities: | | | |
| Net decrease in unrealized depreciation of investments | 18,023,424 | 12,797,981 | 13,339,923 |
| Net realized gain on investments | (801,494) | (4,873,865) | (19,795,521) |
| (Increase) decrease in interest and dividend receivables | 49,974 | 4,744 | (97,920) |
| (Increase) decrease in prepaid and other assets | 13,485 | (24,897) | 75,832 |
| Increase (decrease) in accounts payable | 47, 547 | (111,119) | 82,063 |
| Increase in due to broker | - | - | (2,075,975) |
| (Decrease) increase in accounts payable-affiliate | (287,862) | (3,435,728) | 1,759,473 |
| Increase (decrease) in taxes payable on behalf of stockholders | (1,485,135) | (4,817,671) | 6,302,806 |
| Purchase of investments | (2,141,220) | (9,326,046) | (4,116,806) |
| Proceeds from sale of investments | 5,238,491 | 8,792,947 | 20,932,760 |
| Net cash provided by (used in) operating activities | 664,270 | (11,155,551) | 12,370,722 |
| Cash flows from financing activities: | | | |
| Cash dividends | (1,785,589) | - | (5,931,274) |
| Net cash used in financing activities | (1,785,589) | - | (5,931,274) |
| Net increase (decrease) in cash and cash equivalents | (1,121,319) | (11,155,551) | 6,439,448 |
| Cash and cash equivalents at beginning of the period | 3,679,949 | 14,835,500 | 8,396,052 |
| Cash and cash equivalents at end of period | $ 2,558,630 | $ 3,679,949 | $ 14,835,500 |
| Supplemental disclosure of cash flow information: | | | |
| Cash paid during the period for interest | $ 40,841 | $ - | $ 60,188 |
| Taxes paid on behalf of stockholders/excise taxes | $ 1,485,135 | $ 6,302,806 | $ 12,378 |
| Supplemental disclosure of non-cash financing transaction: | | | |
| Cash dividends declared from realized gains but not yet paid | $ - | $ 446,397 | $ - |

See accompanying notes

Renaissance Capital Growth & Income Fund III, Inc.

Notes to Financial Statements

Years Ended December 31, 2008 , 2007 , and 2006

Note 1 - Organization and Business Purpose

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

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

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

Note 2 - Summary of Significant Accounting Policies

**Valuation of Investments**

Portfolio investments are stated at quoted market or fair value as determined by the Investment Adviser (Note 6).

**Other**

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

**Cash and Cash Equivalents**

The Fund considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. As of December 31, 2008 and 2007, cash and cash equivalents are at risk to the extent that they exceed Federal Deposit Insurance Corporation insured amounts. To minimize this risk, the Fund places its cash and cash equivalents with major U.S. financial institutions.

**Income Taxes**

The Fund has elected the special income tax treatment available to “regulated investment companies” (“RIC”) under Subchapter M of the Internal Revenue Code (“IRC”) which allows the Fund to be relieved of federal income tax on that part of its net investment income and realized capital gains that it pays out to its stockholders. Such requirements include, but are not limited to certain qualifying income tests, asset diversification tests and distribution of substantially all of the Fund’s taxable investment income to its stockholders. It is the intent of management to comply with all IRC requirements as they pertain to a RIC and to distribute all of the Fund’s taxable investment income and realized long-term capital gains within the defined period under the IRC to qualify as a RIC. Failure to qualify as a RIC would subject the Fund to federal income tax as if the Fund were an ordinary corporation which could result in a substantial reduction in the Fund’s net assets as well as the amount of cash available for distribution to stockholders. Continued qualification as a RIC requires management to satisfy certain investment diversification requirements in future years. There can be no assurance that the Fund will qualify as a RIC in subsequent years.

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

In January 2007 the Fund adopted the Financial Accounting Standards Board Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes* - An Interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements and requires companies to determine whether it is "more likely than not" that a tax position will be sustained upon examination by the appropriate taxing authorities before any part of the benefit can be recorded in the financial statements. It also provides guidance on the recognition, measurement and classification of income tax uncertainties, along with any related interest and penalties. The Fund did not recognize any adjustments to the Fund's financial statements as a result of the implementation of FIN 48.

**Net Loss Per Share**

Net loss per share is based on the weighted average number of shares outstanding of 4,463,967 during 2008, 2007, and 2006.

**Use of Estimates**

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

Note 3 -Due to/from Broker

The Fund conducts business with various brokers for its investment activities. The clearing and depository operations for the investment activities are performed pursuant to agreements with these brokers. "Due to broker" represents unsettled purchase transactions and "due from broker" represents unsettled sales transactions. The Fund is subject to credit risk to the extent the brokers are unable to deliver cash balances or securities, or clear security transactions on the Fund's behalf. The Investment Adviser actively monitors the Fund's exposure to these brokers and believes the likelihood of loss under those circumstances is remote. At December 31, 2008 and 2007, there were no "due to broker" or "due from broker" balances.

Note 4 - Management Fees and Incentive Fees and Reimbursement

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

The Investment Adviser receives a management fee equal to a quarterly rate of 0.4375% of the Fund's net assets, as determined at the end of such quarter, each payment to be due as of the last day of the calendar quarter. The Fund incurred $455,005, $792,545, and $935,776 in 2008, 2007, and 2006, respectively, for such management fees.

The Investment Adviser receives an incentive fee in an amount equal to 20% of the Fund's cumulative realized capital gains in excess of cumulative realized capital losses of the Fund after allowance for any unrealized capital depreciation on the portfolio investments of the Fund at the end of the year being calculated, less cumulative incentive fees previously accrued. Unrealized capital depreciation equals net unrealized capital losses on each class of security without netting net unrealized capital gains on other classes of securities. The incentive fee is calculated, accrued, and paid on an annual basis.The Fund incurred, $0, $0, and $3,157,367 during the years ended 2008, 2007, and 2006, respectively, for such incentive fees.

The Investment Adviser was reimbursed by the Fund for directly allocable administrative expenses paid by the Investment Adviser on behalf of the Fund. Such reimbursements were $73,654, $230,797, and $386,809 in 2008, 2007, and 2006 respectively.

As of December 31, 2008 and 2007, the Fund had an accounts payable of $86,872, and $374,734, respectively, for the amount due for the fees and expense reimbursements disclosed above.

## Note 5 - Eligible Portfolio Companies and Investments

### Eligible Portfolio Companies

The Fund invests primarily in convertible securities and equity investments of companies that qualify as Eligible Portfolio Companies as defined in Section 2(a)(46) of the 1940 Act or in securities that otherwise qualify for investment as permitted in Section 55(a)(1) through (7) of the 1940 Act. Under the provisions of the 1940 Act at least 70% of the Fund's assets, as defined under Section 55 of the 1940 Act, must be invested in securities listed in Paragraphs 55(a)(1) through (6) of the 1940 Act ("Eligible Portfolio Investments"). In the event the Fund has less than 70% of its assets invested in Eligible Portfolio Investments, then the Fund will be prohibited from making non-eligible investments until such time as the percentage of Eligible Portfolio Investments again exceeds the 70% threshold. The Fund was in compliance with these provisions at December 31, 2008 and 2007.

### Investments

Investments are carried in the statements of assets and liabilities as of December 31, 2008 and 2007, at fair value, as determined in good faith by the Investment Adviser, subject to the approval of the Fund's Board of Directors. The convertible debt securities held by the Fund generally have maturities between five and seven years and are convertible (at the discretion of the Fund) into the common stock of the issuer at a set conversion price. The common stock underlying these securities is generally unregistered and thinly to moderately traded. Generally, the Fund negotiates registration rights at the time of purchase and the portfolio companies are required to register the shares within a designated period and the cost of registration is borne by the portfolio company. Interest on the convertible securities is generally payable monthly. The convertible debt securities generally contain embedded call options giving the issuer the right to call the underlying issue. In these instances, the Fund has the right of redemption or conversion. The embedded call option will generally not vest until certain conditions are achieved by the issuer. Such conditions may require that minimum thresholds be met relating to underlying market prices, liquidity, and other factors.

Note 6 - Valuation of Investments

Effective January 1, 2008, the Fund adopted FAS 157, *Fair Value Measurements* ("FAS 157"), which establishes a framework for measuring fair value and applies to existing accounting pronouncements that require or permit fair value measurements. A fair value hierarchy is established within FAS 157 that prioritizes the sources ("inputs") used to measure fair value into three broad levels: inputs based on quoted market prices in active markets (Level 1 inputs); observable inputs based on corroboration with available market data (Level 2 inputs);

Renaissance Capital Growth & Income Fund III, Inc.

Notes to Financial Statements (continued)

Years Ended December 31, 2008, 2007, and 2006

and unobservable inputs based on uncorroborated market data or a reporting entity's own assumptions (Level 3 inputs). The adoption of FAS 157 has not had a significant impact on the Fund's financial statements and has not resulted in any significant changes in the valuation of investments. The Fund's valuation policies are as follows:

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

- Unrestricted common stock of companies listed on an exchange, NASDAQ or in the over-the-counter market is valued at the closing price on the date of valuation.

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

- The unlisted preferred stock of companies with common stock listed on an exchange, NASDAQ or in the over-the-counter market is valued at the closing price of the common stock into which the preferred stock is convertible on the date of valuation.

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

- The unlisted in-the-money warrants or options of companies with the underlying common stock listed on an exchange, NASDAQ or in the over-the-counter market are valued at fair value (the positive difference between the closing price of the underlying common stock and the strike price of the warrant or option). An out-of-the money warrant or option has no value; thus, we assign no value to it.

- Investments in privately held entities are valued at fair value. If there is no independent and objective pricing authority (i.e. a public market) for such investments, fair value is based on the latest sale of equity securities to independent third parties. If a private entity does not have an independent value established over an extended period of time, then the Investment Adviser will determine fair value on the basis of appraisal procedures established in good faith and approved by the Board of Directors.

The following table shows a summary of investments measured at fair value on a recurring basis classified under the appropriate level of fair value hierarchy as of December 31, 2008:

| Description | December 31, 2008 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Investments | $15,931,925 | $7,394,428 | $8,537,497 | $ - |
| Cash equivalents | $ 2,558,630 | $ - | $ - | $ - |

Renaissance Capital Growth & Income Fund III, Inc.

Notes to Financial Statements (continued)

Years Ended December 31, 2008, 2007, and 2006

As of December 31, 2008 and December 31, 2007, the net unrealized depreciation associated with investments held by the Fund was $25,592, 309 and $7,568,885, respectively. As of December 31, 2008 and December 31, 2007, the Fund had gross unrealized gains of $2,463,654 and $10,846,388, respectively, and gross unrealized losses of $28,055,963 and $18,415,273, respectively.

Note 7 - Income Taxes

During December 2007, and March, June, and September 2008, the Board of Directors declared cash distributions of $0.10 per share, $446,397, which were designated as distributions of realized capital gains and return of capital in accordance with the IRC, which assured that any Federal income tax on such realized capital gains, if any, is paid by the Fund's stockholders. These distributions were paid to the stockholders during January, March, July, and October 2008, respectively. During 2008 management followed a policy of distributing all of the Fund's taxable investment income and realized capital gains within the defined period under the IRC to ensure that any Federal income tax on such income, if any, is paid by the Fund's stockholders. Accordingly, no income tax expense was reported by the Fund for the year ended December 31, 2008.

During December, 2007, the Board of Directors, in accordance with rules under subchapter M of the IRC, declared a designated undistributed capital gain dividend ("Deemed Distribution") for 2007 on net taxable long-term capital gains of $4,243,244 that remained after the December 2007 cash dividend noted above. The Fund recorded a liability of $1,485,135 (which was paid during the first month of 2008) for taxes payable on behalf of its stockholders as of December 31, 2007. This amount was also recorded as income tax expense paid on behalf of stockholders in the statement of operations for the year ended December 31, 2007. Stockholders of record at December 31, 2007 received a tax credit of $0.33 per share. The balance of $2,758,108 was retained by the Fund.

During December 2006, the Board of Directors, in accordance with rules under subchapter M of the IRC, declared a Deemed Distribution for 2006 on net taxable long-term capital gains of $18,008,018. During the year-ended December 31, 2006, the Fund also distributed $0.40 per share in cash distributions which were designated as net long-term realized capital gains. The Fund recorded a liability of $6,302,806 (which was paid during the first quarter of 2007) for taxes payable on behalf of its stockholders as of December 31, 2006. This amount was also recorded as income tax expense paid on behalf of stockholders in the statements of operations for 2006. Stockholders of record at December 31, 2006, received a tax credit of $1.41 per share. The balance of $11,705,212 was retained by the Fund.

Note 8 - Commitments and Contingencies

As disclosed in Note 4, the Fund is obligated to pay to the Investment Adviser an incentive fee equal to 20% of the Fund's cumulative realized capital gains in excess of cumulative realized capital losses of the Fund after allowance for any capital depreciation on the portfolio investments of the Fund. As incentive fees on capital gains are not due to the Investment Adviser until the capital gains are realized, any obligations for incentive fees based on unrealized capital gains are not reflected in the accompanying financial statements, as there is no assurance that the unrealized gains as of the end of any period will ultimately become realized. Had an incentive fee been accrued as a liability based on all unrealized capital gains, net assets of the Fund would have been reduced by $0 and $2,058,485 as of December 31, 2008 and 2007, respectively.

Renaissance Capital Growth & Income Fund III, Inc.

Notes to Financial Statements (continued)

Years Ended December 31, 2008, 2007, and 2006

Note 9 - Financial Highlights

Selected per share data and ratios for each share of common stock outstanding throughout the years ended December 31, 2008 and 2007 are as follows:

| | 2008 | 2007 |
|---|---|---|
| Net asset value, beginning of period | $ 8.46 | $ 10.84 |
| Net investment loss | (0.17) | (0.17) |
| Net realized and unrealized gain (loss) on investments | (3.86) | (2.11) |
| Total return from investment operations | (4.03) | (2.28) |
| Distributions: | (0.30) | (0.10) |
| Net asset value, end of period | $ 4.13 | $ 8.46 |
| Per share market value, end of period | $ 2.92 | $ 6.15 |
| Portfolio turnover rate | 8.19% | 21.11% |
| Annual return (a) | (52.52)% | (41.43)% |
| Ratio to average net assets (b): | | |
| Net investment loss | (2.75)% | (1.65)% |
| Expenses, including incentive fees | 4.79% | 3.46% |
| Expenses, excluding incentive fee | 4.79% | 3.46% |

(a) Annual return was calculated by comparing the common stock price on the first day of the period to the common stock price on the last day of the period, in accordance with American Institute of Certified Public Accountants guidelines.

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

Renaissance Capital Growth & Income Fund III, Inc.

Notes to Financial Statements (continued)

Years Ended December 31, 2008, 2007, and 2006

Note 10 - Selected Quarterly Data

| | **2008** | | | |
|---|---|---|---|---|
| | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter |
| Net investment loss | ($ 277,138) | ($ 230,402) | ($ 91,006) | ($ 172,464) |
| Net unrealized appreciation (depreciation) on investments | (4,915,956) | (4,063,158) | (5,756,759) | (3,287,551) |
| Net realized gain (loss) on investments | 1,287,083 | (15,501) | (188,802) | (281,287) |
| Net income (loss) | ($3,906,011) | ($4,309,061) | ($6,036,567) | ($3,741,302) |
| Net income (loss) per share | ($ 0.88) | ($ 0.97) | ($ 1.35) | ($ 0.83) |
| Weighted average shares outstanding | 4,463,967 | 4,463,967 | 4,463,967 | 4,463,967 |

| | 2007 | | | |
|---|---|---|---|---|
| | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter |
| Net investment loss | ($ 115,003) | ($ 322,584) | ($ 161,653) | ($ 153,406) |
| Net unrealized appreciation (depreciation) on investments | 472,619 | (1,703,609) | (6,259,982) | (5,307,009) |
| Net realized gain (loss) on investments | - | 2,033,769 | 2,386,440 | 453,656 |
| Income tax expense paid on behalf of stockholders | - | - | - | (1,485,135) |
| Net income (loss) | $ 357,616 | $ 7,576 | ($4,035,195) | ($6,491,894) |
| Net income (loss) per share | $ 0.08 | $ 0.00 | ($ 0.90) | ($ 1.46) |
| Weighted average shares outstanding | 4,463,967 | 4,463,967 | 4,463,967 | 4,463,967 |